

**CITY OF SHALLOWATER, TEXAS**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**CITY OF SHALLOWATER, TEXAS**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**MAYOR AND CITY COUNCIL**

**SEPTEMBER 30, 2021**

Royking Potter	Mayor
Kyle Yeager	Alderman Place 1
Jason White	Alderman Place 2
David Bruegel	Alderman Place 3
Chris Cody	Mayor Pro Tem - Alderman Place 4
Troy White	Alderman Place 5

**CITY OF SHALLOWATER, TEXAS**  
**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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**CITY OF SHALLOWATER, TEXAS**  
**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**Independent Auditor's Report**

Honorable Royking Potter, Mayor  
and Members of the City Council  
City of Shallowater, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the City of Shallowater, Texas (the City), as of and for the fiscal 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***

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, business-type activities, and each major fund of the City of Shallowater, Texas, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flow 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 schedule of changes in the plan's net pension asset/liability and related ratios, schedule of contributions for the retirement plan, schedule of changes in the total OPEB liability and related ratios, and budgetary comparison information on pages 33 through 38 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2022, on our consideration of the City'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 of the City's internal control over financial reporting and compliance.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

February 7, 2022



## CITY OF SHALLOWATER, TEXAS

Exhibit 1

STATEMENT OF NET POSITION  
SEPTEMBER 30, 2021

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,088,004	\$ 3,092,592	\$ 5,180,596
Restricted Cash and Cash Equivalents		478,771	478,771
Receivables (Net)	102,061	209,223	311,284
Prepaid Items	3,792		3,792
Internal Balances	1,099,551	(1,099,551)	
Total Current Assets	\$ <u>3,293,408</u>	\$ <u>2,681,035</u>	\$ <u>5,974,443</u>
Noncurrent Assets:			
Net Pension Asset	\$ 34,948	\$ 17,799	\$ 52,747
Capital Assets:			
Land		248,607	248,607
Depreciable Assets	2,093,298	7,514,584	9,607,882
Construction Work In Progress	54,656	14,066	68,722
Water Rights, Net of Amortization		756,178	756,178
Total Noncurrent Assets	\$ <u>2,182,902</u>	\$ <u>8,551,234</u>	\$ <u>10,734,136</u>
Total Assets	\$ <u>5,476,310</u>	\$ <u>11,232,269</u>	\$ <u>16,708,579</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Plan - Employer Contribution Deferrals	\$ 15,443	\$ 7,865	\$ 23,308
Pension Plan - Changes in Assumptions	4,018	2,047	6,065
OPEB Plan - Employer Contribution Deferrals	304	155	459
OPEB Plan - Changes in Assumptions	5,938	3,025	8,963
Total Deferred Outflows of Resources	\$ <u>25,703</u>	\$ <u>13,092</u>	\$ <u>38,795</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 76,126	\$ 128,539	\$ 204,665
Accrued Payroll	21,013	6,873	27,886
Meter Deposits		77,610	77,610
Current Portion of Long-Term Obligations	35,980	409,615	445,595
Total Current Liabilities	\$ <u>133,119</u>	\$ <u>622,637</u>	\$ <u>755,756</u>
Noncurrent Liabilities:			
Noncurrent Portion of Long-Term Obligations	\$ 639,011	\$ 5,563,440	\$ 6,202,451
Total OPEB Liability	26,950	13,726	40,676
Accrued Compensated Absences	50,529	15,046	65,575
Total Noncurrent Liabilities	\$ <u>716,490</u>	\$ <u>5,592,212</u>	\$ <u>6,308,702</u>
Total Liabilities	\$ <u>849,609</u>	\$ <u>6,214,849</u>	\$ <u>7,064,458</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension Plan - Difference in Expected and Actual Experience	\$ 6,885	\$ 3,507	\$ 10,392
Pension Plan - Difference in Projected and Actual Earnings	30,481	15,524	46,005
OPEB Plan - Difference in Expected and Actual Experience	2,932	1,494	4,426
Unearned Revenue - Unspent Grant Funds		318,901	318,901
Total Deferred Inflows of Resources	\$ <u>40,298</u>	\$ <u>339,426</u>	\$ <u>379,724</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 1,418,307	\$ 2,311,773	\$ 3,730,080
Restricted For:			
Enabling Legislation	17,254		17,254
Unrestricted	<u>3,176,545</u>	<u>2,379,313</u>	<u>5,555,858</u>
Total Net Position	\$ <u>4,612,106</u>	\$ <u>4,691,086</u>	\$ <u>9,303,192</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 2

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Net (Expense) Revenue	Program Revenues			Net (Expense) Revenue and Changes In Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<u>Primary Government:</u>						
Judicial	\$ 20,360	\$ 20,867	\$	\$ 507	\$	\$ 507
Legislative	4,470			(4,470)		(4,470)
Administrative	516,687	88,810	39,349	(388,528)		(388,528)
Sanitation	215,882	312,974		97,092		97,092
Streets	168,657			(168,657)		(168,657)
Fire	133,468		153,648	20,180		20,180
Police	391,895			(391,895)		(391,895)
Health	2,936			(2,936)		(2,936)
Ambulance	287,124	250,465		(36,659)		(36,659)
Civil Defense	11,839			(11,839)		(11,839)
Parks	32,267		8,685	(23,582)		(23,582)
Depreciation	224,062			(224,062)		(224,062)
Total Governmental Activities	\$ 2,009,647	\$ 673,116	\$ 201,682	\$ (1,134,849)	\$ 0	\$ (1,134,849)
<u>Business-Type Activities:</u>						
Water	\$ 786,576	\$ 1,607,464	\$	\$	\$ 820,888	\$ 820,888
Sewer	283,420	275,784			(7,636)	(7,636)
Interest on Debt	195,726				(195,726)	(195,726)
Total Business-Type Activities	\$ 1,265,722	\$ 1,883,248	\$ 0	\$ 0	\$ 617,526	\$ 617,526
Total Primary Government	\$ 3,275,369	\$ 2,556,364	\$ 201,682	\$ (1,134,849)	\$ 617,526	\$ (517,323)
<u>General Revenues:</u>						
<u>Taxes:</u>						
Property Taxes, Levied for General Purposes				\$ 1,193,708	\$	\$ 1,193,708
Franchise Taxes				170,141		170,141
Sales Taxes				232,011		232,011
Unrestricted Investment Earnings				8,677	8,094	16,771
Miscellaneous				70,628	32,867	103,495
Gain on Disposition of Capital Assets					106,813	106,813
Transfers				(140,000)	140,000	
Total General Revenues and Special Items				\$ 1,535,165	\$ 287,774	\$ 1,822,939
Change in Net Position				\$ 400,316	\$ 905,300	\$ 1,305,616
Net Position—Beginning				4,211,790	3,785,786	7,997,576
Net Position—Ending				\$ 4,612,106	\$ 4,691,086	\$ 9,303,192

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUND  
SEPTEMBER 30, 2021

	<u>Major</u> <u>General</u> <u>Fund</u>
ASSETS:	
Cash and Cash Equivalents	\$ 2,088,004
Accounts Receivable, net	88,966
Delinquent Taxes Receivable, net	13,095
Due from Other Funds	1,099,551
Prepaid Items	3,792
Total Assets	<u>\$ 3,293,408</u>
LIABILITIES:	
Accounts Payable	\$ 76,126
Accrued Payroll	21,013
Total Liabilities	<u>\$ 97,139</u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable Revenue - Property Taxes	<u>\$ 13,095</u>
FUND BALANCES:	
Restricted For:	
Enabling Legislation	\$ 17,254
Unassigned	3,165,920
Total Fund Balances	<u>\$ 3,183,174</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,293,408</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 4

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2021

Total Fund Balances - Governmental Fund Balance Sheet	\$ 3,183,174
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Net capital assets used in governmental activities are not reported in the funds.	2,147,954
Payables for debt principal which are not due in the current period are not reported in the funds.	(674,991)
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	13,095
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(50,529)
Total OPEB Liability and Related Deferred Inflows and Outflows are not reported in the funds.	(23,640)
Net Pension Asset/Liability and Related Deferred Inflows and Outflows are not reported in the funds.	<u>17,043</u>
Net Position of Governmental Activities - Statement of Net Position	\$ <u><u>4,612,106</u></u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 5

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>Major</u> <u>General</u> <u>Fund</u>
Revenues:	
Taxes:	
Property Taxes	\$ 1,194,269
City Sales Taxes	232,011
Franchise Taxes	170,141
Intergovernmental Revenue	192,997
Fines	20,867
Interest Income	8,677
Permits	88,810
Ambulance Calls	250,465
Sanitation Revenue	312,974
Miscellaneous Revenue	70,628
Contributions	8,685
Total Revenues	<u>\$ 2,550,524</u>
Expenditures:	
Judicial	\$ 20,744
Legislative	4,470
Administrative	550,158
Sanitation Department	215,882
Streets	283,609
Fire Department	254,388
Police Department	371,450
Health Department	2,936
Ambulance	287,112
Civil Defense	30,014
Parks	35,347
Debt Service:	
Principal	37,550
Interest	23,414
Total Expenditures	<u>\$ 2,117,074</u>
Excess of Revenues Over Expenditures	<u>\$ 433,450</u>
Other Financing Sources (Uses):	
Transfers Out	<u>\$ (140,000)</u>
Total Other Financing Sources (Uses):	<u>\$ (140,000)</u>
Net Change in Fund Balance	\$ 293,450
Fund Balances - Beginning	<u>2,889,724</u>
Fund Balances - Ending	<u><u>\$ 3,183,174</u></u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 6

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

Net Change in Fund Balances - Total Governmental Fund	\$ 293,450
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Governmental funds report capital outlay as expenditures. However, the Statement of Activities reports these as assets that are depreciated over their useful lives.	319,279
Depreciation is recorded in the Statement of Activities as an expense but not in governmental funds.	(224,062)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(561)
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	37,550
Accrued compensated absences are recorded in the statement of activities as an expense but not in governmental funds.	(50,529)
OPEB Expense is not accrued in the funds related to the Total OPEB Liability and Deferred Outflows.	(2,163)
Pension Expense is not accrued in the funds related to the Net Pension Asset and Deferred Outflows.	<u>27,352</u>
Change in Net Position of Governmental Activities - Statement of Activities	<u>\$ 400,316</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 7

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
SEPTEMBER 30, 2021

	<u>Major Water and Sewer</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,092,592
Restricted Cash and Cash Equivalents	478,771
Accounts Receivable, net	<u>209,223</u>
Total Current Assets	<u>\$ 3,780,586</u>
Noncurrent Assets:	
Net Pension Asset	\$ 17,799
Capital Assets:	
Land	248,607
Depreciable Assets	7,514,584
Construction Work In Progress	14,066
Water Rights, Net of Amortization	<u>756,178</u>
Total Noncurrent Assets	<u>\$ 8,551,234</u>
Total Assets	<u>\$ 12,331,820</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Pension Plan - Employer Contribution Deferrals	\$ 7,865
Pension Plan - Changes in Assumptions	2,047
OPEB Plan - Employer Contribution Deferrals	155
OPEB Plan - Changes in Assumptions	<u>3,025</u>
Total Deferred Outflows of Resources	<u>\$ 13,092</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts Payable	\$ 128,539
Due to Other Funds	1,099,551
Deferred Revenue	
Meter Deposits	77,610
Accrued Payroll	6,873
Current Portion of Long-Term Debt	<u>409,615</u>
Total Current Liabilities	<u>\$ 1,722,188</u>
Noncurrent Liabilities:	
Long-Term Debt Due After One Year	\$ 5,563,440
Total OPEB Liability	13,726
Accrued Compensated Absences	<u>15,046</u>
Total Noncurrent Liabilities	<u>\$ 5,592,212</u>
Total Liabilities	<u>\$ 7,314,400</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Pension Plan - Difference in Expected and Actual Experience	\$ 3,507
Pension Plan - Difference in Projected and Actual Earnings	15,524
OPEB Plan - Difference in Expected and Actual Experience	1,494
Unearned Revenue - Unspent Grant Funds	<u>318,901</u>
Total Deferred Inflows of Resources	<u>\$ 339,426</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	\$ 2,311,773
Unrestricted	<u>2,379,313</u>
Total Net Position	<u>\$ 4,691,086</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 8

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION - PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	<u>Major Water and Sewer</u>
OPERATING REVENUES:	
Water Revenue	\$ 1,478,361
Sewer Revenue	275,784
Tapping and Connection Fees	84,159
Penalties	44,944
Total Operating Revenue	<u>\$ 1,883,248</u>
OPERATING EXPENSES:	
Water Department	\$ 786,576
Sewer Department	283,420
Total Operating Expenses	<u>\$ 1,069,996</u>
Operating Income	<u>\$ 813,252</u>
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$ 8,094
Miscellaneous Revenue	32,867
Gain on Sale of Capital Assets	106,813
Interest Expense	(195,726)
Total Nonoperating Expense	<u>\$ (47,952)</u>
Income Before Transfers	\$ 765,300
Transfers In	<u>140,000</u>
Change in Net Position	\$ 905,300
TOTAL NET POSITION - BEGINNING	<u>3,785,786</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 4,691,086</u></u>

See accompanying notes to the financial statements.



CITY OF SHALLOWATER, TEXAS

Exhibit 9

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Major Water and Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	\$ 1,930,469
Cash Payments to Employees for Services	(284,994)
Cash Payments to Other Suppliers for Goods and Services	(1,246,574)
Net Change in Cash From Operating Activities	<u>\$ 398,901</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	\$ 140,000
Grant Funds Received	318,901
Due to Other Funds	287,448
Receipts From Other Nonoperating Activities	32,867
Net Change in Cash From Non-Capital Financing Activities	<u>\$ 779,216</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal and Interest Paid on Long-Term Debt	\$ (603,216)
Debt Proceeds	2,074
Proceeds From Sale of Capital Assets	108,120
Acquisition or Construction of Capital Assets	(384,496)
Net Change in Cash From Capital and Related Financing Activities	<u>\$ (877,518)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned on Investments	\$ 8,094
Net Change in Cash From Investing Activities	<u>\$ 8,094</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 308,693
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,262,670</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 3,571,363</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	<u>\$ 813,252</u>
Adjustments to Reconcile Income From Operations to Net Cash From Operating Activities:	
Depreciation and Amortization	\$ 259,735
Change in Assets and Liabilities:	
Receivables	37,236
Accounts Payable	(704,907)
Meter Deposits	9,985
Accrued Compensated Absences	(3,573)
Accrued Payroll	(642)
Net Pension Asset/Liability	12,954
Total OPEB Liability	1,826
Deferred Inflows of Resources	(25,486)
Deferred Outflows of Resources	<u>(1,479)</u>
Total Adjustments	<u>\$ (414,351)</u>
Net Cash From Operating Activities	<u>\$ 398,901</u>

See accompanying notes to the financial statements.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Shallowater, Texas (the City) operates under a Council-Manager form of government. The City's major operations include police and fire protection, sanitation and recreation, public works, and general administrative services. In addition, the City owns and operates a water and sewer system.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. REPORTING ENTITY**

These financial statements present the City (the primary government). GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34 identifies criteria for determining if other entities are potential component units that should be reported within the City's basic financial statements. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading. The City does not have component units.

**B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's general fund). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, sanitation and recreation, public works, and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities are presented by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

Program revenues must be directly associated with the function (fire, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or franchise taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

**C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS**

The City applies GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

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

Restricted - Amounts that can be spent only for specific purposes because of the City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by City Council ordinance or resolution.

Assigned - Amounts that are constrained for a specific purpose by an individual that has been delegated authority by the City Council to assign amounts.

Unassigned - All amounts not included in other spendable classifications.

For the fiscal year ended September 30, 2021, \$3,165,920 of the City's fund balance was unassigned and \$17,254 was restricted for enabling legislation. The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserve the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balance, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

The following fund types are used by the City:

1. Major Governmental Fund:

The focus of governmental fund measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Major Proprietary Fund:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Water and Sewer fund accounts for the revenues and expenses associated with providing water and sewer service to the citizens of the City.

**D. BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

Cash and Cash Equivalents include cash in bank and certificates of deposit for cash flow purposes.

Certificates of Deposit are stated at fair value (quoted market price or the best available estimate).

Certain amounts of the City's assets are restricted for the following purposes:

Restricted Assets:

Water and Sewer Fund:

Certificate of Deposit - Collateral for Note Payable	\$	69,997
Cash - Bond Escrow		<u>408,774</u>
Business-Type Restricted Cash and Equivalents	\$	<u><u>478,771</u></u>

2. Receivable Balances:

Receivables for the City's individual funds, including the applicable allowances for uncollectible accounts, are as follows for the year ended September 30, 2021:

	<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Receivables:			
Property Taxes	\$ 53,671	\$	\$ 53,671
Franchise Taxes	39,595		39,595
Ambulance	50,511		50,511
Other	27,385	215	27,600
Customer Accounts		416,274	416,274
Gross Receivables	<u>\$ 171,162</u>	<u>\$ 416,489</u>	<u>\$ 587,651</u>
Less: Allowance for Uncollectibles	<u>(69,101)</u>	<u>(207,266)</u>	<u>(276,367)</u>
Net Total Receivables	<u><u>\$ 102,061</u></u>	<u><u>\$ 209,223</u></u>	<u><u>\$ 311,284</u></u>

3. Property Taxes:

The value of all real and business property located in the City is assessed annually on January 1 in conformity with Subtitle E of the Texas Property Code. Property taxes are levied on October 1 on those assessed values, and the taxes are due on receipt of the tax bill and are delinquent if not paid by February 1. On the following January 1, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets:

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	25 - 40 years
Water and Sewer Systems	15 - 40 years
Machinery and Equipment	3 - 20 years
Automotive	7 - 20 years

5. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 33. In applying GASB No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

6. Expenditures:

Expenditures are recognized when the related fund liability is incurred.

7. Compensated Absences:

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee.

8. Deferred Outflows of Resources and Deferred Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

9. Interfund Transactions:

Interfund transactions are reflected as either loans, services provided, reimbursements, or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

Transfers and receivables to and from other funds consist of the following at September 30, 2021:

Interfund Receivables and Payables:

<u>Payable</u>	<u>Receivable</u>	Amount <u>Payable/Receivable</u>
Water and Sewer	General Fund	\$ <u>1,099,551</u>

The Interfund Balance is used to account for sanitation revenue received in the Water and Sewer Fund bank account that is due to the General Fund and other miscellaneous Interfund Balances. The entity transfers the balance between cash accounts to relieve the liability or receivable.

During the year ended September 30, 2021, the City transferred \$140,000 from the General Fund to the Water and Sewer Fund to cover debt service payments.

**2. DEPOSITS AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect the City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

1. Cash Deposits:

At September 30, 2021, the City's cash deposits were \$5,659,367 with a bank balance of \$5,682,412. The City's cash deposits at September 30, 2021 and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

2. Analysis of Specific Deposit and Investment Risks

GASB requires a determination as to whether the City was exposed to the following specific investment risks at year end and, if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year end, the City's investments were not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City had no investments representing more than five percent of total investments.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.



CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Governmental Activities:

Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 193,894	\$ 20,240	\$	\$ 214,134
City Park	694,374			694,374
Infrastructure	1,191,970	162,086		1,354,056
Machinery and Equipment	626,702	136,785	2,182	761,305
Automotive	1,004,819		8,000	996,819
CWIP	54,488	168		54,656
	<u>\$ 3,766,247</u>	<u>\$ 319,279</u>	<u>\$ 10,182</u>	<u>\$ 4,075,344</u>

Accumulated Depreciation

	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 158,177	\$ 5,725	\$	\$ 163,902
City Park	205,365	46,292		251,657
Infrastructure	215,442	64,978		280,420
Machinery and Equipment	287,792	55,408	2,182	341,018
Automotive	846,734	51,659	8,000	890,393
	<u>\$ 1,713,510</u>	<u>\$ 224,062</u>	<u>\$ 10,182</u>	<u>\$ 1,927,390</u>
Net Capital Assets	<u>\$ 2,052,737</u>	<u>\$ 95,217</u>	<u>\$ 0</u>	<u>\$ 2,147,954</u>

Business-Type Activities:

Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 249,914	\$	\$ 1,307	\$ 248,607
Buildings	103,531			103,531
Water System	1,752,197	5,807,350	15,811	7,543,736
Sewer System	2,143,577	21,541	12,550	2,152,568
Automotive	132,306	50,000		182,306
Construction WIP	5,508,461	(5,494,395)		14,066
Water Rights	818,893			818,893
	<u>\$ 10,708,879</u>	<u>\$ 384,496</u>	<u>\$ 29,668</u>	<u>\$ 11,063,707</u>

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

Accumulated Depreciation and Amortization

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Buildings	\$ 68,403	\$ 2,367	\$	\$ 70,770
Water System	1,037,419	171,372	15,811	1,192,980
Sewer System	1,081,301	58,475	12,550	1,127,226
Automotive	58,834	17,747		76,581
Water Rights	<u>52,941</u>	<u>9,774</u>		<u>62,715</u>
	<u>\$ 2,298,898</u>	<u>\$ 259,735</u>	<u>\$ 28,361</u>	<u>\$ 2,530,272</u>
Net Capital Assets	<u>\$ 8,409,981</u>	<u>\$ 124,761</u>	<u>\$ 1,307</u>	<u>\$ 8,533,435</u>

**4. WATER RIGHTS**

On January 25, 2013, the City purchased water rights at a cost of \$330,211. The depletion will begin when the City begins pumping water. The City had a study done to determine the ground water capacity. This study will be used to determine the amount to amortize once the City begins to pump water. As of September 30, 2021, the City had not pumped any water from this location.

On April 28, 2015, the City purchased water rights at a cost of \$488,682. The City is currently pumping water from the wells associated with the water rights and based on a study done, the City should be able to use these wells through the year 2065. The City is amortizing the cost of the water rights over 50 years and amortized \$9,774 during the year ended September 30, 2021.

**5. LONG-TERM OBLIGATIONS**

**Governmental Long-Term Obligations:**

Note Payable

On January 29, 2016, the City borrowed \$1,000,000 from Peoples Bank at an interest rate of 3.25% to be paid in annual installments through February 15, 2034. The proceeds of the loan were used for city streets. The unpaid balance at September 30, 2021 is \$674,991.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

Debt Service Requirements on Governmental Long-Term Obligations:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
9/30/2022	\$ 35,980	\$ 24,984	\$ 60,964
9/30/2023	39,908	21,056	60,964
9/30/2024	41,223	19,741	60,964
9/30/2025	42,531	18,433	60,964
9/30/2026	43,983	16,981	60,964
9/30/2027-9/30/2031	242,597	62,225	304,822
9/30/2032-9/30/2035	228,769	19,373	248,142
	<u>\$ 674,991</u>	<u>\$ 182,793</u>	<u>\$ 857,784</u>

**Business-Type Long-Term Obligations:**

General Obligation Bonds

In 2012, the City issued General Obligation Bonds totaling \$4,100,000. Proceeds from this issue are to be used for Water and Sewer improvements. This debt carries an interest rate of 1.70% - 4.32% and matures in 2031. The bonds constitute direct obligations of the City, payable from a combination of (1) the levy and collection of a direct and continuing ad valorem tax on all taxable property within the City and (2) a pledge of surplus net revenues of the City's Waterworks and Sewer System.

Combination Tax and Surplus Net Revenue Certificates of Obligations

In January 2019, the City issued Series 2019A and Series 2019B combination tax and surplus net revenue certificates of obligation. The total amount of certificates of obligation issued totaled \$2,000,000. The Series 2019A certificates mature in February 2049 and the debt carries an interest rate of 1.97% to 4.34%. The Series 2019B certificates mature in February 2049 and the debt carries an interest rate of 0%. The proceeds of these issues will be used to finance water system improvements.

The following is a summary of outstanding general obligation bonds and certificates of obligation activity for the year ended September 30, 2021, and the principal and interest requirements for the next 12 months.

	<u>Balance</u> 10/1/2020	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> 9/30/2021	<u>Amounts Due</u> <u>Next 12 Months</u>	
					<u>Principal</u>	<u>Interest</u>
2012 G.O. Bonds	\$ 2,770,000	\$	\$ 210,000	\$ 2,560,000	\$ 215,000	\$ 96,813
Series 2019A	900,000		20,000	880,000	20,000	33,194
Series 2019B	1,060,000		40,000	1,020,000	40,000	
	<u>\$ 4,730,000</u>	<u>\$ 0</u>	<u>\$ 270,000</u>	<u>\$ 4,460,000</u>	<u>\$ 275,000</u>	<u>\$ 130,007</u>

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

Notes Payable

On August 18, 2013, the City borrowed \$530,000 from Happy State Bank at an interest rate of 4.50% to be paid in annual installments through March 15, 2034. The proceeds of the loan are to be used for water and sewer improvements. The unpaid balance at September 30, 2021 is \$344,261.

On April 28, 2015, the City borrowed \$547,558 from Peoples Bank at an interest rate of 2.95% to be paid in annual installments through April 1, 2030. The proceeds of the loan were used to purchase water rights. The unpaid balance at September 30, 2021 is \$355,623.

On July 15, 2020, the City borrowed \$900,000 from AIM Bank at an interest rate of 3.5% to be paid in monthly installments of \$8,922 through July 15, 2030. The proceeds are to be used for water projects. On September 30, 2021, the City refinanced the AIM Bank loan with Citizens Bank. The loan has an interest rate of 3.25% and matures on November 15, 2030. The unpaid balance at September 30, 2021 is \$813,171.

Debt Service Requirements on Business-Type Long-Term Obligations:

	Principal	Interest	Total
9/30/2022	\$ 409,615	\$ 178,205	\$ 587,820
9/30/2023	424,820	167,759	592,579
9/30/2024	438,589	154,385	592,974
9/30/2025	452,525	140,179	592,704
9/30/2026	466,564	125,177	591,741
9/30/2027-9/30/2031	2,411,681	370,338	2,782,019
9/30/2032-9/30/2036	394,261	128,168	522,429
9/30/2037-9/30/2041	340,000	94,468	434,468
9/30/2042-9/30/2046	385,000	54,805	439,805
9/30/2047-9/30/2049	250,000	9,656	259,656
	<u>\$ 5,973,055</u>	<u>\$ 1,423,140</u>	<u>\$ 7,396,195</u>

**6. PENSION PLAN**

**Plan Description**

The City participates as one of 895 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.tmrs.com](http://www.tmrs.com).

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

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 75.00% of the member’s deposits and interest.

Currently, the City has adopted the following provisions related to the pension plan:

	<u>December 31, 2020</u>
Employee Deposit Rate	6.00%
Matching Ratio (City to Employee)	1.5 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20
Updated Service Credit	100%
Annuity Increase (to Retirees)	0% of CPI

**Employees Covered by Benefit Terms**

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	7
Inactive Employees Entitled to But Not Yet Receiving Benefits	14
Active Employees	<u>15</u>
Total Plan Employees	<u><u>36</u></u>

**Contributions**

The contribution rates for employees in TMRS are either 5.00%, 6.00%, or 7.00% of employee gross earnings, and the city matching percentages are either 100.00%, 150.00%, or 200.00%, 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.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

Employees for the City were required to contribute 6.00% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 4.56% and 4.57% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021, was \$33,052.

**Net Pension Asset/Liability**

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

*Actuarial Assumptions*

Inflation	2.50% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

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

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

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

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

<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%

**Discount Rate**

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

**Changes in Net Pension Asset/Liability**

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension (Asset) / Liability</u>
Balance 12/31/2019	\$ 1,549,777	\$ 1,643,412	\$ (93,635)
Service Cost	73,835		73,835
Interest (on the Total Pension Liability)	105,847		105,847
Difference Between Expected and Actual Experience	56,828		56,828
Changes of Assumptions			-
Contributions - Employee		40,755	(40,755)
Contributions - Employer		30,974	(30,974)
Net Investment Income		124,732	(124,732)
Benefit Payments	(37,181)	(37,181)	
Administrative Expense		(807)	807
Other		(32)	32
Balance 12/31/2020	\$ <u>1,749,106</u>	\$ <u>1,801,853</u>	\$ <u>(52,747)</u>

Sensitivity of the net pension asset/liability to changes in the discount rate – (See Next Page)

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ 180,960	\$ (52,747)	\$ (248,151)

**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.tmrs.com](http://www.tmrs.com).

**Pension Expense, Deferred Outflows, and Deferred Inflows related to Pensions**

For the year ended September 30, 2021, the City recognized pension income of \$8,060 and calculated as shown below:

Total Service Cost	\$ 73,835
Interest on the Total Pension Liability	105,847
Employee Contributions (Reduction of Expense)	(40,755)
Projected Earnings on Plan Investments (Reduction of Expense)	(110,930)
Administrative Expense	807
Other Changes in Fiduciary Net Position	32
Recognition of Outflow (Inflow) of Resources-Liabilities	(19,983)
Recognition of Outflow (Inflow) of Resources-Assets	<u>(16,913)</u>
Total Pension Expense (Income)	<u>\$ (8,060)</u>

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

<u>Deferred Outflows/(Inflows) of Resources - Pension Plan</u>	<u>Plan Year</u>	<u>Amount</u>	<u>Remaining Amortization Period</u>
Employer Contribution Deferrals	2020	\$ 23,308	1.000
Differences Between Projected and Actual Investment Earnings	2017	(17,705)	1.000
Differences Between Projected and Actual Investment Earnings	2018	55,865	2.000
Differences Between Projected and Actual Investment Earnings	2019	(73,124)	3.000
Differences Between Projected and Actual Investment Earnings	2020	(11,041)	4.000
Differences Between Expected and Actual Economic Experience	2017	(9,459)	0.470
Differences Between Expected and Actual Economic Experience	2018	(10,399)	2.300
Differences Between Expected and Actual Economic Experience	2019	(32,524)	2.620
Differences Between Expected and Actual Economic Experience	2020	41,990	2.830
Difference in Assumptions	2019	<u>6,065</u>	2.620
Total Deferred Outflows/(Inflows) of Resources		<u>\$ (27,024)</u>	



CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	Amortization of Deferred Outflows/Inflows
2021	\$ (2,842)
2022	1,015
2023	(22,436)
2024	(2,761)
2025	
	\$ (27,024)

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description:

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

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

Benefits Provided:

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional, and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The City's contribution rate for the retiree SDBF program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms:

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	4
Inactive Employees Entitled to but not Yet Receiving Benefits	1
Active Employees	15
Total Plan Employees	<u>20</u>

Total OPEB Liability:

The City's total OPEB liability of \$40,676 was measured as of December 31, 2020 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assuptions	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	2.00%
Retirees' Share of Benefit-Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. 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 setforward 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.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASBS No. 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 2.00% was used based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

**Annuity Purchase Rates:**

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants. The annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027, the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

**Experience Studies:**

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) until 2027 are based on a mortality study performed in 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

**Changes in the Total OPEB Liability:**

Balance as of December 31, 2019	\$	36,232
Changes for the year:		
Service Cost		2,377
Interest on Total OPEB Liability		1,026
Changes in Assumptions		5,133
Differenc between expected and actual		(3,888)
Benefit Payments		(204)
Balance as of December 31, 2020	\$	<u>40,676</u>

Changes of assumptions or other inputs reflect a change in the discount rate from year to year.

There were no changes of benefit terms that affected measurement during the measurement period.

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 2.00%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00%) or 1 percentage point higher (3.00%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in Discount Rate (1.00%)	Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
Total OPEB Liability	\$ <u>48,884</u>	\$ <u>40,676</u>	\$ <u>34,038</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:

For the year ended September 30, 2021, the City recognized OPEB expense of \$4,203. At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$	\$ 4,426
Changes in Assumptions	8,963	
Contributions Made Subsequent to Measurement Date	<u>459</u>	
	<u>\$ 9,422</u>	<u>\$ 4,426</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

	OPEB Expense Amount
2021	\$ <u>1,259</u>
2022	800
2023	800
2024	632
2025	949
Thereafter	<u>556</u>
	<u>\$ 4,996</u>

**CITY OF SHALLOWATER, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**8. CONTINGENCIES, LITIGATION, AND COMMITMENTS**

As of September 30, 2021, there were no claims or assessments nor any litigation pending against the City.

**9. OPERATING LEASES**

The City is leasing a backhoe, tractor and loader under operating leases. Total rental expense for the year ended September 30, 2021 was \$26,114.

The following schedule details future minimum lease payments as of September 30, 2021 for the above operating lease:

Year Ending September 30,	Amount
2022	\$ 23,505
2023	96,685
	<u>\$ 120,190</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

-33-  
CITY OF SHALLOWATER, TEXAS  
DEFINED BENEFIT RETIREMENT PLAN

RSI - 1

SCHEDULE OF CHANGES IN THE PLAN'S NET PENSION ASSETS/LIABILITY AND RELATED RATIOS  
SEPTEMBER 30, 2021

REQUIRED SUPPLEMENTARY INFORMATION

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability	Total Pension Liability
Service Cost	\$ 35,302	\$ 45,546	\$ 49,088	\$ 48,886	\$ 63,072	\$ 64,348	\$ 73,835
Interest	69,317	75,480	79,231	85,059	93,603	100,044	105,847
Change in Benefit Terms Including Substantively Automatic Status					112,059		
Benefit Payments/Refunds of Employee Contributions	(28,003)	(23,178)	(49,076)	(33,040)	(40,037)	(35,831)	(37,181)
Differences Between Expected and Actual Experience	3,889	(22,335)	(820)	(89,971)	(23,965)	(57,352)	56,828
Changes in Assumptions		31,175				10,695	
<b>Net Change</b>	<b>\$ 80,505</b>	<b>\$ 106,688</b>	<b>\$ 78,423</b>	<b>\$ 10,934</b>	<b>\$ 204,732</b>	<b>\$ 81,904</b>	<b>\$ 199,329</b>
Beginning Balance	986,591	1,067,096	1,173,784	1,252,207	1,263,141	1,467,873	1,549,777
<b>Ending Balance</b>	<b>\$ 1,067,096</b>	<b>\$ 1,173,784</b>	<b>\$ 1,252,207</b>	<b>\$ 1,263,141</b>	<b>\$ 1,467,873</b>	<b>\$ 1,549,777</b>	<b>\$ 1,749,106</b>
	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position	Fiduciary Net Position
Employer Contributions	\$ 15,568	\$ 16,851	\$ 16,043	\$ 19,578	\$ 20,623	\$ 27,395	\$ 30,974
Employee Contributions	25,780	27,637	28,244	28,389	30,063	36,527	40,755
Net Investment Income	61,607	1,698	79,221	172,668	(42,911)	216,387	124,732
Benefit Payments/Refunds of Employee Contributions	(28,003)	(23,178)	(49,076)	(33,040)	(40,037)	(35,831)	(37,181)
Administration Expenses	(643)	(1,035)	(895)	(895)	(830)	(1,223)	(807)
Other	(53)	(50)	(49)	(45)	(44)	(36)	(32)
<b>Net Change</b>	<b>\$ 74,256</b>	<b>\$ 21,923</b>	<b>\$ 73,488</b>	<b>\$ 186,655</b>	<b>\$ (33,136)</b>	<b>\$ 243,219</b>	<b>\$ 158,441</b>
Beginning Balance	1,077,007	1,151,263	1,173,186	1,246,674	1,433,329	1,400,193	1,643,412
<b>Ending Balance</b>	<b>\$ 1,151,263</b>	<b>\$ 1,173,186</b>	<b>\$ 1,246,674</b>	<b>\$ 1,433,329</b>	<b>\$ 1,400,193</b>	<b>\$ 1,643,412</b>	<b>\$ 1,801,853</b>
<b>Net Pension Asset (Liability)</b>	<b>\$ 84,167</b>	<b>\$ (598)</b>	<b>\$ (5,533)</b>	<b>\$ 170,188</b>	<b>\$ (67,680)</b>	<b>\$ 93,635</b>	<b>\$ 52,747</b>
Fiduciary Net Position as a Percentage of Total Pension Liability	107.89%	99.95%	99.56%	113.47%	95.39%	106.04%	103.02%
Covered Employee Payroll	\$ 505,986	\$ 552,740	\$ 564,882	\$ 567,784	\$ 601,257	\$ 608,781	\$ 679,253
Net Pension Asset as a Percentage of Covered Employee Payroll	16.63%	-0.11%	-0.98%	29.97%	-11.26%	15.38%	7.77%

Note: Only seven years of GASB 68 Data Available as of 12/31/2020. The remaining three years of data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.

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**CITY OF SHALLOWATER, TEXAS**  
**DEFINED BENEFIT RETIREMENT PLAN**

RSI - 2

**SCHEDULE OF CONTRIBUTIONS**  
**SEPTEMBER 30, 2021**

**REQUIRED SUPPLEMENTARY INFORMATION**

	<u>9/30/2015</u>	<u>9/30/2016</u>	<u>9/30/2017</u>	<u>9/30/2018</u>	<u>9/30/2019</u>	<u>9/30/2020</u>	<u>9/30/2021</u>
Actuarially Determined Contribution	\$ 18,130	\$ 16,562	\$ 18,903	\$ 20,343	\$ 15,914	\$ 29,161	\$ 33,052
Actual Contributions	<u>18,130</u>	<u>16,562</u>	<u>18,903</u>	<u>20,343</u>	<u>24,844</u>	<u>29,060</u>	<u>33,052</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (8,930)</u>	<u>\$ 101</u>	<u>\$ 0</u>
Covered Employee Payroll	\$ 559,573	\$ 531,275	\$ 576,272	\$ 592,862	\$ 590,380	\$ 641,815	\$ 723,714
Contributions as a Percentage of Covered Employee Payroll	3.24%	3.12%	3.28%	3.43%	4.21%	4.53%	4.57%

Note: Only seven years of GASB 68 Data Available as of 09/30/2021. The remaining three years of data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.



CITY OF SHALLOWATER, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
PENSION PLAN  
SEPTEMBER 30, 2021

**Valuation Date:**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal.
Amortization Method	Level Percentage of Payroll, Closed.
Remaining Amortization Period	20 Years
Asset Valuation Method	Ten Year smoothed market; 15% 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. The rates are 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.

**Other Information:**

Notes: There were no benefit changes during the year.

CITY OF SHALLOWATER, TEXAS  
SUPPLEMENTAL DEATH BENEFIT FUND

RSI-4

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS  
SEPTEMBER 30, 2021

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2017</u> Total OPEB Liability	<u>12/31/2018</u> Total OPEB Liability	<u>12/31/2019</u> Total OPEB Liability	<u>12/31/2020</u> Total OPEB Liability
Service Cost	\$ 1,703	\$ 2,044	\$ 1,461	\$ 2,377
Interest	936	982	986	1,026
Benefit Payments	(114)	(60)	(183)	(204)
Differences between Expected and Actual Experience	0	(3,888)	1,600	(3,888)
Changes in Assumptions	<u>2,184</u>	<u>(1,797)</u>	<u>6,420</u>	<u>5,133</u>
Net Change	\$ 4,709	\$ (2,719)	\$ 10,284	\$ 4,444
Beginning Balance	<u>23,958</u>	<u>28,667</u>	<u>25,948</u>	<u>36,232</u>
Ending Balance	\$ <u>28,667</u>	\$ <u>25,948</u>	\$ <u>36,232</u>	\$ <u>40,676</u>
Total OPEB Liability	<u>\$ 28,667</u>	<u>\$ 25,948</u>	<u>\$ 36,232</u>	<u>\$ 40,676</u>
Covered Employee Payroll	\$ 567,784	\$ 601,257	\$ 608,781	\$ 679,253
Total OPEB Liability as a Percentage of Covered Employee Payroll	5.05%	4.32%	5.95%	5.99%

Note: Only four years of GASB 75 Data Available as of 12/31/2020. The remaining six years of data will be built on a go forward basis.

The accompanying notes are an integral part of this statement.

CITY OF SHALLOWATER, TEXAS

RSI - 5

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

REQUIRED SUPPLEMENTARY INFORMATION

	(Unaudited) Original Budget	Actual	Variance Positive (Negative)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>REVENUES</b>			
Property Taxes	\$ 1,220,425	\$ 1,194,269	\$ (26,156)
City Sales Taxes	160,500	232,011	71,511
Franchise Taxes	147,000	170,141	23,141
Intergovernmental Revenue	95,376	192,997	97,621
Fines	15,000	20,867	5,867
Interest Income	13,000	8,677	(4,323)
Permits	56,700	88,810	32,110
Ambulance Calls	220,000	250,465	30,465
Sanitation Revenue	301,000	312,974	11,974
Miscellaneous Revenues	23,955	70,628	46,673
Contributions	5,000	8,685	3,685
Total Revenues	<u>\$ 2,257,956</u>	<u>\$ 2,550,524</u>	<u>\$ 292,568</u>
<b>EXPENDITURES</b>			
Judicial	\$ 24,683	\$ 20,744	\$ 3,939
Legislative	13,500	4,470	9,030
Administrative	473,691	550,158	(76,467)
Sanitation Department	215,400	215,882	(482)
Streets	412,684	283,609	129,075
Fire Department	177,354	254,388	(77,034)
Police Department	354,691	371,450	(16,759)
Health Department	3,070	2,936	134
Ambulance	319,678	287,112	32,566
Civil Defense	32,059	30,014	2,045
Parks	23,010	35,347	(12,337)
Debt Service:			
Principal	44,722	37,550	7,172
Interest	23,414	23,414	
Total Expenditures	<u>\$ 2,117,956</u>	<u>\$ 2,117,074</u>	<u>\$ 882</u>
EXCESS OF REVENUES OVER EXPENDITURES - BUDGETED	<u>\$ 140,000</u>	<u>\$ 433,450</u>	<u>\$ 293,450</u>
OTHER FINANCING SOURCES (USES):			
Transfers Out	<u>\$ (140,000)</u>	<u>\$ (140,000)</u>	<u>\$ 0</u>
Total Other Financing Sources (Uses):	<u>\$ (140,000)</u>	<u>\$ (140,000)</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCE	<u>\$ 0</u>	\$ 293,450	<u>\$ 293,450</u>
FUND BALANCE - BEGINNING OF YEAR		<u>2,889,724</u>	
FUND BALANCE - END OF YEAR		<u>\$ 3,183,174</u>	

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
SEPTEMBER 30, 2021**

**BUDGETARY DATA**

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments that are made before the fact are reflected in the official minutes of the City Council and are not made after fiscal year end. The legal level of control is at the function level. All budget appropriations lapse at year end.

The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Annual budgets were adopted for the general fund.

**EXCESS EXPENDITURES OVER APPROPRIATIONS**

The excess expenditures over appropriations are covered by available unassigned fund balance.

**INTERNAL CONTROL AND COMPLIANCE SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**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**

**Independent Auditor's Report**

Honorable Royking Potter, Mayor  
and Members of the City Council  
City of Shallowater, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Shallowater, Texas (the City), 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 and have issued our report thereon dated February 7, 2022.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, 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*.

### **Purpose of this Report**

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

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

February 7, 2022