

**CITY OF RIESEL, TEXAS
BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
SEPTEMBER 30, 2021**

WILLIAMGRIMSLEY
Certified Public Accountant

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WILLIAM GRIMSLEY

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Riesel, Texas

Report on the Financial Statements

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 Riesel, Texas (the City) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2021, and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-8, the budgetary comparison information on page 39, and the pension and OPEB schedules on pages 41-44, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 6, 2022, on my consideration of the City's internal control over financial reporting and on my 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 my 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 the City's internal control over financial reporting and compliance.



William A. Grimsley, CPA
Gatesville, Texas
May 6, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF RIESEL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Our discussion and analysis of the City of Riesel's (the City) financial performance provides an overview and analysis of the City's financial activities for the year ended September 30, 2021. Please read it in conjunction with the Independent Auditors' Report on pages 1-2, and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's overall assets exceeded its total liabilities by \$10,748,798 (net position). Of this amount, \$4,679,182 is unrestricted and may be used to meet the City's on-going obligations.
- Overall revenues exceeded expenses by \$149,446 (an increase in net position).
- The City's investment in capital assets totaled \$6,625,568, net of accumulated depreciation.
- In May of 2021, the City approved issuance of \$5,360,000 of combined tax and surplus revenue certificates of obligation. Proceeds from the bonds, together with a loan forgiveness grant through the Texas Water Development Board (TWDB) of \$500,000, will be used for the construction of improvements to the City's water system.
- In May of 2021, the City completed an asset transfer agreement with R-M-S Water Supply Corporation (RMS). Under the terms and conditions of the agreement RMS conveyed to the City all of its right, title and interest in, to and under all of the assets of RMS, and all duties, obligations and liabilities. Per the agreement, the City paid RMS's outstanding debt to the USDA of \$322,305. The fair market value of RMS's water system assets transferred of \$2,237,407, has been recorded in the Water Fund as a capital asset addition and a capital contribution.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide the readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all the City's assets, and liabilities, with the difference between the two reported as net position. Over time, increases or

CITY OF RIESEL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

decreases in the City's net position may serve as a useful indicator of whether its financial health is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods. This may include uncollected taxes and other revenue or expenses that are appropriate for the current year even though cash is not received or expended until the following year.

The government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities include general government, judicial, law enforcement, and public works. The business-type activities include water, sewer, and sanitation. The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between government funds and governmental activities. The City maintains one governmental fund, the General Fund. The basic governmental fund financial statements can be found on pages 11-14 of this report.

Proprietary Funds. The only type of proprietary fund of the City is the Enterprise Fund. This fund is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses the enterprise fund to account for the separate detail of its water and sewer funds.

CITY OF RIESEL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

The proprietary financial statements can be found on pages 15-17 of this report.

Notes to the Financial Statements. The notes provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements. These can be found starting on page 18.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. The City's assets exceed liabilities by \$10,748,798 as of September 30, 2021. A large portion (52%) of the City's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. (See Table I).

**Table I
NET POSITION**

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 4,827,285	\$ 4,328,528	\$ 7,866,352	\$ 2,214,339	\$ 12,693,637	\$ 6,542,867
Capital assets, net	594,314	683,239	6,031,254	3,606,983	6,625,568	4,290,222
Total assets	5,421,599	5,011,767	13,897,606	5,821,322	19,319,205	10,833,089
Deferred outflows of resources	31,695	37,207	5,904	6,681	37,599	43,888
Total deferred outflows of resources	31,695	37,207	5,904	6,681	37,599	43,888
Current liabilities	97,809	48,718	1,952,056	1,214,161	2,049,865	1,262,879
Noncurrent liabilities	130,411	136,539	6,399,294	1,080,520	6,529,705	1,217,059
Total liabilities	228,220	185,257	8,351,350	2,294,681	8,579,570	2,479,938
Deferred inflows of resources	23,970	29,753	4,466	5,342	28,436	35,095
Total deferred outflows of resources	23,970	29,753	4,466	5,342	28,436	35,095
Net position:						
Net investment in capital assets	594,314	683,239	5,016,254	2,550,983	5,610,568	3,234,222
Restricted for:						
Court funds	303,256	299,752	-	-	303,256	299,752
Public safety	4,435	4,435	-	-	4,435	4,435
Debt service	1,126	3,334	150,231	155,832	151,357	159,166
Unrestricted	4,297,973	3,843,204	381,209	821,165	4,679,182	4,664,369
Total net position	\$ 5,201,104	\$ 4,833,964	\$ 5,547,694	\$ 3,527,980	\$ 10,748,798	\$ 8,361,944

CITY OF RIESEL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

A portion of the City's net position represents resources that are subject to external and internal restrictions and on how they may be used. The remaining balance of the unrestricted net position may be used to meet the City's ongoing obligations to its citizens.

Changes in Net Position. Revenues totaled \$2,087,121 for the year, an increase of \$366,741 from the prior year, primarily from grant income. Expenses totaled \$1,937,674 for the year, an increase of \$343,706. This increase was primarily the result of debt issuance cost for the Series 2021 bonds. (See Table II)

**Table II
CHANGES IN NET POSITION**

	Governmental		Business-type		Total	
	Activities		Activities		Primary	
	2021	2020	2021	2020	2021	2020
Revenues						
Program Revenues:						
Charges for services	\$ 671,075	\$ 557,241	\$ 606,418	\$ 623,544	\$ 1,277,493	\$ 1,180,785
General Revenues:						
Property tax	198,208	213,143	-	-	198,208	213,143
Sales tax	125,410	124,377	-	-	125,410	124,377
Franchise and other taxes	40,183	55,208	-	-	40,183	55,208
Payment in lieu of taxes	125,000	125,000	-	-	125,000	125,000
Grant income	186,282	-	106,000	-	292,282	-
Other income	15,170	13,116	13,375	8,751	28,545	21,867
Total revenues	1,361,328	1,088,085	725,793	632,295	2,087,121	1,720,380
Expenses:						
General government	288,413	228,674	-	-	288,413	228,674
Public safety	214,831	210,465	-	-	214,831	210,465
Municipal court	306,168	254,960	-	-	306,168	254,960
Public works	184,776	210,306	-	-	184,776	210,306
Interest	-	-	46,777	42,176	46,777	42,176
Water and Sewer	-	-	896,709	647,387	896,709	647,387
Total Expenses	994,188	904,405	943,486	689,563	1,937,674	1,593,968
Change in position	367,140	183,680	(217,693)	(57,268)	149,447	126,412
Capital contribution	-	-	2,237,407	-	2,237,407	-
Net position - beginning	4,833,964	4,650,284	3,527,980	3,585,248	8,361,944	8,235,532
Net position - ending	\$ 5,201,104	\$ 4,833,964	\$ 5,547,694	\$ 3,527,980	\$ 10,748,798	\$ 8,361,944

CITY OF RIESEL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds. The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in accessing the City's financing requirements. In particular, unassigned and assigned fund balances may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The Governmental Accounting Standards Board (GASB) Statement 54 requires fund balances to be classified as follows:

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

Restricted – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision-making authority. In the case of the City it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

Assigned – Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

Unassigned – Amount of the remaining fund balance not in any of the other classifications.

As the City completed the year, its general fund (as presented in the balance sheet on page 11) reported a total fund balance of \$4,729,475 (an increase from prior year of \$479,157). This increase was primarily due to grant income received in 2021.

General Fund Budget Highlights. Actual revenues were \$97,287 higher than the budget primarily from higher fines. Actual expenditures, net of appropriations were \$170,611 lower than the budget. This coupled with non-budgeted grant income of \$186,282, generated a favorable variance of \$454,180 in excess revenues over expenditures. The budget is presented in the required supplemental information section on page 39.

CITY OF RIESEL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2021, the City had invested \$6,031,254 in capital assets (net of accumulated depreciation). The major addition was from the RMS asset transfer agreement.

More detailed information about the City's capital assets is presented in the Notes to the Financial Statements starting on page 26.

Debt

At year-end, the City had \$6,375,000 in total bonds payable. This represents the addition of the Series 2021 bonds issued less \$41,000 of principal payments made on existing debt during the year. More detailed information about the City's long-term debt is presented in the Notes to the Financial Statements starting on page 28.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's officials considered many factors when setting the fiscal year 2022 budget and tax rates. Some of those factors include the economy and the anticipated needs of the City for operations and capital outlay in the next year.

The City adopted a \$1,564,167 general fund budget for fiscal year 2021-2022, reflecting a balanced budget. It will be funded primarily through property, sales and franchise taxes, and court fines.

If the City does not incur any unforeseen expenditures or reductions in revenue, the City's management is confident they will accomplish the task of providing improved services within its available resources.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all those with an interest therein. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City's business office at: City of Riesel, 104 Hwy 6 North, Riesel, Texas 76682.

BASIC FINANCIAL STATEMENTS

CITY OF RIESEL, TEXAS
STATEMENT OF NET POSITION
September 30, 2021

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,316,294	\$ 2,035,289	\$ 5,351,583
Investments	65,700	233,357	299,057
Accounts receivable	18,422	89,445	107,867
Due from other funds	1,426,869	-	1,426,869
Restricted cash- TWDB escrow accounts	-	5,508,261	5,508,261
Capital assets, net of accumulated depreciation	594,314	6,031,254	6,625,568
Total assets	5,421,599	13,897,606	19,319,205
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	26,366	4,912	31,278
Other postemployment benefits	5,329	992	6,321
Total deferred outflows of resources	31,695	5,904	37,599
LIABILITIES			
Accounts payable	80,754	28,400	109,154
Accrued expenses	17,055	2,186	19,241
Accrued interest	-	7,990	7,990
Customer deposits	-	92,612	92,612
Due to other funds	-	1,426,868	1,426,868
Unearned revenue- TWDB loan forgiveness grant	-	394,000	394,000
Noncurrent liabilities			
Due within one year	-	43,000	43,000
Due in more than one year	130,411	6,356,294	6,486,705
Total liabilities	228,220	8,351,350	8,579,570
DEFERRED INFLOWS OF RESOURCES			
Pension plan	22959	4,278	27,237
Other postemployment benefits	1,011	188	1,199
Total deferred inflows of resources	23,970	4,466	28,436
NET POSITION			
Net investment in capital assets	594,314	5,016,254	5,610,568
Restricted for:			
Debt service	1,126	150,231	151,357
Municipal court funds	303,256	-	303,256
Public safety	4,435	-	4,435
Unrestricted	4,297,973	381,209	4,679,182
Total net position	\$ 5,201,104	\$ 5,547,694	\$ 10,748,798

The accompanying notes are an integral part of the financial statements.

CITY OF RIESEL, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Primary Government</u>	<u>Total</u>
Primary Government:							
Governmental activities:							
General government	\$ 288,413	\$ 10,360	\$ 186,282	\$ (91,771)	\$ -		\$ (91,771)
Public safety	214,831	660,715	-	445,884	-		445,884
Municipal court	306,168	-	-	(306,168)	-		(306,168)
Public works	184,778	-	-	(184,778)	-		(184,778)
Total governmental activities	<u>994,190</u>	<u>671,075</u>	<u>186,282</u>	<u>(136,833)</u>	<u>-</u>		<u>(136,833)</u>
Business-type activities:							
Water	529,240	477,352	106,000	-	54,112		54,112
Sewer	121,387	129,066	-	-	7,679		7,679
Debt issuance costs	246,082	-	-	-	(246,082)		(246,082)
Interest on long-term debt	46,777	-	-	-	(46,777)		(46,777)
Total business-type activities	<u>943,486</u>	<u>606,418</u>	<u>106,000</u>	<u>-</u>	<u>(231,068)</u>		<u>(231,068)</u>
Total primary government	<u>\$ 1,937,676</u>	<u>\$ 1,277,493</u>	<u>\$ 292,282</u>	<u>(136,833)</u>	<u>(231,068)</u>		<u>(367,901)</u>
General revenues:							
Property taxes				198,208	-		198,208
Sales tax				125,410	-		125,410
Franchise and other taxes				40,183	-		40,183
Interest earned				15,170	7,569		22,739
Other income				-	7,296		7,296
Payment in lieu of taxes				125,000	-		125,000
Gain (loss) on asset disposal				-	(1,489)		(1,489)
Total general revenues				<u>503,971</u>	<u>13,376</u>		<u>517,347</u>
Changes in position				367,138	(217,692)		149,446
Capital contribution				-	2,237,407		2,237,407
Net position - beginning of year				<u>4,833,966</u>	<u>3,527,979</u>		<u>8,361,945</u>
Net position - end of year				<u>\$ 5,201,104</u>	<u>\$ 5,547,694</u>		<u>\$ 10,748,798</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF RIESEL, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021**

	General	Total Governmental Funds
ASSETS		
Cash	\$ 3,316,294	\$ 3,316,294
Investments	65,700	65,700
Receivables	18,422	18,422
Due from other funds	1,426,868	1,426,868
Total assets	\$ 4,827,284	\$ 4,827,284
LIABILITIES		
Accounts payable	\$ 80,754	\$ 80,754
Accrued expenses	17,055	17,055
Total liabilities	97,809	97,809
DEFERRED INFLOW OF RESOURCES		
Unavailable revenue:		
Property taxes	-	-
Total deferred inflow of resources	-	-
FUND BALANCE		
Restricted	308,817	308,817
Assigned	313,188	313,188
Unassigned	4,107,470	4,107,470
Total fund balance	4,729,475	4,729,475
Total liabilities, deferred inflow of resources and fund balance	\$ 4,827,284	\$ 4,827,284

The accompanying notes are an integral part of the financial statements.

CITY OF RIESEL, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
September 30, 2021

Total fund balance – governmental funds (page 11) \$ 4,729,475

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:

Land	\$ 24,604	
Buildings and improvements	137,891	
Machinery and equipment	134,910	
Vehicles	198,940	
Infrastructure	706,938	
Accumulated depreciation	<u>(608,969)</u>	
Net Capital Assets		594,314

Certain pension and OPEB contributions and changes in pension plan net position are reported as deferred outflows and inflows of resources in the statement of net position, but are reported as expenses in the governmental funds. 7,725

Some assets and liabilities are not considered resources available or due in the current period and therefore are not reported in the governmental fund. These consist of:

Net pension liability	(107,967)	
OPEB liability	<u>(22,443)</u>	
Total		<u>(130,410)</u>

Net position of governmental activities (page 9) \$ 5,201,104

The accompanying notes are an integral part of the financial statements

CITY OF RIESEL, TEXAS
STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended
September 30, 2021

	General	Total Governmental Funds
REVENUE		
Property tax	\$ 227,699	\$ 227,699
Sales taxes	125,410	125,410
Franchise and other taxes	40,182	40,182
Fines	660,715	660,715
Payment in lieu of taxes	125,000	125,000
Charges for services	10,361	10,361
Interest earned	15,170	15,170
Grant income	186,282	186,282
Total revenue	1,390,819	1,390,819
EXPENDITURES		
General government	195,662	195,662
Municipal court	306,866	306,866
Public safety	217,723	217,723
Public works	185,968	185,968
Capital outlays	5,443	5,443
Total expenditures	911,662	911,662
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	479,157	479,157
FUND BALANCE, BEGINNING OF YEAR	4,250,318	4,250,318
FUND BALANCE, END OF YEAR	\$ 4,729,475	\$ 4,729,475

The accompanying notes are an integral part of the financial statements.

**CITY OF RIESEL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021**

Net change in fund balances – total governmental funds (page 13)	\$ 479,157
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflow of resources in the governmental fund. This is the net change from the previous period.</p>	(29,491)
<p>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 depreciation exceeded capital outlays in the current period.</p>	(88,925)
<p>Pension-related and other post employment benefit expenses do not require the use of current resources, and therefore are not reported in the fund statements. This is the amount by which pension related expenses exceeded current year contributions.</p>	<u>6,397</u>
Change in net position of governmental activities (page 10)	<u><u>\$ 367,138</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF RIESEL, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2021

	Business-Type Activities-Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Cash and cash equivalents	\$ 1,481,153	\$ 554,136	\$ 2,035,289
Investments	167,091	66,266	233,357
Accounts receivable	78,510	10,935	89,445
Restricted cash- TWDB escrowed funds	5,508,261	-	5,508,261
Capital assets, net of accumulated depreciation	5,527,692	503,562	6,031,254
Total assets	12,762,707	1,134,899	13,897,606
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	2,456	2,456	4,912
Other postemployment benefits	496	496	992
Total deferred outflows of resources	2,952	2,952	5,904
LIABILITIES			
Accounts payable	25,525	2,875	28,400
Accrued expenses	1,093	1,093	2,186
Accrued interest	3,008	4,982	7,990
Customer deposits	61,741	30,871	92,612
Due to other funds	811,705	615,163	1,426,868
Unearned revenue- TWDB loan forgiveness grant	394,000	-	394,000
Noncurrent liabilities:			
Due within one year	21,000	22,000	43,000
Due in more than one year	5,966,647	389,647	6,356,294
Total liabilities	7,284,719	1,066,631	8,351,350
DEFERRED INFLOWS OF RESOURCES			
Pension plan	2,139	2,139	4,278
Other postemployment benefits	94	94	188
Total deferred outflows of resources	2,233	2,233	4,466
NET POSITION			
Net investment in capital assets	4,912,192	104,062	5,016,254
Restricted for:			
Debt service	74,321	75,910	150,231
Unrestricted	492,194	(110,985)	381,209
Total net position	\$ 5,478,707	\$ 68,987	\$ 5,547,694

The accompanying notes are an integral part of the financial statements.

CITY OF RIESEL, TEXAS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION - PROPRIETARY FUND
Year Ended September 30, 2021

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUE			
Charges for services:			
Water service	\$ 361,554	\$ -	\$ 361,554
Sewer service	-	129,066	129,066
Sanitation service	106,798	-	106,798
Reconnect and connection fees	9,000	-	9,000
Miscellaneous	7,296	-	7,296
Total Operating Revenue	<u>484,648</u>	<u>129,066</u>	<u>613,714</u>
OPERATING EXPENSES			
Salary, wages and payroll taxes	32,760	32,760	65,520
Employee benefits	5,473	5,447	10,920
Sanitation expense	101,410	-	101,410
Water purchased	71,512	-	71,512
Repairs and maintenance	20,234	17,745	37,979
Insurance	4,275	4,275	8,550
Utilities	21,276	7,991	29,267
Professional and technical expense	35,233	180	35,413
Supplies	15,705	3,247	18,952
Depreciation	212,445	49,742	262,187
Other	8,917	-	8,917
Total Operating Expenses	<u>529,240</u>	<u>121,387</u>	<u>650,627</u>
OPERATING GAIN (LOSS)	(44,592)	7,679	(36,913)
NON-OPERATING REVENUE (EXPENSES)			
Interest income	5,748	1,821	7,569
Grant income	106,000	-	106,000
Bond issuance costs	(246,082)	-	(246,082)
Gain or (loss) on disposal of assets	-	(1,489)	(1,489)
Interest expense	(25,409)	(21,368)	(46,777)
Total Non-operating Revenue (Expense)	<u>(159,743)</u>	<u>(21,036)</u>	<u>(180,779)</u>
CHANGE IN NET POSITION	(204,335)	(13,357)	(217,692)
Capital contribution	2,237,407	-	2,237,407
Net Position - beginning of year	3,445,635	82,344	3,527,979
Net Position - end of year	<u>\$ 5,478,707</u>	<u>\$ 68,987</u>	<u>\$ 5,547,694</u>

The accompanying notes are an integral part of the financial statements.

CITY OF RIESEL, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2021

	Business-type Activities-Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Cash received from customers	\$ 491,220	\$ 128,997	\$ 620,217
Cash payments to suppliers	(289,960)	(37,122)	(327,082)
Cash payments to employees	(29,533)	(29,533)	(59,066)
Net Cash Provided by Operating Activities	<u>171,727</u>	<u>62,342</u>	<u>234,069</u>
Cash Flows from Non-Capital Financing Activities			
Increase in due to other funds	298,318	33,743	332,061
Net Cash (Used) by Non-Capital Financing Activities	<u>298,318</u>	<u>33,743</u>	<u>332,061</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of capital assets	(332,941)	(11,601)	(344,542)
Payments on long-term debt	(20,000)	(21,000)	(41,000)
Interest payments	(25,014)	(18,432)	(43,446)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(377,955)</u>	<u>(51,033)</u>	<u>(428,988)</u>
Cash Flows from Investing Activities			
Interest received	3,772	1,294	5,066
Net Cash Provided by Investing Activities	<u>3,772</u>	<u>1,294</u>	<u>5,066</u>
Net Increase in Cash and Cash Equivalents	95,862	46,346	142,208
Cash and cash equivalents - beginning of year	1,385,291	507,790	1,893,081
Cash and cash equivalents - end of year	<u>\$ 1,481,153</u>	<u>\$ 554,136</u>	<u>\$ 2,035,289</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating gain (loss)	\$ (44,592)	\$ 7,679	\$ (36,913)
Adjustments to reconcile operating income / (loss) to net cash provided by operating activities:			
Depreciation expense	212,445	49,742	262,187
(Increase) decrease in accounts receivable	687	(69)	618
(Increase) decrease in pension deferrals	(212)	546	334
(Increase) decrease in other post employment benefits deferrals	667	(223)	444
Increase (decrease) in net pension liability	(669)	(253)	(922)
Increase (decrease) in other post employment benefits liability	314	383	697
Increase (decrease) in accounts payable and accrued liabilities	(2,306)	1,981	(325)
Increase (decrease) in customer deposits	5,885	2,943	8,828
Increase (decrease) in deferred inflow of resources	(492)	(387)	(879)
Total adjustments	<u>216,319</u>	<u>54,663</u>	<u>270,982</u>
Net Cash Provided by Operating Activities	<u>\$ 171,727</u>	<u>\$ 62,342</u>	<u>\$ 234,069</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Riesel (the City) conform to generally accepted accounting principles (GAAP) in the United States of America, applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for established governmental accounting and financial reporting principles. The more significant of the City's policies are described below.

REPORTING ENTITY

The City is a general law city in McLennan County, Texas which operates under a council-mayor form of government and provides such services as public safety, street maintenance, water and sanitation, public improvements, planning and zoning, judicial, general administrative and other services as are authorized by its code of ordinances and its citizens.

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include potential component units was made as set forth in GASB Statement No. 61. In accordance with this standard, a financial reporting entity consists of the primary government and its component units. Component units are legally separate entities for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Although blended component units are legally separate entities, they function as a part of the government and have their data blended with the primary government. Any discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements.

The criteria used to determine whether an organization is a component unit of the City and whether it is discretely presented or blended includes: whether the City appoints a voting majority of the organizations board and has the ability to impose its will on the component unit, or a financial benefit or burden relationship exists, whether the component unit is fiscally dependent, whether the component unit has substantively the same governing body as the primary government or management of the primary government has operational responsibility for the activities of the component unit; and whether services are provided entirely or almost entirely to the primary government.

The City reports the following blended component units:

Riesel Education Facilities Corporation (REFC) is Texas non-profit corporation created to provide an avenue for financing to organizations for the construction of educational related projects. The bonds issued do not constitute a debt or a pledge of faith or credit by REFC or the City but are payable by the user pursuant to terms defined in the applicable loan agreement underlying each issue. Any potential debt issue has to be approved by the City Council. There was no activity to report for the year ended September 30, 2021.

Riesel Cultural Facilities Corporation (RCFC) is a Texas non-profit corporation created to provide an avenue for financing to organizations for the preservation, education and development of cultural facilities. The bonds issued do not constitute a debt or pledge of faith or credit by RCFC or the City but are payable by the user pursuant to terms defined in the applicable loan agreement underlying each issue. Any potential debt issue has to be approved by the City Council. There was no activity to report for the year ended September 30, 2021.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Riesel Health Facilities Development Corporation (RHFDC) is a Texas non-profit corporation created to provide an avenue for financing to organizations for the maintenance and development of health facilities. The bonds issued do not constitute a debt or a pledge of faith or credit by the RHFDC or the City but are payable by the user pursuant to terms defined in the applicable loan agreement underlying each issue. Any potential debt issue has to be approved by the City Council. There was no activity to report for the year ended September 30, 2021.

BASIS OF PRESENTATION

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 non-fiduciary activities of the City. As a general rule, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds.

The City reports the following major governmental fund:

General Fund-The general fund is the City's primary operating fund. It is used to account 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 Fund-The water fund accounts for the activities of the water distribution system and solid waste collections

Sewer Fund-The sewer fund accounts for the activities of the sewage treatment plant, sewage stations and collection systems.

Governmental funds report as *program revenues* 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Proprietary funds distinguish *operating revenues* and expenses from *non-operating* items. Operating revenues and expenses 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 enterprise funds are charges to customers for sales and services. Operating expenses for the 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 non-operating revenues and expenses.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other governmental fund revenues are considered to be measurable and available only when cash is received by the City. Property taxes receivable not determined to be available to finance current period obligations are recorded and deferred in the fund statements.

When both restricted and unrestricted resources are available for use it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Cash and Cash Equivalents

The City's cash and cash equivalents for the purpose of the statements of net position and the statement of cash flows of the proprietary fund consist of cash on hand and money market accounts which are available for immediate withdrawal.

Accounts Receivables

Receivables include amounts due from customers for water, sewer and sanitation services in the proprietary fund. In the governmental funds, receivables include primarily property tax, sales tax, franchise fees and fines. All receivables are current and therefore due within one year. Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds".

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and water and sewer facilities are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City has elected not to report major general infrastructure assets retroactively as permitted by GASB Statement No. 34 for smaller governments. The City will report newly acquired or constructed general infrastructure assets in the statement of net position in the period they acquire or construct those assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10-20
Machinery and equipment	5-30
Water and sewer system	15-30
Infrastructure	15-30

Restricted Assets

Certain proceeds of the City's enterprise fund bonds, as well as certain resources of the City are set aside primarily for the repayment of its notes and capital lease obligations and accordingly, are classified as restricted assets on the statement of net position because their use is limited by applicable covenants.

Long-Term Debt

In the government-wide financial statements and in the fund financial statements for proprietary fund types, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts received on debt issuances are also reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

Deferred Outflows/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. The City has the following items that qualify for reporting in this category:

- Pension and other post-employment benefits (OPEB) contributions after measurement date – These contributions are deferred and recognized in the following year.
- Difference in projected and actual earnings on pension and OPEB investments – The difference is deferred and amortized over a closed five-year period.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

In addition to liabilities, the statement of net position 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. The City has two items that qualify for reporting in this category. Accordingly, the item, *unavailable revenue-property taxes*, is reported in the governmental funds balance sheet and other deferred amounts is reported in the statement of net position. These amounts are deferred and recognized as an inflow of resources in the periods the amounts become available.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions and OPEB

For the purposes of measuring the net pension liability/asset, OPEB liability deferred outflows of resources and deferred inflows of resources related to pensions and OPEB and pension and OPEB expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) TMRS Supplemental Death Benefits Fund (SDBF) and additions to/deductions from TMRS's Fiduciary Net Position and OPEB liability have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported to the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Equity Classifications

In the government-wide financial statements, equity is shown as net position and classified into three components:

Net investment in capital assets – Capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted – Consists of assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; 2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first and then unrestricted resources, as they are needed.

Unrestricted – All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

The City reports governmental fund balances by the five following classifications:

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

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Restricted – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes and imposed by formal action of the government’s highest level of decision-making authority. In the case of the City it is the City Council and the formal action would be an ordinance to modify or rescind the commitment.

Assigned – Amounts constrained by City management’s intent to be used for specific purposes but are not formally restricted by external resources or committed by City Council.

Unassigned – Amount of the remaining fund balance not in any of the other classifications.

For the classification of fund balances, the City considers restricted amounts to have been spent first when an expenditure is incurred for the purpose for which restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and lastly unassigned fund balance.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

The City Council follows these procedures in establishing the budgetary data reflected in the required supplemental information:

Prior to the end of each fiscal year, the City Secretary submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data from the preceding year.

Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage by majority vote of the City Council. The Council may authorize supplemental appropriations during the year.

The final amended budget is used in this report. Unused appropriations lapse at the end of the year unless carried forward to the next year by Council action. No encumbrances are recognized or recorded. The operating budget includes proposed expenditures for the General Fund. See Schedule of Revenues, Expenditures, and Changes In Fund Balance-Budget to Actual-General Fund on page 42.

3. DETAILED NOTES ON ALL FUNDS

DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City’s agent bank in an amount sufficient to protect City 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, 2021, the carrying amount of the City’s cash deposits were \$5,351,583, and the bank balances were \$5,356,264.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

The **Public Funds Investment Act** (Government Code Chapter 2256) 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, (9) and 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,

Legal and Contractual Provisions Governing Deposits and Investments

(9) guaranteed investment contracts, (10) and 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.

As of September 30, 2021, the City’s investments were invested with a local bank. The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are other observable inputs; and Level 3 inputs are unobservable inputs. As of September 30, 2021, the City had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Input Level</u>
<u>Primary Government</u>			
Certificates of Deposit	\$ 233,357	\$ 233,357	1
Total investments	<u>\$ 233,357</u>	<u>\$ 233,357</u>	

Policies Governing Deposits and Investments

In compliance with the Public Funds Investments Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the City’s deposits may not be returned to it. The City’s deposits for the year were collateralized with pledged securities from the City’s depository bank.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s policy requires investments, other than investment pools, to be held by a third-party custodian bank. All of the City’s investments were held by the City’s third-party custodian bank in the City’s name.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Interest Rate Risk: In accordance with its investment policy, the City manages its exposure to declines in fair value by: a) structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations, b) investing operating funds primarily in shorter-term securities, money market mutual funds or government investment pools, and c) diversifying maturities over time. It is the City’s policy not to invest in securities maturing more than three years from the date of purchase. Money market mutual funds must have a dollar weighted average stated maturity of 180 days or less. Finally, the composite portfolio must maintain a weighted average maturity of 365 days or less. Other Credit Risk: In compliance with the City’s Investment Policy, as of September 30, 2021, the City minimized credit risk losses due to a default of a security issuer or backer, by limiting investments to the safest types of securities; limiting Certificates of Deposit that are insured by the Federal Deposit Insurance Corporation (FDIC); limiting the City’s investments to obligations issued, guaranteed, insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities were minimized.

Escrow Accounts. Pursuant to agreements with the Texas Water Development Board (TWDB) to provide financial assistance to the City through the Drinking Water State Revolving Fund for the purpose of making improvements to the City’s water system, proceeds from the issuance of the 2021 certificates of obligation (see “Long-term Debt note that follows) along with funds provided to the City as part of loan forgiveness programs are being held in escrow accounts pending approval by the TWDB for final disbursement. Terms of the agreements include commitments by the TWDB to purchase the 2021 Series certificates issued by the City as well as loan forgiveness totaling \$5,860,000. A summary of escrow balances, including interest, at September 30, 2021 are as follows:

Unspent proceeds- 2021 certificates of obligation	\$ 5,114,236
Unspent proceeds- 2021 TWDB loan forgiveness	394,025
Total	<u>\$ 5,508,261</u>

RESTRICTED ASSETS

Restrictions on cash and cash equivalents and certificates of deposits at September 30, 2021 are as follows:

	Governmental Activites	Business-type Activites	Total
Debt service	\$ 1,126	\$ 150,231	\$ 151,357
Municipal court	303,256	-	303,256
Public safety	4,435	-	4,435
TWDB project escrow	-	5,508,261	5,508,261
Total	<u>\$ 308,817</u>	<u>\$ 5,658,492</u>	<u>\$ 5,967,309</u>

PROPERTY TAXES AND RECEIVABLES

The City’s property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the City. The assessed value at January 1, 2020, upon which the fiscal year 2021 levy was based, was \$72,749,536. The tax assessment of October 1,

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

2020 set a tax levy at \$.287022 per \$100 of assessed valuation at 100 percent of market value. Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property.

Delinquent property taxes estimated to be collected within the next fiscal year are recognized as revenues in the government wide financial statements. At the fund level, delinquent property taxes estimated to be collected in time to be a resource and therefore subject to accrual, have been recognized as revenue with the remaining balance recorded as deferred inflows of resources.

CAPITAL ASSETS

Changes in capital assets during the year ended September 30, 2021, were as follows:

	Balance October 1, 2020	Additions	Transfers/ Retirements	Balance September 30, 2021
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 24,604	\$ -	\$ -	\$ 24,604
Total capital assets not being depreciated	<u>24,604</u>	<u>-</u>	<u>-</u>	<u>24,604</u>
Capital assets being depreciated:				
Buildings and improvements	136,967	923	-	137,890
Machinery and equipment	134,910	-	-	134,910
Vehicles	194,421	4,520	-	198,941
Infrastructure	706,938	-	-	706,938
Total capital assets being depreciated	1,173,236	5,443	-	1,178,679
Less accumulated depreciation	(514,601)	(94,368)	-	(608,969)
Total capital assets being depreciated, net	<u>658,635</u>	<u>(88,925)</u>	<u>-</u>	<u>569,710</u>
Governmental activities capital assets, net	<u>\$ 683,239</u>	<u>\$ (88,925)</u>	<u>\$ -</u>	<u>\$ 594,314</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 125,247	\$ -	\$ -	\$ 125,247
Construction in progress	-	106,000	-	106,000
Total capital assets not being depreciated	<u>125,247</u>	<u>106,000</u>	<u>-</u>	<u>231,247</u>
Capital assets being appreciated:				
Water & sewer system	4,948,287	10,174	-	4,958,461
RMS water system	-	2,559,712	-	2,559,712
Buildings and improvements	40,004	922	-	40,926
Machinery and equipment	589,019	11,139	(17,279)	582,879
Total capital assets being depreciated	5,577,310	2,581,947	(17,279)	8,141,978
Less accumulated depreciation	(2,095,574)	(262,187)	15,790	(2,341,971)
Total capital assets being depreciated, net	<u>3,481,736</u>	<u>2,319,760</u>	<u>(1,489)</u>	<u>5,800,007</u>
Business-type activities capital assets, net	<u>\$ 3,606,983</u>	<u>\$ 2,425,760</u>	<u>\$ (1,489)</u>	<u>\$ 6,031,254</u>

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 34,087
Public safety	27,367
Public works	<u>32,914</u>
Total depreciation expense governmental activities	<u>\$ 94,368</u>
Business-type activities:	
Water fund	\$ 212,445
Sewer fund	<u>49,742</u>
Total depreciation expense business-type activities	<u>\$ 262,187</u>

INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances are utilized to account for payments made by one fund on behalf of another fund or deposits received by one fund on behalf of another fund. Following are the balances at September 30, 2021:

Funds	Due To	Due From
General Fund	\$ 1,426,869	\$ -
Water Fund	-	811,705
Sewer Fund	-	<u>615,164</u>
Total	<u>\$ 1,426,869</u>	<u>\$ 1,426,869</u>

Interfund balances consist of lending/borrowing arrangements that result from expenditures that are paid by one fund and then charged back to the appropriate other fund. Some lending borrowing may occur between two or more funds.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year ended September 30, 2021:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental activities:					
Net pension liability	\$ 117,134	\$ -	\$ (9,166)	\$ 107,968	\$ -
OPEB liability	19,405	3,038	-	22,443	-
Governmental activity long-term liabilities	<u>\$ 136,539</u>	<u>\$ 3,038</u>	<u>\$ (9,166)</u>	<u>\$ 130,411</u>	<u>\$ -</u>
Business - type activities:					
Revenue Bond-Series 2009	\$ 548,000	\$ -	\$(10,000)	\$ 538,000	\$ 11,000
Certificates of Obligation-Series 1999	333,000	-	(11,000)	322,000	12,000
Certificates of Obligation-Series 2013	175,000	-	(20,000)	155,000	20,000
Certificates of Obligation-Series 2021	-	5,360,000	-	5,360,000	-
Net pension liability	21,035	-	(921)	20,114	-
OPEB liability	3,485	695	-	4,180	-
Business - type activity long-term liabilities	<u>\$ 1,080,520</u>	<u>\$ 5,360,695</u>	<u>\$ (41,921)</u>	<u>\$ 6,399,294</u>	<u>\$ 43,000</u>

Long-term debt at September 30, 2021 is comprised of the following:

	Governmental Type Activities	Business- Type Activities
Certificates of Obligation and Revenue Bonds:		
\$637,000 water system Revenue Bonds Series 2009 due in annual installments of \$7,000 to \$31,000 through 2049; interest at 4.125%	\$ -	\$ 538,000
\$478,000 sewer system Certificate of Obligation Bonds, Series 1999 due in annual installments of \$2,000 to \$66,000 through 2039; interest at 4.75%	-	322,000
\$300,000 water and sewer system Certificate of Obligation Bonds, Series 2013 due in annual installments of \$15,000 to \$28,000 through 2028; interest at 2.990%		155,000
\$5,360,000 water system Certificate of Obligation Bonds, Series 2021 due in annual installments of \$185,000 through 2044; interest at 0.00%	-	5,360,000
Total certificates of obligation and revenue bonds	-	<u>6,375,000</u>
Net pension liability	107,968	20,114
OPEB liability	22,443	4,180
Total primary government debt	<u>\$ 130,411</u>	<u>\$ 6,399,294</u>

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

The annual debt service requirements to maturity for business-type activities are as follows:

Year Ended September 30,	Principal	Interest	Total
2022	\$ 43,000	\$ 43,415	\$ 86,415
2023	228,000	41,888	269,888
2024	229,000	40,314	269,314
2025	230,000	38,719	268,719
2026	236,000	37,056	273,056
2027-2031	1,126,000	158,888	1,284,888
2032-2036	1,113,000	122,305	1,235,305
2037-2041	1,105,000	75,164	1,180,164
2042-2046	1,055,000	32,381	1,087,381
2047-2051	1,010,000	5,651	1,015,651
Total	<u>\$ 6,375,000</u>	<u>\$ 595,781</u>	<u>\$ 6,970,781</u>

In May, 2021, the City approved issuance of \$5,360,000 of combination tax and surplus revenue certificates of obligation carrying interest at a rate of 0.00%. The sale of the bonds was made by private placement with the Texas Water Development Board (TWDB). The bonds were issued in conjunction with a loan forgiveness grant made by the TWDB to the City in the amount of \$500,000. The proceeds from the grant and bonds will be used for the construction of improvements to the City's water system. Annual principal payments of \$185,000, begin on July 1, 2023 through July 1, 2051, and are secured by ad valorem taxes and a lien on surplus utility revenues and are recorded in the water fund.

The general fund is responsible for liquidating the net pension liability for employees employed in the corresponding governmental funds.

The City's bond indentures contain restrictions concerning the maintenance of accounting records, interest and sinking funds and reserve funds in varying amounts. These amounts are included in the restricted balances on the accompanying balance sheet and statements of net position.

4. OTHER INFORMATION

RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has joined together with other governments in the State of Texas to form the Texas Municipal League Intergovernmental Risk Pool (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for liability, property, and workmen's compensation coverage. The City pays a quarterly contribution to the Pool for its insurance coverage. The agreement for formation of the Pool provides that the Pool will be self-sustaining through member contributions and will reinsure through commercial companies for claims in excess of specific limits.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the last three years.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

COMMITMENTS AND CONTINGENCIES

a. Water Purchase Agreement

On May 16, 1991 the City entered into a long-term agreement to purchase water from RMS Water Supply Corporation (RMS), a related party (Note 4(C)). The agreement runs through May 16, 2031. Under the contract, the City may purchase up to 5,400,000 gallons of water per month. The contract has been amended several times through the years with a current rate of \$1.28 per thousand gallons of water used along with a fixed charge of \$2,986, due monthly. Per the asset transfer agreement with RMS (see Note 4. F), this water purchase agreement was terminated.

Per a December 2008 land purchase contract to procure a site for a water well, it was stipulated that the City pay a royalty to the seller for the water produced and evidenced by a meter at a rate of \$0.15 per thousand gallons. This royalty is due monthly and shall be in effect for as long as the City produces water from the purchased property. During the year ended September 30, 2021, the City paid \$1,955, fin royalties, for purchased water.

b. Litigation and Violations

The City is a party to legal proceedings, many of which occur in the normal course of operations. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the city with respect to the various proceedings.

c. Tax Abatement

The City enters into ad valorem tax abatement agreements with businesses pursuant to its tax abatement policy and Texas Tax Code Chapter 311, Texas Tax Code Chapter 312, Texas Local Government Code Chapter 380 and Section 52-a of the State Constitution of Texas. Under its policy, the City may grant ad valorem tax abatements for the purpose of promotion of high quality commercial and industrial development in all parts of the City, and an ongoing improvement of the quality of life of its citizens.

For the fiscal year ended September 30, 2021, the City abated ad valorem taxes totaling \$15,320, as detailed below:

First Year of Abatement	Company	2020 Abated Value	Term of Abatement	Abatement Percentage	Commitment by Receptient
2013	Sandy Creek Energy Assoc., LP	\$ 5,337,437	10 years	35% to 98%	Construct new facility, create on average 100 jobs.

d. Affiliated Corporations

The City and its affiliated corporations (Riesel Cultural Facilities Corporations, Riesel Education Facilities Corporation and Riesel Health Facilities Development Corporation) participate in securing financing mechanisms for various organizations. The City and its affiliated corporations assist these various organizations in securing financing for their respective construction projects. The City and its affiliates are not obligated in any manner for the repayment of the notes payable secured by these organizations. Therefore, the City has not reported any liability in the financial statements for these loans. The City does receive a fee for participating in the conduit financing. The Corporations do not have any prepared financial statements and any conduit revenues received are reported in the General Fund as miscellaneous revenues. For the year ended September 30, 2021, there was no activity and no fees received. Additional information regarding these matters can be obtained from the City Secretary.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

PENSION PLAN

Plan Description

The City of Riesel participates as one of the 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency defined pension plan 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 advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

TMRS provides retirement, disability and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Plan provisions for the City were as follows:

	Plan Year 2020	Plan Year 2019
Employee deposit rate	5.0%	5.0%
Matching ratio (City to Employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0.0%	0.0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	7
<u>Active employees</u>	<u>8</u>
Total	17

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings and the city matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of the benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Riesel were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Riesel were 5.86% and 5.67% in calendar years 2019 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$20,678 and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.50% to 11.50% including inflation.
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 tables used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-district 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 is 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 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 the production of income in order to satisfy the short-term and long-term funding need of TMRS.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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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 various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimate of 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	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

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.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2019	\$ 542,890	\$ 404,721	\$ 138,169
Changes for the year:			
Service cost	20,815	-	20,815
Interest	37,128	-	37,128
Change of benefit terms	-	-	-
Difference between expected and actual experience	(40)	-	(40)
Changes of assumptions	-	-	-
Contributions - employer	-	20,119	(20,119)
Contributions - employee	-	17,259	(17,259)
Net investment income	-	30,820	(30,820)
Benefit payments, including refunds of employee contributions	(6,518)	(6,518)	-
Administrative expense	-	(199)	199
Other changes	-	(8)	8
Net changes	51,385	61,473	(10,088)
Balance at 12/31/2020	\$ 594,275	\$ 466,194	\$ 128,081

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension 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:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 223,374	\$ 128,081	\$ 50,428

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2021, the City recognized pension expense of \$20,678.

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

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,371	\$ 2,214
Changes in actuarial assumptions	-	1,897
Differences between projected and actual investment earnings	11,661	23,125
Contributions subsequent to the measurement date	15,245	-
Total deferred outflows/inflows of resources, net	\$ 31,277	\$ 27,236

The \$15,245 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows/ (Inflows) of Resources
2021	\$ (3,613)
2022	(576)
2023	(6,503)
2024	(507)
2025	(5)
Thereafter	-
Total	<u>\$ (11,204)</u>

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Benefit Plan Description

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan. 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 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 other postemployment benefit (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 (i.e. no assets are accumulated).

Contributions

The 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 program 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.

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

Employees Covered by Benefit Terms

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

Inactive employees currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	2
Active employees	8
Total	12

Total OPEB Liability

The City’s total OPEB liability of \$26,624 was measured as of December 31, 2020 and was determined by an actuarial valuation as of that date.

Summary of Actuarial Assumptions

Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate*	2.00%
	\$
Retiree's Share of Benefit-Related Costs	-
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 3 year set-forward for males and a 3 year set-forward for both females. In addition, a 3.5% and a 3% minimum mortality rate will be applied to reflect the impairments 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 discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

Note: The actuarial Assumptions used in the December 3, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

CITY OF RIESEL, TEXAS
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September 30, 2021

Changes in the Total OPEB Liability

Total OPEB Liability-December 31, 2019	\$ 22,890
Changes for the year	
Service Cost	656
Interest on Total OPEB Liability	637
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	(1,051)
Changes in Assumptions or Other Inputs	3,630
Benefit Payments	(138)
Net Changes	<u>3,734</u>
Total OPEB Liability-December 31, 2020	<u>\$ 26,624</u>

Sensitivity of the Total OPEB Liability to Change in the Discount Rate

The following presents the Total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.00%) than the current discount rate:

	1% Decrease in Discount Rate (1.00%)	Current Discount Rate (2.00%)	1% Increase in Discount Rate (3.00%)
Total OPEB Liability	\$ 32,717	\$ 26,624	\$ 21,978

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$679.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,199
Changes in assumptions and other inputs	5,811	-
Contributions made subsequent to measurement date	511	-
Total deferred outflow of resources, net	<u>6,322</u>	<u>1,199</u>

CITY OF RIESEL, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2021

The \$511 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Net Deferred Outflows (Inflows) of Resources
2021	\$ 808
2022	808
2023	808
2024	769
2025	620
Thereafter	799
Total	<u>\$ 4,612</u>

ASSET TRANSFER AGREEMENT

In May of 2021, the City completed an asset transfer agreement with R-M-S Water Supply Corporation (RMS). Under the terms and conditions of the agreement RMS conveyed to the City all of its right, title and interest in, to and under all of the assets of RMS, and all duties, obligations and liabilities. Per the agreement, the City paid RMS's outstanding debt to the USDA of \$322,305. The fair market value of RMS's water system assets transferred of \$2,237,407, has been recorded in the Water Fund as a capital asset addition and a capital contribution.

SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through May 6, 2022, the date the financial statements were available to be issued. No change to the financial statements or disclosures for the fiscal year ended September 30, 2021 was deemed necessary as a result of this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RIESEL, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL -
GENERAL FUND
For the Year Ended September 30, 2021

	Budget Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUE				
Property taxes	\$ 218,880	\$ 218,880	\$ 227,699	\$ 8,819
Sales taxes	110,000	110,000	125,410	15,410
Franchise and other taxes	52,500	52,500	40,182	(12,318)
Fines & other law enforcement	589,070	589,070	660,715	71,645
Charges for services	3,300	3,300	10,361	7,061
Interest earned	8,500	8,500	15,170	6,670
Payment in lieu of taxes	125,000	125,000	125,000	-
Total Revenue	<u>1,107,250</u>	<u>1,107,250</u>	<u>1,204,537</u>	<u>97,287</u>
EXPENDITURES				
General government	564,729	564,729	195,662	369,067
Municipal court	331,843	331,843	306,866	
Public safety	248,003	248,003	217,723	30,280
Public works	279,980	279,980	185,968	94,012
Capital outlays	165,000	165,000	5,443	159,557
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>1,589,555</u>	<u>1,589,555</u>	<u>911,662</u>	<u>652,916</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(482,305)	(482,305)	292,875	750,203
OTHER FINANCING SOURCES (USES)				
Contributions and grants	-	-	186,282	186,282
Fund appropriations	482,305	482,305	-	(482,305)
Other	-	-	-	-
Total other financing sources (uses)	<u>482,305</u>	<u>482,305</u>	<u>186,282</u>	<u>(296,023)</u>
EXCESS OF REVENUE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 479,157</u>	<u>\$ 454,180</u>

The accompanying note is an integral part of the Required Supplementary Information.

CITY OF RIESEL, TEXAS
NOTE TO STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET TO ACTUAL – GENERAL FUND
For the Year Ended September 30, 2021

1. Basis of Presentation:

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to capital outlays are recorded when payment is made.

2. Budget Highlights:

Final budget compared to actual results reflects a variance of \$454,180 where actual expenses were lower than budgeted and actual revenues were higher than budgeted. The overall favorable budget variance was primarily attributable to higher than budgeted grant and fines income, combined with lower than budgeted street maintenance, capital outlays and the related appropriations. Various other components of revenue and expenses had an off-setting effect.

CITY OF RIESEL, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - EMPLOYEES' PENSION PLAN
Measurement Dates

	<u>December 31 2014</u>	<u>December 31 2015</u>	<u>December 31 2016</u>	<u>December 31 2017</u>	<u>December 31 2018</u>	<u>December 31 2019</u>	<u>December 31 2020</u>
Total Pension Liability							
Service cost	\$ 16,149	\$ 18,991	\$ 21,662	\$ 21,173	\$ 21,473	\$ 21,947	\$ 20,815
Interest (on the Total Pension Liability)	20,557	22,521	25,187	27,986	30,860	33,667	37,128
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	732	548	3,658	2,433	(4,458)	5,745	(40)
Change of assumptions	-	17,535	-	-	-	(3,013)	-
Benefit payments, including refunds of employee contributions	(8,325)	(13,291)	(5,743)	(11,828)	(6,518)	(6,518)	(6,518)
Net Change in Pension Liability	<u>29,113</u>	<u>46,304</u>	<u>44,764</u>	<u>39,764</u>	<u>41,357</u>	<u>51,828</u>	<u>51,385</u>
Total Pension Liability - Beginning	<u>289,760</u>	<u>318,873</u>	<u>365,177</u>	<u>409,941</u>	<u>449,705</u>	<u>491,062</u>	<u>542,890</u>
Total Pension Liability - Ending (a)	<u>\$ 318,873</u>	<u>\$ 365,177</u>	<u>\$ 409,941</u>	<u>\$ 449,705</u>	<u>\$ 491,062</u>	<u>\$ 542,890</u>	<u>\$ 594,275</u>
Plan Fiduciary Net Position							
Contributions - Employer	\$ 13,696	\$ 15,850	\$ 17,848	\$ 22,204	\$ 21,433	\$ 21,550	\$ 20,119
Contributions - Employee	14,063	14,953	16,022	17,020	17,289	18,019	17,259
Net investment income	8,683	265	13,357	33,138	(8,973)	49,932	30,820
Benefit payments, including refunds of employee contributions	(8,325)	(13,291)	(5,743)	(11,828)	(6,518)	(6,518)	(6,518)
Administrative expense	(91)	(162)	(151)	(171)	(173)	(281)	(199)
Other	(7)	(7)	(8)	(9)	(10)	(9)	(8)
Net Change in Plan Fiduciary Net Position	<u>28,019</u>	<u>17,608</u>	<u>41,325</u>	<u>60,354</u>	<u>23,048</u>	<u>82,693</u>	<u>61,473</u>
Plan Fiduciary Net Position - Beginning	<u>151,674</u>	<u>179,693</u>	<u>197,301</u>	<u>238,626</u>	<u>298,980</u>	<u>322,028</u>	<u>404,721</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 179,693</u>	<u>\$ 197,301</u>	<u>\$ 238,626</u>	<u>\$ 298,980</u>	<u>\$ 322,028</u>	<u>\$ 404,721</u>	<u>\$ 466,194</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 139,180</u>	<u>\$ 167,876</u>	<u>\$ 171,315</u>	<u>\$ 150,725</u>	<u>\$ 169,034</u>	<u>\$ 138,169</u>	<u>\$ 128,081</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	56.35%	54.03%	58.21%	66.48%	65.58%	74.55%	78.45%
Covered Employee Payroll	\$ 281,268	\$ 299,065	\$ 320,439	\$ 340,409	\$ 345,773	\$ 360,375	\$ 345,185
Net Pension Liability as a Percentage of Covered Employee Payroll	49.48%	56.13%	53.46%	44.28%	48.89%	38.34%	37.11%

See accompanying Independent Auditors' Report.

CITY OF RIESEL, TEXAS
SCHEDULE OF CONTRIBUTIONS - EMPLOYEES' PENSION PLAN
Fiscal Years Ended

	September 30 2015	September 30 2016	September 30 2017	September 30 2018	September 30 2019	September 30 2020	September 30 2021
Actuarially determined contribution	\$ 15,203	\$ 17,991	\$ 21,358	\$ 21,985	\$ 21,365	\$ 19,534	\$ 20,678
Contributions in relation to the actuarially determined contribution	\$ 15,203	\$ 17,991	\$ 21,358	\$ 21,985	\$ 21,365	\$ 19,534	\$ 20,678
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 293,122	\$ 327,034	\$ 337,541	\$ 350,117	\$ 354,510	\$ 332,970	\$ 362,062
Contributions as a percentage of covered employee payroll	5.19%	5.50%	6.33%	6.28%	6.03%	5.87%	5.71%

NOTES TO SCHEDULE OF CONTRIBUTIONS

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	10 year smoothed market; 12% soft corridor
Inflation	2.5%
Salary increases	3.5% to 11.5% 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 Employees table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes There were no benefit changes during the year.

See accompanying Independent Auditors' Report.

CITY OF RIESEL, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Measurement Dates

	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2020</u>
Total OPEB liability				
Service cost	\$ 511	\$ 622	\$ 468	\$ 656
Interest (on the Total OPEB Liability)	613	631	697	637
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	-	225	(571)	(1,051)
Change in assumptions or other inputs	1,729	(1,584)	3,807	3,630
Benefit payments**	(68)	(69)	(108)	(138)
Net Change in OPEB Liability	<u>2,785</u>	<u>(175)</u>	<u>4,293</u>	<u>3,734</u>
Total OPEB Liability - Beginning	<u>15,987</u>	<u>18,772</u>	<u>18,597</u>	<u>22,890</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 18,772</u></u>	<u><u>\$ 18,597</u></u>	<u><u>\$ 22,890</u></u>	<u><u>\$ 26,624</u></u>
Covered Employee Payroll	\$ 340,409	\$ 345,773	\$ 360,375	\$ 345,185
Total OPEB Liability as a Percentage of Covered Employee Payroll	5.51%	5.38%	6.35%	7.71%

* Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for a SDBF benefit (i.e. excludes beneficiaries, non-vested terminations due a refund, etc.).

** Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

CITY OF RIESEL, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS-OPEB-SUPPLEMENTAL DEATH
BENEFIT FUND
Fiscal Years Ended

	September 30, 2018	September 30, 2019	September 30, 2020	September 30, 2021
Actuarially determined contribution	\$ 625	\$ 524	\$ 575	\$ 679
Contributions in relation to the actuarially determined contribution	\$ 625	\$ 524	\$ 575	\$ 679
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 350,117	\$ 350,117	\$ 332,970	\$ 362,062
Contributions as a percentage of covered employee payroll	0.18%	0.15%	0.17%	0.19%

Notes to Schedule:

Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Discount Rate*	2.00%
Retiree's Share of Benefit-Related Costs	\$ -
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 set-forward for males and a 3 year set-forward for both females. In addition, a 3.5% and a 3% minimum mortality rate will be applied to reflect the impairments 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 discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

Note: The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

COMPLIANCE/INTERNAL CONTROL

WILLIAM GRIMSLEY

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S 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*

To the Honorable Mayor and Members of the City Council
City of Riesel, Texas
Riesel, TX

I 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, each major fund, and the aggregate remaining fund information of the City of Riesel, Texas, (the City) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated May 6, 2022.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control such that there is 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 in charge of governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



William A. Grimsley, CPA
Gatesville, TX
May 6, 2022