
CITY OF SIMONTON, TEXAS

REPORT ON FINANCIAL STATEMENTS
(With Supplemental Material)

FOR THE YEAR ENDED SEPTEMBER 30, 2021

BREEDLOVE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

17014 Seven Pines Drive
Spring, Texas 77379
(281) 379-1065
(281) 379-6322 (fax)

JILL A. HENZE, CPA
President

NICOLE BREEDLOVE HUNT, CPA
CEO

INDEPENDENT AUDITORS' REPORT

September 8, 2023

Council Members
City of Simonton, Texas
Simonton, Texas

Opinion

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of City of Simonton, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Simonton, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Simonton, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Simonton, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Simonton, Texas' ability to continue as a going concern for a reasonable period of time.
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension and death benefit schedules on pages 5 through 9 and 35 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2023, on our consideration of City of Simonton, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Simonton, Texas' 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 City of Simonton, Texas' internal control over financial reporting and compliance.

Breallone & Co., P.C.

CITY OF SIMONTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS SEPTEMBER 30, 2021

As management of the City of Simonton, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended September 30, 2021.

FINANCIAL HIGHLIGHTS

The assets of the City, excluding component units, exceeded its liabilities at the close of the fiscal year by \$1,620,351 (net position). Of this amount, \$1,620,351 is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position, excluding component units, increased by \$205,165 during the fiscal year ending September 30, 2021.

Excluding component units, the City's total expenses were \$372,010.

At the end of the fiscal year, unassigned fund balance for the General Fund was \$1,620,351 or 436% percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

CITY OF SIMONTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2021

(Continued)

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. The fund financial statements provide more information about the City's most significant fund - not the City as a whole.

The City has one type of fund:

Governmental Fund - Some of the City's basic services are included in the governmental fund, which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's major programs.

The City maintains one individual governmental fund, the General Fund, for financial reporting purposes. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for this fund, which is considered to be a major fund as of September 30, 2021.

Component Units - The City maintains the accounting and financial statements for two component units. The Simonton Development Corporation and the City of Simonton Development Corporation are both discretely presented component units displayed on the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 29 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees and the general fund's budget comparison. The required supplementary information can be found on pages 35 through 41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, excluding component units, assets exceeded liabilities by \$1,620,351 as of September 30, 2021.

The largest portion of the City's net position (100 percent) represents unrestricted financial resources available for future operations.

Additionally, a portion of the City's net position (0 percent) reflects its net investment in capital assets (e.g., land, buildings, vehicles, furniture and equipment). The City uses these capital assets to provide services to the individuals we serve; consequently, these assets are not available for future spending.

CITY OF SIMONTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021
(Continued)

SUMMARY OF NET POSITION
As of September 30,

	<u>2021</u>	<u>2020</u>
Current assets	\$ 1 639 148	\$ 1 472 700
Total Assets	<u>\$ 1 639 148</u>	<u>\$ 1 472 700</u>
Deferred outflows of resources	\$ 2 548	\$ 1 967
Total Deferred outflows of resources	<u>\$ 2 548</u>	<u>\$ 1 967</u>
Current liabilities	\$ 21 257	\$ 59 347
Total Liabilities	<u>\$ 21 257</u>	<u>\$ 59 347</u>
Deferred in flows of resources	\$ 88	\$ 134
Total Deferred in flows of resources	<u>\$ 88</u>	<u>\$ 134</u>
Net Position:		
Unrestricted	\$ 1 620 351	\$ 1 415 186
Total Net Position	<u>\$ 1 620 351</u>	<u>\$ 1 415 186</u>

Net position of the City, excluding component units, which relate to governmental activities, increased by \$205,165 during the year ended September 30, 2021.

CITY OF SIMONTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2021

(Continued)

Statement of Changes in Net Position

	<u>2021</u>	<u>2020</u>
Revenues		
Property taxes	\$ 178 248	\$ 168 384
Franchise taxes	67 280	80 623
Sales taxes	212 939	181 507
Penalties and interest	3 481	3 429
Rental income	-	1 200
Other revenues	54 414	48 548
Interest income	813	10 609
Grants	60 000	-
Total Revenues	<u>577 175</u>	<u>494 300</u>
Expenditures		
Administrative fees and expenses	258 792	244 796
Emergency management	17 195	26 030
Public safety	88	-
Facilities fee and expenses	22 293	21 948
Public works	73 642	121 188
Total Expenditures	<u>372 010</u>	<u>413 962</u>
Change in Net Position	205 165	80 338
Net position, beginning of period	<u>1 415 186</u>	<u>1 334 848</u>
Net position, end of period	<u>\$ 1 620 351</u>	<u>\$ 1 415 186</u>

The City's governmental net position increased by \$205,165 from operations during the 2021 fiscal year.

CITY OF SIMONTON, TEXAS

MANAGEMENT DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2021

(Continued)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's governmental fund is discussed below:

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

As of September 30, 2021, the City's governmental fund reported an ending fund balance of \$1,614,148. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total General Fund expenditures. The unassigned fund balance represents 434 percent of total General Fund expenditures.

CAPITAL ASSETS

The City's net investment in capital assets as of September 30, 2021, amounts to \$0. Capital assets are fully depreciated as of September 30, 2021.

Additional information on the City's capital assets can be found in Note 5 in the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City did not amend the budget during the fiscal year. Actual revenues were more than budgeted revenues by \$150,153.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Simonton, Texas' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of Simonton, Texas, City Secretary, P.O. Box 7 Simonton, Texas 77476.

CITY OF SIMONTON, TEXAS

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2021**

	<u>Primary Government</u>	<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>City of Simonton Development Corporation</u>	<u>Simonton Development Corporation</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1 285 979	\$ 176 713	\$ 272 427
Investments	340 426	-	-
Property Taxes Receivable	6 203	-	-
Due from Tax Assessor	513	-	-
Other Receivables	5 538	-	-
Due to / from Primary Government	<u>489</u>	<u>5 680</u>	<u>-</u>
Total Assets	<u>1 639 148</u>	<u>182 393</u>	<u>272 427</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows of Resources	<u>2 548</u>	<u>-</u>	<u>-</u>
Total Deferred Outflows of Resources	<u>2 548</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1 641 696</u>	<u>\$ 182 393</u>	<u>\$ 272 427</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 3 845	\$ -	\$ -
Payroll Taxes Payable	1 671	-	-
Retirement Payable	909	-	-
Net Pension Liability	7 530	-	-
Net OPEB Liability	1 622	-	-
Due to / from Component Units	<u>5 680</u>	<u>-</u>	<u>489</u>
Total Liabilities	<u>21 257</u>	<u>-</u>	<u>489</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows of Resources	<u>88</u>	<u>-</u>	<u>-</u>
Total Deferred inflows of Resources	<u>88</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCE</u>			
Restricted	-	182 393	271 938
Unassigned	<u>1 620 351</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>1 620 351</u>	<u>182 393</u>	<u>271 938</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1 641 696</u>	<u>\$ 182 393</u>	<u>\$ 272 427</u>

See Independent Auditors' Report and the accompanying Notes to Financial Statements

CITY OF SIMONTON, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Functions/Programs	Net (Expenses) Revenue and Changes in Net Position				
	Expenses	Primary Government		Component Units	
		Charges for Services	Governmental Activities	City of Simonton Development Corporation	Simonton Development Corporation
Primary Government:					
Governmental Activities:					
Administrative Fees and Expenses	\$ 258 792	\$ -	\$ 258 792	\$ -	\$ -
Emergency Management	17 195	-	17 195	-	-
Public Safety	88	-	88	-	-
Facilities Fee and Expenses	22 293	-	22 293	-	-
Public Works	73 642	-	73 642	-	-
Total Governmental Activities	<u>372 010</u>	<u>-</u>	<u>372 010</u>	<u>-</u>	<u>-</u>
Component Units:					
City of Simonton Development Corporation	4 107	-	-	4 107	-
Simonton Development Corporation	<u>23 782</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23 782</u>
Total Component Units	<u>27 889</u>	<u>-</u>	<u>-</u>	<u>4 107</u>	<u>23 782</u>
General Revenues					
Property Tax			178 248	-	-
Franchise Tax			67 280	-	-
Sales Tax			212 939	35 106	70 212
Other Revenue			54 414	-	-
Penalties and Interest			3 481	-	-
Interest			813	36	57
Grants			<u>60 000</u>	<u>-</u>	<u>-</u>
Total General Revenues			<u>577 175</u>	<u>35 142</u>	<u>70 269</u>
Change in Net Position			205 165	31 035	46 487
Net Position - Beginning			<u>1 415 186</u>	<u>151 358</u>	<u>225 451</u>
Net Position - Ending			<u>\$ 1 620 351</u>	<u>\$ 182 393</u>	<u>\$ 271 938</u>

See Independent Auditors' Report and the accompanying Notes to Financial Statements

CITY OF SIMONTON, TEXAS

BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 1 285 979
Investments	340 426
Property Taxes Receivable	6 203
Due from Tax Assessor	513
Other Receivables	5 538
Due from Component Units	489
Total Assets	<u>1 639 148</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred Outflows of Resources	<u>2 548</u>
Total Deferred Outflows of Resources	<u>2 548</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 1 641 696</u>
<u>LIABILITIES</u>	
Accounts Payable	\$ 3 845
Payroll Taxes Payable	1 671
Retirement Payable	909
Net Pension Liability	7 530
Net OPEB Liability	1 622
Due to Component Units	5 680
Total Liabilities	<u>21 257</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred Inflows of Resources	88
Unavailable Tax Revenue	<u>6 203</u>
Total Deferred inflows of Resources	<u>6 291</u>
<u>FUND BALANCE</u>	
Unassigned	<u>1 614 148</u>
Total Fund Balance	<u>1 614 148</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1 641 696</u>

See Independent Auditors' Report and the accompanying Notes to Financial Statements

CITY OF SIMONTON, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE –
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>General Fund</u>
Revenues	
Property Tax	\$ 177 440
Franchise Tax	67 280
Sales Tax	212 939
Penalties and Interest	3 481
Other Revenues	54 414
Interest Income	813
Grants	60 000
Total Revenues	576 367
Expenditures	
Administrative Fees and Expenses	258 792
Emergency Management	17 195
Public Safety	88
Facilities Fee and Expenses	22 293
Public Works	73 642
Total Expenditures	372 010
Net Change in Fund Balance	204 357
Fund Balance, Beginning	1 409 791
Fund Balance, Ending	\$ 1 614 148

See Independent Auditors' Report and the accompanying Notes to Financial Statements

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2021

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Simonton, Texas, (the "City") was organized as the Village of Simonton, Texas and incorporated in 1986. The City operates as a "general law" city, which provides for a "Mayor-Council" form of government.

The City provides the following services: general government, public safety (including police, fire, and emergency medical services on a contract basis) and public works.

A. FINANCIAL REPORTING ENTITY

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the City's financial reporting entity. The component units, listed below, although legally separate, are considered part of the reporting entity. These component units have been presented in the City's reporting entity as required by generally accepted accounting principles. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

Simonton Development Corporation

The citizens of the City approved an additional one half of one percent sales and use tax on November 4, 2008, for economic development under the provisions of Section 4B of the Development Corporation Act of 1979. The Simonton Development Corporation (the "SDC") was created for the public purpose of aiding, promoting and furthering the economic development of the City. The SDC may issue bonds or incur other forms of debt to fulfill its public purpose. The SDC began collecting sales tax in April 2009. The Board of Directors is appointed by the City Council and includes seven board members. City Council approval is required for annual budgets. In the event of dissolution, the net position of the SDC shall be conveyed to the City. The SDC does not have separately issued financial statements.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021
(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. FINANCIAL REPORTING ENTITY (CONTINUED)

City of Simonton Development Corporation

The citizens of the City approved an additional one quarter of one percent sales and use tax on November 4, 2008, for economic development under the provisions of Section 4A of the Development Corporation Act of 1979. The City of Simonton Development Corporation (the "Corporation") was created for the public purpose of aiding, promoting and furthering the economic development of the City. The Corporation began collecting sales tax in April 2009. The Corporation may issue bonds or incur other forms of debt to fulfill its public purpose. The Board of Directors is appointed by the City Council and includes five board members. City Council approval is required for annual budgets. In the event of dissolution, the net position of the Corporation shall be conveyed to the City. The Corporation does not have separately issued financial statements.

The following component unit has not been included as part of the reporting entity.

Simonton Higher Education Facilities Corporation

The Simonton Higher Education Facilities Corporation (the "SEFC") has not been included in the reporting entity as a discretely presented component unit, as it has been deemed immaterial to the financial statements of the City. In 2004, the City authorized and created the SEFC, which was evidenced by ordinance of City Council.

The SEFC is governed by the provisions of section 53.35(6) of the Higher Education Authority Act (Chapter 53, Texas Education Code) referred to as the "Act" for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the City pursuant to the Act. The Board of Directors is appointed and serves at the discretion of the City Council. City Council approval is required for debt issuance. In the event of dissolution, any remaining net position shall be conveyed to the City.

The accounting policies of the City conform to generally accepted accounting principles applicable to governments. The following is a summary of the more significant policies.

B. BASIS OF PRESENTATION

The financial transactions of the City are recorded in an individual fund. The funds are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures. The funds are reported by generic classification within the financial statements. The City uses the following fund types:

Governmental Funds

a. Fund Types:

General Fund - To account for all revenues and expenditures not required to be accounted for in other funds.

b. Fund Balances:

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021
(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance - amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by a formal action of the City Council, the City's highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest-level action to remove or change the constraint.
- Assigned fund balance - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council. Currently, only the City Council has the authority to assign fund balances.
- Unassigned fund balance - amounts that are available for any purpose.

The City uses the following classifications for net position:

Net Investment in Capital Assets - To indicate the value of capital invested in capital assets less accumulated depreciation, net of associated debt.

Restricted - To indicate the funds restricted within the General Fund for the purposes of contingencies or emergencies. The City Council must approve any change in the restriction of this fund balance.

Unrestricted - To indicate net position that is available for use in future period.

C. BASIS OF ACCOUNTING

All Governmental Funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded in the accounting period in which they become available and measurable. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the period in which the fund liability is incurred, if measurable. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

The City has adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In compliance with GASBS No. 34, the City has presented a Statement of Net Position and Statement of Activities for the year ended September 30, 2021. These statements are presented on an accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period they are earned, and expenses are recorded in the period they are incurred.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. CASH EQUIVALENTS

The City considers all highly liquid investments with a maturity of three months or less from the date of acquisition to be cash equivalents. As of September 30, 2021, the City's cash and cash equivalents consisted of demand deposits and certificates of deposit, with maturities not exceeding three months.

E. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund as incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset.

Assets are capitalized if they have an original cost of \$500 or more, and a useful life of at least one year. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings and improvements	17
Furniture and equipment	3-8

G. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Management considers accounts receivable to be fully collectible at year-end; accordingly, no allowance for doubtful accounts is required.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position and governmental funds balance sheet are different because:

Total Fund Balance at September 30, 2021	\$ 1 614 148
Conversion of property tax assessments to full accrual basis	<u>6 203</u>
Total Net Position at September 30, 2021	<u>\$ 1 620 351</u>

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

Change in fund balance	\$ 204 357
Conversion of property tax assessments to full accrual basis	<u>808</u>
Change in net position of governmental activities	<u>\$ 205 165</u>

I. PENSIONS

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

J. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The City has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits Fund (SDBF) plan, with retiree coverage. TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASBS No. 75 (i.e., no assets are accumulated for OPEB) as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASBS No. 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASBS No. 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (2) DEPOSITS AND INVESTMENTS

During the year ended September 30, 2021, the contacted depository banks used by the City were Wallis State Bank and NewFirst National Bank. The largest cash, savings, time deposit combined balances at Wallis State Bank during the year ended September 30, 2021, were \$19,038 occurring in December 2020. These funds were adequately insured during the year. The largest cash, savings, time deposit combined balances at NewFirst National Bank during the year ended September 30, 2021, were \$227,343 occurring in September 2021. These funds were adequately insured during the year.

Statutes authorize the City to invest in direct or indirect obligations of the United States, the state, or any county, school district, or other political subdivision of the state. Funds of the City may also be placed in certificates of deposit of state or national banks or savings associations within the state. The City also holds investments at September 30, 2021, in accordance with the Council approved investment policy, in TexPool State Treasury ("TexPool"). In following the Public Funds Collateral Act, TexPool invests the City's funds in obligations of the United States, obligations issued by a public agency that is payable from taxes, revenues, or a combination thereof that has been rated by a nationally recognized rating agency with a rating of not less than A, or any security in which a public entity may invest under the Public Funds Investment Act of 1987. Surety bonds and investment securities are used as collateral to secure both the amount of the deposits with TexPool plus any accrued interest. A separate financial report for TexPool is prepared in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Copies of the report can be obtained from TexPool Participant Services, c/o Federated Investors, 1001 Texas Ave., 14th Floor, Houston, Texas 77002. The City held investments in TexPool with a total carrying value and market value of \$340,426 at September 30, 2021.

Local governments are subject to the Public Funds Investment Act as amended during the 1995 legislative session. The Act directs local governments to adopt a written investment policy that primarily emphasizes safety of principal and liquidity. Also addressed under the Act are the areas of investment diversification, yield, maturity, and quality of investment management. The City has complied with the Act's provisions during the year ended September 30, 2021.

NOTE (3) AD VALOREM TAX

During the year ended September 30, 2021, the City levied an ad valorem tax at the rate of \$.22 per \$100 of assessed valuation, which resulted in a tax levy of \$178,342 for 2021, on the taxable valuation of \$81,051,409 for the 2020 tax year. The ad valorem tax was due upon receipt and will be considered delinquent if not paid by February 1, at which time penalties and interest will be assessed. The levy date of the tax was September 1 prior to the delinquent date, or as soon after September 1 as it took to set the tax rate. The lien date is January 1 subsequent to the delinquent date.

In the governmental funds, property taxes are initially recorded as receivables and unearned revenue at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2021, include collections during the current period or within 60 days of year-end related to the 2020 tax levies.

NOTE (4) SALES TAX REVENUE

During the year ended September 30, 2021, the City received \$175,531 in sales tax revenue and \$37,408 in mixed beverage sales tax revenue.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (5) CHANGES IN CAPITAL ASSETS

The changes in capital assets for the year are as follows:

	Beginning of Year	Acquisitions (Disposals), net	Depreciation Expense	End of Year
Buildings	\$ 153 773	\$ -	\$ -	\$ 153 773
Furniture	129 332	-	-	129 332
Less: Accumulated Depreciation	<u>(283 105)</u>	<u>-</u>	<u>-</u>	<u>(283 105)</u>
Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE (6) PENSION PLAN

Effective October 1, 2018, the City became a participant in Texas Municipal Retirement System (TMRS).

Plan Description

The City participates as one of 920 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (6) PENSION PLAN (Continued)

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

	Plan year 2020
Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20
Updated service credit	100% Repeating Transfers
Annuity increase to (Retirees)	70% of CPI

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	2
Total	2

Contributions

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

Employees for the City of Simonton were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Simonton were 2.55% and 2.40% for calendar years 2021 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$3,858 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (6) PENSION PLAN (Continued)

Actuarial assumptions

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

Inflation	2.5% per year
Overall Payroll growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expenses, including inflation.

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 2021 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, 2019, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (6) PENSION PLAN (Continued)

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.00 %	5.30 %
Core Fixed Income	10.00 %	1.25 %
Non-Core Fixed Income	20.00 %	4.14 %
Real Return	10.00 %	3.85 %
Real Estate	10.00 %	4.00 %
Absolute Return	10.00 %	3.48 %
Private Equity	10.00 %	7.75 %
Total	100.00 %	

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.

Sensitivity of the Net Pension Liability (Asset) 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 (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
\$ 14 592	\$ 7 530	\$ 1 864

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021
(Continued)

NOTE (6) PENSION PLAN (Continued)

Changes in Net Pension Liability

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at 12/31/2019	\$ 18 041	\$ 11 860	\$ 6 181
Changes for the year:			
Service cost	10 151	-	10 151
Interest	1 560	-	1 560
Change in Benefit terms	-	-	-
Difference between expected and actual experience	1 897	-	1 897
Changes of assumptions	-	-	-
Contributions - employer	-	3 712	(3 712)
Contributions - employees	-	7 644	(7 644)
Net investment income	-	910	(910)
Benefit payments, including refunds of empl. contributions	-	-	-
Administrative expense	-	(7)	7
Other changes	-	-	-
Balance at 12/31/2020	<u>\$ 31 649</u>	<u>\$ 24 119</u>	<u>\$ 7 530</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension Plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

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

For the year ended September 30, 2021, the City recognized pension expense of \$4,937.

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

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 1 722
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	(88)	-
Contributions subsequent to the measurement date	-	-
Total	<u>\$ (88)</u>	<u>\$ 1 722</u>

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021
 (Continued)

NOTE (6) PENSION PLAN (Continued)

The City reported \$1,722 as deferred outflows of resources and \$88 as deferred inflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a change of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:		
2021	\$	153
2022		153
2023		153
2024		153
2025		175
Thereafter		847
Total	\$	1 634

NOTE (7) 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 under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The 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 an “other postemployment benefit,” or OPEB.

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 employees’ entire careers.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	2
Total	2

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2021
(Continued)

NOTE (7) SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

Total OPEB Liability

The City’s Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2020, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

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

Methods and Assumptions used to Determine Contribution Rates:

Inflation	2.50%
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount Rate	2.00%
Retirees' share of benefit-related costs	\$ -
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements. Based on the size of the City, rates are multiplied by an additional factor of 87%. For disabled annuitants, the 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% 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.

Discount Rate

The discount rate used to measure the Total OPEB Liability was 2%. The discount rate was based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2020.

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%, 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%) or 1-percentage-point higher (3%) than the current rate:

	Current Single Discount Rate	
<u>1% Decrease 1.00%</u>	<u>Assumption 2.00%</u>	<u>1% Increase 3.00%</u>
<u>\$ 2 387</u>	<u>\$ 1 622</u>	<u>\$ 1 170</u>

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (7) SUPPLEMENTAL DEATH BENEFITS FUND (CONTINUED)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/19	\$ 964
Changes in the total OPEB liability	
Service cost	183
Interest on total OPEB liability	29
Changes of benefit terms including TMRS plan participation	-
Difference between expected and actual experience	90
Changes of assumptions or other inputs	356
Benefits payments	-
Net Change in total OPEB liability	658
 Total OPEB liability - ending	 \$ 1 622

The City reported \$826 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2021.

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$351.

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

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 267
Changes in actuarial assumptions and other inputs	-	559
Contributions subsequent to the measurement date	N/A	-
Total	\$ -	\$ 826

CITY OF SIMONTON, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

(Continued)

NOTE (7) SUPPLEMENTAL DEATH BENEFITS FUND (Continued)

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

Year Ended December 31:		
2021	\$	89
2022		89
2023		89
2024		89
2025		89
Thereafter		<u>381</u>
Total	\$	<u>826</u>

NOTE (8) GRANT AWARDS

In the normal course of operations, the City receives grant funds from various governmental agencies. These grant programs are subject to audit by agents of the granting agency, the purpose of which is to ensure compliance with the provisions of the granting agency. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

During the year ended September 30, 2020, the City received grant approvals from Texas General Land Office (TGLO) for \$1,227,232. The funds are to be used for disaster recovery and restoration of infrastructure for communities impacted by the Floods of 2016 and Hurricane Harvey. During the current fiscal year, the City received \$60,000 in funds from the grant. The funds were used for preparatory engineering work and environmental studies for a drainage project.

NOTE (9) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. Liabilities are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated.

NOTE (10) SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 8, 2023, (the date the financial statements were available to be issued) and noted no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

BREEDLOVE & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

17014 Seven Pines Drive
Spring, Texas 77379
(281) 379-1065
(281) 379-6322 (fax)

JILL A. HENZE, CPA
President

NICOLE BREEDLOVE HUNT, CPA
CEO

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

September 8, 2023

Council Members
City of Simonton, Texas
Simonton, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the City of Simonton, Texas, as of and for the year ended September 30, 2021 and the related notes to the financial statements, which collectively comprise the City of Simonton, Texas' basic financial statements, and have issued our report thereon dated September 8, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Material Weaknesses

The City's management consists of an elected Council. Day-to-day operations are performed by employees of the City. The City Council supervises the performance of the employees. The employees are considered to be members of management and as such the employees and Council are responsible for the design and implementation of internal controls.

As is common with the system of internal control of most small organizations, the accounting function of the City does not prepare the financial statements complete with footnotes in accordance with accounting principle generally accepted in the United States of America. Accordingly, the City has not established internal controls over the preparation of its financial statements. During the course of the audit, it was noted that appropriate month-end and year-end closing procedures were not being performed in a timely manner, which resulted in adequate books not being maintained and resulted in a significant passage of time between the fiscal year end and the completion of the audit. These conditions are considered to be material weaknesses in the City's system of internal control over financial reporting. In addition, during the course of performing an audit it is not unusual for the auditor to prepare various journal entries to correct and present the financial statements on the government-wide basis of accounting.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Simonton, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Due to matters discussed in the preceding paragraph, the City is considered to be non-compliant with the requirement to submit an annual audit report with the State of Texas.

City of Simonton's Response to Findings

We recognize and agree that full, integrated use of our new accounting software and related procedures will resolve timeliness and appropriate accounting function issues. We further agree that employee contributions to TMRS and City contributions for health insurance were underfunded and have taken corrective action. Simonton is a small City with limited resources, but we will work diligently to rectify the needed internal controls.

City of Simonton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Breadmore & Co., P.C.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SIMONTON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND
ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>Actual</u>	<u>Original and Final Budget *</u>	<u>Variance Positive (Negative)</u>
Revenues			
Property Tax	\$ 177 440	\$ 182 275	\$ (4 835)
Franchise Tax	67 280	75 067	(7 787)
Sales Tax	212 939	130 960	81 979
Penalties and Interest	3 481	-	3 481
Other Revenues	54 414	22 200	32 214
Rental Income	-	2 400	(2 400)
Grants	60 000	-	60 000
Interest Income	813	13 312	(12 499)
Total Revenues	<u>576 367</u>	<u>426 214</u>	<u>150 153</u>
Expenditures			
Administrative Fees and Expenses	258 792	342 295	83 503
Emergency Management	17 195	46 000	28 805
Public Safety	88	1 700	1 612
Facilities Fee and Expenses	22 293	50 100	27 807
Public Works	73 642	56 500	(17 142)
Beautification	-	3 400	3 400
Municipal Courts	-	2 500	2 500
Total Expenditures	<u>372 010</u>	<u>502 495</u>	<u>130 485</u>
Net Change in Fund Balance	204 357	(76 281)	280 638
Fund Balance, Beginning	<u>1 409 791</u>	<u>1 409 791</u>	<u>-</u>
Fund Balance, Ending	<u>\$ 1 614 148</u>	<u>\$ 1 333 510</u>	<u>\$ 280 638</u>

* Budget was not amended during the year. Therefore, the original budget is the same as the final budget.

CITY OF SIMONTON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEARS ENDED DECEMBER 31,

	2020	2019	2018
Total pension liability			
Service cost	\$ 10 151	\$ 8 397	\$ 1 635
Interest	1 560	771	405
Change in benefit terms (TMRS Plan Participant)	-	-	5 179
Difference between expected and actual experience	1 897	1 319	-
Changes of assumptions or other inputs	-	335	-
Benefits payments, including refunds of participant contributions	-	-	-
Net change in total pension liability	13 608	10 822	7 219
Total pension liability - beginning	18 041	7 219	-
Total pension liability - ending (a)	31 649	18 041	7 219
Plan fiduciary net position			
Contributions - employer	\$ 3 712	\$ 3 264	\$ 643
Contributions - members	7 644	6 410	1 248
Net Investment income	910	296	-
Benefit payments, including refunds of participant contributions	-	-	-
Administrative expenses	(7)	(1)	-
Other	-	-	-
Net change in plan fiduciary net position	12 259	9 969	1 891
Plan fiduciary net position - beginning	11 860	1 891	-
Plan fiduciary net position - ending (b)	24 119	11 860	1 891
Fund's net position liability - ending (a) - (b)	\$ 7 530	\$ 6 181	\$ 5 328
Plan fiduciary net position as a percentage of the total pension liability	76.21%	65.74%	26.19%
Covered payroll	\$ 152 876	\$ 128 205	\$ 24 964
Fund's net position as a percentage of covered payroll	4.93%	4.82%	21.34%

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A

CITY OF SIMONTON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN
YEARS ENDED SEPTEMBER 30,

Year Ending September 30	Actuarially Determined Contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered Payroll	Contributions as a percentage of covered payroll
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019	\$ 3 101	\$ 3 101	\$ -	\$ 119 746	2.59%
2020	\$ 3 548	\$ 3 548	\$ -	\$ 145 189	2.44%
2021	\$ 3 858	\$ 3 858	\$ -	\$ 153 693	2.51%

Notes to Schedule of Employer Contributions to Pension Plan

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

Methods and Assumptions used to Determine Contribution Rates:

Actuarial cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	7 Years
Assets Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% 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 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information

Notes There were no benefit changes during the year.

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CITY OF SIMONTON, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
LIABILITY AND RELATED RATIOS
YEARS ENDED DECEMBER 31

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Changes in the total OPEB liability			
Service cost	\$ 183	\$ 141	\$ 32
Interest on total OPEB liability	29	13	9
Changes of benefit terms including TMRS plan participation	-	-	254
Difference between expected and actual experience	90	227	-
Changes of assumptions or other inputs	356	305	(17)
Benefits payments	<u>-</u>	<u>-</u>	<u>-</u>
Net change in total OPEB liability	658	686	278
Total OPEB liability - beginning	<u>964</u>	<u>278</u>	<u>-</u>
Total OPEB liability - ending	<u>\$ 1 622</u>	<u>\$ 964</u>	<u>\$ 278</u>
Covered payroll	152 876	128 205	24 964
Fund's net position as a percentage of covered payroll	1.06%	0.75%	1.11%

NOTES TO SCHEDULE

No assets are accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75 to pay related benefits.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A