



**City of Cockrell Hill, Texas**

**Financial Statements**  
**September 30, 2019**

# City of Cockrell Hill, Texas

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To the Honorable Mayor and City Council of  
The City of Cockrell Hill, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Cockrell Hill, Texas (City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements 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 U.S. Generally Accepted Accounting Principles; 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 U.S. Generally Accepted Auditing Standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Cockrell Hill, Texas as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. Generally Accepted Accounting Principles.

## **Emphasis of Matter**

As discussed in Note 12, beginning fund balance has been restated to correct an error related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 10, and the budgetary comparison information and Texas Municipal Retirement System pension and OPEB schedules on pages 49 through 55 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 U.S. generally accepted auditing standards, 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 Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule – proprietary fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cockrell Hill's internal control over financial reporting and compliance.



A Limited Liability Partnership

Arlington, Texas  
March 10, 2020

# **City of Cockrell Hill, Texas**

## **Management's Discussion and Analysis (Unaudited)**

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As management of the City of Cockrell Hill (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, 2019.

### **Financial Highlights**

- The assets and deferred outflows of the City of Cockrell Hill exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$5,942,095 (net position). Of this amount, \$1,481,728 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$780,394. This increase is due to business-type capital grant revenue and increases in fines and forfeitures revenue in governmental activities.
- As of the close of the current fiscal year, the City of Cockrell Hill's governmental funds reported combined ending fund balances of \$3,112,217, a decrease of \$213,551 in comparison with the prior year. Approximately 21% of this total amount is available for spending at the government's discretion (unassigned fund balance) and 72% is committed by the government for specific purposes.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$661,764 or 22% of total general fund expenditures.

### **Overview of the Financial Statements**

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

### **Government-wide Financial Statements**

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

The statement of net position presents information on all of the City of Cockrell Hill's assets and liabilities, with the difference between the two 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 Cockrell Hill is improving or deteriorating.

## **City of Cockrell Hill, Texas**

### **Management's Discussion and Analysis (Unaudited)**

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The statement of activities presents information showing how the City's net position changed during the 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 compensated absences).

#### **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, the reader 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 maintains two major governmental funds. Information for the major funds 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 and Capital Projects funds.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

#### **Proprietary Funds**

The City maintains one type of proprietary fund. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer activities.

## **City of Cockrell Hill, Texas**

### **Management's Discussion and Analysis (Unaudited)**

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Proprietary funds provide the same type of information as the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 18 through 20 of this report.

#### **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 pages 21 through 47 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and a budgetary comparison schedule for the General Fund. Required supplementary information can be found on pages 49 through 54 of this report.

#### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2019, the City of Cockrell Hill's assets and deferred outflows exceeded liabilities and deferred inflows by \$5,942,095.

A significant portion of the City's net position (31%) reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Cockrell Hill, Texas**  
**Management's Discussion and Analysis (Unaudited)**

**City of Cockrell Hill's Net Position**

	Governmental Activities		Business-type Activities		Government Wide Totals	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 3,478,045	\$ 3,476,540	\$ 853,860	\$ 702,189	\$ 4,331,905	\$ 4,178,729
Net capital assets	4,407,177	3,875,552	2,911,174	2,593,438	7,318,351	6,468,990
<b>Total assets</b>	<b>7,885,222</b>	<b>7,352,092</b>	<b>3,765,034</b>	<b>3,295,627</b>	<b>11,650,256</b>	<b>10,647,719</b>
Deferred outflows of resources	427,755	299,065	22,514	14,442	450,269	313,507
Current liabilities	740,165	701,663	288,489	316,267	1,028,654	1,017,930
Long-term liabilities	3,758,124	3,478,303	1,263,463	1,255,000	5,021,587	4,733,303
<b>Total liabilities</b>	<b>4,498,289</b>	<b>4,179,966</b>	<b>1,551,952</b>	<b>1,571,267</b>	<b>6,050,241</b>	<b>5,751,233</b>
Deferred inflows of resources	102,779	45,872	5,410	2,420	108,189	48,292
<b>Net position</b>						
Net investment in capital assets	2,587,018	2,298,233	1,546,174	1,258,438	4,133,192	3,556,671
Restricted	209,375	880,221	117,800	168,023	327,175	1,048,244
Unrestricted	915,516	246,865	566,212	309,921	1,481,728	556,786
<b>Total net position</b>	<b>\$ 3,711,909</b>	<b>\$ 3,425,319</b>	<b>\$ 2,230,186</b>	<b>\$ 1,736,382</b>	<b>\$ 5,942,095</b>	<b>\$ 5,161,701</b>

An additional portion of the City's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,481,728) may be used to meet the government's ongoing obligations to citizens and creditors.

- Overall, there is an increase of \$780,394 in total net position during the fiscal year as mentioned above.
- Long-term debt increased \$288,284 primarily due to issuance a tax note for \$525,000.
- Total assets increased \$1,002,537 primarily due to increase in capital assets of \$849,361.

**Governmental Activities**

Governmental activities increased the City's net position by \$286,590. Key highlights include an increase in fines and forfeitures of \$263,518 compared to 2018. Management aimed to maintain expenses under revenues to ensure a consistent net position from 2018.

**City of Cockrell Hill, Texas**  
**Management's Discussion and Analysis (Unaudited)**

**Business-type Activities**

Revenues in the City's business-type activities totaled \$990,379 for the fiscal year ended September 30, 2019. Expenses for these activities were \$1,005,798 resulting in a net loss of \$15,419 from business-type activities before transfers. The net position of business-type activities increased by \$493,804 to \$2,230,186 in 2019, compared to \$1,736,382 in 2018. Generally, the City can only use this net position to finance the continuing operations of the water and sewer operations.

**City of Cockrell Hill's Change in Net Position**

	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Property tax	\$ 1,187,840	\$ 1,141,543	\$ -	\$ -	\$ 2,329,383	\$ 1,141,543
Sales tax	427,260	434,006	-	-	427,260	434,006
Fees for services	339,479	442,360	984,123	981,847	1,323,602	1,424,207
Fines and forfeitures	1,342,993	1,079,475	-	-	1,342,993	1,079,475
Franchise fees revenue	135,583	135,301	-	-	135,583	135,301
Permits	82,331	108,067	-	-	82,331	108,067
Investment earnings	82,017	4,469	6,256	4,112	88,273	8,581
Miscellaneous	41,868	(28,386)	-	-	41,868	(28,386)
<b>Total revenues</b>	<b>3,639,371</b>	<b>3,316,835</b>	<b>990,379</b>	<b>985,959</b>	<b>5,771,293</b>	<b>4,302,794</b>
<b>Expenses</b>						
General government	1,062,805	691,217	-	-	1,062,805	691,217
Public safety	1,583,393	1,516,285	-	-	1,583,393	1,516,285
Public works	486,271	457,087	-	-	486,271	457,087
Cultural & recreational	220,312	57,012	-	-	220,312	57,012
Water & sewer	-	-	1,005,798	1,124,531	1,005,798	1,124,531
<b>Total expenses</b>	<b>3,352,781</b>	<b>2,721,601</b>	<b>1,005,798</b>	<b>1,124,531</b>	<b>4,358,579</b>	<b>3,846,132</b>
<b>Increase (decrease) in net position before transfers</b>	<b>286,590</b>	<b>595,234</b>	<b>(15,419)</b>	<b>(138,572)</b>	<b>1,412,714</b>	<b>456,662</b>
Non-cash gifts of capital assets	-	-	509,223	-	509,223	-
Transfers, net	-	-	-	-	-	-
<b>Change in net position</b>	<b>286,590</b>	<b>595,234</b>	<b>493,804</b>	<b>(138,572)</b>	<b>780,394</b>	<b>456,662</b>
<b>Net position, beginning of year</b>	<b>3,425,319</b>	<b>2,895,899</b>	<b>1,736,382</b>	<b>1,874,954</b>	<b>5,161,701</b>	<b>4,770,853</b>
Change in accounting principle	-	(65,814)	-	-	-	(65,814)
<b>Net position, beginning of year, as restated</b>	<b>3,425,319</b>	<b>2,830,085</b>	<b>1,736,382</b>	<b>1,874,954</b>	<b>5,161,701</b>	<b>4,705,039</b>
<b>Net position, end of year</b>	<b>\$ 3,711,909</b>	<b>\$ 3,425,319</b>	<b>\$ 2,230,186</b>	<b>\$ 1,736,382</b>	<b>\$ 5,942,095</b>	<b>\$ 5,161,701</b>

# **City of Cockrell Hill, Texas**

## **Management's Discussion and Analysis (Unaudited)**

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### **Financial Analysis of the Government's Funds**

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

### **Governmental Funds**

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

At the end of the current fiscal year, the City of Cockrell Hill's governmental funds reported combined ending fund balances of \$3,112,217, a decrease of \$213,551 in comparison with the prior year. Approximately 21% constitutes unassigned, which is available for spending at the government's discretion. The remainder of fund balance is restricted or committed for specific purposes. This indicates that it is not available for general operation spending because it has already been assigned or restricted for debt, capital projects, or enabling legislation.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance was \$661,764. The fund balance of the General Fund decreased by \$378,396 during the fiscal year. This decrease is mainly attributable a prior period adjustment of \$598,165 to properly account for the implementation of GASB 68.

The Capital Projects Fund experienced an increase of \$164,845 primarily due to monies transferred in from the General Fund.

### **Proprietary Funds**

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

Unrestricted net position of the proprietary fund is \$566,212. The water and sewer fund has a net position increase of \$493,804.

### **Capital assets**

The City's investment in capital assets for its governmental and business type activities as of September 30, 2019, amount to \$1,892,114 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, office equipment, infrastructure and construction in progress. The total increase in the City's investment in capital assets for the current fiscal year was \$450,035 which included total current depreciation of \$340,579.

**City of Cockrell Hill, Texas**  
**Management's Discussion and Analysis (Unaudited)**

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Major capital asset events during the current fiscal year included the following:

- Construction in progress for \$522,415.
- Water and sewer improvements of \$502,795.

Additional information on the City's capital assets can be found in note 4 of this report.

**Long-term Debt**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$4,635,000. All of the debt is backed by the full faith and credit of the government.

During the current fiscal year the City's total long-term debt increased by \$288,284. This increase is a result of issuance of debt of \$525,000 and principal payments of \$296,744. The City also issued a capital lease for \$56,980.

Additional information on the City's long-term debt can be found in Note 5.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Bret Haney, City Administrator, City of Cockrell Hill, 4125 W. Clarendon Dr., Cockrell Hill, Texas 75211.

## **Basic Financial Statements**

**City of Cockrell Hill, Texas**  
**Statement of Net Position**  
**September 30, 2019**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 3,158,209	\$ 333,863	\$ 3,492,072
Restricted deposits and investments	-	389,225	389,225
Receivables, net of allowance for uncollectibles	207,629	124,866	332,495
Capital assets, net	4,407,177	2,911,174	7,318,351
Net pension asset	112,207	5,906	118,113
<b>Total assets</b>	<b>7,885,222</b>	<b>3,765,034</b>	<b>11,650,256</b>
<b>Deferred outflows of resources:</b>			
Deferred outflows related to pensions	427,755	22,514	450,269
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	253,621	49,092	302,713
Payable from restricted assets:			
Accrued interest	29,662	-	29,662
Deposits	-	134,397	134,397
Noncurrent liabilities:			
Due within one year	456,882	105,000	561,882
Due in more than one year	3,692,330	1,260,000	4,952,330
OPEB liability	65,794	3,463	69,257
<b>Total liabilities</b>	<b>4,498,289</b>	<b>1,551,952</b>	<b>6,050,241</b>
<b>Deferred inflows of resources:</b>			
Deferred inflows related to pensions	99,782	5,252	105,034
Deferred inflows related to OPEB	2,997	158	3,155
<b>Total deferred inflows of resources</b>	<b>102,779</b>	<b>5,410</b>	<b>108,189</b>
<b>Net position:</b>			
Net investment in capital assets	2,587,018	1,546,174	4,133,192
Restricted for			
Debt service	-	117,800	117,800
Court security and technology	209,375	-	209,375
Unrestricted	915,516	566,212	1,481,728
<b>Total net position</b>	<b>\$ 3,711,909</b>	<b>\$ 2,230,186</b>	<b>\$ 5,942,095</b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Statement of Activities**  
**Year Ended September 30, 2019**

Program activities	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Fees, fines and charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 1,062,805	\$ 107,124	\$ -	\$ -	\$ (955,681)	\$ -	\$ (955,681)
Public safety	1,583,393	1,175,006	-	-	(408,387)	-	(408,387)
Public works	486,271	481,438	-	-	(4,833)	-	(4,833)
Parks, recreation and culture	220,312	1,235	-	-	(219,077)	-	(219,077)
<b>Total governmental activities</b>	<b>3,352,781</b>	<b>1,764,803</b>	<b>-</b>	<b>-</b>	<b>(1,587,978)</b>	<b>-</b>	<b>(1,587,978)</b>
<b>Business-type activities:</b>							
Water and sewer	1,005,798	984,123	-	509,223	-	487,548	487,548
<b>Total business-type activities</b>	<b>1,005,798</b>	<b>984,123</b>	<b>-</b>	<b>509,223</b>	<b>-</b>	<b>487,548</b>	<b>487,548</b>
<b>Total primary government</b>	<b>\$ 4,358,579</b>	<b>\$ 2,748,926</b>	<b>\$ -</b>	<b>\$ 509,223</b>	<b>\$ (1,587,978)</b>	<b>\$ 487,548</b>	<b>\$ (1,100,430)</b>
<b>General revenues and transfers:</b>							
Taxes:							
Property tax					1,187,840	-	1,187,840
Sales and mixed beverage tax					427,260	-	427,260
Franchise taxes on gross receipts					135,583	-	135,583
Interest income					82,017	6,256	88,273
Miscellaneous					41,868	-	41,868
<b>Total general revenues and transfers</b>					<b>1,874,568</b>	<b>6,256</b>	<b>1,880,824</b>
<b>Change in net position</b>					<b>286,590</b>	<b>493,804</b>	<b>780,394</b>
<b>Net position, beginning of year</b>					<b>3,425,319</b>	<b>1,736,382</b>	<b>5,161,701</b>
<b>Net position, end of year</b>					<b>\$ 3,711,909</b>	<b>\$ 2,230,186</b>	<b>\$ 5,942,095</b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Balance Sheet – Governmental Fund Level**  
**September 30, 2019**

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 917,047	\$ 2,241,162	\$ 3,158,209
Receivables			
Property taxes, net of allowance for doubtful accounts of \$4,625	76,395	-	76,395
Accounts receivable	131,234	-	131,234
<b>Total assets</b>	<b>\$ 1,124,676</b>	<b>\$ 2,241,162</b>	<b>\$ 3,365,838</b>
<b>Liabilities:</b>			
Accounts payable	\$ 31,887	\$ 84	\$ 31,971
Accrued expenses	221,650	-	221,650
<b>Total liabilities</b>	253,537	84	253,621
<b>Fund balances:</b>			
Restricted - court security and technology	209,375	-	209,375
Restricted - capital projects	-	2,241,078	2,241,078
Unassigned	661,764	-	661,764
<b>Total fund balances</b>	<b>871,139</b>	<b>2,241,078</b>	<b>3,112,217</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,124,676</b>	<b>\$ 2,241,162</b>	<b>\$ 3,365,838</b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement**  
**of Net Position – Governmental Fund Level**  
**September 30, 2019**

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<b>Total fund balance - Governmental funds</b>	<b>\$ 3,112,217</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	4,407,177
Net pension assets on the statement of net position does not provide current financial resources and therefore is not reported in the governmental funds balance sheet.	112,207
Net OPEB liability on the statement of net position does not provide current financial liabilities and therefore is not reported in the governmental funds balance sheet.	(65,794)
Pension expense in the funds is recorded as contributions when made to the TMRS plan. Pension expense in governmental activities is recorded as the TMRS plan's pension expense. This is the net effect between the two statements.	327,973
OPEB expense in the funds is recorded as contributions when made to the TMRS plan. OPEB expense in governmental activities is recorded as the TMRS plan's OPEB expense. This is the effect between the two statements.	(2,997)
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(29,662)
Long-term liabilities, including bonds payable and related items and compensated absences, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(4,149,212)</u>
<b>Total change in net position - Governmental activities</b>	<b><u><u>\$ 3,711,909</u></u></b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balance -**  
**Governmental Fund Level**  
**Year Ended September 30, 2019**

	<b>General Funds</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Taxes and franchise fees	\$ 1,750,683	\$ -	\$ 1,750,683
Licenses and permits	82,331	-	82,331
Fines and forfeitures	1,342,925	68	1,342,993
Charges for services	228,229	111,250	339,479
Miscellaneous	-	41,868	41,868
Interest income	60,777	21,240	82,017
<b>Total revenues</b>	<b>3,464,945</b>	<b>174,426</b>	<b>3,639,371</b>
<b>Expenditures:</b>			
General government	876,071	8,688	884,759
Public safety	1,360,764	2,365	1,363,129
Public works	420,723	-	420,723
Cultural and recreational	55,502	-	55,502
Capital outlay	164,730	522,415	687,145
Debt service	143,904	305,575	449,479
<b>Total expenditures</b>	<b>3,021,694</b>	<b>839,043</b>	<b>3,860,737</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>443,251</b>	<b>(664,617)</b>	<b>(221,366)</b>
<b>Other financing sources (uses):</b>			
Proceeds from debt issuance	-	525,000	525,000
Capital lease	56,980	-	56,980
Transfers in/out	(280,462)	280,462	-
<b>Total other financing sources (uses)</b>	<b>(223,482)</b>	<b>805,462</b>	<b>581,980</b>
<b>Net change in fund balances</b>	<b>219,769</b>	<b>140,845</b>	<b>360,614</b>
<b>Fund balances, beginning of year, as reported</b>	<b>1,249,535</b>	<b>2,076,233</b>	<b>3,325,768</b>
Prior period adjustment (note 12)	(598,165)	24,000	(574,165)
<b>Fund balances, beginning of year, as restated</b>	<b>651,370</b>	<b>2,100,233</b>	<b>2,751,603</b>
<b>Fund balances, end of year</b>	<b>\$ 871,139</b>	<b>\$ 2,241,078</b>	<b>\$ 3,112,217</b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Statement of Activities**  
**Year Ended September 30, 2019**

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<b>Net change in fund balances - governmental funds</b>	\$ 360,614
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.	687,145
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.	(155,520)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Proceeds from issuance of long-term debt	\$ (525,000)
Issuance of capital lease	(56,980)
Repayment of principal on long-term debt	296,744
Change in accrued interest	(5,662)
	(290,898)
Payments for compensated absences and pension expenses are reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of changes in net assets compensated absences are expensed as they are accrued.	(11,830)
Current year changes in net pension position, OPEB liability, deferred inflows and deferred outflows of resources do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(302,921)
<b>Change in net position of governmental activities</b>	<b>\$ 286,590</b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Statement of Net Position – Proprietary Fund**  
**September 30, 2019**

	<u>Water and Sewer Proprietary Fund</u>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash	\$ 333,863
Restricted cash in Texas local government investment pool	271,425
Accounts receivable, net of allowance for doubtful account of \$5,920	124,866
<b>Total current assets</b>	730,154
<b>Non-current assets:</b>	
Restricted cash	117,800
Net pension asset	5,906
Capital assets, net	2,911,174
<b>Total non-current assets</b>	3,034,880
<b>Total assets</b>	3,765,034
<b>Deferred outflows of resources:</b>	
Deferred outflows related to pensions	22,514
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	49,092
Customer deposits	134,397
Current portion of long-term obligations	105,000
<b>Total current liabilities</b>	288,489
<b>Non-current liabilities:</b>	
Long-term obligations	1,260,000
OPEB liability	3,463
<b>Total liabilities</b>	1,551,952
<b>Deferred inflows of resources:</b>	
Deferred inflows related to pensions	5,252
Deferred inflows related to OPEB	158
<b>Total deferred inflows of resources</b>	5,410
<b>Net position:</b>	
Net investment in capital assets	1,546,174
Restricted for debt service	117,800
Unrestricted	566,212
<b>Total net position</b>	\$ 2,230,186

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Statement of Revenues, Expenditures and Changes in**  
**Net Position – Proprietary Fund**  
**Year Ended September 30, 2019**

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	<u>Water and Sewer Proprietary Fund</u>
<b>Operating revenues:</b>	
Water and sewer fees	\$ 984,123
<b>Operating expenses:</b>	
Water purchases and wastewater fees	512,486
Salaries and benefits	144,430
Printing	19,895
Operating supplies for water and sewer system	69,623
Uniforms	575
Maintenance	20,219
Depreciation	185,059
<b>Total operating expenses</b>	<b>952,287</b>
<b>Operating income</b>	<b>31,836</b>
<b>Non-operating revenues (expenses):</b>	
Investment income	6,256
Interest expense	(53,511)
Intergovernmental revenue	509,223
<b>Total non-operating revenues (expenses), net</b>	<b>461,968</b>
<b>Change in net position</b>	<b>493,804</b>
<b>Net position, beginning of year</b>	<b>1,736,382</b>
<b>Net position, end of year</b>	<b>\$ 2,230,186</b>

See notes to basic financial statements.

**City of Cockrell Hill, Texas**  
**Statement of Cash Flows – Proprietary Fund**  
**Year Ended September 30, 2019**

	<b>Water &amp; Sewer Proprietary Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 986,444
Cash payments to suppliers for goods and services	(678,593)
Cash payments to employees for services	(128,738)
<b>Net cash provided by operating activities</b>	<b>179,113</b>
<b>Cash flows from capital financing activities:</b>	
Intergovernmental revenue	509,223
Acquisition and construction of capital assets	(502,795)
<b>Net cash provided by capital and related financing activities</b>	<b>6,428</b>
<b>Cash flows from investing activities:</b>	
Investment income	6,256
<b>Cash flows from noncapital financing activities:</b>	
Net debt service for principal proceeds, interest payments and issuance costs	(23,511)
<b>Net increase in cash and cash equivalents</b>	<b>168,286</b>
<b>Cash, beginning of year</b>	<b>554,802</b>
<b>Cash, end of year</b>	<b>\$ 723,088</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 31,836
Adjustments to reconcile operating income to cash provided by operating activities	
Depreciation	185,059
Change in assets and liabilities	
Receivables	(696)
Accounts payable and accrued expenses	(55,795)
Net changes in pension and OPEB balances	15,692
Customer deposits	3,017
<b>Net cash provided by operating activities</b>	<b>\$ 179,113</b>
<b>Reconciliation to statement of financial position</b>	
Cash	\$ 333,863
Restricted deposits and investments	271,425
Restricted cash	117,800
<b>Total cash, end of year</b>	<b>\$ 723,088</b>

See notes to basic financial statements.

# City of Cockrell Hill

## Notes to the Basic Financial Statements

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### 1. Reporting Entity

The City of Cockrell Hill, Texas (the City) was formed as a “general law city” municipality in 1937 and operates with a Council / Mayor form of government. The City Council is the policy-making body and is made up of six (6) elected members, five at-large Council members and an at-large Mayor. The Mayor is elected for a two-year term and is the head of the executive and administrative branches of City government. Basic city services are provided by the following departments – Administration, Municipal Court, Police, Fire, Public Works (streets), Culture (Library) and Recreation (Parks), Code Enforcement and Building Inspection. The City also owns and operates a business-type activity – a water and sewer system. Water is purchased from the City of Dallas; and our waste water is also processed by the City of Dallas.

The accounting and reporting policies of the City included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for state and local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant accounting policies of the City are described below.

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

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

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. There are no entities that were found to be component units of the City.

# City of Cockrell Hill

## Notes to the Basic Financial Statements

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### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

#### *Fund Financial Statements*

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City has presented the following major governmental funds:

#### *General Fund*

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund. The general fund has a legally adopted annual budget.

# City of Cockrell Hill

## Notes to the Basic Financial Statements

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### ***Capital Projects Fund***

The capital projects fund is used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets and drainage improvements in the City and construction, renovation, expansion and major improvement of various city facilities, acquisition of land and other large nonrecurring projects.

### ***Water and Sewer Fund***

The water and sewer fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations, and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### ***Measurement Focus and Basis of Accounting***

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers

## **City of Cockrell Hill**

### **Notes to the Basic Financial Statements**

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property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

#### ***Taxes***

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on March 1.

Property taxes are recorded in the governmental fund financial statements when they are levied. Delinquent taxes estimated not to be available are treated as deferred inflows in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The City's current tax rate is \$0.9471 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

Allowances for uncollectible tax receivables are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however state statutes prohibit writing off real property taxes without specific authority from the Texas Legislature. At fiscal year end, property tax receivables of \$81,020 are recorded in the General fund.

#### ***Transactions between Funds***

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transactions are eliminated upon consolidation in the government-wide financial statements unless the transaction is deemed to be at market or near market value and is reported as revenue, expenditure or expense. Inter-fund activity may also results from loans, services provided, or reimbursements. Loans are reported as inter-fund receivables due from and payables due to as appropriate. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. Any residual due to/from balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10 - 60 years
Improvements	25 years
Machinery and equipment	3 - 15 years
Water & Sewer system	25 years
Infrastructure (streets)	40 years

***Deferred Outflows/Inflows of Resources***

In addition to assets, the government wide and proprietary fund statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/ expenditure) until then. In addition to liabilities, the government wide and proprietary fund statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

***Compensated Absences***

City employees are granted vacation and sick pay in varying amounts. City employees are granted vacation and sick leave in varying amounts. Employees are required to utilize a minimum of 40 hours of vacation per year. Upon termination, an employee is reimbursed for any unused accumulated vacation. Vacation leave is capped at 360 hours, and accrued vacation hours in excess of 360 hours are not reimbursed upon termination. All full-time City employees are not reimbursed for unused sick leave upon termination. Accumulated vacation and sick leave is accrued in the government-wide and business-type financial statements.

# City of Cockrell Hill

## Notes to the Basic Financial Statements

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### ***Net Position***

Net position represents the difference between assets and deferred outflows less liabilities and deferred inflows. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When expense is incurred for purposes for which both restricted and unrestricted net positions are available, the City's policy is to apply restricted net position first.

### ***Nature and Purpose of Designations of Fund Balance***

Fund balance categories are nonspendable and spendable. Classifications under the spendable category are restricted, committed, assigned, and unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the general fund. The general fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

The City classifies governmental fund balances as follows:

1. **Nonspendable Fund Balance** – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid items.
  
2. **Spendable Fund Balance**
  - a. **Restricted Fund Balance** – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.
    - i. The aggregate fund balance of debt service is legally restricted for payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated.
  
    - ii. The fund balance of the Capital Projects Fund reflects an amount restricted for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of bonds, which primarily have restricted use.

## City of Cockrell Hill

### Notes to the Basic Financial Statements

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iii. The proceeds of specific revenue sources which are restricted to expenditures for specified purposes as designated by grantors, contributors, by vote of citizens, or governmental entities over state or local program grants.

b. **Committed Fund Balance** – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. Examples include, but are not specifically limited to, council action items, retirement of loans/notes payable, and capital expenditures. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year. During the fiscal year the City Council took action to commit governmental funds for capital projects and purchases in the capital improvement fund and capital asset purchase fund.

c. **Assigned Fund Balance** – Includes amounts intended to be used by the City for specific purposes. This intent can be expressed by an official or body to which the governing body delegates that authority. The City has delegated to the City Administrator the ability to determine and define the amounts of those components of fund balance that are classified as assigned. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.

d. **Unassigned Fund Balance** – Includes the residual classification of the general fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be extended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

#### ***Pensions and Other Postemployment Benefits (OPEB)***

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

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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value. Information regarding the City’s Total Pension Liability and Total OPEB Liability is obtained from TMRS through reports prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

***New Accounting Pronouncements***

GASB Statement No. 87, *Leases*, is designed to increase the usefulness of financial statements prepared by state and local governments by requiring recognition of certain leased assets and the related obligations that were previously reported as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contractual agreement. The requirements associated with this statement will become effective for reporting periods beginning after December 15, 2020. The City is currently assessing the impact of adopting this Statement.

New pronouncements not yet in effect as of September 30, 2019, could have significant impacts on the City’s financial position, results of operations or cash flows.

***Accounting Pronouncements Adopted***

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Borrowings, and Direct Placements*, is expected to improve disclosures included in notes to financial statements related to debt by requiring additional essential information.

**3. Deposits and Investments**

Cash and cash equivalents as of September 30, 2019, are classified in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 3,492,072
Cash and cash equivalents - restricted	<u>389,225</u>
	<u><u>\$ 3,881,297</u></u>

Cash and investments as of September 30, 2019, consist of the following:

Demand deposits with financial institutions	\$ 3,492,072
Investment pools	<u>389,225</u>
	<u><u>\$ 3,881,297</u></u>

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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The City invested in one investment pool during the year ended September 30, 2019. The City's investment in TexPool meets the requirements to be reported at amortized cost, which approximates fair value.

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no formal policy related to interest rate risk. As of September 30, 2019, the City had the following positions subject to interest rate risk:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 389,225	34 days

***Disclosures Relating to Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2019</u>
TexPool	\$ 389,225	AAA	AAAm

***Concentration of Credit Risk***

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2019, other than external investment pools, the City did not have 5% or more of its investments with one issuer.

## **City of Cockrell Hill**

### **Notes to the Basic Financial Statements**

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#### ***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

The City requires all deposits to be covered by Federal Depository Insurance Corporation (FDIC) insurance and/or collateralized by qualified securities pledged by the City's depository in the City's name and held by the depository's agent. As of September 30, 2019, the City's deposits bank balance was \$1,220,730 which was fully collateralized by FDIC and qualified securities pledged.

The City is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2A7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

For purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

**4. Capital Assets**

Capital asset activity during the fiscal year ended September 30, 2019 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<b>Government Activities:</b>				
Land	\$ 741,470	\$ -	\$ -	\$ 741,470
Buildings and improvements	208,078	101,750	-	309,828
Machinery and equipment	1,399,840	62,980	(17,000)	1,445,820
Construction in progress	548,510	522,415	-	1,070,925
Infrastructure	2,109,974	-	-	2,109,974
<b>Total at historical cost</b>	<b>5,007,872</b>	<b>687,145</b>	<b>(17,000)</b>	<b>5,678,017</b>
<b>Less accumulated depreciation:</b>				
Buildings and improvements	102,446	5,538	-	107,984
Machinery and equipment	905,981	94,088	(17,000)	983,069
Infrastructure	123,893	55,894	-	179,787
<b>Total accumulated depreciation</b>	<b>1,132,320</b>	<b>155,520</b>	<b>(17,000)</b>	<b>1,270,840</b>
<b>Net governmental capital assets</b>	<b>\$ 3,875,552</b>	<b>\$ 531,625</b>	<b>\$ -</b>	<b>\$ 4,407,177</b>
<b>Business Activities:</b>				
Machinery and equipment	\$ 169,167	\$ -	\$ -	\$ 169,167
Buildings and improvements	467,224	-	-	467,224
Water and sewer system	4,318,424	502,795	-	4,821,219
<b>Total at historical cost</b>	<b>4,954,815</b>	<b>502,795</b>	<b>-</b>	<b>5,457,610</b>
<b>Less accumulated depreciation:</b>				
Machinery and equipment	158,441	10,726	-	169,167
Buildings and improvements	466,275	949	-	467,224
Water and sewer system	1,736,661	173,384	-	1,910,045
<b>Total accumulated depreciation</b>	<b>2,361,377</b>	<b>185,059</b>	<b>-</b>	<b>2,546,436</b>
<b>Net business-type capital assets</b>	<b>\$ 2,593,438</b>	<b>\$ 317,736</b>	<b>\$ -</b>	<b>\$ 2,911,174</b>

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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Depreciation expense was charged as direct expense to program of the primary government as follows:

**Governmental activities**

Administration	\$ 19,925
Public safety	62,764
Public works	16,937
Infrastructure	55,894
	155,520
<b>Total depreciation expense - governmental activities</b>	<b>\$ 155,520</b>

**Business type activities**

Water & Sewer	\$ 185,059
<b>Total depreciation expense - business-type activities</b>	<b>\$ 185,059</b>

**5. Long-Term Obligations**

Bonds payable and notes payable at September 30, 2019 are comprised of the following:

	<b>Governmental</b>	<b>Business-type</b>
\$1,365,000 Series 2019 General Obligation Refunding Bonds due in annual installments of \$100,000 to \$130,000 through April 2031, with interest at 2.79%.	\$ -	\$ 1,365,000
\$525,000 Series 2019 Tax Notes due in annual installments of \$65,000 to \$80,000 through August 15, 2029, with interest at 2.98%	525,000	-
\$3,855,000 Series 2015 General Obligation Bonds due in annual installments of \$135,000 to \$530,000 through June 2035, with interest at 2.0% to 4.25%	3,270,000	-
\$356,180 Note payable due in annual installments of \$71,670 through 2021, with interest at 3.0%	143,430	-

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

The following presents activity related to the City's long-term obligations for the current fiscal year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
<b>Capital lease obligations:</b>					
Government Capital Corporation	\$ 75,071	\$ -	\$ (36,218)	\$ 38,853	\$ 38,853
KS StateBank	60,830	-	(27,856)	32,974	29,125
Community First National Bank	-	56,980	(6,000)	50,980	9,259
<b>Total capital lease obligations</b>	<b>135,901</b>	<b>56,980</b>	<b>(70,074)</b>	<b>122,807</b>	<b>77,237</b>
<b>Other long-term obligations:</b>					
Note payable	215,100	-	(71,670)	143,430	71,670
General obligation bonds	3,425,000	-	(155,000)	3,270,000	155,000
Tax note	-	525,000	-	525,000	65,000
Compensated absences	76,145	87,975	(76,145)	87,975	87,975
<b>Total governmental activities</b>	<b>\$ 3,852,146</b>	<b>\$ 669,955</b>	<b>\$ (372,889)</b>	<b>\$ 4,149,212</b>	<b>\$ 456,882</b>
<b>Business-type activities:</b>					
Certificates of obligation	\$ 1,335,000	\$ -	\$ (1,335,000)	\$ -	\$ -
Refunding bonds	-	1,365,000	-	1,365,000	105,000
<b>Total business-type indebtedness</b>	<b>\$ 1,335,000</b>	<b>\$ 1,365,000</b>	<b>\$ (1,335,000)</b>	<b>\$ 1,365,000</b>	<b>\$ 105,000</b>

Interest incurred for business-type activities for the year ended September 30, 2019 totaled \$53,511 and was charged to expense.

The water and sewer fund is used to reduce all liabilities in business-type activities. The general fund is used to reduce general obligation bonds, certificate of obligation, bond premiums/discount and to reduce note payables and capital leases along with liquidating other the liabilities including compensated absences and total OPEB liability.

***General Obligation Bonds and Certificates of Obligation***

General obligation bonds and certificates of obligation are issued periodically to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General obligation bonds and certificates of obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each bond type are as follows for fiscal years ending September 30:

Fiscal Year	General Obligation Bond		Refunding Bond		Direct borrowings and placements			
					2019 Tax note		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 155,000	\$ 122,363	\$ 105,000	\$ 32,583	\$ 65,000	\$ 20,370	\$ 71,670	\$ 2,150
2021	160,000	118,412	100,000	35,154	70,000	12,665	71,760	2,150
2022	165,000	113,538	105,000	32,364	75,000	10,505	-	-
2023	170,000	108,512	105,000	29,435	75,000	8,270	-	-
2024	175,000	103,338	110,000	26,505	80,000	5,960	-	-
2025-2029	975,000	416,331	585,000	85,514	160,000	4,768	-	-
2030-2034	1,200,000	189,125	255,000	10,741	-	-	-	-
2035-2039	270,000	5,737	-	-	-	-	-	-
<b>Total</b>	<b>\$3,270,000</b>	<b>\$1,177,356</b>	<b>\$1,365,000</b>	<b>\$ 252,296</b>	<b>\$ 525,000</b>	<b>\$ 62,538</b>	<b>\$ 143,430</b>	<b>\$ 4,300</b>

The City did not have any lines of credit, assets for which are pledged as collateral for debt, or debt with terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance-related consequences, or subjective acceleration clauses as of September 30, 2019.

**Debt Capacity**

2019 Taxable Assessed Valuation	\$ 124,415,658
	\$5.61 per \$100
Maximum Levy Rate for General Obligation Debt	assessed valuation
Total General Obligation Debt Capacity	\$ 6,979,718
Funded Debt Payable from Ad Valorem Taxes	\$ 5,426,147
Less - Self Supporting Debt - Water & Sewer Revenue Bonds	\$ 1,365,000
Net General Purpose Funded Debt Payable From Ad Valorem Taxes	\$ 4,061,147
Ratio of Total Funded Debt to Taxable Assessed Valuation	4.36%
Ratio of Net General Purpose Funded Debt to Taxable Assessed Valuation	3.26%
Per Capita (est. population 4,190) Total Funded Debt	\$ 1,295.02
Per Capita (est. population 4,190) Net Funded Debt	\$ 969.25
Per Capita (est. population 4,190) Debt Service for fiscal 2019	\$ 75.36

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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***Estimated Overlapping Debt***

Expenditures of various taxing authorities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds (Tax Debt) was developed from information contained in *Texas Municipal Reports* published by the Municipal Advisory Council of Texas.

Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined.

The following table (unaudited) reflects the estimated share of overlapping general obligation debt that is serviced by ad valorem taxes.

Taxing Jurisdiction	2019 Taxable Value	2019 Tax Rate	Total Funded Debt	Estimated % Applicable	City of Cockrell Hill Overlapping Funded Debt	Authorized but Unissued Debt
City of Cockrell Hill	\$ 124,415,658	\$ 0.9471	\$ 5,426,000	100.00%	\$ 5,426,000	n/a
Dallas County	804,251,345,067	0.6466	1,137,540,000	0.05%	410,717	1,102,000
Dallas ISD	130,298,487,607	1.3104	2,763,285,000	0.09%	2,274,774	n/a
Total Overlapping Debt					\$ 8,111,491	n/a
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation					6.520%	n/a
Per Capita Overlapping Funded Debt (Population estimate = 4,190)					\$ 1,936	n/a

***Tax Abatement***

At times, the City may enter into economic agreements designed to promote development and re-development within the City, spur economic improvement, stimulate commercial activity, generate additional sales tax, and enhance / increase the property tax base and economic vitality of the City. Such programs could involve abatement or rebates of sales and ad valorem taxes. Any agreements would be authorized under Chapter 380 of the Texas Local Government Code, Chapter 311 (Tax Increment Financing Act) and Chapter 312 (Property Redevelopment and Tax Abatement) of the Texas Tax Code. The economic agreements are intended to support

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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the creation of new businesses, the expansion and retention of existing businesses within the City, and the attraction of companies that offer high impact jobs and share the community's values. Parties to the agreements may be eligible to receive economic incentives in the form of tax abatements or reductions. At September 30, 2019, there are no such agreements in force.

**6. Capital Leases**

The City has capital leases outstanding for \$122,807 for governmental activities for the purchase of police communication and infrastructure maintenance equipment. The following is a schedule by fiscal year of the future minimum lease payments under capital leases together with the present value of the minimum lease payments as of September 30, 2019:

2020		\$ 82,540
2021		15,596
2022		11,572
2023		11,572
2024		<u>11,572</u>
Minimum lease payments		132,852
Less amount representing interest		<u>(10,045)</u>
<b>Present value of net minimum lease payments</b>		<b><u><u>\$ 122,807</u></u></b>

Included in governmental activities capital assets is \$173,307 of equipment related to capital leases and \$46,765 in accumulated depreciation.

**7. Interfund Balances and Transfers**

All interfund transfers between the various funds are approved supplements to the operations of those funds:

Transfer in	Transfers out	Amount
Capital projects fund	General fund	\$ 280,462

The City's general fund transferred money to the capital projects fund to report restricted fund balance for court security, technology, and the police department.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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**8. Employee Retirement System**

***Plan Description***

The City participates as one of 860 plans in the non-traditional, 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. All eligible employees of the City are required to participate in TMRS.

***Benefits Provided***

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City within the option available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee Deposit Rate	7%
Matching ratio (City to employee)	2 : 1
Years Required for Vesting	5 years
Retirement Eligibility (age service)	60 / 5 or 0 / 20
Updated Service Credit	100% repeating
Annuity Increase (to Retirees)	70% of CPI Repeating

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which,

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	45
Active employees	31
Total	88

***Contributions***

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentage are either 100%, 150%, or 200%, both as adopted by the City Council. Under state law governing TRMS, the contribution rate for each municipality 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, together with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City was 8.36% for the year ended September 30, 2019. The City's contributions to TMRS for the fiscal year ended September 30, 2019, totaled \$95,216 and were equal to the required contributions.

***Net Pension Asset or Liability***

The City's net pension asset or liability (NPA/L) was measured by TRMS as of December 31, 2018, and the total pension liability (TPL) used to calculate the net pension asset or liability was determined by the actuarial valuation as of that date.

# City of Cockrell Hill

## Notes to the Basic Financial Statements

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### ***Actuarial Assumptions***

The total pension asset or liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75% per year (net of pension plan investment expense, including inflation)

Salary increases are based on a service-related table. Mortality rates for active members, retirees, and beneficiaries are based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. These rates are projected on a fully generational basis by scale BB to account for future mortality estimates. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are management 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 was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel Roeder Smith & Company, Consultant & Actuaries, focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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**Notes to the Basic Financial Statements**

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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
<b>Total</b>	<b>100.0%</b>	

***Discount Rate***

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

***Changes in the Net Pension Asset – Increase (Decrease)***

	Total Pension Liability [a]	Plan Fiduciary Net Position [b]	Net Pension Asset (Liability) [b] - [a]
<b>Balance at December 31, 2017</b>	\$ 4,241,784	\$ 4,686,118	\$ 444,334
<b>Activity during 2018</b>			
Service cost	228,116	-	(228,116)
Interest on the total pension liability	290,785	-	(290,785)
Difference between expected and experience	(122,608)	-	122,608
Contributions – employer	-	115,248	115,248
Contributions – employees	-	98,024	98,024
Net investment loss	-	(140,346)	(140,346)
Benefit payments, including refunds of employee contributions	(95,830)	(95,830)	-
Administrative expense	-	(2,713)	(2,713)
Other changes	-	(141)	(141)
<b>Balance at December 31, 2018</b>	<u>\$ 4,542,247</u>	<u>\$ 4,660,360</u>	<u>\$ 118,113</u>

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

	1% Decrease in the Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in the Discount Rate (7.75%)
City’s net pension asset	\$660,043	\$118,113	\$737,009

***Pension Plan Fiduciary Net Position***

Detailed information about the plan’s fiduciary net position is available in a separately issued TMRS financial report that may be obtained online at [www.tmrs.com](http://www.tmrs.com).

***Pension Expense and Deferred Outflows and Inflow of Resources Related to Pensions***

For the fiscal year ended September 30, 2019, the City recognized pension expense totaling \$132,359.

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pension plans from the following sources:

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 105,034
Difference between projected and actual investment earnings	243,312	-
Contributions subsequent to the measurement date	172,975	-
Total	\$ 416,287	\$ 105,034

\$172,975 reported as deferred outflows of resources as the result of employee and employer contributions made subsequent to the measurement date will be recognized as an increase of the net pension asset for the year ending September 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized annually in pension expense as shown:

Year Ended September 30:	Pension Expense Amount
2020	\$ 30,591
2021	(6,909)
2022	23,265
2023	91,331
<b>Total</b>	<b>\$ 138,278</b>

**9. Other Postemployment Employee Benefit (OPEB) Plan**

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

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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***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 postemployment benefit (OPEB) and is a fixed amount of \$7,500.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	5
Active employees	31
Total	46

***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 retiree portion of contribution rates to the SDBF for the City was 0.03% in both calendar years 2018 and 2019. The City’s Total OPEB Liability (TOL) of \$69,257 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date. The applicable discount rate for an unfunded OPEB was based on an index of tax exempt 20-year municipal bond rates rated as AA or higher. As of December 31, 2018 (the measurement date), the discount rate used in the development of the total OPEB liability was 3.71%.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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***Actuarial Assumptions***

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Salary increase	5.50% to 10.5% per year including inflation
Discount rate	3.71%
Retiree’s share of benefit-related-costs	0.00%

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal Actuarial Cost Method.

The discount rate used to measure the Total OPEB Liability was 3.71% and was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2018.

***Changes in Total OPEB Liability***

<b>Balance, beginning of year</b>	\$ 70,591
Service cost	5,041
Interest on the total OPEB liability	2,413
Difference between expected and actual experience	(3,324)
Changes of assumptions	(5,044)
Benefit payments	(420)
	<hr/>
<b>Net change in total pension liability</b>	<b>(1,334)</b>
	<hr/>
<b>Balance, end of year</b>	<b>\$ 69,257</b>
	<hr/> <hr/>

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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

	1% Decrease in the Discount Rate <u>(2.71%)</u>	<u>Discount Rate (3.71%)</u>	1% Increase in the Discount Rate <u>(4.71%)</u>
City's OPEB Liability	\$83,010	\$69,257	\$58,567

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

For the year ended September 30, 2019, the City recognized pension expense of \$1,622. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred (Inflows) of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ (2,778)	\$ -
Changes in assumptions and other inputs	<u>(377)</u>	<u>-</u>
<b>Total</b>	<b><u><u>\$ (3,155)</u></u></b>	<b><u><u>\$ -</u></u></b>

The net amount of \$3,155 reported as deferred inflows of resources to OPEB will be recognized annually in OPEB expense as shown:

<u>Year ended September 30:</u>	<u>Pension Expense Amount</u>
2020	\$ (436)
2021	(436)
2022	(436)
2023	(436)
2024	(1,287)
Thereafter	<u>(124)</u>
<b>Total</b>	<b><u><u>\$ (3,155)</u></u></b>

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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**10. Commitments and Contingencies**

***Operating Leases***

The following table summarizes the outstanding operating lease obligations for equipment as of September 30, 2019.

2020	\$ 10,804
2021	5,704
2022	5,704
2023	<u>4,284</u>
<b>Total minimum rentals</b>	<b><u>\$ 26,496</u></b>
 Rental expenditures in 2019	 <u>\$ 17,079</u>

***Litigation***

The City is a defendant in claim arising from a traffic accident involving one of its public works employees. The case is in the discovery phase; hence, an outcome cannot be ascertained at this time. Should any liability arise, the City is covered by its TML policy, less the deductible.

***Purchase Commitments***

In 2014, the City entered into a contract with the City of Dallas, Texas, to purchase treated water for a term of thirty (30) years which expires March 22, 2044. Among other provisions, the City pays for water based on the volume processed and pumped into the City's water distribution system. If, within the terms of the contract, the City ceases to take water from the City of Dallas because other sources of water supplies have been developed or acquired, the City is obligated for five years or the remaining term of the contract (whichever is less) and remains liable for charges at the billing level in effect at such cessation.

In 2014, the City entered into a contract with the City of Dallas, Texas, to receive wastewater treatment services for a term of thirty (30) years which expires in March 22, 2044. Among other provisions, the City pays for treatment based on the average "winter month" water consumption for those connections discharging into the Dallas wastewater system. The billing months are December, January, March, and March which constitute the "winter months." If, within the terms of the contract, the City decides to partially or totally discontinue using the wastewater treatment facilities/services, the City is obligated for five years or the remaining term of the contract (whichever is less) and remains liable for charges at the billing level in effect at such cessation. Expenditures for water/wastewater for the 2019 fiscal year totaled \$506,486.

**City of Cockrell Hill**  
**Notes to the Basic Financial Statements**

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**11. Risk Management**

***Property, Liability, and Workers' Compensation Insurance***

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Texas Municipal League Joint Self Insurance Fund (TMLIF) to provide both general liability and property insurance. The City, along with other participating entities, contributes annual amounts determined by TMLIF management. As claims arise, they are submitted to and paid by TMLIF. The City is not liable for payments beyond their annual contributions to TMLIF.

The City has no significant changes in insurance coverage from the year ended September 30, 2018. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2019, not any of the three preceding years.

***Texas Work Force Unemployment Compensation Insurance***

The City has elected to fund its Texas Work Force Unemployment Compensation Insurance under the Contributory Method. Under this method, the City is required to remit premiums quarterly to the State of Texas based on the first \$9,000 of wages paid to each employee. All of the City's claims are paid by the State of Texas.

**12. Prior Period Adjustment**

The beginning fund balance in the governmental funds at October 1, 2018 was reduced by \$574,165 resulting in a restated beginning fund balance of \$2,751,603 to correct an error related to the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions* as these items are not current financial resources and therefore are not reported in the governmental funds balance sheet

**13. Subsequent Events**

Management has evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.

## **Required Supplementary Information**

**City of Cockrell Hill, Texas**  
**Schedule of Changes in Net Pension Asset**  
**Last Ten Fiscal Years**

	2018	2017	2016	2015	2014*
<b>Plan fiduciary net position:</b>					
Contributions - employer	\$ 115,248	\$ 109,712	\$ 107,600	\$ 102,033	\$ 74,243
Contributions - employees	98,024	93,767	94,623	85,434	84,322
Net investment loss	(140,346)	558,258	251,615	5,366	199,010
Benefit payments	(95,830)	(101,163)	(146,485)	(101,075)	(197,590)
Administrative expenses	(2,713)	(2,894)	(2,843)	(3,268)	(2,078)
Other	(141)	(686)	(153)	(161)	(171)
Net change in plan fiduciary net position	(25,758)	656,994	304,357	88,329	157,736
Plan fiduciary net position - beginning of year	4,686,118	4,029,124	3,724,767	3,636,438	3,478,702
Plan fiduciary net position - end of year	<u>\$ 4,660,360</u>	<u>\$ 4,686,118</u>	<u>\$ 4,029,124</u>	<u>\$ 3,724,767</u>	<u>\$ 3,636,438</u>
<b>Total pension liability:</b>					
Service cost	\$ 228,116	\$ 216,200	\$ 215,606	\$ 192,960	\$ 204,509
Interest on total pension liability	290,785	266,749	247,662	234,907	219,433
Changes in benefit terms	-	-	-	-	-
Difference between expected and actual experience	(122,608)	(34,327)	(56,957)	(9,769)	(47,788)
Changes in assumptions	-	-	-	7,608	-
Benefit payments, including refunds to employees	(95,830)	(101,163)	(146,485)	(101,075)	(197,590)
Net change in total pension liability	300,463	347,459	259,826	324,631	178,564
Total pension liability - beginning of year	4,241,784	3,894,325	3,634,499	3,309,868	3,131,304
Total pension liability - end of year	<u>\$ 4,542,247</u>	<u>\$ 4,241,784</u>	<u>\$ 3,894,325</u>	<u>\$ 3,634,499</u>	<u>\$ 3,309,868</u>
<b>Net pension asset</b>	<u>\$ 118,113</u>	<u>\$ 444,334</u>	<u>\$ 134,799</u>	<u>\$ 90,268</u>	<u>\$ 326,570</u>
<b>Plan fiduciary net position as a % of the total pension liability</b>	102.60%	110.48%	103.46%	102.48%	109.87%
<b>Covered employee payroll</b>	1,400,345	1,339,529	1,351,761	1,220,493	1,220,493
<b>Net pension asset as a % of covered employee payroll</b>	8.43%	33.17%	9.97%	7.40%	26.76%

\* The schedule is intended to show information for 10 years. Additional years will be displayed as they become available. 2014 was the first year this schedule was reported.

**City of Cockrell Hill, Texas**  
**Schedule of Pension Contributions**  
**Last Ten Fiscal Years**

	2019	2018	2017	2016	2015*
Actuarially determined contribution	\$ 95,216	\$ 115,988	\$ 110,312	\$ 85,434	\$ 95,689
Contributions in relation to actuarially determined contributions	95,216	115,988	110,312	85,434	95,689
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>				
City covered payroll	1,400,345	1,339,529	1,351,761	1,220,493	1,205,151
Ratio of actual contributions to covered payroll amount	6.80%	8.66%	8.16%	7.00%	7.94%

\* The schedule is intended to show information for 10 years. Additional years will be displayed as they become available. 2015 was the first year this schedule was reported.

**City of Cockrell Hill, Texas**  
**Schedule of Changes and OPEB Liability**  
**Last Ten Fiscal Years**

	<u>2018</u>	<u>2017</u>
<b>Total OPEB liability</b>		
Service cost	\$ 5,041	\$ 4,286
Interest on total OPEB liability	2,413	2,992
Difference in expected and actual experience	(3,324)	-
Change in assumptions	(5,044)	5,715
Benefit payments, including refunds of employee contributions	(420)	(1,102)
<b>Net change in total OPEB liability</b>	(1,334)	11,891
<b>Total OPEB liability, beginning</b>	70,591	58,700
<b>Total OPEB liability, ending</b>	<u>\$ 69,257</u>	<u>\$ 70,591</u>
Covered payroll	\$ 1,400,345	\$ 1,339,529
Total OPEB liability as a % of covered employee payroll	4.95%	5.27%

\* The schedule is intended to show information for 10 years. Additional years will be displayed as they become available. 2017 was the first year this schedule was reported.

The TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB Plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

**City of Cockrell Hill, Texas**  
**Schedule of OPEB Contributions**  
**Last Ten Fiscal Years**

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	2019	2018*
Actuarially determined contribution	\$ 2,597	\$ 2,241
Contributions in relation to actuarially determined contributions	2,597	2,241
<b>Contribution deficiency (excess)</b>	<b>\$ -</b>	<b>\$ -</b>
City covered payroll	1,400,345	1,339,529
Ratio of actual contributions to covered payroll amount	0.19%	0.17%

\* GASB 75, paragraph 57 requires that the data in the schedule be presented as of the City's fiscal year as opposed to the time period covered by the measurement date.

Note: Only one year of data is presented in accordance with GASB #75. Additional years information will be displayed as it becomes available.

**City of Cockrell Hill, Texas**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended September 30, 2019**

	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Favorable (Unfavorable) Variance</b>
<b>Revenues</b>			
Taxes and franchise fees	\$ 1,753,108	\$ 1,750,683	\$ 2,425
Licences and permits	57,800	82,331	(24,531)
Fines and forfeitures	1,026,380	1,342,925	(316,545)
Charges for governmental services	327,493	228,229	99,264
Miscellaneous	117,400	60,777	56,623
<b>Total revenues</b>	<b>3,282,181</b>	<b>3,464,945</b>	<b>(182,764)</b>
<b>Expenditures</b>			
General government	890,609	876,071	(14,538)
Public safety			
Police	1,269,466	1,250,851	(18,615)
Fire	63,536	53,534	(10,002)
Municipal court	212,092	221,821	9,729
Code enforcement	62,003	56,379	(5,624)
Public works	199,815	198,902	(913)
Cultural and recreational	55,788	55,502	(286)
Capital expenditures	104,500	164,730	60,230
Debt service	149,904	143,904	(6,000)
<b>Total expenditures</b>	<b>3,007,713</b>	<b>3,021,694</b>	<b>13,981</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>274,468</b>	<b>443,251</b>	<b>(168,783)</b>
<b>Other financing sources</b>			
Capital lease	-	56,980	(56,980)
Transfer to capital projects fund	(280,462)	(280,462)	-
<b>Total other financing sources</b>	<b>(280,462)</b>	<b>(223,482)</b>	<b>(56,980)</b>
<b>Net change in fund balance</b>	<b>\$ (5,994)</b>	<b>\$ 219,769</b>	<b>\$ (225,763)</b>

**City of Cockrell Hill, Texas**  
**Notes to Required Supplementary Information**

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**1. Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the budgetary comparison schedule:

1. Not later than the August Council meeting, the City Administrator submits to City Council a proposed operating budget for the general and proprietary funds. The City's operating budget, which is consistent with U.S. generally accepted accounting principles (GAAP), includes expenditures and means of financing them.
2. A public hearing is conducted to obtain taxpayer comment.
3. The City Council approves, by ordinance, budget appropriations by September 30. Any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by fund.
4. Unused appropriations of the above annually budgeted funds lapse at the end of each fiscal year.
5. The City Council may authorize additional appropriations during the year.
6. City Council approved transfers out of the general fund.

**2. Pension and Other Post Employment Benefit Schedules**

**Methods and assumptions used for Pension and OPEB Schedules**

Actuarial cost method	Entry Age Normal
Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with Male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB
Other Information	There were no benefit changes during the year.

**Methods and assumptions used for Pension Schedules**

Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	25 Years

**City of Cockrell Hill**  
**Notes to the Required Supplementary Information**

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Asset valuation method	10 Years smoothed market; 15% soft corridor
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014

**Methods and assumptions used for OPEB Schedules**

Discount rate	3.71%
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 - disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
Mortality rates - service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

## **Other Supplementary Information**

**City of Cockrell Hill, Texas**  
**Budgetary Comparison Schedule - Proprietary Fund**  
**Year Ended September 30, 2019**

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	<b>Original and Final Budget</b>	<b>Actual Amounts</b>	<b>Favorable (Unfavorable) Variance</b>
Operating revenue	\$ 873,500	\$ 984,123	\$ (110,623)
Operating expense	842,000	952,287	110,287
<b>Operating income</b>	31,500	31,836	(336)
<b>Nonoperating revenue (expense)</b>			
Interest on investments	-	6,256	(6,256)
Interest expenses	-	(53,511)	53,511
Other	-	509,223	(509,223)
<b>Total nonoperating revenue (expense)</b>	-	461,968	(461,968)
<b>Change in net position</b>	<b>\$ 31,500</b>	<b>\$ 493,804</b>	<b>\$ (462,304)</b>

**Overall Compliance and  
Internal Control Section**

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Honorable Mayor and City Council  
City of Cockrell Hill, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Cockrell Hill, Texas (City), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 10, 2020.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002.

### **City of Cockrell Hill, Texas' Response to Findings**

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

### **Purpose of this Report**

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



A Limited Liability Partnership

**City of Cockrell Hill, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2019**

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**Section I – Summary of Auditors’ Results**

Basic Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting	
• Material weaknesses identified?	___yes <u>X</u> no
• Significant deficiencies identified?	<u>X</u> yes ___ none reported
Noncompliance material to basic financial statements noted?	___yes <u>X</u> no

**Section II – Financial Statement Findings**

Finding No. 2019-001

Criteria: The City is responsible for presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and for the implementation of appropriate internal controls over financial reporting.

Condition: During the course of the audit, we noted the following significant audit adjustments required for fair presentation of the financial statements in accordance with GAAP:

- To record depreciation expense in the business-type activities resulting in a decrease in net position by approximately \$185,000.
- To record revenues attributable to the Community Development Block Grant resulting in an increase in net position by approximately \$503,000.
- To correct an error related to implementation of GASB Statement No. 68 *Accounting and Reporting for Pensions – an Amendment of GASB Statement No. 27* resulting in a restatement of beginning fund balance by approximately \$598,000.

Cause: The City needs to strengthen internal controls to ensure the accuracy of the financial statements.

Effect: There is a risk that without the assistance of the independent auditors in identifying potential misstatements, the City’s financial statements could contain a material misstatement.

Recommendation: Additional internal controls should be established to ensure accurate presentation of the financial statements.

**City of Cockrell Hill, Texas**  
**Schedule of Findings and Responses**  
**For the Year Ended September 30, 2019**

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Management's Response: Management is reviewing prior classification codes and implementing new codes to account for capital grant revenues. Management will implement recommended procedures to reasonably ensure year-end financial statements are prepared in accordance with GAAP.

Finding No. 2019-002

Criteria: The City is responsible for presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and for the implementation of appropriate internal controls over financial reporting.

Condition: During the course of the audit, we noted that the City has not legally adopted a Debt Service Fund. A Debt Service Fund accounts for the accumulation of financial resources for the payment of principal, interest, and related costs on long-term obligations paid primarily from taxes levied and collected by the City.

Cause: The City needs to strengthen internal controls to ensure the accuracy of the financial statements.

Recommendation: Additional internal controls should be established to ensure accurate presentation of the financial statements.

Management's Response: Management will implement recommended procedures to reasonably ensure year-end financial statements are prepared in accordance with GAAP.

**Section III - Schedule of Prior Audit Findings**

None Reported