City of Hawk Cove
FY 2025 Internal Year-End Financial Report

Fiscal year ended September 30, 2025
Prepared from the City's corrected FY 2025 balance sheet, profit and loss statement, and general ledger
Internal management report

Internal Auditor Opinion and Management Summary

In my opinion, the City's financial condition reflects continued fiscal strain. The City maintained $156,235.50 in cash at year-end and reported total assets of $1,992,635.63. However, the City also carried total liabilities of $1,924,976.57, including the USDA sewer loan and IRS back payroll tax debt, and reported a net loss of $100,496.96 for the fiscal year.

These conditions show that the City remained operational at year-end, but recurring revenues did not fully support annual expenses. The City's long-term financial position remains burdened by substantial debt, payroll tax obligations, and limited financial flexibility if revenue does not improve or expenses are not reduced.

Management also notes that the current revenue structure has not generated sufficient revenue to comfortably cover current bills, ordinary general upkeep, and long-term obligations. This point is consistent with the operating shortfall shown in the FY 2025 statements.

Bottom-line reading

- Short-term position: The City had cash on hand and continued operating.
- Main weakness: Debt obligations remain heavy relative to available flexibility.
- Operations: Revenues did not cover annual expenses in FY 2025.
- Structural issue: Current revenue levels were not enough to fund normal operations and upkeep.
- Redline note: Customer billing and receivable details are maintained through Redline and disclosed separately rather than booked into QuickBooks A/R.
- Sewer deposit note: Sewer security deposits received into the regular Sewer bank account remain in a liability account until transferred to the separate Sewer Deposit bank account.

Prepared by	Title	Date
Karen Fronterhouse	CFO	05-13-2026

Received by City Secretary
Angela Massey on
5/13/26
Angela M

Executive Summary

The City finished FY 2025 with substantial infrastructure assets, but limited financial flexibility. Sewer plant and related fixed assets drive the asset side of the balance sheet, while the USDA sewer loan, IRS back-payroll tax debt, and current payroll tax liabilities drive the liability side.

The City remained operational at year-end, but results indicate it was functioning under financial pressure. The strongest immediate balance is cash. The largest problem areas are long-term debt, payroll tax-related liabilities, and the annual operating loss.

Key FY 2025 Metrics

Metric	Amount
Cash in bank accounts	$156,235.50
Other current assets	$0.00
Total current assets	$156,235.50
Total assets	$1,992,635.63
Current liabilities	$187,184.33
Long-term liabilities	$1,737,792.24
Total liabilities	$1,924,976.57
Total equity	$67,659.06
Total income	$691,940.03
Total expenses	$792,436.99
Net loss	$-100,496.96

What the numbers suggest

- The City is not cash-empty, but cash is small compared with long-term debt obligations.
- Most net worth on paper is tied up in sewer infrastructure, not free financial capacity.
- The annual loss means revenue sources did not cover the full cost of operations.
- The liability structure leaves little room for revenue underperformance or unexpected costs.

Charts

The charts below are built from grouped line items in the FY 2025 statements. They are included to make the annual results easier to read.

Figure 1. Revenue mix by major source.

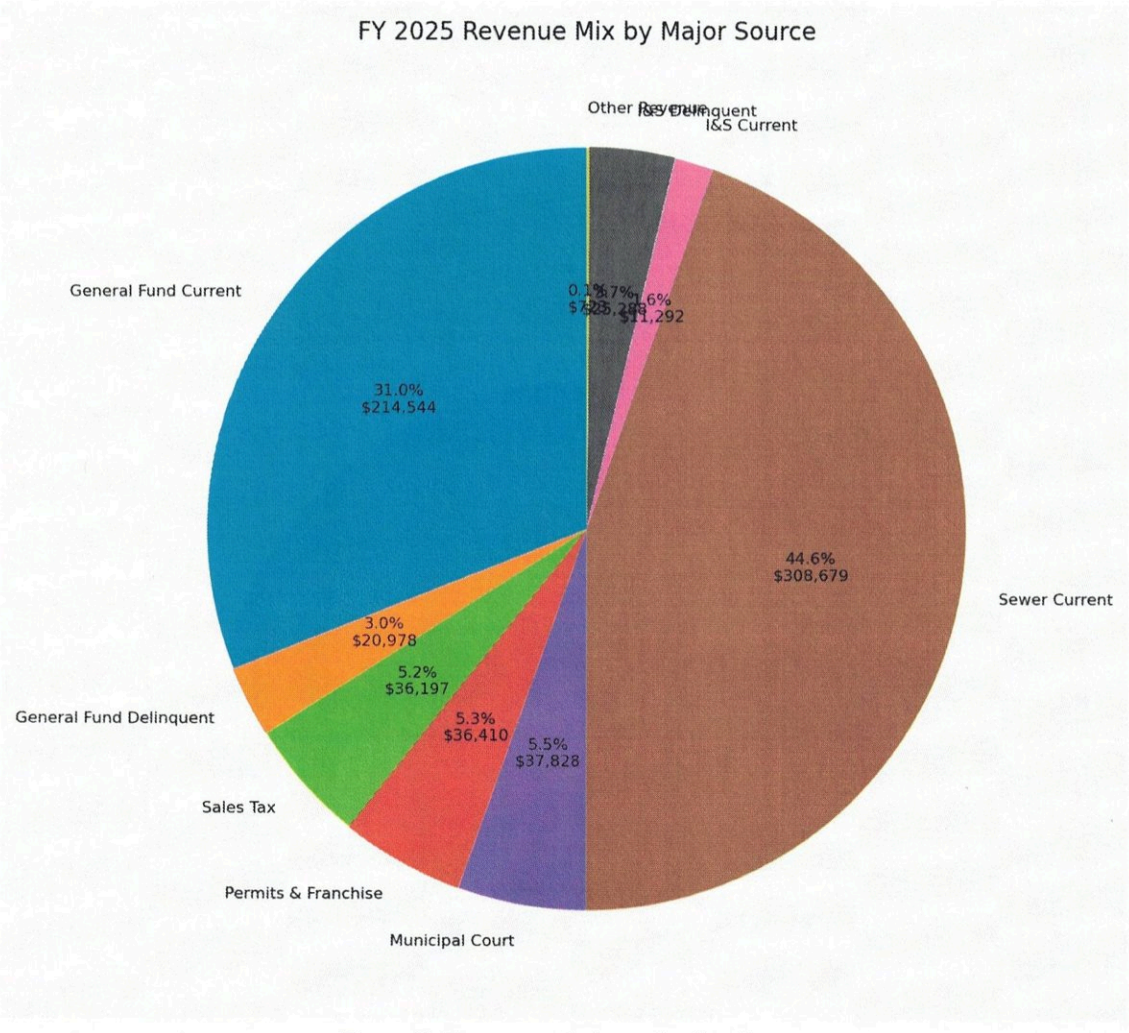


Figure 2. Expense mix by major function.

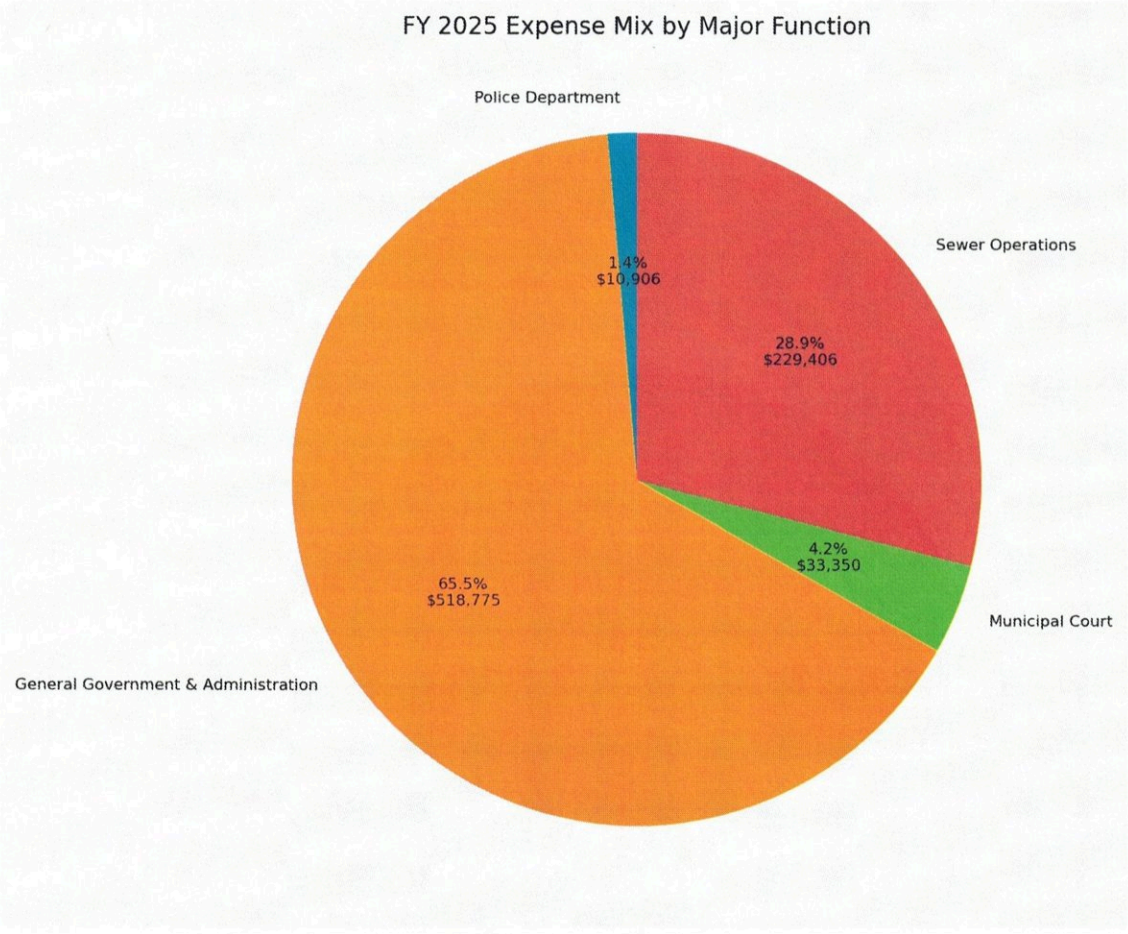


Figure 3. Liabilities and equity mix.

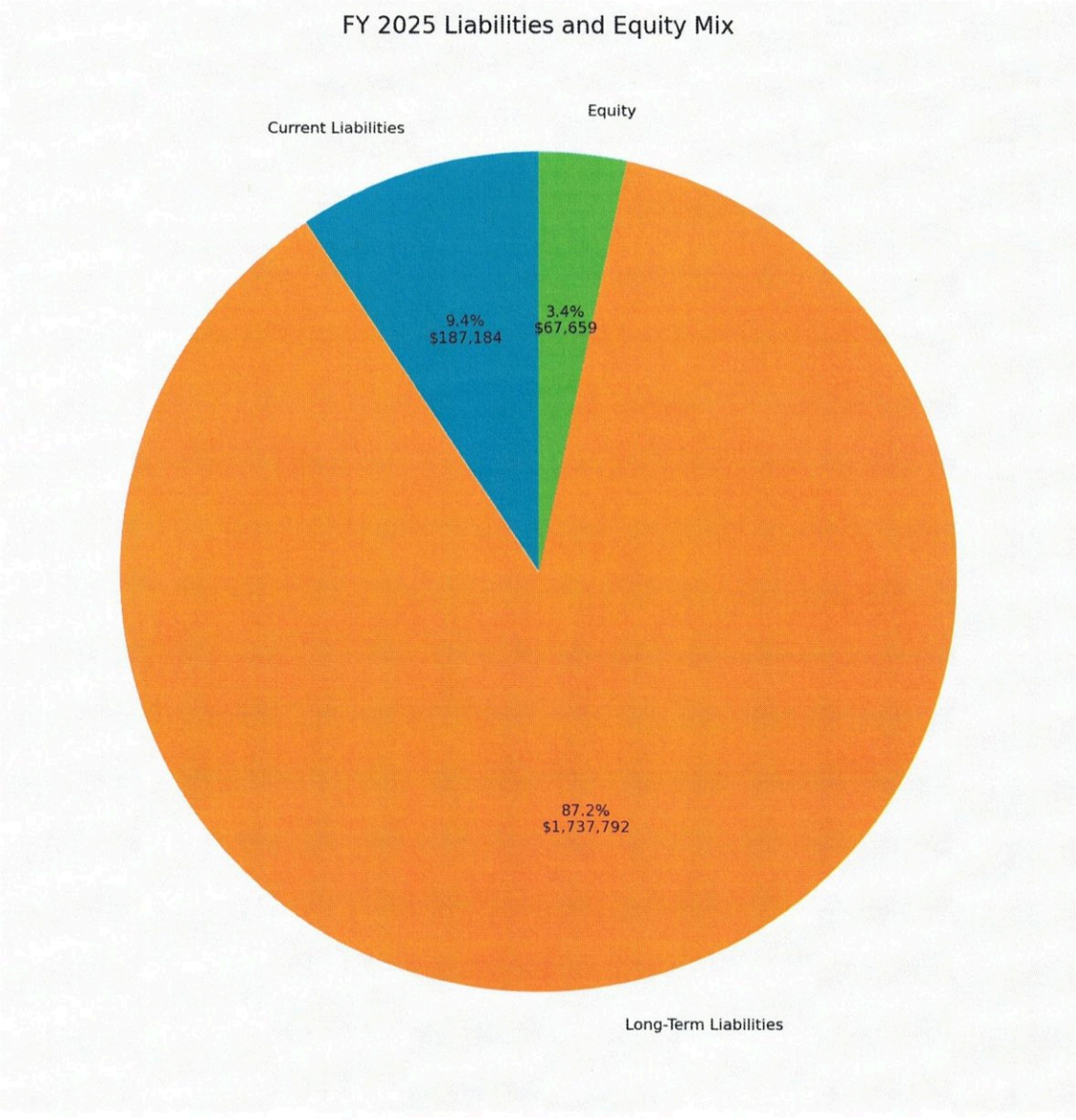
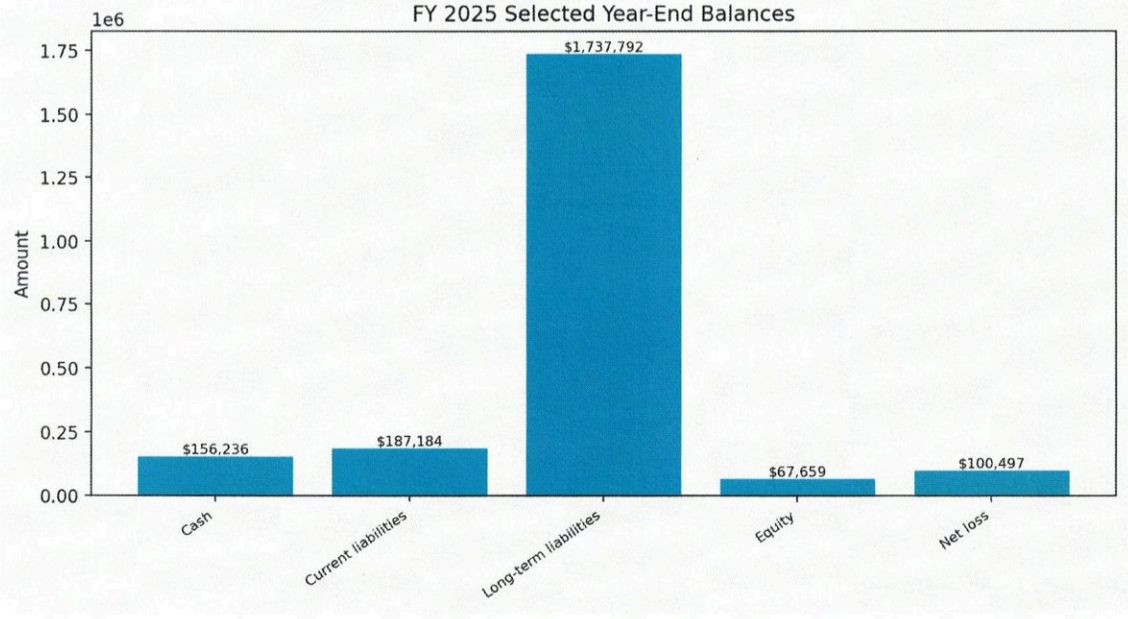


Figure 4. Selected year-end balances.



Statement of Financial Position Summary

Summary line	Amount
Current assets	$156,235.50
Fixed assets	$1,836,400.13
Total assets	$1,992,635.63
Current liabilities	$187,184.33
Long-term liabilities	$1,737,792.24
Total liabilities	$1,924,976.57
Total equity	$67,659.06

The City has a large fixed-asset base, chiefly sewer plant infrastructure. That creates a strong asset number on paper, but it does not, by itself, solve the City's operating pressure. The stronger question is whether recurring revenues can carry current obligations, upkeep, and debt-related costs.

Operating Results Summary

Operating result	Amount
Total income	$691,940.03
Total expenses	$792,436.99
Net loss	$-100,496.96

FY 2025 ended in a net loss of $100,496.96. That result supports management's concern that the current revenue structure is insufficient to fully fund annual operations and general upkeep.

Debt and Financial Pressure Points

The debt structure remains the clearest weakness in the FY 2025 statements. Long-term liabilities total $1,737,792.24, consisting mainly of the USDA sewer loan and IRS back payroll tax debt. These balances reduce flexibility and place continuing pressure on future revenues.

Debt item	Amount
USDA sewer loan	$1,608,587.13
IRS back payroll tax debt	$129,205.11
Total long-term liabilities	$1,737,792.24

Why this matters

- Debt does not just affect the balance sheet. It also narrows future operating choices.
- The City carried both a debt burden and an annual operating loss in the same year.
- With ordinary upkeep already underfunded, the debt burden can crowd out needed maintenance.

Management Notes

Redline Customer Receivables

Customer billing and receivable details are maintained in Redline rather than in QuickBooks. Redline reported active unpaid customer balances of $25,251.11 as of September 30, 2025. These balances are disclosed for management review and support but are not posted to QuickBooks customer receivable accounts because later customer deposits cannot be reliably matched back to the year-end Redline receivable balance in QuickBooks.

Sales Tax Timing Difference

The trash sales tax liability account includes timing differences between trash sales tax billed or reported and payments processed through Texas Comptroller Webfile. Management reviewed the account and determined that the balance as of September 30, 2025, should remain as a timing difference rather than be forced into a single post-year-end payment amount.

Sewer Customer Security Deposits

Sewer security deposits are initially received into the regular Sewer bank account when paid with customer sewer bills. Amounts received but not yet transferred to the separate Sewer Deposit bank account are recorded as a current liability. The separate Sewer Deposit bank account includes sewer deposit funds transferred and accumulated from multiple years.

Prior-Period Adjustment

The Balance Sheet includes a prior-period adjustment of $4,753.41. This adjustment relates to the cleanup of prior-year billing and sales tax clearing activity and did not affect FY 2025 operating income or expenses.

Detailed Statement of Financial Position

Assets

Bank Accounts

Account	Amount
1010 ANB-Operating-3844	$1,556.35
1020 ANB-City of HC Enhancement-7174	$1,192.48
1025 ANB-Police Allocation-3140	$639.34
1040 ANB-Municipal Court-3836	$13,877.53
1050 ANB-Municipal Court Security-9356	$2,322.90
1060 ANB-I&S 2050-Water & Sewer	$87,812.90
1065 ANB-Sewer #2-3405	$12,850.30
1066 ANB-Sewer Deposits-3389	$26,900.43
1070 ANB-Child Safety Funds-9220	$137.58
1071 ANB-Child Safety Funds-8354	$5,479.90
1073 ANB-TDEM-8001	$3,465.79
1079 ANB-Hauling & Sludge-8796	$0.00
Total bank accounts	$156,235.50

Other Current Assets

Account	Amount
1244 A/R Municipal Court	$0.00
1260 A/R Sewer	$0.00
Total other current assets	$0.00

Fixed Assets

Account	Amount
1420 Sewer Plant	$1,800,079.13
1445 Machinery & Equipment	$36,321.00
Total fixed assets	$1,836,400.13
Asset total	**Amount**
Total assets	$1,992,635.63

Liabilities and Equity

Current Liabilities

Account	Amount
2160 Sewer Customer Security Deposits Payable	$7,480.20
2400 Sales Tax-Liabilities-Customer Trash	$1,099.63
2600 Payroll Tax-Liabilities	$0.00
2650 Payroll Liabilities	$0.00
2651 Federal Taxes (941/943/944)	$176,033.06
2652 Federal Unemployment (940)	$693.92
2653 TX Unemployment Tax	$48.16
2655 Direct Deposit Payable	$1,829.36
Total current liabilities	$187,184.33

Long-Term Liabilities

Account	Amount
2501 USDA Loan	$1,608,587.13
2502 ANB Loan	$0.00
2510 IRS-Back Payroll Tax	$129,205.11
Total long-term liabilities	$1,737,792.24
Liability total	**Amount**
Total liabilities	$1,924,976.57

Equity

Account	Amount
3001 Opening Balance Equity	$-150,445.03
3002 Prior Period Adjustment	$-4,753.41
3000 Retained Earnings	$323,354.46
Net Income	$-100,496.96
Total equity	$67,659.06
Total liabilities and equity	$1,992,635.63

Detailed Statement of Revenues and Expenses

Revenue Detail

Account	Amount
4010a Income-General Fund-Current	$184,276.09
4010aa Income-OP 3844-Current Late Pymt Penalty	$2,460.75
4010bb Income-Op 3844-Current Late Pymt Interest	$909.24
4010op Income-OP 3844-Overpymt	$130.66
4010T Trash Income-GF	$26,767.71
Total for 4010a Income-General Fund-Current	$214,544.45
4010c Income-Op 3844-Deliquent	$12,247.11
4010cc Income-Op 3844-Deliquent Late Pymt Penalty	$1,476.74
4010dd Income-Op 3844-Late Pymt Interest	$7,254.55
Total for 4010c Income-Op 3844-Deliquent	$20,978.40
4011 Income-General-Sales Tax Revenue	$36,196.77
4012 Income-General-Permit	$16,906.77
4013 Income-General-Franchise	$19,503.69
4040 Income-Municipal Court	$37,828.45
4050 Income-Child Safety	$623.11
4061a Income-Sewer 3405-Current	$291,132.55
4061aa Income-Sewer-Current Late Pymt Penalty	$6,535.43
4061cd 4061 Income Sewer-3405 Sewer Overpayments	$11,010.92
Total for 4061a Income-Sewer 3405-Current	$308,678.90
4061c Income-Sewer-Delinquent	$56.94
4061cc Income-Sewer-Late Pymt Penalty	$20.00
Total for 4061c Income-Sewer-Delinquent	$76.94
4065a Income-I&S 2050-Current	$11,052.92
4065aa Income-I&S 2050-Current Penalty	$162.09
4065bb Income-I&S 2050-Current Interest	$76.94
Total for 4065a Income-I&S 2050-Current	$11,291.95
4065c Income-I&S 2050-Deliquent Income	$14,127.73
4065cc Income-I&S 2050-Late Pymt Penalty	$1,687.12
4065dd Income-I&S 2050-Late Pymt Interest	$9,473.19
Total for 4065c Income-I&S 2050-Deliquent Income	$25,288.04
4500 Income-Interest	$22.56
Total Income	$691,940.03

Expense Detail

Account	Amount
10055 PD-Dues & Subscriptions	$166.90
10100 PD-Equipment & Supplies	$298.38
10200 PD-Fuel	$2,097.10
10300 PD-Further Education & Training	$300.00
10400 PD-Legal Shield	$207.35
10600 PD-R&M	$7,836.05
5010 Bank Service Charge	$101.09
5020 City Election	$11,366.64
5040 Dues & Subscriptions	$11,984.98
5050 Fire Department Payments	$3,000.00
5060 Payroll Expenses	$254,534.74
5075 Taxes	$20,703.63
Total for 5060 Payroll Expenses	$275,238.37
5090 Professional Fees-City Attorney	$40,079.00
6009 GF-Fees	$10.27
6010 GF-Fuel	$4,409.20
6011 Security-Camera Monitoring	$108.00
6020 GF-Insurance	$30,709.81
6040 GF-Postage	$2,337.40
6045 GF-Professional Fees	$1,139.17
6050 GF-R&M	$114.90

6051 GF-R&M-Roads	$9,320.00
6060 GF-Supplies-Office	$5,956.67
6065 GF-Trash Service-Customers	$35,203.60
6066 GF-Trash Service-Park Dumpster	$1,149.65
6070 GF-Supplies-General	$3,708.16
6075 GF-Travel	$290.64
6080 GF-Utilities-Electric	$5,991.24
6081 GF-Utilities-Telephone	$2,976.75
6082 GF-Utilities-Water	$1,176.73
6084 GF- Utilities- Internet	$369.80
6086 GF-Water Shut Off Fees	$630.00
7010 I&S-USDA-Loan Interest	$71,403.12
8004 Mun. Court-Legal Collections	$2,732.63
8007 MC-Dues and Subscriptions	$2,322.00
8008 MC-Municipal Judge	$1,425.00
8009 Comptroller	$17,308.41
8030 MC-Labor-General	$9,005.00
8030a MC-Payroll Taxes	$556.92
Total for 8030 MC-Labor-General	$9,561.92
9005 Sewer-Bank Charge	$141.01
9006 Sewer-Dues & Subscriptions	$3,904.18
9010 Sewer-Fuel	$2,154.54
9030 Sewer-Labor-General	$42,482.57
9030a Sewer-Labor-Payroll Tax	$3,117.05
Total for 9030 Sewer-Labor-General	$45,599.62
9042 Sewer-Printing & Reproduction	$550.33
9045 Sewer-Professional Fees	$5,000.00
9045a Sewer-Operator Fees	$26,400.00
Total for 9045 Sewer-Professional Fees	$31,400.00
9046 Sewer-Legal	$5,000.00
9047 Sewer-TCEQ Regulatory Assessment Fee	$9,308.19
9050 Sewer-R&M	$79,502.05
9065 Sewer-Training Classes	$605.00
9070 Sewer-Supplies-General	$7,608.23
9075 Sewer-Testing	$10,430.00
9095 Sewer-Utilities-Electric	$28,057.79
9096 Sewer-Utilities-Water	$275.15
9097 Sewer-Utilities-Telephone	$388.44
9098 Sewer-Utilities-Cell Phone	$2,349.92
9099 Sewer-Utilities-Trash	$2,131.61
Total Expenses	$792,436.99
Net Income	$-100,496.96

Closing Management Summary

The FY 2025 statements show that the City remained operational and held cash at year-end, but it did not generate sufficient revenue to cover annual expenses. The net loss, large long-term liabilities, payroll tax obligations, and limited unrestricted flexibility continue to support the need for careful budget control, debt management, grant or restructuring opportunities, and close monitoring of taxes, deposits, and customer billing support.

CITY OF HAWK COVE

Arrears Breakdown as of 9/30/2025

Item Description	Amount in Arrears
GARBAGE (WITH TAX)	3,593.09
Garbage	**3,593.09**
CUSTOMER BALANCE	121.00
Other	**121.00**
LATE FEE	20.00
SECOND LATE FEE	500.00
Penalty	**520.00**
FLAT RATE SEWER	20,611.65
Sewer	**20,611.65**
TAX	405.37
Tax	**405.37**
Total in Arrears:	**25,251.11**

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Karen Frantzland	CFO	05-13-2026

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