

CITY OF SHALLOWATER, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2023

AND

INDEPENDENT AUDITOR'S REPORT

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, 2023

AND

INDEPENDENT AUDITOR'S REPORT

MAYOR AND CITY COUNCIL

SEPTEMBER 30, 2023

Royking Potter	Mayor
Kyle Yeager	Alderman Place 1
Jason White	Alderman Place 2
Logan Scarlett	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, 2023

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CITY OF SHALLOWATER, TEXAS
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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INTERNAL CONTROL AND COMPLIANCE SECTION

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*

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

CERTIFIED PUBLIC ACCOUNTANTS

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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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the City of Shallowater, Texas, as of and for the fiscal year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Shallowater, Texas, as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Shallowater, Texas (the City) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in the plan's net pension asset/liability and related ratios, schedule of contributions, schedule of changes in the total OPEB liability and related ratios, and budgetary comparison information on pages 34 through 39 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 January 9, 2024, 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

January 9, 2024

CITY OF SHALLOWATER, TEXAS

Exhibit 1

STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 4,712,340	\$ 1,712,108	\$ 6,424,448
Restricted Cash and Cash Equivalents		71,096	71,096
Receivables (Net)	96,428	241,046	337,474
Prepaid Items	8,079		8,079
Internal Balances	(127,351)	127,351	
Total Current Assets	<u>\$ 4,689,496</u>	<u>\$ 2,151,601</u>	<u>\$ 6,841,097</u>
Noncurrent Assets:			
Capital Assets:			
Land	\$	\$ 280,608	\$ 280,608
Depreciable Assets	1,823,952	7,123,757	8,947,709
Construction Work In Progress	35,573	303,167	338,740
Water Rights, Net of Amortization		736,631	736,631
Total Noncurrent Assets	<u>\$ 1,859,525</u>	<u>\$ 8,444,163</u>	<u>\$ 10,303,688</u>
Total Assets	<u>\$ 6,549,021</u>	<u>\$ 10,595,764</u>	<u>\$ 17,144,785</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Plan - Related Items	\$ 116,968	\$ 42,411	\$ 159,379
OPEB Plan - Related Items	368	134	502
Total Deferred Outflows of Resources	<u>\$ 117,336</u>	<u>\$ 42,545</u>	<u>\$ 159,881</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 95,133	\$ 208,283	\$ 303,416
Accrued Payroll	37,559	6,402	43,961
Meter Deposits		85,110	85,110
Current Portion of Long-Term Obligations	95,976	325,097	421,073
Total Current Liabilities	<u>\$ 228,668</u>	<u>\$ 624,892</u>	<u>\$ 853,560</u>
Noncurrent Liabilities:			
Noncurrent Portion of Long-Term Obligations	\$ 684,170	\$ 3,864,921	\$ 4,549,091
Net Pension Liability	43,687	15,841	59,528
Total OPEB Liability	19,616	7,112	26,728
Accrued Compensated Absences	80,690	3,225	83,915
Total Noncurrent Liabilities	<u>\$ 828,163</u>	<u>\$ 3,891,099</u>	<u>\$ 4,719,262</u>
Total Liabilities	<u>\$ 1,056,831</u>	<u>\$ 4,515,991</u>	<u>\$ 5,572,822</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension Plan - Related Items	\$ 4,508	\$ 1,635	\$ 6,143
OPEB Plan - Related Items	9,293	3,369	12,662
Unearned Revenue - Unspent Grant Funds		639,062	639,062
Total Deferred Inflows of Resources	<u>\$ 13,801</u>	<u>\$ 644,066</u>	<u>\$ 657,867</u>
NET POSITION			
Net Investment in Capital Assets	\$ 1,079,379	\$ 4,254,145	\$ 5,333,524
Restricted For:			
Enabling Legislation	13,844		13,844
Unrestricted	<u>4,502,502</u>	<u>1,224,107</u>	<u>5,726,609</u>
Total Net Position	<u>\$ 5,595,725</u>	<u>\$ 5,478,252</u>	<u>\$ 11,073,977</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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	
Primary Government:						
Judicial	\$ 25,459	\$ 20,686	\$	\$ (4,773)	\$	\$ (4,773)
Legislative	19,497			(19,497)		(19,497)
Administrative	485,436	69,038		(416,398)		(416,398)
Sanitation	248,700	387,542		138,842		138,842
Streets	233,713			(233,713)		(233,713)
Fire	174,688		190,567	15,879		15,879
Police	555,731			(555,731)		(555,731)
Health	2,174			(2,174)		(2,174)
Ambulance	386,414	226,287		(160,127)		(160,127)
Civil Defense	21,466			(21,466)		(21,466)
Parks	30,200		5,133	(25,067)		(25,067)
Depreciation	264,189			(264,189)		(264,189)
Total Governmental Activities	\$ 2,447,667	\$ 703,553	\$ 195,700	\$ (1,548,414)	\$ 0	\$ (1,548,414)
Business-Type Activities:						
Water	\$ 1,447,428	\$ 1,639,346	\$	\$	\$ 191,918	\$ 191,918
Sewer	283,878	303,485			19,607	19,607
Interest on Debt	172,495				(172,495)	(172,495)
Total Business-Type Activities	\$ 1,903,801	\$ 1,942,831	\$ 0	\$ 0	\$ 39,030	\$ 39,030
Total Primary Government	\$ 4,351,468	\$ 2,646,384	\$ 195,700	\$ (1,548,414)	\$ 39,030	\$ (1,509,384)
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes				\$ 1,540,016	\$	\$ 1,540,016
Franchise Taxes				198,367		198,367
Sales Taxes				360,132		360,132
Unrestricted Investment Earnings				80,382	10,155	90,537
Miscellaneous				20,299	73,395	93,694
Gain on Disposition of Capital Assets				67,438	0	67,438
Transfers				(140,000)	140,000	
Total General Revenues and Special Items				\$ 2,126,634	\$ 223,550	\$ 2,350,184
Change in Net Position				\$ 578,220	\$ 262,580	\$ 840,800
Net Position—Beginning				5,017,505	5,215,672	10,233,177
Net Position—Ending				\$ 5,595,725	\$ 5,478,252	\$ 11,073,977

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 3

BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2023

	<u>Major</u> <u>General</u> <u>Fund</u>
ASSETS:	
Cash and Cash Equivalents	\$ 4,712,340
Accounts Receivable, net	79,240
Delinquent Taxes Receivable, net	17,188
Prepaid Items	8,079
Total Assets	<u>\$ 4,816,847</u>
LIABILITIES:	
Accounts Payable	\$ 95,133
Due to Other Funds	127,351
Accrued Payroll	37,559
Total Liabilities	<u>\$ 260,043</u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable Revenue - Property Taxes	<u>\$ 17,188</u>
FUND BALANCES:	
Restricted For:	
Enabling Legislation	\$ 13,844
Unassigned	4,525,772
Total Fund Balances	<u>\$ 4,539,616</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 4,816,847</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, 2023

Total Fund Balances - Governmental Fund Balance Sheet	\$	4,539,616
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.		1,859,525
Payables for debt principal which are not due in the current period are not reported in the funds.		(780,146)
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		17,188
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(80,690)
Total OPEB Liability and Related Deferred Inflows and Outflows are not reported in the funds.		(28,541)
Net Pension Liability and Related Deferred Inflows and Outflows are not reported in the funds.		<u>68,773</u>
Net Position of Governmental Activities - Statement of Net Position	\$	<u><u>5,595,725</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, 2023

	<u>Major</u> <u>General</u> <u>Fund</u>
Revenues:	
Taxes:	
Property Taxes	\$ 1,536,400
City Sales Taxes	360,132
Franchise Taxes	198,367
Intergovernmental Revenue	190,567
Fines, Fees, and Charges for Services	20,686
Interest Income	80,382
Permits	69,038
Ambulance Calls	226,287
Sanitation Revenue	387,542
Miscellaneous Revenue	265,516
Contributions	5,133
Total Revenues	<u>\$ 3,340,050</u>
Expenditures:	
Judicial	\$ 25,582
Legislative	19,497
Administrative	484,736
Sanitation Department	248,700
Streets	240,453
Fire Department	236,687
Police Department	584,798
Health Department	2,174
Ambulance	386,406
Civil Defense	21,466
Parks	30,200
Debt Service:	
Principal	103,657
Interest	23,284
Total Expenditures	<u>\$ 2,407,640</u>
Excess of Revenues Over Expenditures	<u>\$ 932,410</u>
Other Financing Sources (Uses):	
Loan Proceeds	\$ 215,767
Transfers Out	(140,000)
Total Other Financing Sources (Uses):	<u>\$ 75,767</u>
Net Change in Fund Balance	\$ 1,008,177
Fund Balances - Beginning	<u>3,531,439</u>
Fund Balances - Ending	<u>\$ 4,539,616</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, 2023

Net Change in Fund Balances - Total Governmental Fund	\$ 1,008,177
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.	135,959
Depreciation is recorded in the Statement of Activities as an expense but not in governmental funds.	(264,189)
Loss on disposition of capital assets is not reported in the funds.	(177,779)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	3,616
Loan proceeds do not provide revenue in the SOA, but are reported as current resources in the funds.	(215,767)
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	103,657
Accrued compensated absences are recorded in the statement of activities as an expense but not in governmental funds.	(8,772)
OPEB Expense is not accrued in the funds related to the Total OPEB Liability and Deferred Outflows.	(1,236)
Pension Expense is not accrued in the funds related to the Net Pension Liability and Deferred Outflows.	<u>(5,446)</u>
Change in Net Position of Governmental Activities - Statement of Activities	<u>\$ 578,220</u>

See accompanying notes to the financial statements.

CITY OF SHALLOWATER, TEXAS

Exhibit 7

STATEMENT OF NET POSITION
PROPRIETARY FUND
SEPTEMBER 30, 2023

	<u>Major Water and Sewer</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,712,108
Restricted Cash and Cash Equivalents	71,096
Accounts Receivable, net	241,046
Due from Other Funds	127,351
Total Current Assets	<u>\$ 2,151,601</u>
Noncurrent Assets:	
Capital Assets:	
Land	\$ 280,608
Depreciable Assets	7,123,757
Construction Work In Progress	303,167
Water Rights, Net of Amortization	736,631
Total Noncurrent Assets	<u>\$ 8,444,163</u>
Total Assets	<u>\$ 10,595,764</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Pension Plan - Related Items	\$ 42,411
OPEB Plan - Related Items	134
Total Deferred Outflows of Resources	<u>\$ 42,545</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 208,283
Meter Deposits	85,110
Accrued Payroll	6,402
Current Portion of Long-Term Debt	325,097
Total Current Liabilities	<u>\$ 624,892</u>
Noncurrent Liabilities:	
Long-Term Debt Due After One Year	\$ 3,864,921
Net Pension Liability	15,841
Total OPEB Liability	7,112
Accrued Compensated Absences	3,225
Total Noncurrent Liabilities	<u>\$ 3,891,099</u>
Total Liabilities	<u>\$ 4,515,991</u>
DEFERRED INFLOWS OF RESOURCES:	
Pension Plan - Related Items	\$ 1,635
OPEB Plan - Related Items	3,369
Unearned Revenue - Unspent Grant Funds	639,062
Total Deferred Inflows of Resources	<u>\$ 644,066</u>
NET POSITION:	
Net Investment in Capital Assets	\$ 4,254,145
Unrestricted	<u>1,224,107</u>
Total Net Position	<u>\$ 5,478,252</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, 2023

	<u>Major Water and Sewer</u>
OPERATING REVENUES:	
Water Revenue	\$ 1,576,174
Sewer Revenue	303,485
Tapping and Connection Fees	20,800
Penalties	42,372
Total Operating Revenue	<u>\$ 1,942,831</u>
OPERATING EXPENSES:	
Water Department	\$ 1,447,428
Sewer Department	283,878
Total Operating Expenses	<u>\$ 1,731,306</u>
Operating Income	<u>\$ 211,525</u>
NONOPERATING REVENUES (EXPENSES):	
Interest Income	\$ 10,155
Miscellaneous Revenue	73,395
Interest Expense	(172,495)
Total Nonoperating Expense	<u>\$ (88,945)</u>
Income Before Transfers	\$ 122,580
Transfers In	<u>140,000</u>
Change in Net Position	\$ 262,580
TOTAL NET POSITION - BEGINNING	<u>5,215,672</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 5,478,252</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, 2023

	<u>Major Water and Sewer</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Customers	\$ 1,927,064
Cash Payments to Employees for Services	(285,925)
Cash Payments to Other Suppliers for Goods and Services	(1,021,450)
Net Change in Cash From Operating Activities	<u>\$ 619,689</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers From Other Funds	\$ 140,000
Escrow Funds Released	407,991
Due to/from Other Funds	(87,322)
Receipts From Other Nonoperating Activities	73,395
Net Change in Cash From Non-Capital Financing Activities	<u>\$ 534,064</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal and Interest Paid on Long-Term Debt	\$ (1,550,329)
Acquisition or Construction of Capital Assets	(332,085)
Net Change in Cash From Capital and Related Financing Activities	<u>\$ (1,882,414)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned on Investments	\$ 9,838
Net Change in Cash From Investing Activities	<u>\$ 9,838</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (718,823)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>2,430,931</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,712,108</u></u>
Reconciliation of Operating Income to Net Cash From Operating Activities:	
Operating Income	<u>\$ 211,525</u>
Adjustments to Reconcile Income From Operations to Net Cash From Operating Activities:	
Depreciation and Amortization	\$ 284,858
Change in Assets and Liabilities:	
Receivables	(20,562)
Accounts Payable	139,365
Meter Deposits	4,795
Accrued Compensated Absences	(2,005)
Accrued Payroll	(2,350)
Net Pension Asset/Liability	89,974
Total OPEB Liability	(3,455)
Deferred Inflows of Resources	(51,348)
Deferred Outflows of Resources	(31,108)
Total Adjustments	<u>\$ 408,164</u>
Net Cash From Operating Activities	<u><u>\$ 619,689</u></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, 2023, \$4,525,772 of the City's fund balance was unassigned and \$13,844 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.

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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	\$	71,096
Business-Type Restricted Cash and Equivalents	\$	71,096

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, 2023:

	General Fund	Water and Sewer Fund	Total
Receivables:			
Property Taxes	\$ 62,962	\$	\$ 62,962
Franchise Taxes	45,985		45,985
Ambulance	60,299		60,299
Other	11,979	4,290	16,269
Customer Accounts		484,590	484,590
Gross Receivables	\$ 181,225	\$ 488,880	\$ 670,105
Less: Allowance for Uncollectibles	(84,797)	(247,834)	(332,631)
Net Total Receivables	\$ 96,428	\$ 241,046	\$ 337,474

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, 2023:

Interfund Receivables and Payables:

<u>Payable</u>	<u>Receivable</u>	<u>Amount</u> <u>Payable/Receivable</u>
General Fund	Water and Sewer	\$ <u><u>127,351</u></u>

The City transfers the balance between cash accounts to relieve the liability or receivable.

During the year ended September 30, 2023, the City transferred \$140,000 from the General Fund to the Water and Sewer Fund to cover debt service payments.

2. CASH DEPOSITS

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.

At September 30, 2023, the City's cash deposits were \$6,495,544 with a bank balance of \$6,501,169. The City's cash deposits at September 30, 2023 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.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS POLICIES AND RISKS

Legal and Contractual Provisions Governing Deposits and Investments:

The **Public Funds Investment Act** (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy.

That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The City's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The City is not exposed to custodial credit risk, for its deposits are all covered by depository insurance and pledged securities held by a third-party in the City's name.
- b. Concentration of Credit Risk – The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At September 30, 2023, all of the City's investments are with various financial institutions which are covered by FDIC insurance and pledged securities, and as such the City has no risk.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

- c. Credit Risk – The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At September 30, 2023, the City was not significantly exposed to credit risk.
- d. Interest Rate Risk – Not applicable.
- e. Foreign Currency Risk – Not applicable.

4. CAPITAL ASSETS

	<u>Beginning Balances</u>	<u>Increases/ Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated				
Construction Work in Progress	\$ 45,893	\$ (10,320)	\$	\$ 35,573
Total Capital Assets Not Being Depreciated	<u>\$ 45,893</u>	<u>\$ (10,320)</u>	<u>\$ 0</u>	<u>\$ 35,573</u>
Depreciable Assets				
Buildings	\$ 214,134	\$	\$	\$ 214,134
City Park	702,214			702,214
Infrastructure	1,451,449	6,472		1,457,921
Machinery and Equipment	947,895	96,486	255,227	789,154
Automotive	971,172	43,321	1,384	1,013,109
Total Capital Assets Being Depreciated	<u>\$ 4,286,864</u>	<u>\$ 146,279</u>	<u>\$ 256,611</u>	<u>\$ 4,176,532</u>
Less Accumulated Depreciation for:				
Buildings	\$ 169,450	\$ 5,548	\$	\$ 174,998
City Park	298,733	47,076		345,809
Infrastructure	364,877	85,104		449,981
Machinery and Equipment	417,682	85,952	77,448	426,186
Automotive	916,481	40,509	1,384	955,606
Total Accumulated Depreciation	<u>\$ 2,167,223</u>	<u>\$ 264,189</u>	<u>\$ 78,832</u>	<u>\$ 2,352,580</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 2,119,641</u>	<u>\$ (117,910)</u>	<u>\$ 177,779</u>	<u>\$ 1,823,952</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,165,534</u>	<u>\$ (128,230)</u>	<u>\$ 177,779</u>	<u>\$ 1,859,525</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activities:				
Capital Assets Not Being Depreciated				
Land	\$ 248,607	\$ 32,000	\$	\$ 280,607
Construction Work in Progress	116,003	187,163		303,166
Total Capital Assets Not Being Depreciated	<u>\$ 364,610</u>	<u>\$ 219,163</u>	<u>\$ 0</u>	<u>\$ 583,773</u>
Depreciable Assets				
Buildings	\$ 103,531	\$	\$	\$ 103,531
Water System	7,609,858	42,967		7,652,825
Sewer System	2,152,568	11,313		2,163,881
Automotive	182,306	58,642		240,948
Total Capital Assets Being Depreciated	<u>\$ 10,048,263</u>	<u>\$ 112,922</u>	<u>\$ 0</u>	<u>\$ 10,161,185</u>
Less Accumulated Depreciation for:				
Buildings	\$ 73,136	\$ 2,367	\$	\$ 75,503
Water System	1,404,217	209,119		1,613,336
Sewer System	1,190,661	57,497		1,248,158
Automotive	94,328	6,101		100,429
Total Accumulated Depreciation	<u>\$ 2,762,342</u>	<u>\$ 275,084</u>	<u>\$ 0</u>	<u>\$ 3,037,426</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 7,285,921</u>	<u>\$ (162,162)</u>	<u>\$ 0</u>	<u>\$ 7,123,759</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,650,531</u>	<u>\$ 57,001</u>	<u>\$ 0</u>	<u>\$ 7,707,532</u>

5. 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, 2023, 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, 2023.

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Water Rights				
Purchased Water Rights	\$ 818,893	\$	\$	\$ 818,893
Total Water Rights	<u>\$ 818,893</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 818,893</u>
Less Accumulated Amortization for:				
Water Rights	\$ 72,488	\$ 9,774	\$	\$ 82,262
Total Amortization	<u>\$ 72,488</u>	<u>\$ 9,774</u>	<u>\$ 0</u>	<u>\$ 82,262</u>
Water Rights, Net of Amortization	<u>\$ 746,405</u>	<u>\$ (9,774)</u>	<u>\$ 0</u>	<u>\$ 736,631</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended September 30, 2023, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year	Interest Expense
Governmental Activities:						
Notes Payable	\$ 636,208	\$ 215,767	\$ 90,000	\$ 761,975	\$ 91,319	\$ 20,964
Financing Leases	31,828		13,657	18,171	4,657	2,319
Total Governmental Activities	\$ 668,036	\$ 215,767	\$ 103,657	\$ 780,146	\$ 95,976	\$ 23,283
Business-Type Activities:						
2012 G.O. Bonds	\$ 2,345,000		\$ 220,000	\$ 2,125,000	\$ 230,000	\$ 88,452
Series 219A	860,000		20,000	840,000	20,000	32,726
Series 2019B	980,000		40,000	940,000	40,000	
Notes Payable	1,374,934		1,089,916	285,018	35,097	49,336
Financing Lease	8,235		8,235	0		2,903
Total Business-Type Activities	\$ 5,568,169	\$ 0	\$ 1,378,151	\$ 4,190,018	\$ 325,097	\$ 173,417

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, 2023 is \$596,208.

On November 17, 2022, the City received a loan advance from Lubbock County, Texas to purchase a brush truck for county fire calls. The total loan was \$215,767 with a zero percent interest rate to be paid back in annual installments of \$50,000 with the last payment of \$15,767. The unpaid balance at September 30, 2023 is \$165,767.

Financing Leases

On October 1, 2021, the City adopted GASB 87 - Leases. The City is leasing police equipment and a tractor and loader and bale spear under operating leases. Total lease obligations of \$43,446 were added during the year ended September 30, 2023. The leases carry interest rates ranging from 4.50% to 6.77%. At September 30, 2023, the total outstanding lease obligations were \$18,171. The associated capital asset balances will be amortized over the lease obligations and will be fully amortized in 2027.

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>
9/30/2024	\$ 95,976	\$ 20,658	\$ 116,634
9/30/2025	97,547	19,087	116,634
9/30/2026	99,276	17,359	116,635
9/30/2027	64,710	15,617	80,327
9/30/2028	47,038	13,926	60,964
9/30/2029-9/30/2033	259,432	45,390	304,822
9/30/2034-9/30/2035	116,167	5,909	122,076
	<u>\$ 780,146</u>	<u>\$ 137,946</u>	<u>\$ 918,092</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.

Notes Payable

On August 18, 2013, the City borrowed \$530,000 from Centennial 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 loan was paid in full during the year ended September 30, 2023.

On April 28, 2015, the City borrowed \$547,558 from Peoples Bank at an interest rate of 5.95% 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, 2023 is \$285,018.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

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, 2023, the City refinanced the AIM Bank loan with Citizens Bank. The loan was paid in full during the year ended September 30, 2023.

Financing Lease

On October 1, 2021, the City adopted GASB 87 - Leases. The City is leasing a backhoe loader under an operating lease. Total lease obligation of \$16,045 was added during the year ended September 30, 2023. The lease carries an interest rate of 5.45%. At September 30, 2023, the total outstanding lease obligations was \$8,235. The associated capital asset balance will be amortized over the lease obligation and will be fully amortized in 2023. This lease was paid off during the year ended September 30, 2023.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
9/30/2024	\$ 325,097	\$ 128,282	\$ 453,379
9/30/2025	336,916	117,387	454,303
9/30/2026	348,787	105,745	454,532
9/30/2027	360,753	93,267	454,020
9/30/2028	377,801	79,847	457,648
9/30/2029-9/30/2033	1,224,989	200,896	1,425,885
9/30/2034-9/30/2038	370,675	115,839	486,514
9/30/2039-9/30/2043	360,000	79,826	439,826
9/30/2044-9/30/2048	400,000	36,131	436,131
9/30/2049	85,000	1,085	86,085
	<u>\$ 4,190,018</u>	<u>\$ 958,304</u>	<u>\$ 5,148,322</u>

7. PENSION PLAN

Plan Description

The City participates as one of 919 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.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, 2022</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% Repeating Transfers
Annuity Increase (to Retirees)	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	9
Inactive Employees Entitled to But Not Yet Receiving Benefits	18
Active Employees	<u>17</u>
Total Plan Employees	<u><u>44</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 4.94% and 4.52% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS for the year ended September 30, 2023, was \$38,559.

Net Pension Asset/Liability

The City's Net Pension Asset/Liability (NPAL) was measured as of December 31, 2022, 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%

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	7.70%
Core Fixed Income	6.00%	4.90%
Non-Core Fixed Income	20.00%	8.70%
Other Public and Private Markets	12.00%	8.10%
Real Estate	12.00%	5.80%
Hedge Funds	5.00%	6.90%
Private Equity	10.00%	11.80%

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

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension (Asset) / Liability
Balance 12/31/2021	\$ 1,775,751	\$ 2,036,359	\$ (260,608)
Service Cost	89,519		89,519
Interest (on the Total Pension Liability)	118,827		118,827
Difference Between Expected and Actual Experience	52,048		52,048
Changes of Assumptions			0
Contributions - Employee		49,458	(49,458)
Contributions - Employer		39,237	(39,237)
Net Investment Income		(148,686)	148,686
Benefit Payments	(120,220)	(120,220)	
Administrative Expense		(1,286)	1,286
Other		1,535	(1,535)
Balance 12/31/2022	\$ 1,915,925	\$ 1,856,397	\$ 59,528

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Sensitivity of the net pension asset/liability to changes in the discount rate –

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>
\$ <u>323,398</u>	\$ <u>59,528</u>	\$ <u>(159,184)</u>

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2023, the City recognized pension income of \$48,577 and calculated as shown below:

Total Service Cost	\$ 89,519
Interest on the Total Pension Liability	118,827
Employee Contributions (Reduction of Expense)	(49,458)
Projected Earnings on Plan Investments (Reduction of Expense)	(137,454)
Administrative Expense	1,286
Other Changes in Fiduciary Net Position	(1,535)
Recognition of Outflow (Inflow) of Resources-Liabilities	(7,967)
Recognition of Outflow (Inflow) of Resources-Assets	<u>35,359</u>
Total Pension Expense (Income)	<u>\$ 48,577</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

At September 30, 2023, 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	2022	\$ 26,928	1.000
Differences Between Projected and Actual Investment Earnings	2019	(24,374)	1.000
Differences Between Projected and Actual Investment Earnings	2020	(5,521)	2.000
Differences Between Projected and Actual Investment Earnings	2021	(68,001)	3.000
Differences Between Projected and Actual Investment Earnings	2022	228,912	4.000
Differences Between Expected and Actual Economic Experience	2018	(1,355)	0.300
Differences Between Expected and Actual Economic Experience	2019	(7,696)	0.620
Differences Between Expected and Actual Economic Experience	2020	12,314	0.830
Differences Between Expected and Actual Economic Experience	2021	(46,190)	1.970
Differences Between Expected and Actual Economic Experience	2022	36,784	2.410
Difference in Assumptions	2019	1,435	0.620
Total Deferred Outflows/(Inflows) of Resources		<u>\$ 153,236</u>	

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

<u>Plan Year</u>	<u>Amortization of Deferred Outflows/Inflows</u>
2023	\$ 30,869
2024	24,322
2025	40,820
2026	57,225
2027	
	<u>\$ 153,236</u>

8. 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.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

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.

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, 2022 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	2
Active Employees	17
Total Plan Employees	<u>23</u>

Total OPEB Liability:

The City's total OPEB liability of \$26,728 was measured as of December 31, 2022 and was determined by an actuarial valuation as of that date.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial Assumptions:

The total OPEB liability in the December 31, 2022 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	4.05%
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.

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 4.05% was used based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

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.

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

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, 2021	\$ 37,147
Changes for the year:	
Service Cost	2,803
Interest on Total OPEB Liability	702
Changes in Assumptions	(14,650)
Differenc between expected and actual	1,550
Benefit Payments	<u>(824)</u>
Balance as of December 31, 2022	<u>\$ 26,728</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.

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 4.05%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.05%) or 1 percentage point higher (5.05%) 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 (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	\$ <u>32,327</u>	\$ <u>26,728</u>	\$ <u>22,385</u>

CITY OF SHALLOWATER, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

For the year ended September 30, 2023, the City recognized OPEB expense of \$1,474. At September 30, 2023, 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	\$	\$ 6,593
Changes in Assumptions		6,069
Contributions Made Subsequent to Measurement Date	<u>502</u>	
	<u>\$ 502</u>	<u>\$ 12,662</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:

	<u>OPEB Expense Amount</u>
2023	\$ (1,529)
2024	(2,199)
2025	(1,882)
2026	(2,275)
2027	(2,831)
Thereafter	<u>(1,444)</u>
	<u>\$ (12,160)</u>

9. CONTINGENCIES, LITIGATION, AND COMMITMENTS

As of September 30, 2023, there were no claims or assessments nor any litigation pending against the City.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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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, 2023

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2014</u>	<u>12/31/2015</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>
	Total Pension Liability	Total Pension Liability	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	\$ 75,620	\$ 89,519
Interest	69,317	75,480	79,231	85,059	93,603	100,044	105,847	118,119	118,827
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)	(74,008)	(120,220)
Differences Between Expected and Actual Experience	3,889	(22,335)	(820)	(89,971)	(23,965)	(57,352)	56,828	(93,086)	52,048
Changes in Assumptions		31,175				10,695			
Net Change	\$ 80,505	\$ 106,688	\$ 78,423	\$ 10,934	\$ 204,732	\$ 81,904	\$ 199,329	\$ 26,645	\$ 140,174
Beginning Balance	986,591	1,067,096	1,173,784	1,252,207	1,263,141	1,467,873	1,549,777	1,749,106	1,775,751
Ending Balance	\$ 1,067,096	\$ 1,173,784	\$ 1,252,207	\$ 1,263,141	\$ 1,467,873	\$ 1,549,777	\$ 1,749,106	\$ 1,775,751	\$ 1,915,925
	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>	<u>Fiduciary Net Position</u>
Employer Contributions	\$ 15,568	\$ 16,851	\$ 16,043	\$ 19,578	\$ 20,623	\$ 27,395	\$ 30,974	\$ 32,267	\$ 39,237
Employee Contributions	25,780	27,637	28,244	28,389	30,063	36,527	40,755	42,364	49,458
Net Investment Income	61,607	1,698	79,221	172,668	(42,911)	216,387	124,732	234,962	(148,686)
Benefit Payments/Refunds of Employee Contributions	(28,003)	(23,178)	(49,076)	(33,040)	(40,037)	(35,831)	(37,181)	(74,008)	(120,220)
Administration Expenses	(643)	(1,035)	(895)	(895)	(830)	(1,223)	(807)	(1,087)	(1,286)
Other	(53)	(50)	(49)	(45)	(44)	(36)	(32)	8	1,535
Net Change	\$ 74,256	\$ 21,923	\$ 73,488	\$ 186,655	\$ (33,136)	\$ 243,219	\$ 158,441	\$ 234,506	\$ (179,962)
Beginning Balance	1,077,007	1,151,263	1,173,186	1,246,674	1,433,329	1,400,193	1,643,412	1,801,853	2,036,359
Ending Balance	\$ 1,151,263	\$ 1,173,186	\$ 1,246,674	\$ 1,433,329	\$ 1,400,193	\$ 1,643,412	\$ 1,801,853	\$ 2,036,359	\$ 1,856,397
Net Pension Asset (Liability)	\$ 84,167	\$ (598)	\$ (5,533)	\$ 170,188	\$ (67,680)	\$ 93,635	\$ 52,747	\$ 260,608	\$ (59,528)
Fiduciary Net Position as a Percentage of Total Pension Liability	107.89%	99.95%	99.56%	113.47%	95.39%	106.04%	103.02%	114.68%	96.89%
Covered Employee Payroll	\$ 505,986	\$ 552,740	\$ 564,882	\$ 567,784	\$ 601,257	\$ 608,781	\$ 679,253	\$ 706,066	\$ 824,301
Net Pension Asset as a Percentage of Covered Employee Payroll	16.63%	-0.11%	-0.98%	29.97%	-11.26%	15.38%	7.77%	36.91%	-7.22%

Note: Only nine years of GASB 68 Data Available as of 12/31/2022. The remaining one year 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, 2023

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>	<u>9/30/2022</u>	<u>9/30/2023</u>
Actuarially Determined Contribution	\$ 18,130	\$ 16,562	\$ 18,903	\$ 20,343	\$ 15,914	\$ 29,161	\$ 33,052	\$ 36,565	\$ 38,559
Actual Contributions	18,130	16,562	18,903	20,343	24,844	29,060	33,052	36,565	38,559
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>	<u>\$ 0</u>	<u>\$ 0</u>
Covered Employee Payroll	\$ 559,573	\$ 531,275	\$ 576,272	\$ 592,862	\$ 590,380	\$ 641,815	\$ 723,714	\$ 776,002	\$ 860,151
Contributions as a Percentage of Covered Employee Payroll	3.24%	3.12%	3.28%	3.43%	4.21%	4.53%	4.57%	4.71%	4.48%

Note: Only nine years of GASB 68 Data Available as of 09/30/2023. The remaining one year 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, 2023

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	N/A
Asset Valuation Method	Ten 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. 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 or assumption 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, 2023

REQUIRED SUPPLEMENTARY INFORMATION

	<u>12/31/2017</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2021</u>	<u>12/31/2022</u>
	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability
Service Cost	\$ 1,703	\$ 2,044	\$ 1,461	\$ 2,377	\$ 2,471	\$ 2,803
Interest	936	982	986	1,026	832	702
Benefit Payments	(114)	(60)	(183)	(204)	(635)	(824)
Differences between Expected and Actual Experience	0	(3,888)	1,600	(3,888)	(7,386)	1,550
Changes in Assumptions	<u>2,184</u>	<u>(1,797)</u>	<u>6,420</u>	<u>5,133</u>	<u>1,189</u>	<u>(14,650)</u>
Net Change	\$ 4,709	\$ (2,719)	\$ 10,284	\$ 4,444	\$ (3,529)	\$ (10,419)
Beginning Balance	<u>23,958</u>	<u>28,667</u>	<u>25,948</u>	<u>36,232</u>	<u>40,676</u>	<u>37,147</u>
Ending Balance	\$ <u>28,667</u>	\$ <u>25,948</u>	\$ <u>36,232</u>	\$ <u>40,676</u>	\$ <u>37,147</u>	\$ <u>26,728</u>
Total OPEB Liability	\$ <u>28,667</u>	\$ <u>25,948</u>	\$ <u>36,232</u>	\$ <u>40,676</u>	\$ <u>37,147</u>	\$ <u>26,728</u>
Covered Employee Payroll	\$ 567,784	\$ 601,257	\$ 608,781	\$ 679,253	\$ 706,066	\$ 824,301
Total OPEB Liability as a Percentage of Covered Employee Payroll	5.05%	4.32%	5.95%	5.99%	5.26%	3.24%

Note: Only six years of GASB 75 Data Available as of 12/31/2022. The remaining four 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, 2023**

REQUIRED SUPPLEMENTARY INFORMATION

	(Unaudited) Original Budget	Actual	Variance Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property Taxes	\$ 1,466,853	\$ 1,536,400	\$ 69,547
City Sales Taxes	361,000	360,132	(868)
Franchise Taxes	180,000	198,367	18,367
Intergovernmental Revenue	136,400	190,567	54,167
Fines	20,000	20,686	686
Interest Income	10,000	80,382	70,382
Permits	67,750	69,038	1,288
Ambulance Calls	255,000	226,287	(28,713)
Sanitation Revenue	388,011	387,542	(469)
Miscellaneous Revenues	25,718	265,516	239,798
Contributions	9,000	5,133	(3,867)
Total Revenues	<u>\$ 2,919,732</u>	<u>\$ 3,340,050</u>	<u>\$ 420,318</u>
EXPENDITURES			
Judicial	\$ 25,780	\$ 25,582	\$ 198
Legislative	23,500	19,497	4,003
Administrative	612,163	484,736	127,427
Sanitation Department	260,500	248,700	11,800
Streets	396,915	240,453	156,462
Fire Department	476,087	236,687	239,400
Police Department	530,153	584,798	(54,645)
Health Department	5,588	2,174	3,414
Ambulance	433,263	386,406	46,857
Civil Defense	48,730	21,466	27,264
Parks	121,856	30,200	91,656
Debt Service:			
Principal	37,680	103,657	(65,977)
Interest	23,284	23,284	
Total Expenditures	<u>\$ 2,995,499</u>	<u>\$ 2,407,640</u>	<u>\$ 587,859</u>
EXCESS OF REVENUES OVER EXPENDITURES - BUDGETED	<u>\$ (75,767)</u>	<u>\$ 932,410</u>	<u>\$ 1,008,177</u>
OTHER FINANCING SOURCES (USES):			
Loan Proceeds	\$ 215,767	\$ 215,767	\$
Transfers Out	\$ (140,000)	\$ (140,000)	\$
Total Other Financing Sources (Uses):	<u>\$ 75,767</u>	<u>\$ 75,767</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCE	<u>\$ 0</u>	\$ 1,008,177	<u>\$ 1,008,177</u>
FUND BALANCE - BEGINNING OF YEAR		<u>3,531,439</u>	
FUND BALANCE - END OF YEAR		<u>\$ 4,539,616</u>	

CITY OF SHALLOWATER, TEXAS

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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
SEPTEMBER 30, 2023**

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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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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 9, 2024.

Report on 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) as a basis for designing 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 and significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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

January 9, 2024