

**CITY OF HOLLAND, TEXAS  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2020**

# Rod L. Abbott, CPA PLLC

## Certified Public Accountant

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June 21, 2021

To the Mayor, City Council, and Management of the  
City of Holland, Texas

I have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Holland, Texas (the "City") for the year ended September 30, 2020. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated April 27, 2020. Professional standards also require that I communicate to you the following information related to my audit.

### Significant Audit Matters

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2020. I noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the government-wide financial statements was:

Management's estimate of the useful lives of long-term assets for which to base depreciation expense. The City's estimates are based prior experience with actual useful lives performance for City infrastructure, equipment, and other assets. I evaluated the key factors and assumptions used to develop the useful lives estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all material and immaterial misstatements as shown at Attachment 1.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

### *Management Representations*

I have requested certain representations from management that are included in the management representation letter dated June 21, 2021.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

### Other Matters

I applied certain limited procedures to management's discussion and analysis, the General Fund's budget versus actual schedule, and the TMRS pension and OPEB schedules, which are required supplementary information (RSI) that supplements the basic financial statements. My procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

### Restriction on Use

This information is intended solely for the information and use of the City Council and management of the City of Holland, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Rod L. Abbott, CPA PLLC

**ATTACHMENT 1**  
**CITY OF HOLLAND, TEXAS**  
**ADJUSTING AUDIT ENTRIES**  
**FYE 9/30/20**

<u>AJE#</u>	<u>DESCRIPTION</u>	<u>DR</u>	<u>CR</u>
<b>AJE #1</b>	1200 · Accounts Receivable		644
E-4	400 · Water & Sewer Income:42-0414 · Water Sold-Construction	644	
		644	644
	To properly state revenue and receivable balances for water use billed to contractors.		
<b>AJE #2</b>	3118 · Amount to Be Provided	139,580	
A-29	3600 · Unreserved Fund Balance		139,580
		139,580	139,580
	To properly reclassify General Fund equity balances.		
<b>AJE #3</b>	1-29105 LTD - 2018 Tahoe Note Payable	16,033	
F-1	1-31118 Amount to Be Provided		16,033
		16,033	16,033
	To properly state governmental-type debt balances.		
<b>AJE #4</b>	1-25061 WAGES PAYABLE	2,247	
G-1	63-315 · Salaries - P.D.		2,247
	62-0215 · Salaries - W.F.	123	
	2561 - WAGES PAYABLE		123
		2,370	2,370
	To properly update wages payable in both funds.		
<b>AJE #5</b>	2030 · Accrued Vacation		469
G-3	600 · Water & Sewer Opr. Exp.:62-0215 · Salaries	469	
	1-25060 Accrued Vacation General	2,755	
	PD Expenses:63-315 · Salaries		2,755
		2,754	2,754
	To update vacation payable balances.		
<b>AJE #6</b>	63-311 Police Equipment	1,747	
H-1	63-321 Police Supplies	1,051	
	63-304 · Animal Control Expenses	122	
	61-1121 R&M City Hall	189	
	61-113 Telephone - General	551	
	61-181 Legal Fees	4,437	
	2001 Accounts Payable General		8,097
		8,097	8,097
	To properly state General Fund accounts payable.		
<b>AJE #7</b>	1-41070 Sales Tax Revenue - General	15,229	
D-4	41-108 · Road Repair Sales Taxes		21,045
	18015 - Accounts Receivable - Sales Tax	4,156	
	2001 Accounts Payable General	1,660	
		21,045	21,045
	To update sales tax revenue and receivables.		
<b>AJE #8</b>	Net Pension Asset (LIABILITY)	8,541	
G-4	Reserved for Pension Obligations	20,442	
	Deferred Outflows of Resources - Pension Contributions	6,263	
	Deferred (In)Outflows of Resources - Change in Assumptions		805
	Deferred (In)Outflows of Resources - Diff. in Projected/Actual Earnings		8,806
	Deferred (In)Outflows of Resources - Diff. in Expected/Actual Experience		19,717
	Amount to be Provided		5,918
		35,246	35,246
	TO PROPERLY UPDATE PENSION BALANCES IN THE L-T DEBT ACCOUNT GROUP.		

**ATTACHMENT 1**

<u>AJE#</u>	<u>DESCRIPTION</u>	<u>DR</u>	<u>CR</u>
<b>AJE #9</b>	Net Pension Asset (LIABILITY)	9,592	
G-4	Deferred Outflows of Resources - Pension Contributions	29,995	
	Deferred (In)Outflows of Resources - Change in Assumptions		904
	Deferred (In)Outflows of Resources - Diff. in Projected/Actual Earnings		9,891
	Deferred (In)Outflows of Resources - Diff. in Expected/Actual Experience		22,146
	600 · Water & Sewer Opr. Exp.:62-0217 · Retirement		6,646
		<hr/> 39,587	<hr/> 39,587
	TO PROPERLY UPDATE PENSION BALANCES IN THE WATER FUND.		
<b>AJE #10</b>	Total OPEB (Liab) Asset		20,060
G-6	Reserved for Pension Obligations	16,273	
	Deferred Outflows of Resources - TMRS OPEB Contributions	737	
	Deferred (In)Outflows of Resources - OPEB Change in Assumptions	2,209	
	Deferred (In)Outflows of Resources - OPEB Diff. in Expected/Actual Experience		1,288
	Amount to be Provided	<hr/> 2,129	
		21,348	21,348
	TO PROPERLY UPDATE OPEB BALANCES IN THE L-T DEBT ACCOUNT GROUP.		
<b>AJE #11</b>	Total OPEB (Liab) Asset		7,554
G-6	Deferred Outflows of Resources - OPEB Contributions	277	
	Deferred Outflows of Resources - Pension Contributions	6,129	
	Deferred (In)Outflows of Resources - OPEB Change in Assumptions	832	
	Deferred (In)Outflows of Resources - OPEB Diff. in Expected/Actual Experience		485
	600 · Water & Sewer Opr. Exp.:62-0217 · Retirement	<hr/> 801	
		8,039	8,039
	TO PROPERLY UPDATE OPEB BALANCES IN THE WATER FUND.		
<b>AJE #12</b>	1201 - A/R-WATER/SEWER/TRASH		10,089
E-2	1201-15 · Allowance for uncollectible WS		6,182
	65-0561 · Bad Debt Expense (new)	6,182	
	400 · Water & Sewer Income:42-0201 · Water Bills	<hr/> 10,089	
		16,271	16,271
	To properly state Water Fund balances related to receivables, revenue, and allowance for doubtful accounts.		
<b>AJE #13</b>	1-18011 General Property Tax Rec	637	
D-1	1-18013 Debt Serv Property Tax Rec	64	
	1-28011 General Deferred Rev		637
	1-28013 Debt Serv Deferred Rev		64
		<hr/> 701	<hr/> 701
	To properly update balance sheet accounts related to property taxes.		
<b>AJE #14</b>	4220 · Grant CDGB # 711260:42-2500 · Grant Income		20,645
E-3	4220 · Grant CDGB # 711260:612650 · Grant Construction	20,645	
		<hr/> 20,645	<hr/> 20,645
	To properly state grant income and expense.		
<b>AJE #15</b>	4502 (NEW) Proceeds from sold assets		38,410
C-3	GENERAL INCOME:41-110 · Misc. Inc.	38,410	
		<hr/> 38,410	<hr/> 38,410
	To reclass asset sales to its own account.		
<b>AJE #16</b>	1510 · Water Wastewater	284,644	
C-3	1530 · Equipment	42,989	
	4220 · Grant CDGB # 711260:42-0300 · Local Matching		12,669
	4220 · Grant CDGB # 711260:61-2500 · Grant Engineering		18,050
	4220 · Grant CDGB # 711260:612650 · Grant Construction		226,700
	4220 · Grant CDGB # 711260:61-2600 · Grant Expense		12,100
	6800 · New Equipment Purchase		42,989
	1205 - Construction in Progress		<hr/> 15,125
		327,633	327,633
	To update all Water Fund fixed assets balances for 2020 activity.		

**ATTACHMENT 1**

<u>AJE#</u>	<u>DESCRIPTION</u>	<u>DR</u>	<u>CR</u>
<b>AJE #17</b>	1510 · Water Wastewater	34,722	
C-3	1201-10 · Water & Sewer Accts Rec. Other	57,200	
	4221 - Dollar General Store		57,200
	6980 · Dollar General Expenses		34,722
		<hr/>	<hr/>
	To properly account for the Dollar Store project activity.	91,922	91,922
<b>AJE #18</b>	4302 - Capital Outlays (new)	15,270	
C-3	63-311 · Police Equipment		15,270
	FIXED ASSETS:30-160 · Police Cars	15,270	
	1-31117 Investment in GFAAG		15,270
		<hr/>	<hr/>
	To add new governmental-type fixed assets.	30,540	30,540
<b>AJE #19</b>	1-31117 INVEST. IN FIXED ASSETS	26,508	
C-1	1-67000 ACCUMULATED DEPRECIATION		26,508
	2-63002 WS Depreciation expense	130,211	
	1600 · Accumulated Depreciation		130,211
		<hr/>	<hr/>
	To post depreciation for both proprietary and governmental-type funds.	156,719	156,719
<b>AJE #20</b>	2560 - Note Payable - CAT Generator	11,170	
F-1	2590 - Note Payable - CAT Backhoe	12,737	
	2530 - Note Payable - CRG	3,565	
	2550 - Series 2015 USDA Bonds	13,000	
	2586 - Note Payable - Smart Meters	16,346	
	Long Term Replace Reser:62-2362 · Backhoe	657	
	68-3000 · Note payments	40,000	
	2535 - Note Payable - Kubota Tractor (new)		40,000
	6300 · CRG Loan:63-1000 · CRG Principal payment		3,565
	69-1000 · Cat Generator Note Payable		9,604
	6950 · Sewer Plant Improvement:6950-10 · Principal		13,000
	62-2412 · Water Meter Loan Paid Out		17,912
	Sewer Plant Improvement:6950-20 · Interest	174	
	6800 · New Equipment Purchase:68-3000 · Note payments		12,278
	62-0220 · Misc. Expense		1,290
		<hr/>	<hr/>
	To properly state Water Fund balances related to debt and debt service.	97,649	97,649
<b>AJE #21</b>	600 · Water & Sewer Opr. Exp.:62-0225 · Deposit Refunds		1,008
H-3	2010 · Customer Deposits	2,125	
	42-0201 · Water Bills		1,117
		<hr/>	<hr/>
	To properly state balances related to the water deposits payable account.	2,125	2,125
<b>AJE #22</b>	1499 · Undeposited Funds		11,158
B-1	1403 - Due From Court Program	2,764	
	2400 - Due to I & S	1,671	
	43-029 Fines	2,880	
	41-110 · Misc. Income	3,843	
		<hr/>	<hr/>
	To properly state undeposited funds.	11,158	11,158

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# Rod L. Abbott, CPA PLLC

Certified Public Accountant

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## INDEPENDENT AUDITOR'S REPORT

To the City Council and Management  
of the City of Holland, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holland, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements. I was not engaged to audit the financial statements of the aggregate discretely presented component unit. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component unit.

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, I 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.

Except for the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit" paragraph, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## Summary of Opinions

<u>Opinion Unit:</u>	<u>Type of Opinion:</u>
Governmental-Type Activities	Unmodified
Business-Type Activities	Unmodified
General Fund	Unmodified
Water and Sewer Fund	Unmodified
Mayfield Library and Museum	Disclaimer

### **Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit**

The financial statements of the Mayfield Library and Museum (MLM) have not been audited, and I was not engaged to audit the MLM financial statements as part of my audit of the City's basic financial statements. MLM's financial activities are included in the City's basic financial statements as a discretely presented component unit and represent 100 percent, 100 percent, and 100 percent of the assets, net position, and revenues, respectively, of the City's aggregate discretely presented component unit.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit" paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component unit of the City of Holland, Texas. Accordingly, I do not express an opinion on these financial statements.

### **Unmodified Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holland, Texas, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and OPEB schedules on pages 4-8 and 38-42 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated June 21, 2021, on my consideration of the City of Holland, Texas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Holland, Texas's internal control over financial reporting and compliance.



Rod L. Abbott, CPA PLLC  
Tom Bean, Texas  
June 21, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Holland, Texas

For the Year Ended September 30, 2020

In this section of the annual financial report, the City of Holland, Texas will discuss and analyze the City's financial performance for the fiscal year ended September 30, 2020. Please read it in conjunction with the Independent Auditor's Report on page 1, and the City's basic financial statements which begin on page 9.

### **FINANCIAL HIGHLIGHTS**

- The City had an overall increase in net position of \$284,418 as a result of this year's operations.
- The General Fund ended the year with a fund balance of \$282,044, which is a \$45,635 increase during fiscal year 2020.
- The Water and Sewer Fund ended the year with a net position of \$2,366,018, which is a \$229,498 increase during fiscal year 2020.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the statement of net position (on page 9). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 11) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

#### **Reporting the City as a Whole**

##### *The Statement of Net Position and the Statement of Activities*

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The statement of net position includes all the City's assets and liabilities at the end of the year while the statement of activities includes all the revenues and expenses generated by the City's operations during the year.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Holland, Texas  
For the Year Ended September 30, 2020

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. 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). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

These two statements report the City's net position and changes in them. The City's net position provides one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in property tax base and the condition of the City's facilities.

In the statement of net position and the statement of activities, the City is divided into two kinds of activities.

**Governmental activities** - Most of the City's basic services are reported here, including police and general government. Property taxes, sales taxes, and franchise fees finance most of these activities.

**Business-type activities** - The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer system activity are reported here.

### **Reporting the City's Most Significant Funds**

#### *Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

**Governmental funds** -The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions.

**Proprietary funds** -The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in statement of net position and the statement of activities. In fact, the City's proprietary funds are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas  
For the Year Ended September 30, 2020

### Government-Wide Financials Analysis

The City's combined net position was \$2,810,844 as of September 30, 2020. Analyzing the net position of governmental and business-type activities separately, the business type activities net position is \$2,366,018 and governmental activities net position is \$444,826. The following tables focus on net position (Table 1) and general revenues, charges for services, and significant expenses of the City's governmental and business-type activities (Table II).

Table 1 – Comparative Statements of Net Position – FY2020 and FY 2019

	Governmental Activities		Business-type Activities		Total	
	FY20	FY19	FY20	FY19	FY20	FY19
Current and other assets	\$ 352,185	\$ 289,726	\$ 410,054	\$ 376,169	\$ 762,239	\$ 665,895
Capital assets	197,395	208,633	2,866,658	2,648,459	3,064,053	2,857,092
Total assets	<u>549,580</u>	<u>498,359</u>	<u>3,276,712</u>	<u>3,024,628</u>	<u>3,826,292</u>	<u>3,522,987</u>
Deferred outflows of resources	9,209	22,686	8,144	25,043	\$ 17,353	47,729
Long-term liabilities	37,102	73,042	758,532	800,290	795,635	873,332
Other liabilities	46,245	38,663	126,880	91,223	173,125	129,886
Total liabilities	<u>83,347</u>	<u>111,705</u>	<u>885,412</u>	<u>891,513</u>	<u>968,759</u>	<u>1,003,218</u>
Deferred inflows of resources	30,616	19,434	33,426	21,638	64,042	41,072
Net position:						
Net investment in cap. assets	180,353	175,558	2,115,680	1,880,663	2,296,032	2,056,221
Restricted	17,015	16,631	11,143	46,725	28,157	63,356
Unrestricted	247,459	197,717	239,196	209,132	486,654	406,849
Total net position	<u>\$ 444,826</u>	<u>\$ 389,906</u>	<u>\$ 2,366,018</u>	<u>\$ 2,136,520</u>	<u>\$ 2,810,844</u>	<u>\$ 2,526,426</u>

A large portion of the City's net position totals \$2,296,032, and reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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.

An additional portion of the City's net position totaling \$28,157 represents resources that are subject to external restrictions on how they may be used. The remaining \$486,654 is the unrestricted portion of net position and may be used to meet the City's ongoing obligations.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Holland, Texas  
For the Year Ended September 30, 2020

Table 2 – Comparative Statements of Activities – FY2020 and FY 2019

	Governmental Activities		Business-type Activities		Total	
	FY20	FY19	FY20	FY19	FY20	FY19
Revenues:						
Program Revenues:						
Charges for services	\$ 151,882	\$ 135,205	\$ 651,055	\$ 638,539	\$ 802,937	\$ 773,744
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	-	-	314,050	18,150	314,050	18,150
General Revenues:						
Property taxes	196,379	190,392	-	-	196,379	190,392
Sales taxes and franchise fees	172,867	146,592	-	-	172,867	146,592
Investment income	2,304	2,881	2,096	3,979	4,400	6,860
Gain on sold assets	38,410	-	-	-	38,410	-
Other	2,678	5,390	11,935	5,772	14,612	11,162
	<u>564,519</u>	<u>480,460</u>	<u>979,136</u>	<u>666,440</u>	<u>1,543,655</u>	<u>1,146,900</u>
Expenses:						
General government	168,763	120,841	-	-	168,763	120,841
Parks	2,978	10,315	-	-	2,978	10,315
Public safety	204,077	229,963	-	-	204,077	229,963
Streets	105,573	25,516	-	-	105,573	25,516
Debt service - interest	1,607	2,732	-	-	1,607	2,732
Development/Inspections	8,860	5,616	-	-	8,860	5,616
Library and civic center	17,741	13,724	-	-	17,741	13,724
Water/Sewer/Sanitation	-	-	749,639	699,102	749,639	699,102
	<u>509,599</u>	<u>408,707</u>	<u>749,639</u>	<u>699,102</u>	<u>1,259,238</u>	<u>1,107,809</u>
Excess (deficiency) of revenues over expenditures before transfers	54,920	71,753	229,498	(32,662)	284,418	39,091
Transfers In (Out)	-	-	-	-	-	-
Increase in net position	54,920	71,753	229,498	(32,662)	284,418	39,091
Net position - October 1	389,906	305,270	2,136,520	2,183,434	2,526,426	2,488,704
Prior period adjustments	-	12,883	-	(14,252)	-	(1,369)
Net position - September 30	<u>\$ 444,826</u>	<u>\$ 389,906</u>	<u>\$ 2,366,018</u>	<u>\$ 2,136,520</u>	<u>\$ 2,810,844</u>	<u>\$ 2,526,426</u>

For fiscal year 2020, revenues from governmental activities totaled \$564,519, which is \$54,920 more than total governmental expenditures of \$509,599. The City's two largest funded programs are public safety and general government.

Revenues of the City's business-type activities were \$979,136, compared to \$666,440 for the fiscal year ending September 30, 2019. This increase is mostly attributable to \$314,050 of non-recurring grant income and capital contributions received in 2020. Expenses for the City's business-type activities were \$749,639. The City's largest business-type expenses were wages & benefits and the cost of purchased of water.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

City of Holland, Texas  
For the Year Ended September 30, 2020

### **THE CITY'S FUNDS**

As the City completed the year, its governmental fund (as presented in the balance sheet on page 11) reported a combined fund balance of \$282,044, which is more \$45,635 more than last year's total of \$236,409. The General Fund had an overall positive budget versus actual variance of \$74,657 as shown on page 38.

The City's proprietary-type fund (as presented in the statement of net position on page 15) reported a total net position of \$2,366,018, which is \$229,498 more than last year's total of \$2,136,520. Intergovernmental revenue from a community development block grant was a main contributor to this positive result.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### *Capital Assets*

At the end of September 2020, the City had invested \$3,064,053 in capital assets, net of accumulated depreciation. The City's additions to capital assets for 2020 totaled \$363,679. \$305,420 of this total was for water and sewer system improvements in the Water and Sewer Fund.

#### *Debt*

At year-end, the City had \$768,020 in bonds and notes outstanding, versus \$800,871 in the prior fiscal year. The City issued one new \$40,000 loan payable in fiscal year 2020 to purchase a tractor.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The City's elected and appointed officials considered population growth and available resources from state revenues and property tax revenues when setting the 2021 fiscal year budget and tax rate. The City adopted a \$.43864 tax rate (per \$100 of assessed value) to meet the revenue and expenditure goals of the adopted budget. City management believes that if the City does not incur any significant, unforeseen expenditures or reductions in revenue it should accomplish the task of providing City services within its available resources.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's business office, at City of Holland, 102 W. Travis, Holland, Texas 76534.



**City of Holland, Texas**  
**Statement of Net Position**  
**September 30, 2020**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Mayfield Library and Museum (unaudited)
<b>Assets</b>				
Cash and cash equivalents	\$ 305,729	\$ 279,123	\$ 584,852	\$ 4,607
Receivables - net	37,916	121,339	159,255	-
Prepaid expenses	-	-	-	1,333
Net pension asset	8,541	9,592	18,133	-
Capital assets:				
Non-depreciable capital assets	-	207,724	207,724	2,000
Depreciable capital assets (net)	197,395	2,658,934	2,856,329	38,276
<b>Total assets</b>	<b>549,580</b>	<b>3,276,712</b>	<b>3,826,292</b>	<b>46,216</b>
<b>Deferred outflows of resources</b>				
Deferred outflows of resources - Pension	6,263	7,035	13,298	-
Deferred outflows of resources - OPEB	2,946	1,109	4,055	-
<b>Total deferred outflows of resources</b>	<b>9,209</b>	<b>8,144</b>	<b>17,353</b>	<b>-</b>
<b>Liabilities</b>				
Accounts payable	31,582	46,281	77,863	-
Accrued payroll liabilities	14,663	26,485	41,148	-
Customer meter deposits	-	54,114	54,114	-
Non-current liabilities:				
Due within one year - Bonds and notes	17,042	48,453	65,495	-
Due in more than one year				
Bonds and notes	-	702,525	702,525	-
Total OPEB liability	20,060	7,554	27,614	-
<b>Total liabilities</b>	<b>83,347</b>	<b>885,412</b>	<b>968,759</b>	<b>-</b>
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - Pension	29,328	32,941	62,269	-
Deferred inflows of resources - OPEB	1,288	485	1,773	-
<b>Total deferred inflows of resources</b>	<b>30,616</b>	<b>33,426</b>	<b>64,042</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	180,353	2,115,680	2,296,032	40,276
Restricted for:				
Court security	17,015	-	17,015	-
Other	-	11,143	11,143	-
Unrestricted	247,459	239,196	486,654	5,940
<b>Total net position</b>	<b>\$ 444,826</b>	<b>\$ 2,366,018</b>	<b>\$ 2,810,844</b>	<b>\$ 46,216</b>

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2020**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Total	Mayfield Library and Museum (unaudited)
						Business-type Activities	Total		
<b>Primary government:</b>									
Governmental activities:									
Public safety and court	\$ 204,077	\$ 133,292	-	-	\$ (70,785)	\$ -	\$ (70,785)	\$ -	
General government	168,763	7,418	-	-	(161,345)	-	(161,345)	-	
Streets	105,573	-	-	-	(105,573)	-	(105,573)	-	
Library	11,448	-	-	-	(11,448)	-	(11,448)	-	
Inspections	8,860	8,972	-	-	112	-	112	-	
Civic center	6,293	2,200	-	-	(4,093)	-	(4,093)	-	
Parks	2,978	-	-	-	(2,978)	-	(2,978)	-	
Interest on long-term debt	1,607	-	-	-	(1,607)	-	(1,607)	-	
Total governmental activities	509,599	151,882	-	-	(357,717)	-	(357,717)	-	
Business-type activities:									
Water and Sewer - operating	749,639	651,055	-	314,050	-	215,467	215,467	215,467	
Total business-type activities	749,639	651,055	-	314,050	-	215,467	215,467	215,467	
Total primary government	1,259,238	802,937	-	314,050	(357,717)	215,467	(142,250)	-	
<b>Component unit:</b>									
Mayfield library and museum	16,234	-	12,850	-	-	-	-	(3,384)	
Total component unit	\$ 16,234	-	12,850	-	-	-	-	(3,384)	

**General revenues:**

Property taxes	196,379	-	196,379
Sales taxes	105,227	-	105,227
Franchise taxes	67,640	-	67,640
Investment interest	2,304	2,096	4,400
Miscellaneous	2,678	11,935	14,612
Gain on sale of capital assets	38,410	-	38,410
Transfers in (out)	-	-	-
Total general revenues & transfers	412,638	14,031	426,668
Change in net position	54,920	229,498	284,418
Net position - beginning	389,906	2,136,520	2,526,426
Net position - ending	\$ 444,826	\$ 2,366,018	\$ 2,810,844

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Balance Sheet - Governmental Type Funds**  
**September 30, 2020**

	General	Total Governmental Funds
<b>Assets</b>		
Cash	\$ 305,729	\$ 305,729
Accounts receivable - net	37,916	37,916
Total current assets	\$ 343,644	\$ 343,644
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 31,582	\$ 31,582
Accrued payroll liabilities	14,663	14,663
Total current liabilities	46,245	46,245
<b>Deferred Inflows of Resources</b>		
Unavailable revenue		
Property taxes	15,355	15,355
<b>Fund Balances</b>		
Restricted for:		
Court security	17,015	17,015
Unassigned	265,030	265,030
Total fund balances	282,044	282,044
Total liabilities, deferred inflows of resources, and fund balances	\$ 343,644	\$ 343,644

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**at September 30, 2020**

Fund balances of governmental funds	\$	282,044
 <b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		197,395
The City's net pension asset is not a current financial resource and, therefore, is not reported in the governmental funds.		8,541
Deferred outflows of resources related to pension and OPEB balances do not provide current financial resources and, therefore, are not reported in the governmental funds.		9,209
Deferred inflows of resources related to pension and OPEB balances do not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(30,616)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(37,102)
Property taxes not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as deferred on the statement of net position.		15,355
Net position of governmental activities	<u>\$</u>	<u>444,826</u>

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**For the Year Ended September 30, 2020**

	General	Total Governmental Funds
	<u>                    </u>	<u>                    </u>
Revenues		
Taxes:		
Property	\$ 195,678	\$ 195,678
Sales	105,227	105,227
Franchise	67,640	67,640
Building and other permits	7,418	7,418
Court and police	133,292	133,292
Other revenue	2,828	2,828
Inspections	8,972	8,972
Investment earnings	2,304	2,304
Donations	2,050	2,050
Total revenues	<u>525,408</u>	<u>525,408</u>
Expenditures		
Current:		
Public safety and court	187,994	187,994
General government	166,614	166,614
Streets	102,680	102,680
Library	11,448	11,448
Inspections	8,860	8,860
Civic Center	5,968	5,968
Parks	1,709	1,709
Capital outlays	15,270	15,270
Debt service:		
Principal retirement	16,033	16,033
Interest expense	1,607	1,607
Total expenditures	<u>518,183</u>	<u>518,183</u>
Excess of revenues over (under) expenditures	7,225	7,225
Other financing sources (uses)		
Proceeds from sale of capital assets	<u>38,410</u>	<u>38,410</u>
Total other financing sources(uses)	<u>38,410</u>	<u>38,410</u>
Net changes in fund balances	45,635	45,635
Fund balances - beginning	<u>236,409</u>	<u>236,409</u>
Fund balances - ending	<u>\$ 282,044</u>	<u>\$ 282,044</u>

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended September 30, 2020**

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

Net change in fund balances - total governmental funds	\$ 45,635
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(11,238)
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	16,033
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to increase net position.	701
Other modifications are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting for OPEB and pension expense. The net effect of these adjustments is to increase net position.	<u>3,789</u>
Change in net position of governmental activities:	<u><u>\$ 54,920</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Statement of Net Position - Proprietary Fund**  
**September 30, 2020**

	<b>Water and Sewer Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 279,123
Accounts receivable - net	121,339
Total current assets	400,462
Noncurrent assets:	
Net pension asset	9,592
Capital assets (non-depreciable):	
Land	207,724
Capital assets (net of depreciation):	
Plants, machinery, and equipment	2,658,934
Total capital assets	2,866,658
Total noncurrent assets	2,876,250
Total assets	3,276,712
 <b>Deferred outflows of resources</b>	
Deferred outflows of resources - Pension	7,035
Deferred outflows of resources - OPEB	1,109
Total deferred outflows of resources	8,144
 <b>Liabilities</b>	
Current liabilities:	
Accounts payable	46,281
Accrued payroll liabilities	26,485
Customer deposits	54,114
Current portion of long-term debt	48,453
Total current liabilities	175,333
Noncurrent liabilities:	
Total OPEB liability	7,554
Bonds and notes payable	702,525
Total noncurrent liabilities	710,079
Total liabilities	885,412
 <b>Deferred inflows of resources</b>	
Deferred inflows of resources - Pension	32,941
Deferred inflows of resources - OPEB	485
Total deferred inflows of resources	33,426
 <b>Net position</b>	
Net investment in capital assets	2,115,680
Restricted	11,143
Unrestricted	239,196
Total net position	\$ 2,366,018

The accompanying notes are an integral part of these financial statements.

**City of Holland, Texas**  
**Statement of Revenues, Expenses, and Changes in**  
**Net Position - Proprietary Fund**  
**For the Year Ended September 30, 2020**

	<b>Water and Sewer Fund</b>
Operating revenues:	
Water income	\$ 339,183
Sewer income	169,770
Sanitation income	128,933
Grant income	256,850
Water customer late and reconnect fees	13,170
Miscellaneous revenue	11,935
Total operating revenues	919,840
Operating expenses:	
Wages and benefits	181,704
Cost of water	154,304
Sanitation service	135,127
Depreciation	130,211
Repairs and maintenance	37,282
Supplies	14,276
Professional fees	16,580
Utilities	26,535
Permits	5,258
Other operating expenses	27,913
Insurance	8,095
Total operating expenses	737,285
Operating income	182,555
Non-operating revenues (expenses):	
Interest income	2,096
Interest expense	(12,353)
Total non-operating revenues (expenses)	(10,257)
Income (loss) before contributions and transfers	172,298
Transfers in (out)	-
Capital contributions	57,200
Change in net position	229,498
Total net position - beginning	2,136,520
Total net position - ending	\$ 2,366,018

The accompanying notes are an integral part of these financial statements.



**City of Holland, Texas**  
**Statement of Cash Flows - Proprietary Fund**  
**For the Year Ended September 30, 2020**

	<b>Water and Sewer Fund</b>
<b>Operating Activities:</b>	
Receipts from customers and users	\$ 668,392
Payments to suppliers	(442,577)
Receipts from grantors	199,650
Payments to employees	(137,686)
Net cash provided (used) by operating activities	<u>287,780</u>
<b>Capital and Related Financing Activities:</b>	
Cash paid for acquisition and construction of capital assets	(291,209)
Interest paid on capital debt	(12,353)
Principal payments on long-term debt	(56,818)
Issuance of capital debt	40,000
Net cash provided (used) by capital and related financing activities	<u>(320,380)</u>
<b>Non-capital and Related Financing Activities</b>	
Transfers (to) from other funds	-
Net cash provided (used) by non-capital and related financing activities	<u>-</u>
<b>Investing Activities:</b>	
Interest received	2,096
Net cash provided (used) by investing activities	<u>2,096</u>
Net increase (decrease) in cash and cash equivalents	(30,504)
Cash and cash equivalents, October 1	309,627
Cash and cash equivalents, September 30	<u>\$ 279,123</u>
<b>Reconciliation of Operating Income to Net Cash Provided</b>	
<b>(Used) by Operating Activities:</b>	
Operating income (loss)	\$ 182,555
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	130,211
Decrease (increase) in accounts receivable	(54,797)
Decrease (increase) in OPEB deferred outflows of resources	(501)
Increase (decrease) in pension deferred inflows of resources	29,187
Increase (decrease) in accounts payable	25,092
Increase (decrease) in other liabilities	7,566
Increase (decrease) in net pension liability	(35,833)
Increase (decrease) in total OPEB liability	1,301
Increase (decrease) in customer deposits	2,999
Net cash provided by operating activities	<u>\$ 287,780</u>
<b>Non-cash capital activities:</b>	
Capital contributions	<u>\$ 57,200</u>

The accompanying notes are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Holland (City) was incorporated in 1890. The City operates under a Council- Mayor form of government and provides the following services: public safety, public works, parks, sanitation, sewer, and waterworks. The City reports in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide concise explanation, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses and other information considered important to gaining a clear picture of the City's financial activities for the fiscal year ended September 30, 2020.

The basic financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

The City also presents Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a General Fund budgetary comparison schedule is presented that compares the original adopted and final amended budgets with actual results for the fund.

a. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

a. Government-wide and Fund Financial Statements (Continued)

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

Mayfield Library and Museum (MLM) is a legally separate entity from the City. MLM is a non-profit organization created for the benefit of the citizens in and around the City. MLM has been included in the reporting as a non-major discretely presented component unit of the City. The City owns the land and the museum building, while the library building was built on the City owned land, the City is in agreement with the MLM that it shall take ownership of all assets if the MLM ceases to exist. The MLM is financially dependent on the City as the City pays for insurance, utilities and contributes funds monthly to help cover the expenses of day-to-day operations. Separate financial statements are not available. MLM's business office is at 100 Rose Ln., Holland, TX 76534.

b. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Fines and miscellaneous revenues are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It is used to account for all financial resources of the general government except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system, sanitation, the sewage treatment plant, sewage pumping stations and collections systems.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise funds are charges to customers for sales and services. The water and sewer funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

c. **Deposits and Investments**

The City's cash and cash equivalents for purposes of reporting cash flows of the proprietary fund consists of cash on hand and demand deposits. The City considers deposits with an initial maturity of ninety days or less to be cash equivalents.

State statutes authorize the City to invest in obligations of the United States or its agencies and instrumentalities and state or local governments, fully insured certificates of deposit, commercial paper, guaranteed investment contracts, repurchase agreements, and certain governmental investment pools. The City's local investment policy limits the City to invest in obligations of the United States or its agencies and instrumentalities, fully insured certificates of deposit, fully collateralized repurchase agreements by obligations of the United States or its agencies and instrumentalities, money market mutual funds, and local government investment pools.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

d. **Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" or "advances to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds."

All accounts receivables are shown along with any applicable allowances for uncollectible accounts. Allowances are estimated based on historical collection trends.

e. **Restricted Net Position and Fund Balances**

As mandated by applicable bond covenants, the City's Water and Sewer fund restricts balances for a bond reserve fund and also funds for the repayment of principal and interest amounts due in the subsequent year. These balances are classified as restricted net position on the balance sheet. The City's General Fund also restricts any unspent balances related to court security and court technology fees collected.

f. **Capital Assets**

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and water and sewer facilities are reported in the applicable governmental or business- type activities columns in the government-wide financial statements. The City has elected not to report major general infrastructure assets retroactively as permitted by GASB Statement No. 34 for smaller governments. The City reports newly acquired or constructed general infrastructure assets subsequent to October 1, 2003 in the statement of net position in the period they acquire or construct those assets.

Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

g. Capital Assets

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-40
Machinery and equipment	5-10
Infrastructure	20
Water and sewer systems	20

h. Long-term Obligations

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

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

i. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report a separate section for deferred outflows (inflows) of resources. These separate financial statement elements, deferred outflows (inflows) of resources, represent consumption or addition of net position that apply to future period(s) and so they will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The City has two items that qualify for reporting in these categories, which are the deferred outflow (inflow) of resources related to the defined benefit pension plan and OPEB. The deferred outflows (inflows) of resources related to the defined benefit pension plan and OPEB are reported in the government-wide financial statements and the proprietary-type fund. The deferred outflows of resources result from two transactions: contributions to the defined benefit pension plan and OPEB subsequent to the plan year end through the City's fiscal year end and the variance between the two plans' actual investment earnings compared to the plans' assumed investment earnings.

In addition to the pension plan and OPEB plan deferred balances, the balance sheet for governmental funds also will sometimes report a separate section for unavailable revenue-property taxes. These amounts are deferred and recognized as an inflow of resources in the periods the amount becomes available.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

j. Pension and Other Postemployment Benefit Plan

For the purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported to the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. Allocations of pension items to the City's enterprise funds and component units are determined on the basis of employee payroll funding.

The City has another postemployment benefit (OPEB) plan through TMRS (Plan). For purposes of measuring the total OPEB liability of the Plan, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, and OPEB expense have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms for the Plan.

k. Equity Classifications

In the government-wide financial statements, equity is shown as net position and classified into three components:

Net investment in capital assets - Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted - Consists of assets with constraints placed on the use either by 1) external groups such as creditors, granters, contributors, or laws or regulations of other governments; 2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

Unrestricted -All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended September 30, 2020**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City reports governmental fund balances by the five following classifications:

**Nonspendable** - Amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

**Restricted** - Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Committed** - Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision-making authority. In the case of the City, it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

**Assigned** - Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

**Unassigned** - Amount of the remaining fund balance not in any of the other classifications.

For the classification of fund balances, the City considers restricted amounts to have been spent first when an expenditure is incurred for the purpose for which restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and lastly unassigned fund balance.

**1. Budgetary Information**

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing those expenditures. Public hearings are conducted at which all interested persons' comments concerning the budget are heard. The budgets are then legally enacted by the City Council. Formal budgetary integration is employed for the general fund. Budgetary control is maintained at the fund level. All annual appropriations lapse at fiscal year-end.



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 2- DETAILED NOTE ON ALL FUNDS**

a. Deposits and Investments

A summary of the City's cash and cash equivalents follows:

<u>Summary of deposits with financial institutions:</u>	
Primary government cash and cash equivalents	\$ 584,852
Less: petty cash	(650)
Deposits with financial institutions (carrying balances)	<u>\$ 584,202</u>
<u>Deposits with financial institutions (bank balances)</u>	\$ 601,340
Deposits insured by the F.D.I.C	252,765
Securities pledged by the bank depository	348,575
Bank deposits at-risk at September 30, 2020:	<u>\$ -</u>

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair value by: (a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, (b) investing operating funds primarily in short-term certificates of deposit, and (c) diversifying maturities and staggering purchase dates to minimize the impact of market movements over time. It is the City's policy not to invest in securities maturing more than two years from the date of purchase. For repurchase agreements, the maximum maturity is 180 days.

Credit Risk: The City's investment policy limits investments in government investment pools and money market mutual funds to those that are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2020, the City has no investments in government investment pools or money market mutual funds.

GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), Reverse Repurchase Agreements," requires governmental entities to categorize their deposits and investments into one of the three credit risk categories. Since all of the City's deposits are fully insured or collateralized by pledged securities, these deposits are categorized in Credit Risk 1.

b. Receivables

Receivables as of year-end for the City's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Proprietary Fund
Property tax	\$ 20,124	\$ -
Sales tax	20,520	-
Other	2,041	57,200
Unbilled	-	7,053
Utility bills	-	90,586
Gross receivables	42,685	154,839
Less: Allowance for uncollectibles	(4,769)	(33,500)
Net receivables	<u>\$ 37,916</u>	<u>\$ 121,339</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 2- DETAILED NOTE ON ALL FUNDS (CONTINUED)**

The appraisal of property within the City is the responsibility of the Bell County Appraisal District (the District). The District is required under the Property Tax Code to assess all property within the district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the district must be reviewed every four years.

The City's property tax is levied each October 1st on the assessed value listed as of the prior January 1 for all real and personal property located in the City. The net assessed value upon which the current year levy was based was \$40,743,450. Taxes are due by January 31, following the October 1 levy date. The tax rate to finance general governmental services for the year ended September 30, 2020 was \$0.4793 per \$100.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

c. Capital Assets

Governmental fund type capital asset activity for the year ended September 30, 2020 is as follows:

	Beginning Balance	Additions	Retirements and Reclasses	Ending Balance
<b>Depreciable assets:</b>				
Park improvements	\$ 196,225	\$ -	\$ -	\$ 196,225
Buildings and improvements	98,960	-	-	98,960
Land improvements and streets	158,800	-	-	158,800
Machinery and equipment	186,707	15,270	-	201,977
Total capital assets being depreciated	640,692	15,270	-	655,962
Less: Accumulated depreciation	(432,059)	(26,508)	-	(458,567)
Total governmental capital assets, net	\$ 208,633	\$ (11,238)	\$ -	\$ 197,395

Proprietary fund type capital asset activity for the year ended September 30, 2020 is as follows:

	Beginning Balance	Additions	Retirements and Reclasses	Ending Balance
<b>Nondepreciable assets:</b>				
Land	\$ 207,724	\$ -	\$ -	\$ 207,724
Construction in progress	15,125	-	(15,125)	-
<b>Depreciable assets:</b>				
Buildings and improvements	4,900	-	-	4,900
Machinery and equipment	266,038	42,989	-	309,027
Water and sewer system	4,315,299	305,420	15,125	4,635,844
Total capital assets being depreciated	4,586,237	348,409	15,125	4,949,771
Less: Accumulated depreciation	(2,160,626)	(130,211)	-	(2,290,837)
Proprietary fund capital assets, net	\$ 2,648,460	\$ 218,198	\$ -	\$ 2,866,658

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 2- DETAILED NOTE ON ALL FUNDS (CONTINUED)**

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

<u>Governmental activities:</u>	
General government	\$ 2,149
Public safety and court	19,872
Civic center	325
Streets	2,893
Parks	1,269
Total depreciation expense - governmental activities	<u>\$ 26,508</u>
<u>Business-type activities:</u>	
Water and sewer	<u>\$ 130,211</u>
Total depreciation expense - business-type activities	<u>\$ 130,211</u>

d. Long-Term Debt

A summary of the City's outstanding debt is as follows:

Governmental Activities:

Long-term Debt	Original Amount	Fiscal Year of Issue	Final Maturity	Int. Rate	Balance September 30, 2020	Due Within One Year
Note payable - Police car	\$ 47,975	2018	2022	4.85%	\$ 17,042	\$ 17,042
Total Governmental Activities long-term debt:					<u>\$ 17,042</u>	<u>\$ 17,042</u>
<u>Other Liabilities</u>						
TMRS - Total OPEB liability					\$ 20,060	\$ -
Total Governmental other liabilities:					<u>20,060</u>	<u>-</u>
Total Governmental Activities long-term debt and liabilities:					<u>\$ 37,102</u>	<u>\$ 17,042</u>

Business-Type Activities:

Purpose	Original Amount	Fiscal Year of Issue	Final Maturity	Int. Rate	Balance September 30, 2020	Due Within One Year
Series 2015 USDA revenue bonds	\$ 663,000	2017	2057	1.375%	\$ 598,000	\$ 13,000
Note payable - CAT backhoe	62,195	2017	2022	2.950%	15,342	13,118
Note payable - CRG	30,600	2011	2021	4.500%	3,411	3,411
Note payable - CAT generator	51,600	2016	2021	3.200%	1,910	1,910
Note payable - Smart meters	124,210	2018	2025	4.088%	92,315	17,014
Note payable - Kubota tractor	\$ 40,000	2020	2026	3.494%	40,000	-
Total Business-Type Activities					<u>\$ 750,978</u>	<u>\$ 48,453</u>
<u>Other Liabilities</u>						
TMRS - Total OPEB liability					\$ 7,554	\$ -
Total business-type other liabilities:					<u>7,554</u>	<u>-</u>
Total Business-Type Activities long-term debt and liabilities:					<u>\$ 758,532</u>	<u>\$ 48,453</u>
Total long-term debt and liabilities (Governmental-Type and Business-Type Activities)					<u>\$ 795,634</u>	<u>\$ 65,495</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 2- DETAILED NOTE ON ALL FUNDS (CONTINUED)**

d. Long-Term Debt (continued)

Long-term debt activity for the year ended September 30, 2020 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities:</u>				
Note payable - Police car	\$ 33,075	\$ -	\$ (16,033)	\$ 17,042
Total Governmental activities long-term debt	\$ 33,075	\$ -	\$ (16,033)	\$ 17,042
	Beginning Balance	Additions	Reductions	Ending Balance
<u>Business activities:</u>				
USDA Series 2015 Revenue Bonds	\$ 611,000	\$ -	\$ (13,000)	\$ 598,000
Note payable - CAT backhoe	28,079	-	(12,737)	15,342
Note payable - CRG	6,976	-	(3,565)	3,411
Note payable - CAT generator	13,080	-	(11,170)	1,910
Note payable - Kubota tractor	-	40,000	-	40,000
Note payable - Smart meters	108,661	-	(16,346)	92,315
Total Business-activities long-term debt:	\$ 767,796	\$ 40,000	\$ (56,818)	\$ 750,978

Future debt service requirements at September 30, 2020 are as follows:

Fiscal Year	Totals		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
Ending 2021	\$ 65,495	\$ 13,176	\$ 17,042	\$ 637	\$ 48,453	\$ 12,539
2022	40,110	13,060	-	-	40,110	13,060
2023	40,221	11,545	-	-	40,221	11,545
2024	41,247	10,327	-	-	41,247	10,327
2025	42,313	9,068	-	-	42,313	9,068
FY 2026-30	81,634	35,666	-	-	81,634	35,666
FY 2031-35	78,000	30,209	-	-	78,000	30,209
FY 2036-40	83,000	24,709	-	-	83,000	24,709
FY 2041-45	89,000	18,824	-	-	89,000	18,824
FY 2046-50	96,000	12,513	-	-	96,000	12,513
FY 2051-55	90,000	5,734	-	-	90,000	5,734
FY 2056	21,000	289	-	-	21,000	289
	\$ 768,020	\$ 185,121	\$ 17,042	\$ 637	\$ 750,978	\$ 184,484

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 2- DETAILED NOTE ON ALL FUNDS (CONTINUED)**

e. **Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they are current (i.e. expected to be paid in the subsequent year). Since the City's policy is that all employees will use or lose vacation time on their hire anniversary dates, this is considered a current liability and recorded in the General Fund. As of September 30, 2020, there is \$8,712 accrued as a payroll liability in the Water and Sewer Fund and \$6,365 in the General Fund.

f. **Property Taxes**

The Tax Appraisal District of Bell County was created by authority of Senate Bill 621 known as the Property Tax Code, of the 66th Legislature of the State of Texas. The District is controlled by a Board of Directors whose members are elected by the governing bodies of various taxing units within Bell County. Under the Property Tax Code, the Appraisal District is required to appraise all real and personal property in Bell County and may provide other services such as preparation of tax rolls and billings and tax collection services. A taxing unit may assess and collect taxes only from the appraisal roll prepared by the Appraisal District. Taxing units are charged a proportionate amount of the District's budget for services rendered the taxing units.

The City has contracted with the Tax Appraisal District of Bell County (Texas) to collect ad valorem taxes on behalf of the City.

g. **Interfund Transfers**

Transfers of financial resources among funds are recognized in all funds affected in the accounting period in which the interfund receivable and payable arose. Interfund operating transfers are legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended. During the year ended September 30, 2020, there were no interfund transfers.

**NOTE 3 - OTHER INFORMATION**

a. **Pension Plan and Other Postemployment Employee Benefits**

*Pension Plan Description*

The City of Holland participates in one of the 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency defined pension plan 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 advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

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

Plan provisions for the City were as follows:

Employee Deposit Rate	6.00%
Matching (District to employee)	1.5 to 1
Years for full vesting	5
Service requirement eligibility (expressed as age/years of service)	60/5, 0/25
Updated service credit	100% repeating, Transfers
Annuity increase (to retirees)	0% of CPI, Repeating

*Employees Covered by Benefit Terms*

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	1
<u>Active employees</u>	<u>8</u>
Total	12

*Contributions*

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

Employees for the City of Holland were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Holland were 7.08% and 8.00% in calendar years 2020 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$19,465, and were equal to the required contributions.

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

*Net Pension Liability*

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation: 2.5%

Overall payroll growth: 2.75% per year

Investment Rate of Return: 6.75%

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building - block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%

*Discount Rate*

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

Changes in the Net Pension Liability (Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liab./(Asset) (a) - (b)
Balances at 12/31/2018:	\$ 606,505	\$ 556,901	\$ 49,604
Changes for the year:			
Service cost	32,949		32,949
Interest	41,604		41,604
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	(16,287)		(16,287)
Effect of assumptions changes or inputs	(2,109)		(2,109)
Refund of contributions	-		-
Benefit payments	(13,239)	(13,239)	-
Administrative expenses		(486)	486
Member contributions		16,393	(16,393)
Net investment income		86,156	(86,156)
Employer contributions		21,846	(21,846)
Other changes		(15)	15
Balances at 12/31/2019:	\$ 649,423	\$ 667,556	\$ (18,133)



**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

*Sensitivity of the net pension liability to changes in the discount rate*

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

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability (asset) \$	52,212	(18,133)	(78,184)

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2020, the City recognized pension expense of \$6,091.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

<b>Deferred Inflows / Outflows of Resources</b>	<b>Deferred Inflows</b>		<b>Deferred Outflows</b>	
	<b>of Resources</b>		<b>of Resources</b>	
Difference between expected and actual experience	\$	41,863	\$	-
Changes of assumptions		1,709		-
Net difference between projected and actual earnings		18,697		-
Contributions subsequent to the measurement date		N/A		13,298
<b>Totals:</b>	\$	62,269	\$	13,298

Deferred inflows of resources of \$13,298 related to pensions resulting from contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ending September 30, 2021.

Other amounts referred to as outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending:</u>	
2021	\$ (20,905)
2022	(20,161)
2023	(7,057)
2024	(13,204)
2025	(942)
Thereafter	-
	<u>\$ (62,269)</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

*Other Postemployment Employee Benefits - Supplemental Death Benefits Fund*

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is another postemployment benefit, or OPEB; additionally, retirees are responsible for 100% of the premiums paid for the benefit. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

*Contributions*

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

The membership at the actuarial valuation and measurement date of December 31, 2019 consists of:

Inactive employees or beneficiaries currently receiving benefits:	3
Inactive employees entitled to buy, but not yet receiving benefits:	0
Active employees:	<u>8</u>
Total:	11

An irrevocable trust has not been established that meets the criteria in paragraph 4 of GASB Statement No. 75. Therefore, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

Employees do not contribute to the SDBF. The contribution rates for the City were 0.54% and 0.39% in calendar years 2020 and 2019, respectively.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

*Actuarial Methods and Assumptions*

Significant methods and assumptions used in the December 31, 2019, actuarial valuation are as follows:

Actuarial Cost Method	Entry Age Normal
Discount Rate	2.75% as of December 31, 2019
	Source: Fidelity Index's "20-Year Municipal GO AA Index"
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. These rates are projected on a fully generational basis with scale UMB.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a four-year set forward for males and a three-year set forward for females. In addition, a 3.5% and a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis By Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

*Sensitivity of the total OPEB liability to changes in the discount rate*

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75% as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease 1.75%	Current Discount Rate 2.75%	1% Increase 3.75%
Total OPEB liability \$	31,890	\$ 27,614	\$ 24,127

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

*Total OPEB Liability*

The City's total OPEB liability of \$27,614 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Changes in the Total OPEB Liability	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Total OPEB Liability (a) - (b)
Balances at 12/31/2018:	\$ 22,857	\$ -	\$ 22,857
Changes for the year:			
Service cost	2,158		2,158
Interest	883		883
Effect of plan changes	-		-
Effect of economic/demographic gains or losses	(1,994)		(1,994)
Effect of assumptions changes or inputs	3,956		3,956
Refund of contributions	-		-
Benefit payments	(246)		(246)
Administrative expenses		-	-
Member contributions		-	-
Net investment income		-	-
Employer contributions		-	-
Other changes		-	-
Balances at 12/31/2019:	\$ 27,614	\$ -	\$ 27,614

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

For the year ended September 30, 2020, the City recognized an OPEB expense of \$3,386.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Inflows / Outflows of Resources	Deferred Inflows	Deferred Outflows
	of Resources	of Resources
Difference between expected and actual experience	\$ 1,773	\$ -
Changes of assumptions	-	3,041
Contributions subsequent to the measurement date	N/A	1,014
Totals:	\$ 1,773	\$ 4,055

\$1,014 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2021.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2020**

**NOTE 3 - OTHER INFORMATION (CONTINUED)**

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

<u>Fiscal Year Ending:</u>	
2021	\$ 345
2022	345
2023	243
2024	203
2025	132
Thereafter	-
	<hr/>
	\$ 1,268

b. Concentrations of Credit Risk

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City of Holland. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service.

The City's risk management program includes coverage for property, general liability, automobile liability, public officials' liability and employee dishonesty bonds. The City participates in the Texas Municipal League joint self-insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool.

c. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition of disclosure through June 21, 2021, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Holland, Texas**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual - General Fund**  
**For the Year Ended September 30, 2020**

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
<b>Revenues</b>				
<b>Taxes:</b>				
Property	\$ 190,400	\$ 190,400	\$ 195,678	\$ 5,278
Sales	75,000	92,000	105,227	13,227
Franchise	52,500	52,500	67,640	15,140
Building and other permits	3,860	9,960	7,418	(2,543)
Court and police	110,850	129,750	133,292	3,542
Other revenue	5,300	5,300	2,828	(2,472)
Inspections	3,250	3,250	8,972	5,722
Investment earnings	2,200	2,200	2,304	104
Donations	3,100	3,100	2,050	(1,050)
<b>Total revenues</b>	<u>446,460</u>	<u>488,460</u>	<u>525,408</u>	<u>36,948</u>
<b>Expenditures</b>				
<b>Current:</b>				
Public safety and court	258,500	211,800	187,994	23,806
General government	139,700	166,700	166,614	86
Streets	31,500	42,500	102,680	(60,180)
Library	11,900	11,900	11,448	452
Inspections	4,250	6,350	8,860	(2,510)
Civic Center	4,500	6,500	5,968	532
Parks	1,750	1,750	1,709	41
Capital outlays	5,000	50,350	15,270	35,080
<b>Debt service:</b>				
Principal retirement	15,124	15,124	16,033	(909)
Interest expense	2,508	2,508	1,607	901
<b>Total expenditures</b>	<u>474,732</u>	<u>515,482</u>	<u>518,183</u>	<u>(2,701)</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(28,272)</u>	<u>(27,022)</u>	<u>7,225</u>	<u>34,247</u>
<b>Other financing sources (uses)</b>				
Sale of capital assets	-	38,000	38,410	410
Transfers (out)	-	(40,000)	-	40,000
<b>Total other financing sources(uses)</b>	<u>-</u>	<u>(2,000)</u>	<u>38,410</u>	<u>40,410</u>
<b>Net changes in fund balances</b>	<u>(28,272)</u>	<u>(29,022)</u>	<u>45,635</u>	<u>74,657</u>
Fund balances - beginning	236,409	236,409	236,409	
Fund balances - ending	<u>\$ 208,137</u>	<u>\$ 207,387</u>	<u>\$ 282,044</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF HOLLAND, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
<b>Total Pension Liability</b>						
Service cost	\$ 32,949	\$ 30,641	\$ 28,968	\$ 29,162	\$ 24,369	\$ 21,243
Interest on total pension liability	41,604	41,887	39,698	36,187	33,647	30,210
Effect of plan changes	-	-	-	-	-	-
Difference between expected and actual experience	(16,288)	(47,531)	(6,739)	(6)	(4,663)	8,795
Effect of assumptions changes or inputs	(2,109)	-	-	-	12,422	-
Benefit payments/Refund of contributions	(13,239)	(47,428)	(13,239)	(13,239)	(12,246)	(13,164)
Net Change in Total Pension Liability	42,917	(22,431)	48,688	52,104	53,529	47,084
Total pension liability, beginning	606,505	628,936	580,248	528,144	474,615	427,531
Total pension liability, ending	\$ 649,422	\$ 606,505	\$ 628,936	\$ 580,248	\$ 528,144	\$ 474,615
<b>Fiduciary Net Position</b>						
Employer contributions	21,846	20,708	20,339	18,352	14,181	13,795
Member contributions	16,393	15,321	14,448	14,413	12,475	12,372
Investment income (net of expenses)	86,156	(17,575)	68,805	30,206	638	22,703
Benefit payments/Refund of contributions	(13,239)	(47,428)	(13,239)	(13,239)	(12,246)	(13,164)
Administrative expenses	(486)	(339)	(356)	(341)	(388)	(237)
Other	(16)	(18)	(18)	(18)	(19)	(19)
Net Change in Fiduciary Net Position	110,654	(29,331)	89,979	49,373	14,641	35,450
Fiduciary Net Position, beginning	556,901	586,232	496,253	446,880	432,239	396,789
Fiduciary Net Position, ending	667,555	556,901	586,232	496,253	446,880	432,239
Net pension liability / (asset), ending	\$ (18,133)	\$ 49,604	\$ 42,704	\$ 83,995	\$ 81,264	\$ 42,376
Fiduciary net position as a percentage of total pension liability	102.79%	91.82%	93.21%	85.52%	84.61%	91.07%
Covered-employee payroll	\$ 273,210	\$ 255,344	\$ 240,794	\$ 240,213	\$ 207,923	\$ 206,196
Net pension liability as a percentage of covered payroll	-6.64%	19.43%	17.73%	34.97%	39.08%	20.55%

Note 1 - GASB 68 requires that information on this schedule be presented on the measurement date basis, which is on a calendar year basis. This schedule will also ultimately present the last ten years of information. The measurement year 2014 is the first year for which this information is available.

Note 2 - The discount rate changed from 7.0% to 6.75% in 2015. There were no changes in benefit terms and no changes in assumptions or other inputs that would affect the measurement of the total pension liability during the measurement period.



**CITY OF HOLLAND, TEXAS  
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 19,465	\$ 22,505	\$ 20,145	\$ 19,740	\$ 17,626	\$ 13,864
Contributions in relation to the contractually required contributions	<u>19,465</u>	<u>22,505</u>	<u>20,145</u>	<u>19,740</u>	<u>17,626</u>	<u>13,864</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 264,913	\$ 279,479	\$ 245,648	\$ 239,807	\$ 237,349	\$ 199,424
Contributions as a percentage of covered employee payroll	7.35%	8.05%	8.20%	8.23%	7.43%	6.95%

GASB 68 requires that information on this schedule be presented on the City's fiscal year basis. This schedule will also ultimately present the last ten years of information. 2015 is the first year for which this information is available.

**Valuation Date:**

Actuarial determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day later.

**Methods and Assumptions Used to Determine Contribution Rates:**  
Actuarial Cost Method Entry Age Normal

Amortization Method Level Percentage of Payroll, Closed  
Remaining Amortization Period 27 years

Asset Valuation Method 10 Year smoothed market; 15% soft corridor

Inflation 2.5%

Salary Increases 3.50% to 10.50% including inflation

Investment Rate of Return 6.75%

Retirement Age Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information: There were no benefit changes during the year.

**CITY OF HOLLAND, TEXAS  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	December 31, 2019	December 31, 2018	December 31, 2017
<b>Total OPEB Liability</b>			
Service cost	\$ 2,158	\$ 1,915	\$ 1,637
Interest on total pension liability	883	754	722
Effect of plan changes	-	-	-
Difference between expected and actual experience	(414)	(235)	-
Effect of assumptions changes or inputs	759	(1,288)	1,404
Benefit payments/Refund of contributions	-	(230)	(193)
Net Change in Total OPEB Liability	<u>3,386</u>	<u>916</u>	<u>3,570</u>
Total OPEB liability, beginning	22,857	21,941	18,371
Total OPEB liability, ending	<u>\$ 26,243</u>	<u>\$ 22,857</u>	<u>\$ 21,941</u>
Covered payroll	\$ 273,210	\$ 255,344	\$ 240,794
Total OPEB liability as a percentage of covered payroll	9.61%	8.95%	9.11%

Note 1 - GASB 75 requires that information on this schedule be presented on the measurement date basis, which is on a calendar year basis. This schedule will also ultimately present the last ten years of information. The measurement year 2017 is the first year for which this information is available.

Note 2 - There were no changes in benefit terms and no changes in assumptions or other inputs that would affect the measurement of the total OPEB liability during the measurement period.

**CITY OF HOLLAND, TEXAS  
SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contributions	\$ 1,315	\$ 1,068	\$ 1,092
Contributions in relation to the contractually required contributions`	<u>1,315</u>	<u>1,068</u>	<u>1,092</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 264,913	\$ 279,479	\$ 245,648
Contributions as a percentage of covered employee payroll	0.50%	0.38%	0.44%

Note 1 - GASB 75 requires that information on this schedule be presented on the City's fiscal year basis. This schedule will also ultimately present the last ten years of information. 2018 is the first year for which this information is available.

**COMPLIANCE AND INTERNAL CONTROLS SECTION**

# Rod L. Abbott, CPA PLLC

Certified Public Accountant

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**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 City Council and Management of the  
City of Holland, Texas

I 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, each major fund, and the aggregate remaining fund information of the City of Holland, Texas (the "City"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City of Holland, Texas's basic financial statements and have issued my report thereon dated June 21, 2021.

### **Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I 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.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rod L. Abbott, CPA PLLC  
Tom Bean, Texas  
June 21, 2021