



CITY OF SOUTHMAYD, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2022

City of Southmayd, Texas

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September 30, 2022

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AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Southmayd, Texas

Report on the Audit of the Financial Statements

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Southmayd, Texas as of and for the year ended September 30, 2022, 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 my opinion, the financial statements referred to above present the discretely presented component units and, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Southmayd, Texas, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Southmayd'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 after.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. 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*, I:

- 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 Southmayd'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Southmayd's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

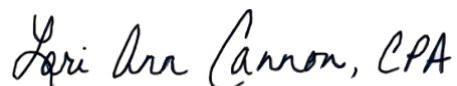
Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to this matter.

Other Information

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, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

My audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City of Southmayd, Texas' basic financial statements. The General Fund Budgetary Comparison Schedule – Modified Cash Basis, which is the responsibility of management, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basis financial statements, and accordingly, I do not express an opinion or provide any assurance on it.



Lori Ann Cannon, CPA
Sherman, Texas
May 31, 2023

BASIC FINANCIAL STATEMENTS

City of Southmayd, Texas
Statement of Net Position – Modified Cash Basis
September 30, 2022

	Primary Government			Component Units	
	Governmental Activities	Business - Type Activities	Total	Industrial Development	Community Development
ASSETS					
Cash and Cash Equivalents	\$ 1,012,218	\$ 54,806	\$ 1,067,024	\$ 281,770	\$ 278,943
Restricted Cash	78,582	285,604	364,186	-	-
Investments	155,859	-	155,859	300,000	392,660
Internal Balances	6,030	(6,030)	-	-	-
Due from Primary Government	-	-	-	5,263	5,263
Receivables and Prepaids	-	37,459	37,459	-	-
Capital Assets Not Being Depreciated:					
Land	6,611	3,279	9,890	-	-
Water Rights	-	354,100	354,100	-	-
Capital Assets Net of Accumulated Depreciation:					
Buildings and Improvements	24,727	130,573	155,300	-	-
Furniture, Equipment and Vehicles	107,032	58,629	165,661	-	-
Infrastructure	630,749	-	630,749	-	-
Utility Plant in Service	-	274,394	274,394	-	-
Total Assets	<u>2,021,808</u>	<u>1,192,814</u>	<u>3,214,622</u>	<u>587,033</u>	<u>676,866</u>
LIABILITIES					
Payroll Liabilities	1,309	-	1,309	-	-
Accounts Payable	-	57,697	57,697	-	-
Sales Tax Payable	-	1,350	1,350	-	-
State Fines Payable	18,183	-	18,183	-	-
Customer Deposits	-	65,867	65,867	-	-
Due to Component Units	10,526	-	10,526	-	-
Noncurrent Liabilities:					
Due Within One Year	-	28,250	28,250	-	-
Due in More Than One Year	-	1,039,650	1,039,650	-	-
Total Liabilities	<u>30,018</u>	<u>1,192,814</u>	<u>1,222,832</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net Investment in Capital Assets	769,119	(246,925)	522,194	-	-
Restricted For:					
Industrial Development	-	-	-	587,033	-
Community Development	-	-	-	-	676,866
Police Seizures	49,112	-	49,112	-	-
Court Security	14,254	-	14,254	-	-
Court Technology	16,676	-	16,676	-	-
Water and Sewer	-	285,604	285,604	-	-
Unrestricted	<u>1,142,629</u>	<u>(38,679)</u>	<u>1,103,950</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>\$ 1,991,790</u>	<u>\$ -</u>	<u>\$ 1,991,790</u>	<u>\$ 587,033</u>	<u>\$ 676,866</u>

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas
Statement of Activities – Modified Cash Basis
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Units	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government		Industrial Development	Community Development
					Business-Type Activities	Total		
Primary Government:								
Governmental Activities:								
General Government	\$ 268,835	\$ 51,700	\$ 255,358	\$ 38,223	\$ -	\$ 38,223		
Municipal Court	1,374	147,089	-	145,715	-	145,715		
Public Safety	502,682	-	-	(502,682)	-	(502,682)		
Road Repairs	4,891	-	-	(4,891)	-	(4,891)		
Buildings and Code Enforcement	18,851	-	-	(18,851)	-	(18,851)		
Interest	-	-	-	-	-	-		
Total Governmental Activities	<u>796,633</u>	<u>198,789</u>	<u>255,358</u>	<u>(342,486)</u>	<u>-</u>	<u>(342,486)</u>		
Business-Type Activities:								
Water and Sewer	<u>507,368</u>	<u>426,014</u>	<u>-</u>	<u>-</u>	<u>(81,354)</u>	<u>(81,354)</u>		
Total Business-Type Activities	<u>507,368</u>	<u>426,014</u>	<u>-</u>	<u>-</u>	<u>(81,354)</u>	<u>(81,354)</u>		
Total Primary Government	<u>\$ 1,304,001</u>	<u>\$ 624,803</u>	<u>\$ 255,358</u>	<u>(342,486)</u>	<u>(81,354)</u>	<u>(423,840)</u>		
Component Units								
Industrial Development	\$ 2,415	\$ -	\$ -	-	-	-	\$ (2,415)	\$ -
Community Development	<u>1,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,638)</u>
Total Component Units	<u>\$ 4,053</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,415)</u>	<u>(1,638)</u>
General Revenues:								
Property Taxes				335,820	-	335,820	-	-
General Sales and Use Taxes				225,052	-	225,052	71,583	67,516
Franchise and Local Taxes				40,748	-	40,748	-	-
Other Revenues				48	-	48	-	-
Investment Income				1,292	407	1,699	144	13,476
Transfers				<u>(4,085)</u>	<u>4,085</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total General Revenues and Transfers				<u>598,875</u>	<u>4,492</u>	<u>603,367</u>	<u>71,727</u>	<u>80,992</u>
Change in Net Position				256,389	(76,862)	179,527	69,312	79,354
Net Position - Beginning				<u>1,735,401</u>	<u>76,862</u>	<u>1,812,263</u>	<u>517,721</u>	<u>597,512</u>
Net Position - Ending				<u>\$ 1,991,790</u>	<u>\$ -</u>	<u>\$ 1,991,790</u>	<u>\$ 587,033</u>	<u>\$ 676,866</u>

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas
 Balance Sheet – Governmental Fund – Modified Cash Basis
 For the Year Ended September 30, 2022

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 1,012,218
Restricted Cash	78,582
Investments	155,859
Due From Water and Sewer Fund	6,030
Total Assets	<u><u>\$ 1,252,689</u></u>
LIABILITIES	
Payroll Liabilities	\$ 1,309
State Fines Payable	18,183
Due to Component Units	10,526
Total Liabilities	<u><u>30,018</u></u>
FUND BALANCES	
Restricted for Police Seizures	49,112
Restricted for Court Security	14,254
Restricted for Court Technology	16,676
Unassigned	1,142,629
Total Fund Balances	<u><u>1,222,671</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 1,252,689</u></u>

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

Fund Balance of the Governmental Fund:	\$ 1,222,671
Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the Governmental Fund. The cost of the assets is \$2,008,135 and the accumulated depreciation is \$1,239,016.	
	<u>769,119</u>
Net Position of Governmental Activities (Page 3)	<u><u>\$ 1,991,790</u></u>

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Governmental Fund – Modified Cash Basis
For the Year Ended September 30, 2022

	General Fund
REVENUES	
Property Taxes	\$ 335,820
Sales Taxes	225,052
Municipal Court	147,089
Franchise and Local Taxes	40,748
Licenses and Permits	51,700
Contributions and Donations	244,245
Intergovernmental	11,113
Investment Income	1,292
Other Revenue	48
Total Revenues	1,057,107
 EXPENDITURES	
Current:	
General Government	205,649
Municipal Court	1,374
Public Safety	480,625
Road Repairs	4,891
Buildings and Code Enforcement	18,851
Capital Outlays	109,636
Total Expenditures	821,026
Excess (Deficiency) of Revenues Over (Under) Expenditures	236,081
 OTHER FINANCING SOURCES (USES)	
Transfers (to) from Other Funds	(4,085)
Total Other Financing Sources (Uses)	(4,085)
Net Change in Fund Balance	231,996
Fund Balance - Beginning	990,675
Fund Balance - Ending	\$ 1,222,671

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities –Modified Cash Basis
For the Year Ended September 30, 2022

Amounts reported for *Governmental Activities* in the Statement of Activities (page 6) are different because:

Net Change in Fund Balance - Total Governmental Fund (Page 6) \$ 231,996

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$131,470) exceeded depreciation expense (\$75,788). 24,393

Change in Net Position of Governmental Activities (Page 4) \$ 256,389

City of Southmayd, Texas
Statement of Net Position – Proprietary Fund – Modified Cash Basis
For the Year Ended September 30, 2022

	Water and Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 54,806
Restricted Cash	285,604
Accounts Receivable	29,559
Prepaid Expenses	7,900
Total Current Assets	377,869
Noncurrent Assets	
Capital Assets:	
Land	3,279
Water Rights	354,100
Buildings and Improvements	986,742
Furniture, Equipment and Vehicles	383,164
Utility Plant in Service	996,799
Less Accumulated Depreciation	(1,903,109)
Total Capital Assets, Net	820,975
Total Noncurrent Assets	820,975
Total Assets	1,198,844
 LIABILITIES	
Current Liabilities:	
Accounts Payable	57,697
Sales Tax Payable	1,350
Customer Deposits Payable	65,867
Due to General Fund	6,030
Due Within One Year	
GTUA - Revenue Bonds	11,250
USDA Bonds Payable	17,000
Total Current Liabilities	159,194
Noncurrent Liabilities:	
GTUA - Long Term Portion	85,650
USDA Bonds Payable - Long Term Portion	954,000
Total Noncurrent Liabilities	1,039,650
Total Liabilities	1,198,844
 NET POSITION	
Net Investment in Capital Assets	(246,925)
Restricted	285,604
Unrestricted	(38,679)
Total Net Position	\$ -

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position –
Proprietary Fund – Modified Cash Basis
For the Year Ended September 30, 2022

	Water and Sewer Fund
Operating Revenues:	
Water Sales	\$ 346,169
Garbage Collection	69,732
Other Revenue	10,113
Total Operating Revenues	426,014
Operating Expenses:	
Personnel	95,050
Contract Services	110,648
Repairs and Maintenance	118,879
Materials and Supplies	22,669
Other Expense	12,058
Depreciation Expense	103,184
Total Operating Expenses	462,488
Operating Income (Loss)	(36,474)
Nonoperating Sources (Uses)	
Investment Income	407
Interest Expense	(44,880)
Total Nonoperating Revenue (Expenses)	(44,473)
Income (Loss) Before Contributions and Transfers	(80,947)
Transfers In (Out)	4,085
Change in Net Position	(76,862)
Total Net Position - Beginning	76,862
Total Net Position - Ending	\$ -

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas
Statement of Cash Flows – Proprietary Fund – Modified Cash Basis
For the Year Ended September 30, 2022

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 397,010
Cash Paid to Employees	(95,050)
Cash Paid to Suppliers for Goods and Services	(257,291)
Net Cash Provided by Operating Activities	44,669
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer (to) from General Fund	4,085
Net Cash Provided by Noncapital Financing Activities	4,085
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(45,191)
Interest Paid on Capital Debt	(44,880)
Principal Paid on Capital Debt	(28,000)
Net Cash Used by Capital and Related Financing Activities	(118,071)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	407
Net Cash Provided by Investing Activities	407
Net Decrease in Cash and Cash Equivalents	(68,910)
Cash and Cash Equivalents, October 1, 2021	123,716
Cash and Cash Equivalents, September 30, 2022	\$ 54,806
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (36,474)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	103,184
Decrease for Restricted Cash Accounts	(705)
(Increase) Decrease in Accounts Receivable	(29,559)
(Increase) Decrease in Prepaid Items	(7,900)
Increase (Decrease) in Deposits Payable	555
Increase (Decrease) in Sales Tax Payable	45
Increase (Decrease) in Accrued Liabilities	57,697
Increase (Decrease) in Due To Other Funds	(42,174)
Net Cash Provided by Operating Activities	\$ 44,669

The accompanying notes are an integral part of these financial statements

City of Southmayd, Texas
Notes to the Financial Statements
For the Year Ended September 30, 2022

Note 1: Summary of Significant Accounting Policies

Reporting Entity - The City of Southmayd, Texas (the City) is a municipal corporation governed by an elected mayor and six-member governing council (the Council). The City provides such services to advance the welfare, health, comfort, safety and convenience of the City and its inhabitants. The accompanying financial statements present the funds and account groups of the City on a modified cash basis.

The City is an independent subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. The accompanying financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the City's financial reporting entity. The Southmayd Industrial Development Corporation and the Southmayd Community Development Corporation, although legally separate, are considered part of the reporting entity due to the ability of the City to exercise oversight responsibility. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

Except for the use of the modified cash basis of accounting as discussed in the Note "Measurement Focus and Basis of Accounting", the City complies with accounting principles generally accepted in the United States of America as applicable to governments. Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

The Southmayd Industrial Economic Development Corporation (the "IDC") and Southmayd Community Development Corporation (the "CDC") are discretely presented component units of the City due to the ability of the City to exercise oversight responsibility. The IDC and CDC are legally separate entities that were founded in 2011 and 2008, respectively. The primary source of revenue for these component units is sales tax. Sales tax is collected by the state of Texas and is remitted to the City. The City remits the sales tax to the component units based on an agreed upon percentage. The primary purpose of the IDC is industrial development planning within the City of Southmayd. The primary purpose of the CDC is community development planning within the City of Southmayd. The IDC and CDC do not issue separate financial statements.

Description of Government-Wide Financial Statements - The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities), report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Basis of Presentation – Government-Wide Financial Statements - While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation – Fund Financial Statements - The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Governmental funds are those funds through which governmental functions typically are financed. The City reports the following major governmental funds:

General Fund – The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water and Sanitation Fund – The water and sanitation fund accounts for the provision of water distribution and garbage services as well as the billings and collections for those services to the residents of the City.

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities' column.

Measurement Focus and Basis of Accounting - In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below:

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund balance is classified as net position.

In the fund financial statements, the "current financial resources: measurement focus," as applied to the modified cash basis of accounting is used.

The City of Southmayd prepares its financial statements on the modified cash basis. The modified cash basis recognizes revenue when collected rather than when it is earned, and expenses are generally recognized when paid rather than when the obligation is incurred. Therefore, the financial statements generally do not reflect receivables, payables and accrued items and no disclosures will be made for fair value measurements. However, certain payroll liabilities and other amounts that the City collects and distributes to third parties are shown as accruals. Depreciation of fixed assets is presented in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Budgetary Information - Annual budgets are adopted on a basis consistent with the modified cash basis of accounting for the general fund and the water and sanitation fund. The appropriated budget is prepared by fund, function and department. The legal level of control is the department level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

For the year ended September 30, 2022, the City's expenditures exceeded appropriation at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
General Government	\$ 49,510

The over-expenditures were funded by under budget spending in other areas of the government.

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

Investments – The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in direct obligations of the U.S. Government, fully collateralized certificates of deposit and money market accounts, and statewide investment pools.

At September 30, 2022, the City and its component units had invested in only certificates of deposit with original maturities in excess of three months from the date of acquisition.

The City did not engage in repurchase or reverse repurchase agreement transactions during the current year.

Receivables and Interfund Transactions – Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payable" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year and are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Infrastructure acquired prior to the implementation of GASB 34 are included in the financial statements.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 1: Summary of Significant Accounting Policies (continued)

Land is not depreciated. The other property, plant, and equipment of the primary government is being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture, Equipment and Vehicles	5-15 years
Infrastructure	20 years
Utility Plant in Service	40 years
Buildings and Improvements	40 years

Long-Term Obligations – All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the City’s long-term debt consists primarily of bonds and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Net Position – The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. It is the government’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

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

Fund Balance – Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2022, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-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 constitutional provisions, charter requirements, or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for the specific purpose determined by a formal action of the City Council. The City Council is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 1: Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned – All other spendable amounts.

Use of Estimates – Management uses estimates and assumptions in preparing the financial statements. Accordingly, actual results could differ from those estimates. Significant estimates used in preparation of the financial statements include the assumptions in recording depreciation.

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

Property Taxes – Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. For the current year's tax levy of \$335,820 a total of 94.4% of the tax levy was collected. Tax rates per \$100 valuation for the 2022 levy amounted to .6015 for maintenance and operation.

Proprietary Funds Operating and Nonoperating Revenues and Expenses – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sanitation fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 2: Detailed Notes on All Activities and Funds

Custodial Credit Risk Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned, or the City will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits.

As of September 30, 2022, the City had deposits with a carrying amount of \$1,587,044, and the bank's balances were \$1,593,337. The City's Certificates of Deposit totaling \$155,859 are considered deposits for this footnote but are classified as Investments on the face of the financial statements. At September 30, 2022, the City had an excess of collateral available over the amount of deposits in banks by \$300,489.

Discretely Presented Component Units

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Corporations' deposits may not be returned or the Corporations will not be able to recover collateral securities in the possession of an outside party. The Corporations' policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) Insurance. Deposited funds may be invested in certificates of deposit in

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 2: Detailed Notes on All Activities and Funds (continued)

Custodial Credit Risk Deposits (continued) - institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

As of September 30, 2022, the Southmayd CDC carrying amount of deposits and bank balances were \$671,603. The Southmayd IDC carrying amount of deposits and bank balances were \$581,770. Both Corporations' deposit totals were fully insured by FDIC Coverage. Therefore, neither Corporation was exposed to custodial credit risk as of September 30, 2022. The Southmayd IDC and Southmayd CDC Certificates of Deposit totaling \$300,000 and \$392,660, respectively, are considered deposits for this footnote but are classified as Investments on the face of the financial statements.

Investments – The City is authorized to invest in direct obligations of the U.S. Government, fully collateralized certificates of deposit and money market accounts, and statewide investment pools. At September 30, 2022, the City only invested funds in certificates of deposit issued by a state or national bank insured by FDIC. Investments are carried at cost, which approximates fair value.

The City is required by Government Code Chapter 2256, The Public Fund Investment Act (“Act”), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity, and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity’s funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity. The City adheres to the requirements of the Act.

Capital Assets – A summary of changes in fixed assets for the year ended September 30, 2022 follows:

	Balance September 30, 2021	Additions and Reclasses	Retirements	Balance September 30, 2022
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 6,611	\$ -	\$ -	\$ 6,611
Total Capital Assets, Not Being Depreciated	<u>6,611</u>	<u>-</u>	<u>-</u>	<u>6,611</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	103,166	18,483	-	121,649
Furniture, Equipment and Vehicles	624,434	91,153	-	715,587
Infrastructure	1,164,288	-	-	1,164,288
Total Capital Assets, Being Depreciated	<u>1,891,888</u>	<u>109,636</u>	<u>-</u>	<u>2,001,524</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(95,101)	(1,821)	-	(96,922)
Furniture, Equipment and Vehicles	(583,346)	(25,209)	-	(608,555)
Infrastructure	(475,326)	(58,213)	-	(533,539)
Total Accumulated Depreciation	<u>(1,153,773)</u>	<u>(85,243)</u>	<u>-</u>	<u>(1,239,016)</u>
Capital Assets, Being Depreciated, Net	<u>738,115</u>	<u>24,393</u>	<u>-</u>	<u>762,508</u>
Governmental Activities Capital Assets, Net	<u>\$ 744,726</u>	<u>\$ 24,393</u>	<u>\$ -</u>	<u>\$ 769,119</u>

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 2: Detailed Notes on All Activities and Funds (continued)

Capital Assets (continued) –

	Balance September 30, 2021	Additions and Reclasses	Retirements	Balance September 30, 2022
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 3,279	\$ -	\$ -	\$ 3,279
Water Rights	354,100	-	-	354,100
Total Capital Assets, Not Being Depreciated	<u>357,379</u>	<u>-</u>	<u>-</u>	<u>357,379</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	968,242	18,500	-	986,742
Furniture, Equipment, and Vehicles	356,473	26,691	-	383,164
Infrastructure	996,799	-	-	996,799
Total Capital Assets, Being Depreciated	<u>2,321,514</u>	<u>45,191</u>	<u>-</u>	<u>2,366,705</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(817,488)	(38,681)	-	(856,169)
Furniture, Equipment, and Vehicles	(312,079)	(12,456)	-	(324,535)
Infrastructure	(670,358)	(52,047)	-	(722,405)
Total Accumulated Depreciation	<u>(1,799,925)</u>	<u>(103,184)</u>	<u>-</u>	<u>(1,903,109)</u>
Capital Assets, Being Depreciated, Net	<u>521,589</u>	<u>(57,993)</u>	<u>-</u>	<u>463,596</u>
Business-Type Activities Capital Assets, Net	<u>\$ 878,968</u>	<u>\$ (57,993)</u>	<u>\$ -</u>	<u>\$ 820,975</u>

Depreciation expense was charged to the functions/programs of the primary government as follows:

Governmental Activities:

General	\$ 63,186
Police	17,997
Fire	4,060
	<u>\$ 85,243</u>

Business-type activities:

Water and sewer	<u>\$ 103,184</u>
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Long-Term Liabilities – A summary of the City's long-term debt transactions for the year ended September 30, 2022 , follows:

<u>Business-Type Activities</u>	Balance			Balance		Due
Description	October 1, 2021	Additions	Retirements	September 30, 2022	Within One Year	
GTUA Certificate of Obligation	\$ 107,900	\$ -	\$ (11,000)	\$ 96,900	\$ 11,250	
USDA Bonds	988,000	-	(17,000)	971,000	17,000	
	<u>\$ 1,095,900</u>	<u>\$ -</u>	<u>\$ (28,000)</u>	<u>\$ 1,067,900</u>	<u>\$ 28,250</u>	

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 2: Detailed Notes on All Activities and Funds (continued)

Long-Term Liabilities (continued)- Long-Term debt is comprised of the following:

Business-Type Activities:

\$204,100 GTUA Revenue Bond, Series 2010, payable in annual principal installments varying from \$9,700 to \$11,850, with final payment due August 2030. Interest is payable semi-annually at rates ranging from 0.75% to 3% \$ 96,900

\$1,119,000 USDA Revenue Bond, Series 2011, payable in annual principal installments of \$14,000 to \$57,000, with final payment due February 2051. Interest is payable semi-annually at 4.25% 971,000

Total Business-Type Activities \$ 1,067,900

Annual requirements to retire debt obligations are as follows:

Bonds Payable - 2010 Lake Texoma GTUA

Year Ending September 30	Principal	Interest	Total
2023	\$ 11,250	\$ 2,225	\$ 13,475
2024	11,550	2,002	13,552
2025	11,850	1,760	13,610
2026	12,150	1,500	13,650
2027	12,450	1,223	13,673
2028 - 2030	37,650	1,695	39,345
Totals	<u><u>\$ 96,900</u></u>	<u><u>\$ 10,405</u></u>	<u><u>\$ 107,305</u></u>

Bonds Payable - USDA Bonds

Year Ending September 30	Principal	Interest	Total
2023	\$ 17,000	\$ 40,949	\$ 57,949
2024	18,000	40,205	58,205
2025	19,000	39,419	58,419
2026	20,000	38,590	58,590
2027	21,000	37,719	58,719
2028 - 2032	117,000	174,229	291,229
2033 - 2037	146,000	146,498	292,498
2038 - 2042	179,000	112,094	291,094
2043 - 2047	221,000	69,721	290,721
2048 - 2051	213,000	18,700	231,700
Totals	<u><u>\$ 971,000</u></u>	<u><u>\$ 718,124</u></u>	<u><u>\$ 1,689,124</u></u>

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 2: Detailed Notes on All Activities and Funds (continued)

Interfund Transfers and Balances – Transfers between funds during the year were as follows:

Transfers to the Water and Sewer Fund from:
General Fund: \$ 4,085

Transfers were used to 1) allocate funds from the General Fund for operating costs; 2) restore fund balance in the Water and Sewer Fund.

Interfund balances at September 30, 2022 consisted of the following receivables and payables:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Water and Sewer	<u>\$ 6,030</u>	To assist with debt service and operations

Pension Plan

Plan Description

The City of Southmayd participates as one of the 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the Member's benefit is calculated on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the Member contributions and interest.

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

	<u>Plan Year 2021</u>
Employee deposit rate	5%
Matching ratio (City to employee)	1 to 1
Years required for vesting	5 years of service
Service retirement eligibility	Minimum age 60 with 5 years of service Any age with 20 years of service
Updated service credits	0%
Annuity increase (to retirees)	0% of CPI

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 2: Detailed Notes on All Activities and Funds (continued)

Pension Plan (continued)

Employees Covered by Benefit Terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	9
Active employees	7
TOTAL	17

Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of the Member's total compensation, and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City of Southmayd were required to contribute 5% of their annual compensation during the fiscal year. The contribution rates for the City of Southmayd were 3.60% and 3.42% in calendar year 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2022 were \$11,438 and were equal to the required contributions.

The funded status as of December 31, 2021, the most recent actuarial date, is as follows:

Actuarial Valuation Date	Actuarial Value of Net Position	Actuarial Accrued Liability	Funded Ratio	Unfunded Portion	Covered Payroll	Net Position Liability as a Percent of Covered Payroll
December 31, 2021	\$ 193,903	\$ 204,982	94.60%	\$ 11,079	\$ 319,938	3.46%

Supplemental Death Benefits Fund

The City also participates in the cost-sharing multiple employer-defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; the coverage is an "other postemployment benefit" or OPEB.

The City of Southmayd offers supplemental death benefits to:	Plan Year 2021	Plan Year 2020
Active Employees	Yes	Yes
Retirees	Yes	Yes

City of Southmayd, Texas
Notes to the Financial Statements (continued)
For the Year Ended September 30, 2022

Note 2: Detailed Notes on All Activities and Funds (continued)

Pension Plan (continued)

Supplemental Death Benefits Fund (continued)

The funded status as of December 31, 2021, the most recent actuarial date, is as follows:

Actuarial Valuation Date	Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Net Position Liability as a Percent of Covered Payroll
December 31, 2021	\$ <u>14,285</u>	<u>4.46%</u>	\$ <u>319,938</u>	<u>4.46%</u>

Note 3: Subsequent Events

Subsequent events have been evaluated through May 31, 2023, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

OTHER INFORMATION

City of Southmayd, Texas
 Budgetary Comparison Schedule – General Fund
 Modified Cash Basis
 Year Ended September 30, 2022

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes:			
Property	\$ 317,164	\$ 335,820	\$ 18,656
Franchise	36,000	40,748	4,748
General Sales and Use	250,000	225,052	(24,948)
Municipal Court	177,200	147,089	(30,111)
Licenses and Permits	20,718	51,700	30,982
Intergovernmental	4,800	11,113	6,313
Contributions and Donations	109,200	244,245	135,045
Other Revenue	1,910	48	(1,862)
Investment Income	660	1,292	632
Total Revenues	<u>917,652</u>	<u>1,057,107</u>	<u>139,455</u>
 EXPENDITURES			
Current:			
Public Safety	488,986	480,625	8,361
Municipal Court	2,880	1,374	1,506
General Government	161,030	210,540	(49,510)
Buildings and Code Enforcement	27,596	18,851	8,745
Capital Outlays	205,780	109,636	96,144
Debt Service:			
Principal	36,000	-	36,000
Interest	5,000	-	5,000
Total Expenditures	<u>927,272</u>	<u>821,026</u>	<u>106,246</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,620)</u>	<u>236,081</u>	<u>245,701</u>
 OTHER FINANCING SOURCES (USES)			
Transfers (to) from Other Funds	(3,200)	(4,085)	(885)
Total Other Financing Sources (Uses)	<u>(3,200)</u>	<u>(4,085)</u>	<u>(885)</u>
Net Change in Fund Balance	<u>\$ (12,820)</u>	<u>\$ 231,996</u>	<u>\$ 244,816</u>

* Expenditures exceed appropriations at the legal level of control.