

ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
SEPTEMBER 30, 2021**



CITY OF POTEET
PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

DENISE SANCHEZ

COUNCIL

NICHOLAS SANCHEZ

CANDACE CANTU

RICK T. FLORES

JEREMY FERNANDEZ

CRYSTAL BAUTISTA

CITY ADMINISTRATOR

KIM DAVIS

CITY OF POTEET
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Poteet, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate fund remaining information of the City of Poteet, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregated remaining fund information of the City of Poteet, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of changes and contributions for net pension liability and total other post-employment benefit liability as referred to in the table of contents, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poteet's financial statements as a whole. The supplementary information (combining fund statements and schedule of expenditures of federal awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*) are presented for purposes of additional analysis and are not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2023 on our consideration of City of Poteet's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Poteet's internal control over financial reporting and compliance.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

January 13, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Poteet's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2021. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

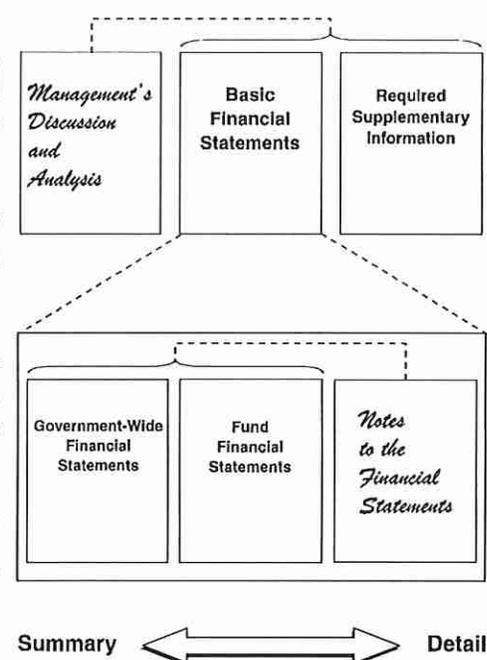
- The City's total combined net position was \$4.9 million at September 30, 2021.
- During the year, the City's governmental expenses (including transfers from the utility fund) were \$393 thousand less than the \$2.8 million generated in general and program revenues for governmental activities. The total cost of the City's governmental programs increased 9% from the prior year. Utility fund expenses decreased 16% and were \$181 thousand less than revenues.
- The general fund reported a fund balance this year of \$391 thousand, an increase of \$309 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1F, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
Fund Statements			
Type of Statements	Government-wide	Governmental Funds	Proprietary Funds
Scope	Entire City's government (except fiduciary funds) and the City's component units	The activities of the city that are not proprietary or fiduciary	Activities the City operates similar to private businesses: utility services
Required financial statements	• Statement of net position	• Balance Sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net position • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.
- The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, fire, police, streets, and parks. Property and sales taxes finance most of these activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$4.9 million at September 30, 2021. (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<i>Assets:</i>						
Current Assets	\$ 1,845,466	\$ 983,629	\$ 703,834	\$ 452,767	\$ 2,549,300	\$ 1,436,396
Other Assets	2,068,707	2,218,965	10,742,715	8,490,950	12,811,422	10,709,915
Total Assets	3,914,173	3,202,594	11,446,549	8,943,717	15,360,722	12,146,311
<i>Deferred Outflows of Resources:</i>	24,349	18,361	10,899	12,743	35,248	31,104
<i>Liabilities:</i>						
Current Liabilities	906,194	458,429	1,496,066	826,236	2,402,260	1,284,665
Long-Term Liabilities	1,851,863	1,971,807	6,218,790	4,449,177	8,070,653	6,420,984
Total Liabilities	2,758,057	2,430,236	7,714,856	5,275,413	10,472,913	7,705,649
<i>Deferred Inflows of Resources:</i>	31,795	35,396	37,822	17,076	69,617	52,472
<i>Net Position:</i>						
Net Investment in Capital Assets	(22,367)	(2,015)	4,163,317	3,692,136	4,140,950	3,690,121
Restricted	342,105	248,706	37,000	37,000	379,105	285,706
Unrestricted	828,932	508,632	(495,547)	(65,165)	333,385	443,467
Total Net Position	\$ 1,148,670	\$ 755,323	\$ 3,704,770	\$ 3,663,971	\$ 4,853,440	\$ 4,419,294

The unrestricted net position represents resources available to fund the programs of the City next year.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus 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 statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

Governmental Activities

Table A-2 summarizes the changes in the City's net position for 2021 and 2020 fiscal years.

Table A-2
Changes in City's Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
<i>Program Revenues:</i>						
Charges for Services	\$ 834,146	\$ 755,242	\$ 1,330,626	\$ 1,095,733	\$ 2,164,772	\$ 1,850,975
Operating Grants and Contributions	6,533	4,433	-	-	6,533	4,433
Capital Contributions	2,300	36,800	181,574	82,813	183,874	119,613
<i>General Revenues:</i>						
Taxes	1,576,768	1,399,557	-	-	1,576,768	1,399,557
Other	342,360	184,236	176	7,717	342,536	191,953
TOTAL REVENUES	2,762,107	2,380,268	1,512,376	1,186,263	4,274,483	3,566,531
<i>Program Expenses:</i>						
Sanitation	451,919	414,830	-	-	451,919	414,830
Administration	616,170	261,396	-	-	616,170	261,396
Court	107,888	103,750	-	-	107,888	103,750
Police	802,851	948,373	-	-	802,851	948,373
Fire	29,199	22,840	-	-	29,199	22,840
Streets	197,382	208,648	-	-	197,382	208,648
Animal Control	30,978	32,746	-	-	30,978	32,746
Parks & Recreation	98,035	94,567	-	-	98,035	94,567
Library	108,067	132,655	-	-	108,067	132,655
Interest	66,271	86,277	-	-	66,271	86,277
Utility	-	-	1,331,577	1,592,634	1,331,577	1,592,634
Transfers	(140,000)	65,150	140,000	(65,150)	-	-
TOTAL EXPENSES	2,368,760	2,371,232	1,471,577	1,527,484	3,840,337	3,898,716
Change in Net Position	393,347	9,036	40,799	(341,221)	434,146	(332,185)
Net Position at Beginning of Year	755,323	746,287	3,663,971	4,005,192	4,419,294	4,751,479
Net Position at End of Year	<u>\$ 1,148,670</u>	<u>\$ 755,323</u>	<u>\$ 3,704,770</u>	<u>\$ 3,663,971</u>	<u>\$ 4,853,440</u>	<u>\$ 4,419,294</u>

Table A-3 presents the cost of each of the City's largest functions, as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by grants and charges for services of that program. The cost of all *governmental* activities this year was \$2.4 million. Taxpayers paid for 38% of these activities through property taxes. Governmental activities expenses increased primarily from debt service, administrative salaries, and town hall repairs.

Business-Type Activities

Revenues of the City's utility business-type activities increased \$326 thousand and costs decreased \$261 thousand. Costs decreased as water and sewer operator positions saw increased vacancy.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2021, the City had invested \$22 million in a broad range of capital assets, including land, equipment, buildings, and infrastructure (streets and water/sewer system). The significant additions for 2021 were water and sewer system improvements. (See Table A-4.)

Table A-4
City's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 81,917	\$ 81,917	\$ 8,958	\$ 8,958	\$ 90,875	\$ 90,875
Buildings and Improvements	1,692,737	1,622,218	-	-	1,692,737	1,622,218
Vehicles and Equipment	1,161,087	1,140,087	233,329	233,329	1,394,416	1,373,416
Infrastructure	7,241,376	7,241,376	11,797,102	11,451,052	19,038,478	18,692,428
Construction in Progress	-	-	3,697,077	1,455,165	3,697,077	1,455,165
Totals at Historical Cost	10,177,117	10,085,598	15,736,466	13,148,504	25,913,583	23,234,102
Accumulated Depreciation	(8,267,096)	(8,021,966)	(5,195,668)	(4,822,185)	(13,462,764)	(12,844,151)
Net Capital Assets	<u>\$1,910,021</u>	<u>\$ 2,063,632</u>	<u>\$10,540,798</u>	<u>\$ 8,326,319</u>	<u>\$12,450,819</u>	<u>\$10,389,951</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

As of September 30, 2021, the City had \$8.3 million in long term debt outstanding as shown in Table A-5. In 2021, the City continued draws on a note payable for water system improvements. More detailed information about the City's debt is presented in the notes to the financial statements.

City's Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Bonds	\$1,746,250	\$1,804,000	\$ 6,146,750	\$ 4,350,000	\$ 7,893,000	\$ 6,154,000
Premiums	59,864	65,271	48,980	53,404	108,844	118,675
Tax Notes	83,000	109,000	-	-	83,000	109,000
Notes Payable	43,274	87,376	181,751	230,779	225,025	318,155
Total Long-Term Debt	<u>\$1,932,388</u>	<u>\$ 2,065,647</u>	<u>\$ 6,377,481</u>	<u>\$ 4,634,183</u>	<u>\$ 8,309,869</u>	<u>\$ 6,699,830</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types increased \$431 thousand to \$2.8 million. The increase in revenue was largely property taxes and permits. Governmental expenditures increased \$206 thousand due primarily from administrative expenses on covid related costs.

Budgetary Highlights

The City's actual expenditures in the General Fund were \$158 thousand more than final budgeted amounts and revenues were over the budget by \$538 thousand. The City received pandemic related grants that increased revenues and increased administrative expenditures. Fund balance increased \$305 thousand more than projected.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2021-2022 budget includes a slight reduction in property tax rates from as the rate declines from \$1.086 per \$100 to \$.9655. The reduction will come from the debt service fund and general fund. Revenues for the general fund are expected to remain largely unchanged and expenditures are expected to increase less than 3%. A new development of 381 homes is expected to join the City's water and wastewater system in the near future which will help generate marginal revenue to adequately fund the utility operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at (830)-742-3574 or visit the City's website at www.poteettx.org.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF POTEET
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 999,425	\$ 435,811	\$ 1,435,236
Certificate of Deposit	113,763	-	113,763
Ad Valorem Taxes Receivable, Net	276,235	-	276,235
Other Receivables, Net	202,309	267,733	470,042
Prepaid Expenses	253,734	290	254,024
<i>Total Current Assets</i>	<u>1,845,466</u>	<u>703,834</u>	<u>2,549,300</u>
<i>Other Assets:</i>			
Restricted Cash - Debt Reserve	-	37,000	37,000
Capital Assets, Net	1,910,021	10,540,798	12,450,819
Net Pension Asset	158,686	164,917	323,603
<i>Total Other Assets</i>	<u>2,068,707</u>	<u>10,742,715</u>	<u>12,811,422</u>
TOTAL ASSETS	<u>3,914,173</u>	<u>11,446,549</u>	<u>15,360,722</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Pension Related Outflows	17,820	1,000	18,820
Deferred Other Post Employment Benefit Outflows	6,529	9,899	16,428
TOTAL DEFERRED OUTFLOWS	<u>\$ 24,349</u>	<u>\$ 10,899</u>	<u>\$ 35,248</u>

See accompanying notes to basic financial statements.

CITY OF POTEET
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2021

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 274,380	\$ 1,065,622	\$ 1,340,002
Accrued Wages	13,010	5,244	18,254
Accrued Interest	11,109	20,238	31,347
Accrued Compensated Absences	57,717	14,623	72,340
Customer Deposits	3,230	196,136	199,366
Unearned Grant Revenue	434,493	-	434,493
Current Maturities of Long-term Debt	112,255	194,203	306,458
<i>Total Current Liabilities</i>	<u>906,194</u>	<u>1,496,066</u>	<u>2,402,260</u>
<i>Long-term Liabilities:</i>			
Long-term Debt (Net of Current)	1,820,133	6,183,278	8,003,411
Total Other Post Employment Benefits Liability	31,730	35,512	67,242
<i>Total Long-term Liabilities</i>	<u>1,851,863</u>	<u>6,218,790</u>	<u>8,070,653</u>
TOTAL LIABILITIES	<u>2,758,057</u>	<u>7,714,856</u>	<u>10,472,913</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	26,564	33,699	60,263
Deferred Other Post Employment Benefits Inflows	5,231	4,123	9,354
TOTAL DEFERRED INFLOWS	<u>31,795</u>	<u>37,822</u>	<u>69,617</u>
NET POSITION			
Net Investment in Capital Assets	(22,367)	4,163,317	4,140,950
Restricted for:			
Court	6,122	-	6,122
Police	644	-	644
Debt Service	335,339	37,000	372,339
Unrestricted (Deficit)	828,932	(495,547)	333,385
TOTAL NET POSITION	<u>\$ 1,148,670</u>	<u>\$ 3,704,770</u>	<u>\$ 4,853,440</u>

See accompanying notes to basic financial statements.

CITY OF POTEET
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
<i>Governmental Activities:</i>				
Sanitation	\$ 451,919	\$ 577,313	\$ -	\$ -
Administration	616,170	602	5,668	-
Court	107,888	88,551	-	-
Police	802,851	150,997	250	2,300
Fire	29,199	770	-	-
Streets	197,382	-	-	-
Animal Control	30,978	100	-	-
Parks & Recreation	98,035	12,525	615	-
Library	108,067	3,288	-	-
Interest	66,271	-	-	-
<i>Total Governmental Activities</i>	2,508,760	834,146	6,533	2,300
<i>Business-Type Activities:</i>				
Utility Service	1,331,577	1,330,626	-	181,574
Total Primary Government	\$ 3,840,337	\$ 2,164,772	\$ 6,533	\$ 183,874
General Revenues:				
Taxes				
Ad Valorem Taxes				
Franchise Taxes				
Sales Taxes				
Charges for Services				
General Grants and Donations				
Miscellaneous				
Total General Revenues				
Transfers				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net
Position

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 125,394		\$ 125,394
(609,900)		(609,900)
(19,337)		(19,337)
(649,304)		(649,304)
(28,429)		(28,429)
(197,382)		(197,382)
(30,878)		(30,878)
(84,895)		(84,895)
(104,779)		(104,779)
(66,271)		(66,271)
<u>(1,665,781)</u>		<u>(1,665,781)</u>
	\$ 180,623	<u>180,623</u>
		<u>(1,485,158)</u>
922,959	-	922,959
96,457	-	96,457
557,352	-	557,352
80,640	-	80,640
166,418	-	166,418
95,302	176	95,478
<u>1,919,128</u>	<u>176</u>	<u>1,919,304</u>
<u>140,000</u>	<u>(140,000)</u>	<u>-</u>
393,347	40,799	434,146
755,323	3,663,971	4,419,294
<u>\$ 1,148,670</u>	<u>\$ 3,704,770</u>	<u>\$ 4,853,440</u>

CITY OF POTEET
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	Major Funds		Other Nonmajor Funds	Total Governmental Funds
	General Fund	Debt Service		
ASSETS				
Cash and Cash Equivalents	\$ 554,985	\$ 279,156	\$ 165,283	\$ 999,424
Certificate of Deposit	113,763	-	-	113,763
Ad Valorem Taxes Receivable, Net	208,943	67,292	-	276,235
Other Receivables, Net	190,915	-	11,394	202,309
Prepaid Items	253,734	-	-	253,734
TOTAL ASSETS	\$ 1,322,340	\$ 346,448	\$ 176,677	\$ 1,845,465
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
<i>Liabilities:</i>				
Accounts Payable	\$ 274,348	\$ -	\$ 32	\$ 274,380
Accrued Wages	13,010	-	-	13,010
Unearned Revenues - ARPA	434,493	-	-	434,493
Deposits	3,230	-	-	3,230
<i>Total Liabilities</i>	<u>725,081</u>	<u>-</u>	<u>32</u>	<u>725,113</u>
<i>Deferred Inflows of Resources:</i>				
Unavailable Revenues - Property Taxes	205,789	66,276	-	272,065
	<u>205,789</u>	<u>66,276</u>	<u>-</u>	<u>272,065</u>
<i>Fund Balances:</i>				
Nonspendable Prepaid Items	253,734	-	-	253,734
Restricted for:				
Debt Service	-	280,172	-	280,172
Court	-	-	6,122	6,122
Police	-	-	644	644
Assigned for:				
Capital Improvements	-	-	169,879	169,879
Unassigned	137,736	-	-	137,736
<i>Total Fund Balances</i>	<u>391,470</u>	<u>280,172</u>	<u>176,645</u>	<u>848,287</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,322,340	\$ 346,448	\$ 176,677	\$ 1,845,465

See accompanying notes to basic financial statements.

CITY OF POTEET
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Major Funds		Other Nonmajor Funds	Total Governmental Funds
	General Fund	Debt Service		
REVENUES				
Ad Valorem Taxes	\$ 699,824	\$ 232,307	\$ -	\$ 932,131
Grants and Donations	172,971	-	-	172,971
Franchise Fees	96,457	-	-	96,457
Sales Taxes	557,352	-	-	557,352
Charges for Services	577,313	-	80,640	657,953
Fines and Forfeitures	155,080	-	5,936	161,016
Licenses, Permits, and Fees	78,389	-	-	78,389
Misc Income	115,012	-	-	115,012
TOTAL REVENUES	<u>2,452,398</u>	<u>232,307</u>	<u>86,576</u>	<u>2,771,281</u>
EXPENDITURES				
Current:				
Sanitation	407,872	-	-	407,872
Administration	634,511	-	-	634,511
Court	101,415	-	5,113	106,528
Police	752,472	-	-	752,472
Fire	19,199	-	-	19,199
Streets	51,449	-	-	51,449
Animal Control	31,332	-	-	31,332
Parks & Recreation	76,224	-	-	76,224
Library	95,801	-	-	95,801
Capital Outlay	38,351	-	89,829	128,180
Debt Service:				
Principal	-	127,913	-	127,913
Interest	-	71,954	-	71,954
TOTAL EXPENDITURES	<u>2,208,626</u>	<u>199,867</u>	<u>94,942</u>	<u>2,503,435</u>
Excess (Deficiency) in Revenue Over (Under) Expenditures	243,772	32,440	(8,366)	267,846
OTHER FINANCING SOURCES (USES)				
Transfer In	140,000	75,209	-	215,209
Transfer Out	(75,209)	-	-	(75,209)
TOTAL OTHER FINANCING	<u>64,791</u>	<u>75,209</u>	<u>-</u>	<u>140,000</u>
Net Change in Fund Balance	308,563	107,649	(8,366)	407,846
BEGINNING FUND BALANCE	<u>82,907</u>	<u>172,523</u>	<u>185,011</u>	<u>440,441</u>
ENDING FUND BALANCE	<u>\$ 391,470</u>	<u>\$ 280,172</u>	<u>\$ 176,645</u>	<u>\$ 848,287</u>

See accompanying notes to basic financial statements.

CITY OF POTEET
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 407,846

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	91,519	
Depreciation Expense	<u>(245,130)</u>	(153,611)

The issuance of long-term debt (e.g. bonds and capital leases) provide current financial resources of governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report interest expense and compensated absences when they are due and payable, while the statement of activities recognizes interest expense and compensated absences when incurred.

Principal Payments on Long-term Debt	127,852	
Amortization of Premiums	5,407	
Change in Compensated Absences	(539)	
Change in Accrued Interest	<u>337</u>	133,057

Governmental funds report required contributions to employee pensions as expenditures. However, in the Statement of Activities the expense for the pension is recorded based on the actuarially determined cost of the plan. This is the amount that contributions differed from the actuarially determined pension expense.

15,050

Governmental funds report required contributions to Other Post Employment Benefits (OPEB) as expenditures. However, in the Statement of Activities the expense for the OPEB is recorded based on the actuarially determined cost of the plan. This is the amount that contributions differed from the actuarially determined OPEB expense.

175

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

(9,170)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 393,347

See accompanying notes to basic financial statements.

CITY OF POTEET
STATEMENT OF NET POSITION – PROPRIETARY UTILITY FUND
SEPTEMBER 30, 2021

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	435,811
Accounts Receivable, Net		267,733
Prepaid Expenses		290
<i>Total Current Assets</i>		703,834

Other Assets

Restricted Cash - Debt Reserve		37,000
Capital Assets, Net		10,540,798
Net Pension Asset		164,917
<i>Total Other Assets</i>		10,742,715
TOTAL ASSETS		11,446,549

DEFERRED OUTFLOWS OF RESOURCES

Deferred Pension Related Outflows		1,000
Deferred Other Post Employment Benefit Related Outflows		9,899
TOTAL DEFERRED OUTFLOWS		10,899

LIABILITIES

Current Liabilities:

Accounts Payable		1,065,622
Accrued Wages		5,244
Accrued Interest		20,238
Accrued Compensated Absences		14,623
Customer Deposits		196,136
Current Portion of Long-term Debt		194,203
<i>Total Current Liabilities:</i>		1,496,066

Noncurrent Liabilities:

Long-term Debt, Net of Current Portion		6,183,278
Total Other Post Employment Benefit Liability		35,512
<i>Total Noncurrent Liabilities:</i>		6,218,790
TOTAL LIABILITIES		7,714,856

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Related Inflows		33,699
Deferred Other Post Employment Benefit Inflows		4,123
TOTAL DEFERRED INFLOWS		37,822

NET POSITION:

Net Investment in Capital Assets		4,163,317
Restricted for Debt Reserve		37,000
Unrestricted (Deficit)		(495,547)
TOTAL NET POSITION		\$ 3,704,770

See accompanying notes to basic financial statements.

CITY OF POTEET
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY UTILITY FUND
FOR THE YEAR SEPTEMBER 30, 2021

OPERATING REVENUES

Water Charges	\$	876,667
Sewer Charges		400,146
Other Charges		53,813
TOTAL OPERATING REVENUES		1,330,626

OPERATING EXPENSES

Administration:

Personnel		226,430
Services		9,981
Operations		42,738

Water:

Personnel		194,119
Services		11,264
Operations and Maintenance		137,020

Sewer:

Personnel		109,614
Services		5,911
Operations and Maintenance		80,132

Depreciation

373,483

TOTAL OPERATING EXPENSES

1,190,692

OPERATING INCOME (LOSS)

139,934

NONOPERATING REVENUES (EXPENSES)

Grant Income		181,574
Other Revenues		176
Interest Expense		(140,885)
TOTAL NONOPERATING REVENUES (EXPENSES)		40,865

Transfers Out

(140,000)

CHANGE IN NET POSITION

40,799

BEGINNING NET POSITION

3,663,971

ENDING NET POSITION

\$ 3,704,770

See accompanying notes to basic financial statements.

CITY OF POTEET
STATEMENT OF CASH FLOWS – PROPRIETARY UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Cash Flows From Operating Activities:		
Cash Received From Customers	\$	1,273,418
Other Cash Receipts		176
Cash Paid to Employees for Services		(542,291)
Cash Paid to Suppliers for Goods and Services		402,823
Net Cash Provided (Used) by Operating Activities		<u>1,134,126</u>
 Cash Flows From Capital-Related Financing Activities:		
Transfers From Other Funds		(140,000)
Capital Grants Received		181,574
Proceeds from Issuance of Bonds & Notes		1,947,000
Principal Payments on Bonds and Notes		(199,278)
Interest Paid		(143,121)
Purchase of Capital Assets		(2,587,962)
Net Cash Provided (Used) by Capital-Related Financing Activities		<u>(941,787)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents		 192,339
 Beginning Cash and Cash Equivalents		
Unrestricted	243,472	
Restricted	<u>37,000</u>	<u>280,472</u>
 Ending Cash and Cash Equivalents		
Unrestricted	435,811	
Restricted	<u>37,000</u>	<u>\$ 472,811</u>

See accompanying notes to basic financial statements.

CITY OF POTEET
 STATEMENT OF CASH FLOWS - PROPRIETARY UTILITY FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$	139,934
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation		373,483
Other Revenues		176
(Increase) Decrease in Operating Assets and Deferred Outflows:		
Accounts Receivable (net)		(58,728)
Net Pension Liability		(37,286)
Deferred Pension Outflows		8,330
Deferred Other Post Employment Benefit Outflows		(6,486)
Increase (Decrease) in Liabilities and Deferred Inflows:		
Accounts Payable		689,869
Accrued Wages		(1,143)
Accrued Compensated Absences		(3,514)
Customer Deposits		1,520
Total Other Post Employment Benefits Liability		7,225
Deferred Pension Inflows		17,443
Deferred Other Post Employment Benefit Inflows		3,303
Total Adjustments to Reconcile Operating Activities		<u>994,192</u>
Net Cash Provided (Used) by		
Operating Activities	\$	<u>1,134,126</u>

See accompanying notes to basic financial statements.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Poteet, Texas (“City”), established in 1886, in Atascosa County, just south of San Antonio. The City is governed by an elected mayor and five council members elected at large. The City provides the following services: court, fire, police, animal control, street maintenance, library, sanitation, water, sewer and parks.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

Component Units

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. The City has no component units.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

Separate **fund financial statements** are provided for governmental, and proprietary funds. The General Fund, Debt Services Fund and Utility Fund meet the criteria as *major funds*.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from taxes, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include taxes and intergovernmental revenues. Primary expenditures are for general administration, streets, fire, police, and parks.

Debt Service Fund is used to account for property taxes levied specifically for the repayment of the general debts of the City.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Utility Fund (used to account for the provision of water and sewer services to residents).

The **Proprietary Fund** is accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. INVESTMENTS (CONTINUED)

The City reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments are stated at fair value (plus accrued interest) except for money market investments, certificates of deposit and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost.

The City's investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Therefore, the investments are reported a \$1 per share, which approximates fair value.

6. ACCOUNTS RECEIVABLE/REVENUE RECOGNITION

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2020 and past due after January 31, 2021. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unearned revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

CITY OF POTEET
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. PREPAID ITEMS

Payments made for goods and services in advance are recorded as prepaid items on the balance sheet.

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

9. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more and a useful life in excess of two years. Infrastructure assets include City-owned streets, water system, and sewer system. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Buildings and Improvements	20-50 years
Streets and Infrastructure	20 years
Water Distribution and Treatment	10-50 years
Vehicles and Equipment	3-10 years

10. COMPENSATED ABSENCES

Full-time employees earn sick and vacation leave at varying rates depending on length of service. Unused sick leave is not paid on termination and is not accrued in these financial statements. Vacation leave is paid on termination. Vacation leave is accrued as incurred in the government-wide and proprietary statements. However, it is recognized on the governmental fund statements only when it is due and payable.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. UNAVAILABLE/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as unavailable revenue (a deferred inflow of resources). Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

12. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

13. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt (including capital leases) and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the discount. Bond issuance costs are expensed as incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

14. PENSIONS

The net pension liability, deferred inflows, and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

16. FUND BALANCES

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable - Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted - Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed - Represents amounts that can only be used for a specific purpose by a resolution of City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

Assigned - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council has also given the authority to create assignments to the City Administrator.

Unassigned - Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second and assigned third.

The City has established a minimum fund balance policy in the General fund of three months of operating expenditures. Should fund balance drop below this number, a timeline and plan should be developed to restore the minimum in a period of three years or less.

17. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

NOTE B – DEPOSITS AND INVESTMENTS

1. Deposits

The City maintains deposits at one institution that provides a combination of pledged collateral and FDIC insurance to completely collateralize the City's deposits, including its certificate of deposit.

2. Investments

As of and for the year ending September 30, 2021, the City's only investment was in an FDIC insurance certificate of deposit. The certificate of deposit is carried at amortized cost.

NOTE C – PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Atascosa County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2020, upon which the fiscal 2021 levy was based, was \$89 million (i.e., market value less exemptions).

The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2021, was \$1.0866 per \$100 of assessed value. The City may not adopt a tax rate that exceeds the voter approved tax rate calculated in accordance with the Texas Property Tax Code without holding an election. The City may levy an interest and sinking tax rate at any level necessary to service voter approved debts. The maintenance and operations tax rate is limited to annual growth of 3.5% without an election.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE D – OTHER RECEIVABLES

Other receivables for the City as of September 30, 2021 are as follows:

	General Fund	Debt Service	Other Nonmajor	Utility
Sales and Mixed Beverage Tax	\$ 100,231	\$ -	\$ -	\$ -
Ad Valorem Taxes	232,159	74,769	-	-
Franchise Tax	14,156	-	-	-
Customer Charges	96,279	-	11,394	317,417
Allowance for Doubtful Accounts	<u>(42,967)</u>	<u>(7,477)</u>	<u>-</u>	<u>(49,684)</u>
Total Other Receivables	<u>\$ 399,858</u>	<u>\$ 67,292</u>	<u>\$ 11,394</u>	<u>\$ 267,733</u>

NOTE E – CAPITAL ASSETS

Capital asset activity in the governmental funds for the year ended September 30, 2021, was as follows:

	Balance 10/1/2020	Additions	Disposals/ Transfers	Balance 9/30/2021
<i>Governmental Activities</i>				
Land	\$ 81,917	\$ -	\$ -	\$ 81,917
Buildings and Improvements	1,622,218	70,519	-	1,692,737
Vehicles and Equipment	1,140,087	21,000	-	1,161,087
Infrastructure	7,241,376	-	-	7,241,376
	<u>10,085,598</u>	<u>91,519</u>	<u>-</u>	<u>10,177,117</u>
Less Accumulated Depreciation				
Buildings and Improvements	(874,161)	(29,233)	-	(903,394)
Vehicles and Equipment	(914,165)	(75,827)	-	(989,992)
Infrastructure	(6,233,640)	(140,070)	-	(6,373,710)
	<u>(8,021,966)</u>	<u>(245,130)</u>	<u>-</u>	<u>(8,267,096)</u>
Governmental Activities, Net	<u>\$ 2,063,632</u>	<u>\$ (153,611)</u>	<u>\$ -</u>	<u>\$ 1,910,021</u>

Land and Construction in Progress are not depreciated.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE E – CAPITAL ASSETS

Depreciation expense was charged to the governmental functions as follows:

Administration	\$	9,215
Police		55,106
Streets		145,932
Parks and Recreation		21,533
Library		<u>13,344</u>
Total Depreciation Expense - Governmental Activities	\$	<u>245,130</u>

Capital asset activity in the business-type fund for the year ended September 30, 2021, was as follows:

	Balance 10/1/2020	Additions	Disposals/ Transfers	Balance 9/30/2021
<i>Business-Type Activities</i>				
Land	\$ 8,958	\$ -	\$ -	\$ 8,958
Vehicles and Equipment	233,329	-	-	233,329
Utility System	11,451,052	-	346,050	11,797,102
Construction in Progress	<u>1,455,165</u>	<u>2,587,962</u>	<u>(346,050)</u>	<u>3,697,077</u>
	<u>13,148,504</u>	<u>2,587,962</u>	<u>-</u>	<u>15,736,466</u>
Less Accumulated Depreciation				
Vehicles and Equipment	(153,594)	(26,092)	-	(179,686)
Utility System	<u>(4,668,591)</u>	<u>(347,391)</u>	-	<u>(5,015,982)</u>
	<u>(4,822,185)</u>	<u>(373,483)</u>	<u>-</u>	<u>(5,195,668)</u>
Business-Type Activities, Net	<u>\$ 8,326,319</u>	<u>\$ 2,214,479</u>	<u>\$ -</u>	<u>\$ 10,540,798</u>

Land and construction in progress are not depreciated.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE F – LONG-TERM DEBT

Changes in long-term debt were as follows:

	Balance 10/1/2020	Additions	Reductions	Balance 9/30/2021
<i>Governmental Activities:</i>				
Bonds and Notes	\$ 2,065,647	\$ -	\$ (133,259)	\$ 1,932,388
Compensated Absences	57,178	8,933	(8,394)	57,717
Net Pension Liability (Asset)	(155,333)	23,019	(26,372)	(158,686)
Total OPEB Liability	34,012	6,529	(8,811)	31,730
<i>Total Governmental</i>	<u>2,001,504</u>	<u>38,481</u>	<u>(176,836)</u>	<u>1,863,149</u>
<i>Business-Type Activities:</i>				
Bonds and Notes	4,634,183	1,947,000	(203,702)	6,377,481
Compensated Absences	18,137	-	(3,514)	14,623
Net Pension Liability (Asset)	(127,631)	20,000	(57,286)	(164,917)
Total OPEB Liability	28,287	10,528	(3,303)	35,512
<i>Total Business-Type</i>	<u>4,552,976</u>	<u>1,977,528</u>	<u>(267,805)</u>	<u>6,262,699</u>
<i>Total Government</i>	<u>\$ 6,554,480</u>	<u>\$ 2,016,009</u>	<u>\$ (444,641)</u>	<u>\$ 8,125,848</u>

NOTE G – BONDS, CERTIFICATES AND NOTES PAYABLE

General Obligation Refunding Bonds, Series 2015

In December 2015, the City issued \$3.68 million in bonds to refund 2004 and 2005 series. The City has pledged utility fund revenues and property taxes to service the debt. The bonds mature serially through 2041 and bear interest at rates ranging from 2.5-4%. The bonds were sold to the public.

Utility System Revenue Bonds, Series 2016

In July 2016, the City issued \$1.875 million in bonds to finance utility system improvements. The City has pledged utility fund revenues to service the debt. The bonds mature serially through 2056 and bear interest at 2.25%. The certificates were privately placed with no subjective acceleration clause or events of default with finance related consequences.

Tax Notes, Series 2017

In December 2017, the City issued \$160 thousand in notes to finance construction of a new library. The notes are serviced by the general fund. The notes mature serially through 2024 and bear interest at 2.05%. The notes were privately placed with no subjective acceleration clause or events of default with finance related consequences.

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2020

In May 2020, the City issued \$4.017 million in certificates to finance utility system improvements. Draws are made on the certificates as expenditures are incurred. As of September 30, 2021, \$2.99 mil had been drawn with the rest expected in 2022. The City has pledged utility fund revenues to service the debt but may also use property taxes. The City expects utility revenues to service the debt. The certificates mature serially through 2059 and bear interest at 1.9%. The certificates were privately placed with no subjective acceleration clause or events of default with finance related consequences.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE G – BONDS, CERTIFICATES AND NOTES PAYABLE (CONTINUED)

In addition, the City has signed several notes payable in terms of three to five years that were privately placed. The notes were used to finance the purchase of vehicles, equipment and utility system improvements. None of these notes have subjective acceleration clause or events of default with finance related consequences. These notes are serviced by the general fund.

The City's 2016 bonds and 2020 certificates include several restrictive covenants, including the establishment of a debt reserve and a repair reserve. The City has complied with the debt reserve but has not yet established a repair reserve.

Changes in bonds, notes and certificates were as follows:

	Balance 10/1/2020	Additions	Reductions	Balance 9/30/2021	Due Within One Year
<i>Governmental Activities:</i>					
<i>Public Offerings:</i>					
General Obligation Series 2015	\$ 1,804,000	\$ -	\$ (57,750)	\$ 1,746,250	\$ 60,500
Unamortized Premiums	65,271	-	(5,407)	59,864	-
<i>Private Placements:</i>					
Tax Notes Series 2017	109,000	-	(26,000)	83,000	27,000
Notes Payable	87,376	-	(44,102)	43,274	24,755
<i>Total Governmental</i>	<u>2,065,647</u>	<u>-</u>	<u>(133,259)</u>	<u>1,932,388</u>	<u>112,255</u>
<i>Business-Type Activities:</i>					
<i>Public Offerings:</i>					
General Obligation Series 2015	\$ 1,476,000	\$ -	\$ (47,250)	\$ 1,428,750	\$ 49,500
Unamortized Premiums	53,404	-	(4,424)	48,980	-
<i>Private Placements:</i>					
Revenue Bonds Series 2016	1,757,000	-	(32,000)	1,725,000	33,000
Certificates Series 2020	1,117,000	1,947,000	(71,000)	2,993,000	72,000
Notes Payable	230,779	-	(49,028)	181,751	39,703
<i>Total Business-Type</i>	<u>4,634,183</u>	<u>1,947,000</u>	<u>(203,702)</u>	<u>6,377,481</u>	<u>194,203</u>
<i>Total Government</i>	<u>\$ 6,699,830</u>	<u>\$ 1,947,000</u>	<u>\$ (336,961)</u>	<u>\$ 8,309,869</u>	<u>\$ 306,458</u>

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE G -- BONDS, CERTIFICATES AND NOTES PAYABLE (CONTINUED)

Requirements to service the debts are as follows:

Year Ending September 30,	Publicly Offered Bonds				
	Governmental		Business-Type		Total
	Principal	Interest	Principal	Interest	
2022	\$ 60,500	\$ 65,230	\$ 49,500	\$ 53,370	\$ 228,600
2023	60,500	63,264	49,500	51,761	225,025
2024	63,250	60,789	51,750	49,736	225,525
2025	66,000	58,204	54,000	47,621	225,825
2026	68,750	55,509	56,250	45,416	225,925
2027-2031	387,750	233,215	317,250	190,810	1,129,025
2032-2036	473,000	148,246	387,000	121,291	1,129,537
2037-2041	566,500	54,114	463,500	44,274	1,128,388
Total	<u>\$ 1,746,250</u>	<u>\$ 738,571</u>	<u>\$ 1,428,750</u>	<u>\$ 604,279</u>	<u>\$ 4,517,850</u>

Year Ending September 30,	Private Placement, Certificates, Bonds and Tax Notes				
	Governmental		Business-Type		Total
	Principal	Interest	Principal	Interest	
2022	\$ 27,000	\$ 1,425	\$ 105,000	\$ 68,635	\$ 202,060
2023	28,000	861	107,000	65,810	201,671
2024	28,000	287	108,000	63,046	199,333
2025	-	-	111,000	60,022	171,022
2026	-	-	113,000	57,039	170,039
2027-2031	-	-	600,000	283,386	883,386
2032-2036	-	-	665,000	170,104	835,104
2037-2041	-	-	735,000	197,828	932,828
2042-2046	-	-	813,000	244,890	1,057,890
2047-2051	-	-	899,000	295,775	1,194,775
2052-2056	-	-	462,000	75,629	537,629
Total	<u>\$ 83,000</u>	<u>\$ 2,573</u>	<u>\$ 4,718,000</u>	<u>\$ 1,582,164</u>	<u>\$ 6,385,737</u>

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE G – BONDS, CERTIFICATES AND NOTES PAYABLE (CONTINUED)

Year Ending September 30,	Privately Placed Notes Payable				Total
	Governmental		Business-Type		
	Principal	Interest	Principal	Interest	
2022	\$ 24,755	\$ 1,573	\$ 39,703	\$ 8,674	\$ 74,705
2023	18,519	628	33,982	6,830	59,959
2024	-	-	25,091	5,349	30,440
2025	-	-	26,333	4,107	30,440
2026	-	-	27,636	2,804	30,440
2027	-	-	29,006	1,436	30,442
Total	<u>\$ 43,274</u>	<u>\$ 2,201</u>	<u>\$ 181,751</u>	<u>\$ 29,200</u>	<u>\$ 225,984</u>

NOTE H – PENSION PLAN

Plan Description

The City participates as one of 888 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 comprehensive annual financial report (CAFR) 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.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years.

CITY OF POTEET
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE H – PENSION PLAN (CONTINUED)

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

	2020
Inactive Employees or Beneficiaries Currently Receiving Benefits	13
Inactive Employees Entitled to but Not Yet Receiving Benefits	45
Active employees	26
	84

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.

For the year ending September 30, 2021, employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year and the City matched 1.5 to 1. The contribution rates for the City were 2.14% and 2.75% in calendar years 2020 and 2021, respectively. The City’s contributions to TMRS for the year ended September 30, 2021 were \$22,719, and were equal to the required contributions.

Actuarial Assumptions

The City’s net pension liability (NPL) was measured as of December 31, 2020 and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date. The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions:

Inflation	2.50% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return*	6.75%

* Presented net of pension plan investment expense, including inflation

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE H – PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are 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). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE H – PENSION PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
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%
	<u>100.00%</u>	

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

Changes in the Net Pension Liability (Asset)

The below schedule presents the changes in the Net Pension Liability (Asset) as of December 31, 2020:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at December 31, 2019	\$ 1,436,584	\$ 1,719,548	\$ (282,964)
Changes for the year:			
Service Cost	101,389	-	101,389
Interest	97,456	-	97,456
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(27,618)	-	(27,618)
Changes of Assumptions	-	-	-
Contributions - Employer	-	24,684	(24,684)
Contributions - Employee	-	57,673	(57,673)
Net Investment Income	-	130,387	(130,387)
Benefit Payments, Including Refunds of Employee Contributions	(86,970)	(86,970)	-
Administrative Expense	-	(845)	845
Other Changes	-	(33)	33
Net Changes	<u>84,257</u>	<u>124,896</u>	<u>(40,639)</u>
Balance at December 31, 2020	<u>\$ 1,520,841</u>	<u>\$ 1,844,444</u>	<u>\$ (323,603)</u>

CITY OF POTEET
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE H – PENSION PLAN (CONTINUED)

Sensitivity of the net pension liability (asset) to changes in the discount rate.

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability (Asset)	\$ (118,293)	\$ (323,603)	\$ (492,716)
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/Inflows of Resources Related to Pensions

For the year ended September 30, 2021, the City recognized pension income of \$3,822. Also as of September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ 14,450
Changes in Actuarial Assumptions	1,971	-
Differences Between Projected and Actual Investment Earnings	-	45,813
Contributions Subsequent to the Measurement Date	16,849	-
	\$ 18,820	\$ 60,263

Deferred outflows of resources in the amount of \$16,849 is resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Plan Year ended December 31,	
2021	\$ (22,030)
2022	(4,542)
2023	(28,855)
2024	(2,865)
	\$ (58,292)

CITY OF POTEET
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE I – OTHER POST-EMPLOYMENT BENEFIT

The City also participates in the cost sharing single-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 post-employment benefit,” or OPEB. Membership in the plan at December 31, 2020, the valuation and measurement date, consisted of:

	2020
Inactive Employees or Beneficiaries Currently Receiving Benefits	7
Inactive Employees Entitled to but Not Yet Receiving Benefits	3
Active employees	26
	36

The SDBF required contribution rates, based on these assumptions, are as follows:

	Total SDBF Contribution Rate	Retiree SDBF Contribution Rate
For the Plan Year Ended December 31,		
2021	0.21%	0.13%
2020	0.18%	0.04%

These contribution rates are based on actuarial assumptions developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method.

CITY OF POTEET
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE I – OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)

These assumptions are summarized below:

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.50% to 11.50% Including Inflation
Discount Rate	2.00% (Based on Fidelity's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid thru the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables 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.

The City's Total OPEB Liability (TOL), based on the above actuarial factors, as of December 31, 2020, the measurement and actuarial valuation date, was calculated as follows:

	Total OPEB Liability
Balance at December 31, 2019	\$ 62,299
Changes for the year:	
Service Cost	4,498
Interest	1,769
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	(9,568)
Changes in Assumptions or Other Inputs	8,705
Benefit Payments	(461)
Net Changes	4,943
Balance at December 31, 2020	\$ 67,242

CITY OF POTEET
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE I – OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)

There is no separate trust maintained to fund this TOL. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75 to pay related benefits.

The following presents the TOL of the City, calculated using the discount rate of 2.00% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate:

	Discount Rate 1.00%	Discount Rate 2.00%	Discount Rate 3.00%
Total OPEB Liability	\$ 81,935	\$ 67,242	\$ 56,015

For the year ended September 30, 2021, the City recognized OPEB expense of \$7,421. Also as of September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ 13,156	\$ -
Changes in Experience	-	9,354
Contributions Subsequent to the Measurement Date	3,272	-
	\$ 16,428	\$ 9,354

Deferred outflows of resources in the amount of \$3,272 is resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total OPEB liability for the plan year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Plan Year ended December 31,	
2021	\$ 1,154
2022	1,154
2023	596
2024	1,031
2025	(133)
Thereafter	-
	\$ 3,802

CITY OF POTEET
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE J – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to coverage limits.

NOTE K – TRANSFERS

The following transfers occurred during the year ending September 30, 2021:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Utility Fund	General Fund	\$ 140,000	Administrative Overhead
General Fund	Debt Service	75,209	In support of debt service
		<u>\$ 215,209</u>	

NOTE L – COMMITMENTS AND CONTINGENCIES

Commitments

As of September 30, 2021, the City had entered into contracts for engineering and construction services for water distribution project for an estimated total of \$3.5 million. Of this amount, \$3.3 million had been incurred through September 30, 2021, leaving an estimated commitment of \$200 thousand.

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City’s liability in these cases, if decided adversely to the City, will not have a material effect on the City’s financial position.



REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Changes – Net Pension Liability and Related Ratios
- Schedule of Contributions – Defined Benefit Pension Plan
- Schedule of Changes – Total Other Post-Employment Benefit Liability and Related Ratios

CITY OF POTEET
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budget Amounts		Actual Amounts	Variance
	Original	Final		
REVENUES				
Ad Valorem Taxes	\$ 612,000	\$ 612,000	\$ 699,824	\$ 87,824
Grants and Donations	8,500	8,500	172,971	164,471
Franchise Fees	95,800	95,800	96,457	657
Sales Taxes	444,000	444,000	557,352	113,352
Charges for Services	530,000	530,000	577,313	47,313
Fines and Forfeitures	142,500	142,500	155,080	12,580
Licenses, Permits and Fees	33,550	33,550	78,389	44,839
Miscellaneous	47,579	47,579	115,012	67,433
TOTAL REVENUES	<u>1,913,929</u>	<u>1,913,929</u>	<u>2,452,398</u>	<u>538,469</u>
EXPENDITURES				
<i>Current:</i>				
Sanitation	430,000	430,000	407,872	22,128
Administration	409,409	388,409	634,511	(246,102)
Court	106,424	106,424	101,415	5,009
Police	668,538	689,538	752,472	(62,934)
Fire	30,644	30,644	19,199	11,445
Streets	68,800	68,800	51,449	17,351
Animal Control	12,300	12,300	31,332	(19,032)
Parks & Recreation	164,820	164,820	76,224	88,596
Library	121,309	121,309	95,801	25,508
Capital Outlay	38,351	38,351	38,351	-
TOTAL EXPENDITURES	<u>2,050,595</u>	<u>2,050,595</u>	<u>2,208,626</u>	<u>(158,031)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(136,666)	(136,666)	243,772	380,438
OTHER FINANCING SOURCES				
Transfers In	140,000	140,000	140,000	-
Transfers Out	-	-	(75,209)	(75,209)
TOTAL OTHER FINANCING	<u>140,000</u>	<u>140,000</u>	<u>64,791</u>	<u>(75,209)</u>
NET CHANGE IN FUND BALANCE	3,334	3,334	308,563	305,229
BEGINNING FUND BALANCE	82,907	82,907	82,907	-
ENDING FUND BALANCE	<u>\$ 86,241</u>	<u>\$ 86,241</u>	<u>\$ 391,470</u>	<u>\$ 305,229</u>

CITY OF POTEET
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – GENERAL FUND
SEPTEMBER 30, 2021

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund and Debt Service Fund.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

The City does not use encumbrances.

CITY OF POTEET
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS
LAST SEVEN PLAN (CALENDAR) YEARS

Total Pension Liability			
	2014	2015	2016
Service Cost	\$ 45,593	\$ 60,135	\$ 71,820
Interest (on the Total Pension Liability)	72,248	73,077	78,853
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(51,216)	13,215	(733)
Change of Assumptions	-	33,752	-
Benefit Payments, Including Refunds of Employee Contributions	(33,575)	(90,542)	(33,028)
Net Change in Total Pension Liability	33,050	89,637	116,912
Total Pension Liability - Beginning	1,026,108	1,059,158	1,148,795
Total Pension Liability - Ending	<u>\$ 1,059,158</u>	<u>\$ 1,148,795</u>	<u>\$ 1,265,707</u>
Plan Fiduciary Net Position			
	2014	2015	2016
Contributions - Employer	\$ 5,355	\$ 8,680	\$ 6,041
Contributions - Employee	38,487	37,631	42,148
Net Investment Income	74,961	2,058	91,321
Benefit Payments, Including Refunds of Employee Contributions	(33,575)	(90,542)	(33,028)
Administrative Expense	(783)	(1,253)	(1,031)
Other	(64)	(63)	(56)
Net Change	84,381	(43,489)	105,395
Beginning Plan Fiduciary Net Postion	1,310,307	1,394,688	1,351,199
Ending Plan Fiduciary Net Postion	<u>\$ 1,394,688</u>	<u>\$ 1,351,199</u>	<u>\$ 1,456,594</u>
Net Pension Liability (Asset) - Ending	\$ (335,530)	\$ (202,404)	\$ (190,887)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	131.68%	117.62%	115.08%
Covered Payroll	\$ 769,743	\$ 752,625	\$ 842,961
Net Pension Liability as a Percentage of Covered Payroll	-43.59%	-26.89%	-22.64%

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.

Total Pension Liability			
2017	2018	2019	2020
\$ 79,750	\$ 84,177	\$ 89,241	\$ 101,389
86,925	87,516	89,336	97,456
17,918	-	-	-
(39,333)	(21,239)	13,010	(27,618)
-	-	7,087	-
<u>(71,459)</u>	<u>(170,127)</u>	<u>(81,925)</u>	<u>(86,970)</u>
73,801	(19,673)	116,749	84,257
1,265,707	1,339,508	1,319,835	1,436,584
<u>\$ 1,339,508</u>	<u>\$ 1,319,835</u>	<u>\$ 1,436,584</u>	<u>\$ 1,520,841</u>

Plan Fiduciary Net Position			
2017	2018	2019	2020
\$ 15,693	\$ 20,869	\$ 22,270	\$ 24,684
48,100	48,545	51,111	57,673
201,561	(49,331)	231,098	130,387
(71,459)	(170,127)	(81,925)	(86,970)
(1,046)	(955)	(1,309)	(845)
<u>(52)</u>	<u>(50)</u>	<u>(39)</u>	<u>(33)</u>
192,797	(151,049)	221,206	124,896
1,456,594	1,649,391	1,498,342	1,719,548
<u>\$ 1,649,391</u>	<u>\$ 1,498,342</u>	<u>\$ 1,719,548</u>	<u>\$ 1,844,444</u>

\$ (309,883) \$ (178,507) \$ (282,964) \$ (323,603)

123.13% 113.52% 119.70% 121.28%

\$ 962,001 \$ 970,898 \$ 1,251,557 \$ 1,153,461

-32.21% -18.39% -22.61% -28.05%

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.

CITY OF POTEET
 SCHEDULE OF EMPLOYER CONTRIBUTIONS – DEFINED BENEFIT PENSION PLAN
 LAST TWO FISCAL YEARS

Fiscal 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
2021	\$ 22,719	\$ 22,719	\$ -	\$ 997,050	2.3%
2020	24,472	24,472	-	1,136,779	2.2%

Notes to Schedule of Contributions

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen (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	N/A
Asset 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. Projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) 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.

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.

CITY OF POTEET
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES – TOTAL OTHER POST-EMPLOYMENT BENEFIT LIABILITY AND
 RELATED RATIOS
 LAST FOUR CALENDAR (PLAN) YEARS

	Total OPEB Liability			
	2017	2018	2019	2020
Service Cost	\$ 3,656	\$ 4,078	\$ 3,782	\$ 4,498
Interest	1,531	1,640	1,878	1,769
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	-	(680)	(1,595)	(9,568)
Changes in Assumptions or Other Inputs	3,789	(3,549)	9,703	8,705
Benefit Payments	(192)	(97)	(409)	(461)
Net Change in Total Pension Liability	8,784	1,392	13,359	4,943
Total OPEB Liability - Beginning	38,764	47,548	48,940	62,299
Total OPEB Liability - Ending	<u>\$ 47,548</u>	<u>\$ 48,940</u>	<u>\$ 62,299</u>	<u>\$ 67,242</u>
 Covered Payroll	 \$ 962,001	 \$ 970,898	 \$ 1,251,557	 \$ 1,153,461
 Total OPEB Liability as a Percentage of Covered Payroll	 4.94%	 5.04%	 4.98%	 5.83%

Notes to Schedule:

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

Changes in Benefit Terms:

None

Changes in Assumptions:

2021 Discount rate reduced to 1.84%
 2020 Discount rate reduced to 2.00%
 2019 Discount rate reduced to 2.75%
 2018 Discount rate increased to 3.71%
 2017 Discount rate reduced to 3.31%

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.



SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedule include:

- Combining Statements – Nonmajor Funds

CITY OF POTEET
 COMBINING BALANCE SHEET – NONMAJOR FUNDS
 SEPTEMBER 30, 2021

	Special Revenue				Total
	Court Technology	Court Security	Police Forfeiture	Capital Projects	
ASSETS					
Cash and Cash Equivalents	\$ 6,122	\$ -	\$ 644	\$ 158,517	\$ 165,283
Other Receivables	-	-	-	11,394	11,394
TOTAL ASSETS	<u>\$ 6,122</u>	<u>\$ -</u>	<u>\$ 644</u>	<u>\$ 169,911</u>	<u>\$ 176,677</u>
LIABILITIES AND FUND BALANCES					
<i>Liabilities:</i>					
Accounts Payable	\$ -	\$ -	\$ -	\$ 32	\$ 32
<i>Total Liabilities</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32</u>	<u>32</u>
<i>Fund Balances:</i>					
Restricted for:					
Municipal Court	6,122	-	-	-	6,122
Police	-	-	644	-	644
Assigned for:					
Capital Improvements	-	-	-	169,879	169,879
<i>Total Fund Balances</i>	<u>6,122</u>	<u>-</u>	<u>644</u>	<u>169,879</u>	<u>176,645</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,122</u>	<u>\$ -</u>	<u>\$ 644</u>	<u>\$ 169,911</u>	<u>\$ 176,677</u>

CITY OF POTEET
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
 BALANCE – NONMAJOR FUNDS
 SEPTEMBER 30, 2021

	Special Revenue				Total
	Court Technology	Court Security	Police Forfeiture	Capital Projects	
REVENUES					
Charges for Services	\$ -	\$ -	\$ -	\$ 80,640	\$ 80,640
Fines and Forfeitures	2,876	3,060	-	-	5,936
TOTAL REVENUES	<u>2,876</u>	<u>3,060</u>	<u>-</u>	<u>80,640</u>	<u>86,576</u>
EXPENDITURES					
Current:					
Court	2,053	3,060	-	-	5,113
Capital Outlay	-	-	-	89,829	89,829
TOTAL EXPENDITURES	<u>2,053</u>	<u>3,060</u>	<u>-</u>	<u>89,829</u>	<u>94,942</u>
Net Change in Fund Balance	823	-	-	(9,189)	(8,366)
BEGINNING FUND BALANCE	5,299	-	644	179,068	185,011
ENDING FUND BALANCE	<u>\$ 6,122</u>	<u>\$ -</u>	<u>\$ 644</u>	<u>\$ 169,879</u>	<u>\$ 176,645</u>



COMPLIANCE SECTION



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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*

Mayor, Council and Management of
City of Poteet
Poteet, TX

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Poteet as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise City of Poteet's basic financial statements, and have issued our report thereon dated January 13, 2023.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, as described in the accompanying schedule of findings and questioned costs, we did identify a deficiency in internal control that we consider to be a material weakness.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Poteet's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of City of Poteet in a separate letter dated January 13, 2023.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Armstrong, Vaughan & Associates, P.C.

January 13, 2023



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

Mayor, Council and Management of
City of Poteet
Poteet, TX

Report on Compliance for Each Major Federal Program

We have audited City of Poteet's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021. City of Poteet's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Poteet's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Poteet's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on City of Poteet's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Poteet complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control over Compliance

The management of City of Poteet is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Poteet’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Poteet’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Armstrong, Vaughan & Associates, P.C.

January 13, 2023

CITY OF POTEET
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Disclaimer</u>	
Internal control over financial reporting:		
Any material weaknesses identified?	<u> X </u> Yes	<u> </u> No
Any significant deficiencies identified?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

2. Federal Awards

Internal control over major programs:		
Any material weaknesses identified?	<u> </u> Yes	<u> X </u> No
Any significant deficiencies identified?	<u> </u> Yes	<u> X </u> No
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> Yes	<u> X </u> No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems

Dollar threshold used to distinguish between Type A and type B Programs:	<u>\$750,000</u>
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

CITY OF POTEET
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021

B. Financial Statement Findings

Finding 2021-001

Material Weakness in Internal Control over Financial Reporting—Insufficient Reconciliation and Financial Reporting Procedures

Criteria: The City should dedicate sufficient resources to reconciling financial statement accounts, recording all transactions, and appropriately classifying these activities.

Condition and Context: Significant journal entries (both in number and size) were necessary as part of the audit process to record missing transactions and posting errors in the financial statements. For example, debt payments of \$403 thousand and grant deposits of \$447,703 were not recorded. In addition, an adjustment of \$39,207 increasing administration expenditures in the general fund was necessary to reconcile cash.

Cause: The entity's turnover, limited size, and staffing resources have made it difficult for management to commit the necessary time and personnel to accurately reconcile financial statement accounts and record all transactions. An outside accountant was contracted to assist with the postings and reconciliations, however the reconciliations were not completed.

Effect: Financial statements provided to Council during the year to make management decisions were materially misstated.

Recommendation: Management and staff should review all of the adjustments necessary to correct the financial statements and monitor progress to a more timely and complete financial reporting process. An individual should be specifically tasked with performing bank reconciliations. These reconciliations should be performed timely and reviewed by another individual to ensure they were completed timely and accurately. Management should obtain sufficient training on the best methods to use the accounting software and to develop routine procedures and best practices.

Views of Responsible Official(s) and Planned Corrective Actions: Management has received the corrections identified in the audit and has developed a plan to obtain training on the City's financial software and financial reporting.

C. Federal Award Findings and Questioned Costs: NONE

D. Prior Audit Findings Related to Federal Awards: NONE

CITY OF POTEET
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Direct Award</i>			
Water and Waste Disposal Systems (Loan)	10.760	N/A	\$ 2,259,363
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>2,259,363</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Texas Department of Agriculture</i>			
Community Development Block Grant	14.228	7217369	181,574
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>181,574</u>
U.S. DEPARTMENT OF TREASURY			
<i>Passed Through Texas Division of Emergency Management</i>			
Coronavirus Relief Fund	21.019	4137001	166,418
TOTAL U.S. DEPARTMENT OF TREASURY			<u>166,418</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,607,355</u>
LOAN BALANCE AT SEPTEMBER 30, 2021			
Water and Wastewater Disposal Systems	10.760		\$ 2,993,000

CITY OF POTEET
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

1. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial measurement focus. All Federal grant funds were accounted for in the General Fund or Special Revenue Fund, which are Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenue in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as unearned revenue until earned.

2. The City has not elected to use the 10% de minimis indirect cost rate as allowed by Uniform Guidance.



