

***FINANCIAL STATEMENTS – MODIFIED CASH BASIS***

of the

**City of Simonton, Texas**

**For the Year Ended  
September 30, 2025**

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**City of Simonton, Texas**  
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For the Fiscal Year Ended September 30, 2025

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***INDEPENDENT AUDITOR'S REPORT***

To the Honorable Mayor and  
Members of the City Council  
City of Simonton, Texas:

**Report on the Audit of the Financial Statements**

***Disclaimer of Opinion***

We were engaged to audit the modified cash basis financial statements of the major fund of the City of Simonton, Texas (the "City") as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's modified cash basis financial statements as listed in the table of contents.

We do not express an opinion on the accompanying financial statements of the City of Simonton, Texas. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

***Basis for Disclaimer of Opinion***

The City was unable to furnish adequate support timely for us to conclude upon the accuracy over cash, and expenditures. As of the date of our audit report, management was still in the process of providing support requested over these audit areas. We were unable to confirm or verify, by performing other audit procedures, these amounts within the financial statements. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded payables, and the elements making up the statements net assets for governmental and proprietary funds.

***Emphasis of Matter – Basis of Accounting and limited footnotes***

We draw your attention to Note I.D. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("US GAAP").

Further, US GAAP financial statements include footnotes over capital assets, debt, OPEB liability, and the net pension liability. These items have been omitted from these financial statements that are presented on a modified cash basis.

Our opinions are not modified with respect to these matters.

***Responsibilities of Management for the Financial Statements***

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with Note I.D.; 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's ability to continue as a going concern for one year after the date that the financial statements are issued.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our responsibility is to conduct an audit of City of Simonton, Texas' financial statements in accordance with auditing standards generally accepted in the United States of America. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of City of Simonton, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

***Required Supplementary Information***

Management has omitted required supplementary information, such as management's discussion and analysis, budget to actual schedules, schedules over the net pension and OPEB liabilities that accounting principles generally accepted in the United States of America require to be presented to supplement GAAP financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing GAAP financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by this missing information.

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.



BrooksWatson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
March 30, 2026

***FINANCIAL STATEMENTS  
(MODIFIED CASH BASIS)***

# City of Simonton, Texas

## STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS GOVERNMENTAL FUND

September 30, 2025

	<u>General</u>
<b><u>Assets</u></b>	
Cash and cash equivalents	\$ 2,629,936
Receivables, net	75,511
<b>Total Assets</b>	<b><u>\$ 2,705,447</u></b>
<b><u>Liabilities</u></b>	
Accounts payable and accrued liabilities	\$ 74,134
Due to other funds	15,455
<b>Total Liabilities</b>	<b><u>89,589</u></b>
<b><u>Net Assets</u></b>	
<b>Net Assets</b>	<b><u>2,615,858</u></b>

See Notes to Financial Statements.

# City of Simonton, Texas

## STATEMENT OF CHANGES TO NET ASSETS - MODIFIED CASH BASIS

### GOVERNMENTAL FUND

For the Year Ended September 30, 2025

	<b>General</b>
<b><u>Revenues</u></b>	
Property tax	\$ 235,261
Sales tax	337,776
Franchise and local taxes	47,046
Intergovernmental revenue	37,418
Penalties and interest	13,241
Investment income	91,834
Other revenue	6,642
<b>Total Revenues</b>	<b>770,158</b>
<b><u>Expenditures</u></b>	
Current:	
General government	594,271
Emergency management	2,142
Public safety	22,425
Public works	25,828
<b>Total Expenditures</b>	<b>644,666</b>
<b>Net Change in Net Assets</b>	<b>125,492</b>
Beginning Net Assets	2,490,366
<b>Ending Net Assets</b>	<b>\$ 2,615,858</b>

See Notes to Financial Statements.

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# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS

September 30, 2025

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Simonton, Texas, Texas (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. 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 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.

#### B. Financial Statement Presentation

These financial statements – include all funds of the City according to the modified cash basis of accounting as described within note I.D. This presentation and its contents are fully covered within the table of contents within this report.

#### C. Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. Data from the other governmental funds are combined into a single, aggregated presentation. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, as appropriate.

#### **Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed.

# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, *Continued*

September 30, 2025

The government reports the following major governmental fund:

### **General Fund**

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, court, police, and public works.

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

This report uses the modified cash basis of accounting for all funds of the City. This basis of accounting is different than generally accepted accounting principles within the U.S. (“US GAAP”). Under the modified cash basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and earned or legally owed to the City). Measurable means the amount of the transaction can be reasonably determined. Revenues susceptible to accrual include charges for services and interest on temporary investments.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All funds within this report are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the statement of net assets. Statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net assets.

Property taxes, sales taxes, franchise taxes, utility receivables, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues in the current period. Other receipts become measurable when earned or when a legal claim is obtained by the City, and are recognized as revenue at that time.

Under the modified cash basis of accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Further, under this basis of accounting, no long term assets or liabilities are recorded. Income and expenditures for long term assets acquired and long term liabilities including debt and pensions are recognized as expenditures when paid. For example, payments for debt principal and capital asset additions are expended when paid under the modified cash basis of accounting.

# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, *Continued*

September 30, 2025

Further, related disclosures over long term assets and long term liabilities that would be included for accrual financial statements according to US GAAP, are excluded within this report, as they are not relevant to these financial statements that are presented on the modified cash basis of accounting.

### E. Assets, Liabilities, and Net Assets

#### 1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as LOGIC or TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations backed by the full faith and credit of the United States Government maturing in two years or less
- Fully collateralized certificates of deposit not exceeding 12 months in length
- Statewide investment pools

#### 2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, *Continued*

September 30, 2025

### 3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements.

All trade receivables are shown net of any allowance for uncollectible amounts.

### 4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the City. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

### 5. Program Revenues

Amounts reported as *program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided or fines imposed by a given function or segment, and (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

### 6. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, *Continued*

September 30, 2025

### 7. Unearned revenue

The City sometimes receives payments from developers or grantors prior to providing the related service or activity being funded. These amounts are recorded to unearned revenue and relieved to revenue when the related service or activity is completed by the City.

### 8. Net assets balance

These financial statements present the net assets balance, which is the difference between assets and liabilities. This balance does not reflect any potential restrictions or other categorizations that may be required under US GAAP reporting.

### 9. Estimates

The preparation of financial statements, in conformity with the modified cash basis of accounting, 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 expenditures during the reporting period. Actual results could differ from those estimates.

## II. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

As of September 30, 2025, the primary government had the following investment:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
External investment pools		
Texpool	\$ 28,165	0.12
Total fair value	<u>\$ 28,165</u>	
Portfolio weighted average maturity		0.12

*Interest rate risk* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed one year; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with

# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, *Continued*

September 30, 2025

rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

*Credit risk* The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2025, the City's investment in TexPool was rated AAAM by Standard & Poor's.

*Custodial credit risk – deposits* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of the deposits. As of September 30, 2025, the fair values of pledged securities and FDIC exceeded bank balances.

*Custodial credit risk – investments* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

### **TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

# City of Simonton, Texas

## NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, *Continued*

September 30, 2025

At September 30, 2025, the fair value of the portion in TexPool approximates fair value of the shares. There were no limitations or restrictions on withdrawals.

### III. OTHER INFORMATION

#### A. 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 participates along with over 2,700 other Texas governments & political subdivisions in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past four years.

#### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

#### C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does not anticipate that it will have an arbitrage liability.

# City of Simonton, Texas

## *NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS, Continued*

September 30, 2025

### **D. Subsequent Events**

There were no material subsequent events through March 30, 2026, the date the financial statements were available to be issued.