

CITY OF ARCOLA, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2021



CITY OF ARCOLA, TEXAS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Arcola, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, 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.

To the Honorable Mayor and
City Council Members of the

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and certain required pension system information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 56 is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



July 12, 2022
Houston, Texas

CITY OF ARCOLA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Arcola, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2021.

Financial Highlights

The assets and deferred outflows of the City exceeded the liabilities and deferred inflows of the City at the close of the most recent fiscal year by \$15,918,696. Of this amount, \$11,487,106 represented the net investment in capital assets, or the carrying value of the capital assets less the capital related debt, \$190,705 was restricted for debt service, and \$147,639 was restricted for court security and technology. The remaining amount was unrestricted net position of \$4,093,246.

- The City's total net position increased by \$910,150 primarily due to an increase in charges for services in both the business-type activities and the governmental activities.
- The City's governmental funds reported combined ending fund balances of \$3,280,847 as of September 30, 2021. Fund balance of \$328,240 is restricted for (1) debt service in the amount of \$180,601, and (2) court security and technology in the amount of \$147,639. The remaining amount in fund balance of \$2,936,166 is unassigned general fund balance available for spending at the City's discretion. The general fund unassigned fund balance increased \$667,219 as compared to the prior fiscal year. The unassigned fund balance represents 121 percent of total general fund expenditures.
- The City's total bonded debt decreased by \$100,000 as a result of principal payments made during the current fiscal year.

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 required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide 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 of the City's assets, deferred outflows of resources and liabilities, with the difference between the three reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event to the change occurs, *regardless of timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. municipal court fines).

The *government-wide financial statements* distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include administrative, police department, public works, municipal court, and interest on long-term debt. The business-type activities of the City include water distribution and wastewater collection/treatment.

CITY OF ARCOLA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's discretely presented component units consists of the Arcola 4B Corporation and Reinvestment Zone #1. Although legally separate, this component unit is included because the City is financially accountable for it.

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 as *governmental activities* 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 *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The focus of governmental funds is narrower than that of the government-wide financial statements, therefore 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 funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered to be a major fund. The debt service fund and capital projects fund are combined in a single non-major governmental funds column.

Proprietary Funds

The City maintains one enterprise fund to account for its water distribution and wastewater collection/treatment. *Enterprise funds*, a type of Proprietary fund, are used to report on other activity for which a fee is charged to external users for goods or services. Enterprise funds are included within the *business-type activities* in the government-wide financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The City did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The Required Supplementary Information also includes information related to the required pension system information.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$15,918,696 as of September 30, 2021.

A portion of the City's net position reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; 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.

As of September 30, 2021 and 2020, the City's net position included the following:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 4,044,099	\$ 3,452,054	\$ 1,611,991	\$ 1,731,694	\$ 5,656,090	\$ 5,183,748
Capital assets	3,746,341	3,853,155	10,640,765	10,382,380	14,387,106	14,235,535
Total Assets	7,790,440	7,305,209	12,252,756	12,114,074	20,043,196	19,419,283
Deferred Outflows of Resources	26,021	24,533	-	-	26,021	24,533
Current and other liabilities	688,395	716,431	432,274	690,203	1,120,669	1,406,634
Long-term liabilities	2,900,000	3,000,000	-	-	2,900,000	3,000,000
Net pension liability	93,514	122,092	-	-	93,514	122,092
Total Liabilities	3,681,909	3,838,523	432,274	690,203	4,114,183	4,528,726
Deferred Inflows of Resources	36,338	21,549	-	-	36,338	21,549
Net position:						
Net investment in capital assets	846,341	853,155	10,640,765	10,382,380	11,487,106	11,235,535
Restricted	338,344	347,568	-	-	338,344	347,568
Unrestricted	2,913,529	2,268,947	1,179,717	1,041,491	4,093,246	3,310,438
Total Net Position	\$ 4,098,214	\$ 3,469,670	\$ 11,820,482	\$ 11,423,871	\$ 15,918,696	\$ 14,893,541

Net position in the governmental activities are restricted for various purposes as follows:

	2021	2020
Court security and technology	\$ 147,639	\$ 147,639
Debt service	190,705	199,929
Total Restricted Net Position	\$ 338,344	\$ 347,568

At the end of the current fiscal year, the City reports positive balances in all categories of net position in the primary government. The City reports net position invested in capital assets reported net of outstanding related debt totals \$11,487,106 at year end.

CITY OF ARCOLA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The City's net position of the governmental activities increased by \$633,300 during the current fiscal year due to an increase in charges for services related to new development. The remaining balance of net position in the governmental activities consists of unrestricted net position of \$2,913,529.

The City's net position of the business-type activities had an ending balance of \$11,820,482. This consists of (1) net investment in capital assets in the amount of \$10,640,765 and (2) an unrestricted net position of \$1,179,717, which may be used to meet on-going obligations.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Program revenue:						
Charges for services	\$ 915,770	\$ 668,013	\$ 1,005,677	\$ 1,016,640	\$ 1,921,447	\$ 1,684,653
Operating grants and contributions	537,344	499,539	-	-	537,344	499,539
Capital grants and contributions	523,124	1,543,857	609,843	371,238	1,132,967	1,915,095
General revenues:						
Property taxes	992,700	994,700	-	-	992,700	994,700
Sales taxes	459,418	409,330	-	-	459,418	409,330
Franchise taxes	52,825	52,404	-	-	52,825	52,404
Investment earnings	500	5,273	267	347	767	5,620
Miscellaneous	32,503	908,043	-	-	32,503	908,043
Total Revenues	3,514,184	5,081,159	1,615,787	1,388,225	5,129,971	6,469,384
Expenses:						
Administrative	845,562	712,477	-	-	845,562	712,477
Police department	1,024,072	852,387	-	-	1,024,072	852,387
Public works	383,492	228,855	-	-	383,492	228,855
Municipal court	543,599	421,937	-	-	543,599	421,937
Interest on long-term debt	84,159	86,214	-	-	84,159	86,214
Water and sewer	-	-	1,338,937	1,192,925	1,338,937	1,192,925
Total Expenses	2,880,884	2,301,870	1,338,937	1,192,925	4,219,821	3,494,795
Excess (deficiency) before transfers	633,300	2,779,289	276,850	195,300	910,150	2,974,589
Transfers	-	(80,826)	-	80,826	-	-
Increase (Decrease) in Net Position	633,300	2,698,463	276,850	276,126	910,150	2,974,589
Net Position - beginning	3,469,670	771,207	11,423,871	11,147,745	14,893,541	11,918,952
Correction for accounting error	(4,756)	-	119,761	-	115,005	-
Net Position - ending	\$ 4,098,214	\$ 3,469,670	\$ 11,820,482	\$ 11,423,871	\$ 15,918,696	\$ 14,893,541

Governmental activities

Governmental revenues are generated primarily from four sources. Property taxes, charges for services, sales tax, and grants and contributions, which represent 97 percent of total revenues. The remaining 3 percent is generated from miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 992,700	28%
Charges for services	915,770	26%
Sales taxes	459,418	13%
Grants and contributions	1,060,468	30%
Other revenues	85,828	2%
Total Revenues	\$ 3,514,184	100%

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The primary functional expenses of the City are the police department and administrative, which represent 64 percent of total expenses. Other expenses for public works, municipal court, and interest on long-term debt represent 36 percent of the total expenses.

	Total Expenses	% of Total Expenses
Police Department	\$ 936,411	34%
Public works	383,492	14%
Administrative	845,562	30%
Municipal court	543,599	19%
Interest on long-term debt	84,159	3%
Total Expenses	2,793,223	100%

Business-type activities

Charges for services for business-type activities was fairly consistent with the previous year. Grants increased in 2021 which was related to the CDBG grant and the water plant paving and drainage improvements. Expenses increased slightly due to maintenance and usage.

Financial Analysis of the City's Funds

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of \$3,280,847, an increase of \$624,155 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2,936,166. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance is 121 percent of total general fund expenditures. The general fund unassigned fund balance increased by \$667,219 primarily related to a decrease in capital outlay expenditures when compared to the prior year.

Proprietary Funds - The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

Actual general fund balance increased by \$637,491 and budgeted appropriations exceeded actual expenditures by \$432,982. Revenues exceeded budgetary projections by \$213,509. The result is an ending fund balance that is \$632,735 higher than anticipated.

CITY OF ARCOLA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for its governmental and business-type activities as of September 30, 2021 amounted to \$3.7 million and \$10.6 million respectively. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure. The following table shows the capital asset balances at September 30, 2021 and 2020:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Land	\$ 519,249	\$ 519,249	\$ -	\$ -	\$ 519,249	\$ 519,249
Construction in progress	565,277	2,501,460	809,787	559,470	1,375,064	3,060,930
Buildings and improvements	2,113,929	209,171	-	-	2,113,929	209,171
Machinery and equipment	299,483	344,373	-	-	299,483	344,373
Infrastructure	248,403	278,902	-	-	248,403	278,902
Water and sewer system	-	-	9,830,978	9,822,910	9,830,978	9,822,910
Net capital assets	<u>\$ 3,746,341</u>	<u>\$ 3,853,155</u>	<u>\$ 10,640,765</u>	<u>\$ 10,382,380</u>	<u>\$ 14,387,106</u>	<u>\$ 14,235,535</u>

Detailed information about the City's capital assets can be found in Note 7 to the financial statements.

Long-term liabilities

The City's long-term debt consists of bonds payable ultimately maturing in 2053 in the governmental activities and an amount due to developer for an advance of funds for the rehabilitation of the city hall building in Reinvestment Zone No. One. A summary of long-term liabilities for the governmental activities is as follows:

	Governmental Activities	
	2021	2020
Certificates of Obligation	<u>\$ 2,900,000</u>	<u>\$ 3,000,000</u>
	<u>\$ 2,900,000</u>	<u>\$ 3,000,000</u>

Detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors and Next Year's Budget and Rates

City Council established property tax rate of \$0.773379 per \$100 of assessed valuation for the 2021-2022 fiscal year at their August 20, 2021 council meeting for the following purposes compared to the 2020-2021 fiscal year:

	2020-2021	2021-2022
Maintenance and operations	\$0.631618	\$0.631618
Debt service	0.141761	0.141761
Total	<u>\$0.773379</u>	<u>\$0.773379</u>

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the office of the Mayor, 13222 Highway 6, 77583, telephone 281-431-0606.

BASIC FINANCIAL STATEMENTS



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

	Primary Government			Component Unit	
	Governmental	Business-Type Activities	Total	Arcola 4B Corporation	Reinvestment Zone No. One
Assets					
Current assets:					
Cash and cash equivalents	\$ 3,869,127	\$ 1,329,963	\$ 5,199,090	\$ 349,100	\$ -
Receivables, net	81,110	67,944	149,054	25,807	-
Due from primary government	-	-	-	156,832	-
Due from other governments	77,421	17,261	94,682	-	-
Prepaid items	16,441	-	16,441	-	-
Restricted Cash	-	196,823	196,823	-	-
Capital assets not being depreciated:					
Land	519,249	-	519,249	-	-
Construction in progress	565,277	809,787	1,375,064	-	-
Capital assets, net of accumulated depreciation:					
Buildings and improvements	2,113,929	-	2,113,929	-	-
Machinery and equipment	299,483	-	299,483	-	-
Infrastructure	248,403	-	248,403	-	-
Water and sewer system	-	9,830,978	9,830,978	-	-
Total Assets	7,790,440	12,252,756	20,043,196	531,739	-
Deferred Outflows of Resources					
Deferred outflows - pension	26,021	-	26,021	-	-
Total Deferred Outflows of Resources	26,021	-	26,021	-	-
Liabilities					
Current liabilities:					
Accounts payable	195,146	235,451	430,597	-	-
Accrued interest payable	6,490	-	6,490	-	-
Customer deposits	329,927	196,823	526,750	-	-
Due to component unit	156,832	-	156,832	-	-
Noncurrent Liabilities:					
Due within one year	100,000	-	100,000	-	-
Due in more than one year	2,800,000	-	2,800,000	-	1,510,866
Net pension liability	93,514	-	93,514	-	-
Total Liabilities	3,681,909	432,274	4,114,183	-	1,510,866
Deferred Inflows of Resources					
Deferred inflows - pension	36,338	-	36,338	-	-
Total Deferred Inflows of Resources	36,338	-	36,338	-	-
Net Position					
Net investment in capital assets	846,341	10,640,765	11,487,106	-	-
Restricted for:					
Court security and technology	147,639	-	147,639	-	-
Debt service	190,705	-	190,705	-	-
Unrestricted (deficit)	2,913,529	1,179,717	4,093,246	531,739	(1,510,866)
Total Net Position	\$ 4,098,214	\$ 11,820,482	\$ 15,918,696	\$ 531,739	\$ (1,510,866)

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

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Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Administrative	\$ 845,562	\$ -	\$ 511,033	\$ -
Police Department	1,024,072	-	26,311	-
Public works	383,492	151,254	-	523,124
Municipal court	543,599	764,516	-	-
Interest on long-term debt	84,159	-	-	-
Total governmental activities	<u>2,880,884</u>	<u>915,770</u>	<u>537,344</u>	<u>523,124</u>
Business-Type Activities:				
Water and Sewer Operations	1,338,937	1,005,677	-	609,843
Total business-type activities	<u>1,338,937</u>	<u>1,005,677</u>	<u>-</u>	<u>609,843</u>
Total Primary Government	<u>\$ 4,219,821</u>	<u>\$ 1,921,447</u>	<u>\$ 537,344</u>	<u>\$ 1,132,967</u>
Component Units				
Arcola 4B Corporation	\$ 29	\$ -	\$ -	\$ -
Total Component Units	<u>\$ 29</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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	Net Revenue (Expense) and Changes in Net Position				
	Primary Government			Component Unit	
Functions/Programs	Governmental Activities	Business-Type Activities	Total	Arcola 4B Corporation	Reinvestment Zone No. One
Primary Government					
Governmental Activities:					
Administrative	\$ (334,529)	\$ -	\$ (334,529)	\$ -	\$ -
Police Department	(997,761)	-	(997,761)	-	-
Public works	290,886	-	290,886	-	-
Municipal court	220,917	-	220,917	-	-
Interest on long-term debt	(84,159)	-	(84,159)	-	-
Total governmental activities	(904,646)	-	(904,646)	-	-
Business-Type Activities:					
Water and Sewer Operations	-	276,583	276,583	-	-
Total business-type activities	-	276,583	276,583	-	-
Total Primary Government	(904,646)	276,583	(628,063)	-	-
Component Units					
Arcola 4B Corporation				\$ (29)	\$ -
Total Component Units				(29)	-
General Revenues and Transfer:					
Property taxes	992,700	-	992,700	-	-
Sales tax	459,418	-	459,418	151,118	-
Franchise taxes	52,825	-	52,825	-	-
Unrestricted Investment earnings	500	267	767	31	-
Miscellaneous	32,503	-	32,503	-	-
Total General Revenues and Transfer	1,537,946	267	1,538,213	151,149	-
Change in net position	633,300	276,850	910,150	151,120	-
Net Position - beginning	3,469,670	11,423,871	14,893,541	380,619	(1,510,866)
Prior period adjustment	(4,756)	119,761	115,005	-	-
Net Position - ending	\$ 4,098,214	\$ 11,820,482	\$ 15,918,696	\$ 531,739	\$ (1,510,866)

CITY OF ARCOLA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2021

	General Fund	Non-major Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 3,802,006	\$ 67,121	\$ 3,869,127
Receivables, net	141,938	16,593	158,531
Due from other funds	-	114,237	114,237
Prepaid expenditures	16,441	-	16,441
Total Assets	\$ 3,960,385	\$ 197,951	\$ 4,158,336
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 194,390	\$ 756	\$ 195,146
Due to other funds	114,237	-	114,237
Due to component units	156,832	-	156,832
Total Liabilities	465,459	756	466,215
Deferred Inflows of Resources			
Unavailable revenue - property taxes	394,680	16,594	411,274
Total Deferred Inflows of Resources	394,680	16,594	411,274
Fund Balances			
Nonspendable (prepaid)	16,441	-	16,441
Restricted:			
Debt service	-	180,601	180,601
Court security and technology	147,639	-	147,639
Unassigned	2,936,166	-	2,936,166
Total Fund Balances	3,100,246	180,601	3,280,847
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,960,385	\$ 197,951	\$ 4,158,336

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

Total fund balance, governmental funds	\$	3,280,847
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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 as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable		3,746,341
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Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).		81,347
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Deferred inflows and outflows related to pension activities		(10,317)
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Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

General obligation bonds	(2,900,000)
Net pension liability	(93,514)
Accrued interest payable	(6,490)

Net Position of Governmental Activities	\$	<u>4,098,214</u>
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CITY OF ARCOLA, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2021

	General Fund	Non-major Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 821,195	\$ 175,914	\$ 997,109
Sales taxes	459,418	-	459,418
Franchise taxes	52,825	-	52,825
Licenses and permits	151,254	-	151,254
Intergovernmental	662,916	-	662,916
Fines and forfeitures	764,516	-	764,516
Investment earnings	500	-	500
Miscellaneous	430,055	-	430,055
Total Revenues	<u>3,342,679</u>	<u>175,914</u>	<u>3,518,593</u>
Expenditures			
Current:			
General Administration	850,773	-	850,773
Public Works	283,998	-	283,998
Police Department	784,049	-	784,049
Municipal Court	509,202	-	509,202
Capital Outlay	277,166	-	277,166
Debt Service:			-
Principal	-	100,000	100,000
Interest	-	84,494	84,494
Total Expenditures	<u>2,705,188</u>	<u>184,494</u>	<u>2,889,682</u>
Excess (deficiency) of revenues over expenditures	<u>637,491</u>	<u>(8,580)</u>	<u>628,911</u>
Net Changes in Fund Balances	637,491	(8,580)	628,911
Fund Balances - beginning of year	<u>2,467,511</u>	<u>189,181</u>	<u>2,656,692</u>
Prior period adjustment	<u>(4,756)</u>	<u>-</u>	<u>(4,756)</u>
Fund Balances - end of year	<u>\$ 3,100,246</u>	<u>\$ 180,601</u>	<u>\$ 3,280,847</u>

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

Net change in fund balances - total governmental funds:	\$	628,911
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which contributions from component units and capital outlays exceeded depreciation in the current period.		
Capital outlay		158,562
Depreciation expense		(177,715)
The net effect of various miscellaneous transactions involving capital assets (i.e., retirements, transfers, and capital contributions) is to decrease net position		(87,661)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(4,409)
Repayment of bond principal and payments of accreted interest on capital appreciation bonds are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		100,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Decrease in interest payable not recognized in the fund statements		335
Pension expense for the plan measurement year		<u>15,277</u>
Change in net position of governmental activities	\$	<u><u>633,300</u></u>

CITY OF ARCOLA, TEXAS
STATEMENT OF NET POSITION
ENTERPRISE FUND
September 30, 2021

	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,329,963
Accounts receivable, net	67,944
Due from other governments	17,261
Restricted cash	<u>196,823</u>
Total current assets	<u>1,611,991</u>
 Noncurrent assets:	
Capital assets:	
Construction in progress	809,787
Water and sewer system	14,740,344
Machinery and equipment	21,165
Less accumulated depreciation	<u>(4,930,531)</u>
Total noncurrent assets	<u>10,640,765</u>
 Total Assets	 <u><u>\$ 12,252,756</u></u>
 Liabilities	
Accounts payable and accrued liabilities	\$ 235,451
Customer deposits	<u>196,823</u>
Total Liabilities	<u>432,274</u>
 Net Position	
Investment in capital assets	10,640,765
Unrestricted	<u>1,179,717</u>
Total Net Position	<u><u>\$ 11,820,482</u></u>

CITY OF ARCOLA, TEXAS**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION****ENTERPRISE FUND***For the Year Ended September 30, 2021*

	<u>Water and Sewer Fund</u>
Operating Revenues	
Charges for services:	
Water and Sewer	<u>\$ 1,005,677</u>
Total Operating Revenues	<u>1,005,677</u>
Operating Expenses	
Professional Fees	14,084
Contractual services	260,490
Other operating	193,366
Purchased Water	54,095
Maintenance and Repairs	352,850
Utilities	73,029
Depreciation	<u>391,023</u>
Total Operating Expenses	<u>1,338,937</u>
Operating income (loss)	<u>(333,260)</u>
Non-Operating Revenues (Expenses)	
Investment earnings	<u>267</u>
Total Non-Operating Revenues (Expenses)	<u>267</u>
Income (loss) before transfers and capital contributions	<u>(332,993)</u>
Capital contributions	<u>609,843</u>
Change in Net Position	276,850
Net position - beginning	11,423,871
Prior period adjustment	<u>119,761</u>
Net position - ending	<u><u>\$ 11,820,482</u></u>

CITY OF ARCOLA, TEXAS
STATEMENT OF CASH FLOW
ENTERPRISE FUND
For the Year Ended September 30, 2021

	<u>Water and Sewer Fund</u>
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 1,336,091
Payments to suppliers and service providers	<u>(1,209,489)</u>
Net cash provided by (used for) operating activities	<u>126,602</u>
Cash Flows from Capital and Related Financing Activities	
Capital grants	609,843
Acquisition of and construction of capital assets	<u>(649,408)</u>
Net cash provided by (used for) capital and related financing activities	<u>(39,565)</u>
Cash Flows From Investing Activities	
Investment earnings	<u>267</u>
Net cash provided by investing activities	<u>267</u>
Net increase (decrease) in cash and cash equivalents	87,304
Cash and cash equivalents - beginning of year	<u>1,439,482</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,526,786</u></u>
Unrestricted cash and cash equivalents	\$ 1,329,963
Restricted cash and cash equivalents	<u>196,823</u>
Total cash and cash equivalents	<u><u>\$ 1,526,786</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities	
Operating income (loss)	\$ (333,260)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	391,023
(Increase) decrease in accounts receivable	5,557
(Increase) decrease in intergovernmental receivables	310,982
(Increase) decrease in other receivables	13,875
(Decrease) increase in accounts payable	(279,375)
(Decrease) increase in customer deposits	21,446
(Decrease) increase in intergovernmental payables	<u>(3,646)</u>
Total adjustments	<u>459,862</u>
Net cash provided by (used for) operating activities	<u><u>\$ 126,602</u></u>
Noncash investing, capital, and financing activities:	
Contributions of capital assets	<u><u>\$ 609,843</u></u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

The City of Arcola, Texas, (the "City") was incorporated 1986 under the provisions of the State of Texas. The City operates as a General Law City form of government with a Mayor and five Councilmembers. The City provides the following services public safety, maintenance and improvements to highways and streets, public improvements and general administrative services.

Note 2 - Summary of Significant Accounting Policies

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

A. Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Arcola 4B Corporation and the Tax Reinvestment Zone No. One although legally separate, are considered a discretely presented component units and are a part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

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

Discretely Presented Component Units

City of Arcola 4B Development Corporation

The Arcola 4B Corporation was incorporated on December 29, 1995, as a non-profit corporation for the specific public purpose of benefitting and accomplishing public purposes of the City by promoting, assisting and having economic development activities as provided for in Section 4B of the Development Corporation Act of 1979. Arcola 4B is managed by a board of directors consisting of 7 members who serve two-year terms. The City has the sole authority to appoint the Directors. The assets are managed by the Directors. The financial records are maintained by a consultant for the Directors. Separate financial statements are not issued for the Component Unit.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Discretely Presented Component Units (continued)

City of Arcola Tax Increment Reinvestment Zone Number 1

In August 2019, City Council passed a resolution authorizing certain territory comprised of approximately 200 acres within the corporate limits of the city of Arcola, Texas to be included within the Arcola Municipal Management District Number 1. Additionally, City Council passed an ordinance designating the same territory as Reinvestment Zone Number 1 effective January 1, 2020. As of the report date, the only activity has been a loan from the developer for the reconstruction of the City Hall to be eventually paid back from future tax increment revenues.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. These statements include all activities of the primary government and its component units. For the most part, 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 are 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 operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements and proprietary fund statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes and franchise fees are recognized as revenues in the year that gives rise to the transaction. 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 if 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 compensated absences and claims and judgments, are recorded only when payment is due. 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 needed.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

Sales taxes, franchise fees, licenses 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 revenue items are considered measurable and available only when cash is received by the government.

The City reports one major governmental fund. The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The proprietary fund type used by the City includes the following:

Enterprise Fund

The enterprise fund is used to account for the operations that provide water and wastewater collection, wastewater treatment operations and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide Statements of Net Position and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide and proprietary fund equity consists of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, 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. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred.

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

D. Cash and temporary investments (Cash Equivalents)

The City's cash and temporary investments consist of demand accounts, money market accounts, petty cash and the Texas Local Government Investment Pool (TEXPOOL). TEXPOOL is an external investment pool established by Interlocal contracts under state law. The City's TEXPOOL balances are reported at amortized cost as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

The City's agent bank is required to pledge securities 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 year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

E. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as "due from other funds" or "due to other funds" in the fund financial statements.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer fund have not been recognized as of the end of the year as they are considered immaterial.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

G. Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$10,000 or more and an estimated useful life in excess of two years. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain and equipment are capitalized and Proprietary Fund fixed assets are depreciated over the remaining useful lives of the related fixed assets using the straight line method, as applicable.

<u>Asset Description</u>	
Buildings	40 Years
Furniture and Fixtures	3 to 20 Years
Machinery and equipment	5 to 20 Years
Vehicles	5 Years
Roads and Sidewalks	10 Years
Streets and Culverts	30 Years
Infrastructure	10 to 45 Years
Other Assets	10 Years
Sewage Treatment Plant	25 Years
Water and Sewer Service Lines	30 Years
Lift Stations	30 Years

H. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, such leave may be accumulated to the following year; however, at no time may unused sick leave be paid in monetary compensation either during employment or upon termination. Vacation pay accrues and becomes payable after one year of employment. Unused vacation pay can be applied toward emergency medical leave or it can be taken as time off, but otherwise it shall not accumulate, even upon termination. Therefore, compensated absences payable are not recorded.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial 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 item that qualifies for reporting in this category:

- Deferred outflows of resources for pension activities – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made prior to the first measurement date of the net pension liability. The deferred outflows of resources related to pensions resulting from these City contributions will be recognized as a reduction of the net pension liability in the next fiscal year.

In addition to liabilities, the statement of financial 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 or fund balance 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 the following item that qualifies for reporting in this category:

- Deferred inflows of resources for unavailable revenues – Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- *Deferred inflows of resources for pension activities* - Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These pension-related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

J. Pensions

Effective March 1, 2016 the City began to participate in the Texas Municipal Retirement System (TMRS). The calculation of the City's first pension liability and additions to/deductions from TMRS's Fiduciary Net Position will be determined on the same basis as they are reported by TMRS and has occurred for the plan year ended December 31, 2017. For this purpose, plan contributions are recognized in the period that compensation is reported for 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.

K. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 amounts may differ from these estimates.

L. General property taxes

All taxes due to the City on real or personal property are payable at the Office of the County Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is October 1, or as soon thereafter as practical. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. All property located within the City limits on the first day of January of each year are charged with a special lien in favor of the City from such date for taxes due thereon.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

N. Restricted assets

Cash balances representing customer deposits are considered restricted from general use in the Water and Sewer Fund.

O. Fund Equity

The City reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for certain municipal court fees and retirement of fund indebtedness have been properly classified in the Governmental Funds Balance Sheet.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. The City reports amounts assigned for construction activity in the Capital Projects Fund.

Unassigned fund balance – amounts that are available for any purpose.

The City has no formal fund balance policy which would identify targeted fund balance levels, and the sequence in which funds are to be spent.

P. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position for net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City has no formal policy when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, as to which funds are considered to have been spent first.

Note 3 - Cash and Temporary Investments (Cash Equivalents)

Cash and Cash Equivalents

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, money market accounts and short-term investments in external public funds investment pool accounts (TEXPOOL).

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)

The City's agent bank is required to pledge securities 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 year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

Cash and Cash Equivalents

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, money market accounts and short-term investments in external public funds investment pool accounts (TEXPOOL).

The City's agent bank is required to pledge securities 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 year end, all deposits of the City and its component units were fully insured or collateralized by government obligation held in the City's name by the City's agent in accordance with Texas Law.

At year-end, the City had cash on hand, bank deposits and balances with TEXPOOL as follows:

	Bank Deposits	Cash Equivalent Investments	Totals
Governmental Activities:			
General Fund	\$ 3,258,723	\$ 543,283	\$ 3,802,006
Debt Service Fund	67,121	-	67,121
Total Governmental Activities	3,325,844	543,283	3,869,127
Business-type Activities:			
Water and Sewer Fund	1,526,786	-	\$ 1,526,786
Total Business-type Activities	1,526,786	-	1,526,786
Total Primary Government	\$ 4,852,630	\$ 543,283	\$ 5,395,913
Arcola 4B Corporation	\$ 349,100	\$ -	\$ 349,100

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the City's deposits is required to be held in the City's name by the trust department of a bank other than the pledging bank. Collateral securities must bear Baa-1 or better rating to qualify for use in securing uninsured depository balances.

At September 30, 2021, the carrying amount of the City's cash deposits were fully collateralized.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)

Investments (cash equivalents)

State statutes authorize the City to invest in: 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S., the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) a public funds investment pool meeting the requirements of Government Code 2256.016-2256.019; and, 8) commercial paper having received a rating of A1/P1 from a nationally recognized investment rating firm.

The City does not have a current investment policy and currently only uses state public funds investment pools. The investment pools are in compliance with the Public Funds Investment Act (PFIA).

At September 30, 2021, the City had the following investments (cash equivalents):

	Weighted Average Maturity (Days)	Percentage of Investments	Credit Quality Rating
Investment Type:			
Local Government Investment Pools:			
Texpool	36	100%	AAAm

TEXPOOL policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TEXPOOL. TEXPOOL is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TEXPOOL. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TEXPOOL uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TEXPOOL is the same as the value of TEXPOOL shares.

Accordingly, the City’s investments in TEXPOOL are stated at cost, which approximates fair value. TEXPOOL is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, TEXPOOL does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)

Interest Rate Risk

Exposure to decline in fair values is managed by investments with a weighted average maturity of less than one year.

Credit Risk

Credit risk loss is minimized by investing with TEXPOOL and as such, limits the risk of loss due to custodial credit risk.

Note 4 - Property Taxes

Property taxes for each year are levied on approximately October 1 and are due upon receipt of the City's tax bill; they become delinquent on February 1 of the following year. On January 1 of each year, a tax lien is attached to the property to secure the payment of all taxes, penalties and interest. The lien exists in the favor of the State and each taxing unit. Appraised values are established by the Fort Bend Central Appraisal District (CAD), through procedures established by the Texas legislature. Fort Bend County bills and collects property taxes on behalf of the City, and remits payment to the City on a frequent basis. The City bills its tax levies as soon as possible after certification of taxable values by the CAD, which is approximately October 1. Additional tax bills are sent December, February, April and July (which includes a surcharge for legal costs associated with collection). In August, delinquent taxes are turned over to the City's delinquent tax attorney for final collection or other disposition.

The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy property taxes up to \$2.50 per \$100 of assessed valuation for general governmental services. Within the \$2.50 maximum levy, there is no legal limit upon the amount of property taxes which can be levied for debt service. The property tax rates to finance general government services and debt service for the 2021 fiscal year were \$0.631618 and \$0.141761 respectively, per \$100 of assessed valuation.

Note 5 - Receivables

Receivables as of year-end for the government's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Water and Sewer Fund	Arcola 4B Corporation	Total
Total Taxes Receivable	\$ 99,778	\$ 45,493	\$ -	\$ -	\$ 145,271
Sales and mixed drink taxes	76,201	-	-	25,807	102,008
Due from other governments	983	-	17,261	156,832	175,076
Customer accounts	-	-	137,664	-	137,664
Gross receivables	176,962	45,493	154,925	182,639	560,019
Less: allowance for uncollectibles	(35,024)	(28,900)	(69,720)	-	(133,644)
Net total governmental activities	<u>\$ 141,938</u>	<u>\$ 16,593</u>	<u>\$ 85,205</u>	<u>\$ 182,639</u>	<u>\$ 426,375</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Interfund Balances and Transfers

Interfund balances at September 30, 2021, were as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>
	<u>Debt Service</u>
	<u>Fund</u>
Governmental Activities:	
General Fund	\$ 114,237
Total Governmental Activities	<u>114,237</u>

Amounts reported as “due to/from” are considered to be temporary loans and will be repaid during the following fiscal year.

Note 7 - Capital Assets

A summary of changes in capital assets for governmental activities for the year ended September 30, 2021 follows:

	<u>Balance</u>				<u>Balance</u>
	<u>10/1/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>9/30/2021</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 519,249	\$ -	\$ -	\$ -	519,249
Construction in progress	<u>2,501,460</u>	<u>102,817</u>	<u>-</u>	<u>(2,039,000)</u>	<u>565,277</u>
Total capital assets, not being depreciated	<u>3,020,709</u>	<u>102,817</u>	<u>-</u>	<u>(2,039,000)</u>	<u>1,084,526</u>
Capital assets, being depreciated					
Buildings and improvements	408,113	-	(270,125)	2,039,000	2,176,988
Machinery and equipment	716,529	55,745	-	-	772,274
Infrastructure	<u>2,397,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,397,795</u>
Total capital assets, being depreciated	<u>3,522,437</u>	<u>55,745</u>	<u>(270,125)</u>	<u>2,039,000</u>	<u>5,347,057</u>
Less accumulated depreciation for:					
Buildings and improvements	(198,942)	(46,581)	182,464	-	(63,059)
Machinery and equipment	(372,156)	(100,635)	-	-	(472,791)
Infrastructure	<u>(2,118,893)</u>	<u>(30,499)</u>	<u>-</u>	<u>-</u>	<u>(2,149,392)</u>
Total accumulated depreciation	<u>(2,689,991)</u>	<u>(177,715)</u>	<u>182,464</u>	<u>-</u>	<u>(2,685,242)</u>
Governmental Capital Assets	<u>\$ 3,853,155</u>	<u>\$ (19,153)</u>	<u>\$ (87,661)</u>	<u>\$ -</u>	<u>\$ 3,746,341</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Capital Assets (continued)

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

Governmental Activities:	
Administrative	\$ 54,239
Police Department	61,152
Public Works	62,324
Total Governmental Activities	<u><u>\$ 177,715</u></u>

A summary of changes in capital assets for business-type activities for the year ended September 30, 2021 follows:

	<u>Balance</u> <u>10/1/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>9/30/2021</u>
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Construction in progress	\$ 559,470	\$ 649,408	\$ -	\$ (399,091)	\$ 809,787
Total capital assets, not being depreciated	<u>559,470</u>	<u>649,408</u>	<u>-</u>	<u>(399,091)</u>	<u>809,787</u>
Capital assets, being depreciated					
Machinery and equipment	21,165	-	-	-	21,165
Water and sewer system	14,341,253	-	-	399,091	14,740,344
Total capital assets, being depreciated	<u>14,362,418</u>	<u>-</u>	<u>-</u>	<u>399,091</u>	<u>14,761,509</u>
Less accumulated depreciation for:					
Machinery and equipment	(21,165)	-	-	-	(21,165)
Water and sewer system	(4,518,343)	(391,023)	-	-	(4,909,366)
Total accumulated depreciation	<u>(4,539,508)</u>	<u>(391,023)</u>	<u>-</u>	<u>-</u>	<u>(4,930,531)</u>
Business-type Capital Assets	<u><u>\$ 10,382,380</u></u>	<u><u>\$ 258,385</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,640,765</u></u>

The construction in progress at year-end is related to the following projects:

<u>Project</u>	<u>Approved</u> <u>Construction</u> <u>Budget</u>	<u>Construction</u> <u>in</u> <u>Progress</u>	<u>Estimated</u> <u>Remaining</u> <u>Commitment</u>
Governmental Activities			
Regrade ditch along West Fork of Chocolate Bayou	\$ 585,000	\$ 565,277	\$ 19,723
Total Governmental Activities	<u>\$ 2,624,000</u>	<u>\$ 565,277</u>	<u>\$ 2,058,723</u>
Business-type Activities			
Water Treatment Plant Construction	\$ 1,851,000	\$ 809,787	\$ 1,041,213
Total Business-type Activities	<u>\$ 2,318,969</u>	<u>\$ 809,787</u>	<u>\$ 1,229,594</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt

The City issues long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. The City currently has issued and outstanding, certificates of obligations which are secured by future ad valorem tax revenues.

During fiscal year 2020, the City was advanced \$1.5 million by a developer for the reconstruction of City Hall. Under the terms of the agreement, the City is to repay the developer the advance along with interest at a future date.

Long term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds.

The following is a summary of the terms of certificates of obligation outstanding as of September 30, 2021:

<u>Issue</u>	<u>Original issuance amount</u>	<u>Maturity Date</u>	<u>Interest Rate %</u>	<u>Debt Outstanding</u>
Governmental Activities:				
Certificates of Obligation 2008A	\$ 1,380,000	3/1/2038	2.10-4.80%	\$ 985,000
Certificates of Obligation 2008B	400,000	3/1/2028	0.0%	140,000
Certificates of Obligation 2013	2,000,000	9/1/2053	2.00%	1,775,000
Total Bonds Payable				<u>\$ 2,900,000</u>

The Series 2008A and B and the Series 2013 are callable at any time.

Annual debt service requirements to retire outstanding certificates of obligation are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 100,000	\$ 79,778	\$ 182,238
2023	100,000	77,288	179,778
2024	105,000	74,659	177,288
2025	110,000	71,840	179,659
2026	110,000	71,840	181,840
2027-2031	540,000	296,618	836,618
2032-2036	595,000	201,187	796,187
2037-2041	440,000	101,860	541,860
2042-2046	310,000	64,800	374,800
2047-2051	340,000	32,300	372,300
2052-2053	150,000	11,800	161,800
	<u>\$ 2,900,000</u>	<u>\$ 1,083,970</u>	<u>\$ 3,984,368</u>

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Long-Term Debt (continued)

Long-term activity for the year ended September 30, 2021 is as follows:

	Balance October 01, 2020	Additions	Retirements	Balance September 30, 2021	Due Within One Year
Governmental Activities:					
Certificates of Obligation	\$ 3,000,000	\$ -	(100,000)	\$ 2,900,000	\$ 100,000
Reinvestment Zone No. One					
Due to developer	\$ 1,510,866	\$ -	\$ -	\$ 1,510,866	\$ -

Long term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds.

Note 9 - 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; and natural disasters. The City carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, general liability, automobile, boiler and machinery, errors and omissions and workers compensation coverage. The City, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 10 - Sewage Disposal Contract

Effective September 28, 2004, the City entered into a Sewage Disposal Contract (the "Contract") with Fort Bend County Municipal Utility District No. 141 (the "District"), as amended and restated September 3, 2009. Pursuant to the contract, the District paid the City \$100,000 representing historic capital costs of the City's sewage treatment plant. In addition, the District paid the City \$500; an initial security deposit of \$4,500 and a tap fee of \$750. The District shall have the right to use or benefit from increased lift station capacity (up to peak lift station pumping rate of 150 GPM or 60% of the lift station's safe pumping capacity, whichever is lower) and to the sewage treatment plant site. The District shall not be considered a participant in the Regional Contract unless this contract is amended. The District must pay all costs of expanding or enlarging all components of the City Wholesale System that may be required to provide for any increased contract quantity. The District must extend its force main to a new delivery point on the sewage treatment plant site before delivery can exceed 64,000 GPD.

The District shall be responsible for construction of its system. The District system shall be owned and controlled by the District. The District's initial contract quantity is 10,000 GPD and can be reduced or increased by amendment to the contract.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Regional Facilities Contract

On August 18, 2005, the City entered into a Regional Facilities Contract (Contract) with Fort Bend County Fresh Water Supply District No. 1 (the "District") for the provision of water and wastewater service. The Regional Sewage System (RSS), including the initial expansion, is owned and operated by the City. The District will own, operate and be responsible for the construction of the facilities necessary to connect to the RSS.

The Contract states that the District will pay a portion of those RSS expenses directly attributable to the RSS, plus an administrative overhead fee not to exceed 20% of the District's portion of total RSS expenses. These RSS expenses are prorated based on relative capacity in the RSS. The District will also pay a portion of Variable RSS expenses based on the ratio of metered flow to the District versus total discharge.

The Contract also provides for the design and construction of the Regional Water System (Water System) to provide water service to both the District and the City. The District and the City will cooperate, as necessary, to obtain funding for the design and construction of the Water System. Those portions of the Water system upstream of the water point of delivery plus the measuring equipment will be owned and maintained by the District and those portions downstream will be owned and maintained by the City.

The Contract establishes a Regional Plant Committee and includes a representative appointed by the governing body of each participant. The term of this contract originally expired June 30, 2044. The Second Amendment to the Contract, effective September 12, 2012, extended the term of the Contract through September 30, 2053.

The Third Amendment to the Agreement is effective December 20, 2012, and relates to the Regional Water System (RWS). The District has designed and constructed the portion of Segment One of the RWS on its side of the water point of distribution. The City has designed and is constructing the portion of Segment One on its side of the point of distribution. A portion of the RWS will be funded by a 2006 Environmental Protection Agency (EPA) State and Tribal Assistance Grant (STAG) and a 2008 EPA STAG grant for \$478,000, both passed through Fort Bend County. The District and the City will each be responsible for half the matching requirement for each EPA STAG grant.

The City may receive water upon completion of Segment One. The City will make installment payments to the District toward payment of the City Share of Segment One \$632,789 less the credited sum of \$240,550, representing the City Share of the 2005 EPA STAG grant. The monthly installments began July 1, 2014 at \$1,000 per month, then \$3,000 per month beginning July 1, 2015 and \$5,000 per month beginning July 1, 2016 and are essentially maintenance and operation expenses for the RWS and RSS. Installments will continue until the City's payment for Segment One is complete or until the City triggers an expansion of the RWS under the terms of the agreement.

The City's share of the RWS is staged beginning with the date the RWS is placed in operation and is measured in single family equivalents (SFE) based on 410 gallons per average day each plus fire flows and lost water. The City's share is outlined as follows:

<u>Year</u>	<u>SFE</u>
One	50
Two	100
Three	200
Four	400
Five and thereafter	500

The City will be billed for costs of reading and maintaining the meter, plus a part of the variable water expenses based on the ratio of City water usage, plus a part of all other water expenses based on the City average quarterly usage.

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Regional Facilities Contract (continued)

The City may proceed with a Second Source Segment to extend its water system. The City will design and construct the Second Source Segment. The District will make installment payments to the City toward payment of the District Share of the Second Source Segment less the unpaid portion of installment payments due from the City for Segment One. The monthly installments will begin two years from the start date at \$1,000 per month for the first year, then \$3,000 per month for the second year and \$5,000 per month until the District Share in the Second Source Segment is paid. Upon completion of a Second Source Segment, the delivery system becomes a Two-Way System. In an Emergency, either party may receive water via the Two-Way System. Water is metered and billed at a mutual rate per thousand gallons. The mutual rate is the average of the rate per thousand gallons paid by a City customer and a District customer, each using 8,000 gallons of water per month.

Note 12 - Significant Legal Requirements

The Certificate of Obligation Ordinances state that the City is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the City to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The City has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

The certificate ordinances state that so long as any of the certificates are outstanding, the City covenants to maintain insurance on such parts of the system as are usually insured by cities in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is usually carried by such cities.

Note 13 - Employee Retirement System

Texas Municipal Retirement System

Effective March 1, 2016, City Council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

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 actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 100% of the employee's accumulated contributions.

A summary of plan provisions for the City are as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	None
Annuity Increase to retirees	Ad Hoc

The City participates in Social Security.

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	1
Inactive employees entitled to but not yet receiving benefits	11
Number of active employees	14
Total	<u>26</u>

Contributions

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

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

Employees of the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.7% and 4.81% in calendar years 2018 and 2019 respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$35,599 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 Asset 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	2.5% per year
Overall payroll growth	3.50% to 11.5% including inflation
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Monthly rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

These 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 Municipal Retirees of Texas Mortality Tables contain rates that are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) and 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-core Fixed Income	20.0%	3.39%
Real Estate	10.0%	3.78%
Real Return	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	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 the 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 period of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2019	\$ 346,711	\$ 224,619	\$ 122,092
Service Cost	52,886	-	52,886
Interest (on the Total Pension Liability)	24,563	-	24,563
Difference between expected and actual experience	(21,827)	-	(21,827)
Contributions – employer	-	30,177	(30,177)
Contributions – employee	-	36,932	(36,932)
Net investment income	-	17,206	(17,206)
Administrative Expense	-	(110)	110
Other	-	(5)	5
Benefit payments, including refunds of employee contributions	(18,507)	(18,507)	-
Balance at December 31, 2020	<u>\$ 383,826</u>	<u>\$ 290,312</u>	<u>\$ 93,514</u>

Plan fiduciary net position as a percentage of total pension liability 75.6%

CITY OF ARCOLA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - Employee Retirement System (continued)

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 or (asset) 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 (5.75%)	Current (6.75%)	1% Increase (7.75%)
Total Pension Liability	\$ 138,172	\$ 93,514	\$ 55,751
Plan Fiduciary Net Position	224,619	224,619	224,619
Net Pension Liability	<u>\$ 138,172</u>	<u>\$ 93,514</u>	<u>\$ 55,751</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the internet at www.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 a pension expense of \$17,131

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,362	\$ (30,730)
Changes of assumptions	659	-
Net difference between projected and actual earnings	-	(5,608)
Contributions made subsequent to measurement date	23,000	-
	<u>\$ 26,021</u>	<u>\$ (36,338)</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of **Error! Not a valid link.** will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2021 (recognized in the City's financial statements September 30, 2022). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	Amount
2022	\$ (8,337)
2023	(7,806)
2024	(9,607)
2025	(6,968)
2026	(599)
	<u>\$ (33,317)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ARCOLA, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2021

	Original Budget	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 846,639	\$ 846,639	\$ 821,195	\$ (25,444)
Sales taxes	291,000	291,000	459,418	168,418
Franchise taxes	46,600	46,600	52,825	6,225
Licenses and permits	30,950	37,950	151,254	113,304
Intergovernmental	131,502	252,318	1,063,881	811,563
Fines and forfeitures	567,050	567,050	764,516	197,466
Investment earnings	6,350	6,350	500	(5,850)
Miscellaneous	667,404	1,081,263	29,090	(1,052,173)
Total Revenues	2,587,495	3,129,170	3,342,679	213,509
Expenditures				
Current:				
General Administration	568,302	628,802	850,773	(221,971)
Public Works	238,956	226,556	283,998	(57,442)
Police Department	719,602	672,130	784,049	(111,919)
Municipal Court	368,046	352,687	509,202	(156,515)
Capital Outlay	281,200	1,248,995	277,166	971,829
Total Expenditures	2,176,106	3,129,170	2,705,188	423,982
Excess (deficiency) of revenues over expenditures	411,389	-	637,491	637,491
Net change in fund balance	411,389	-	637,491	637,491
Fund Balance - Beginning of Year	2,467,511	2,467,511	2,467,511	-
Fund Balance - End of Year	\$ 2,878,900	\$ 2,467,511	\$ 3,100,246	\$ 632,735

CITY OF ARCOLA, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended September 30, 2021

Annual budgets are adopted on a modified accrual basis of accounting for all of the City's funds. Annual appropriations lapse at fiscal year-end.

The Finance department is responsible for producing, monitoring, and reporting the City's annual operating budget. The City operates a fiscal year beginning October 1 through September 30 annually.

Each spring, the staff begins the annual process to determine the needs of the City. The requests are based on the programs and priorities that the City Council has discussed or committed to in the past. A recommended budget is formed based on the projected revenue and submitted to the citizens and the City Council. After input from the public and the staff the council has the opportunity to revise the budget to conform to its objectives.

Public hearings regarding the budget and tax rate are held in August/September and are open to the public. The City budget contains several different funds with the largest being the general fund which is used for general government services that do not need to be accounted for separately. Examples of general government services include public safety, street maintenance, and administrative activities.

Once adopted, the budget takes effect on the first of the fiscal year (October 1) and any major changes must be approved by the City Council. For the year ended September 30, 2021.

CITY OF ARCOLA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Five Measurement Years
(Unaudited)

	2020	2019	2018	2017	2016
Total pension liability					
Service Cost	\$ 52,886	\$ 51,777	\$ 42,849	\$ 35,679	\$ 25,942
Interest (on the Total Pension Liability)	24,563	20,054	17,967	15,032	12,196
Changes of benefit terms	-	-	-	-	167,864
Difference between expected and actual experience	(21,827)	2,707	(23,257)	1,151	-
Changes of assumptions	-	967	-	-	-
Benefit payments, including refunds of employee contributions	(18,507)	-	(22,219)	(1,696)	(302)
Net change in total pension liability	37,115	75,505	15,340	50,166	205,700
Total pension liability – beginning	346,711	271,206	255,866	205,700	-
Total pension liability – ending	\$ 383,826	\$ 346,711	\$ 271,206	\$ 255,866	\$ 205,700
Plan fiduciary net position					
Contributions – employer	\$ 30,177	\$ 35,110	\$ 34,834	\$ 26,366	\$ 19,135
Contributions – employee	36,932	36,514	30,563	25,162	18,295
Net investment income	17,206	20,672	(2,783)	5,170	-
Benefit payments, including refunds of employee contributions	(18,507)	-	(22,219)	(1,696)	(302)
Administrative Expense	(115)	(118)	(56)	(28)	-
Net change in plan fiduciary net position	65,693	92,178	40,339	54,974	37,128
Plan fiduciary net position – beginning	224,619	132,441	92,102	37,128	-
Plan fiduciary net position – ending	\$ 290,312	\$ 224,619	\$ 132,441	\$ 92,102	\$ 37,128
Net pension Liability	\$ 93,514	\$ 122,092	\$ 138,765	\$ 163,764	\$ 168,572
Net pension liability as a percentage of total pension liability	75.64%	64.79%	48.83%	36.00%	18.05%
Total covered payroll	\$ 738,631	\$ 730,287	\$ 611,252	\$ 503,231	\$ 365,892
Net pension liability as a percentage of total covered payroll	12.66%	16.72%	22.70%	32.54%	46.07%

Notes to Schedule:

The City began participating in TMRS on March 1, 2016, therefore no information is available prior to that date.

CITY OF ARCOLA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

**For the Last Five Fiscal Years Ending September 30,
(Unaudited)**

	2021	2020	2019	2018	2017
Actuarial determined contribution	\$ 29,954	\$ 29,954	\$ 35,599	\$ 32,884	\$ 17,181
Contribution in relation to the actuarial determined contribution	29,954	29,954	35,599	32,884	17,181
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 703,763	\$ 703,763	\$ 711,361	\$ 587,148	\$ 327,879
Contributions as a percentage of covered payroll	4.26%	4.26%	5.00%	5.60%	5.24%

Notes to Schedule:

Valuation timing	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization Method	19 Years
Asset valuation method	10 Year smoothed market; 12% soft corridor
Inflation rate	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality rate	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

The City began participating in TMRS on March 1, 2016, therefore no information is available prior to that date.



FEDERAL AWARDS SECTION



**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 Arcola, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Arcola, Texas (the "City"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying *schedule of findings and questioned costs* as items 2021-001 and 2021-002.

Compliance and Other Matters

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

To the Honorable Mayor and
City Council Members of the

Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs) The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

July 12, 2022
Houston, TX

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

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

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

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

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

To the Honorable Mayor and
Members of the City Council

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



July 12, 2022
Houston, TX

CITY OF ARCOLA, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	2021-001; 2021-002
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal controls over major programs:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	No

Identification of Major Programs:

<u>Name of Federal Programs or Cluster</u>	<u>Assistance Listing Number</u>
U.S. Department of Homeland Security	
Disaster Grants - Public Assistance - Hurricane Harvey	97.036
U.S. Department of Treasury	
COVID-19 Coronavirus Relief Fund	21.019
Dollar Threshold used to distinguish between Type A and Type B federal programs	\$750,000
Auditee qualified as low-risk auditee?	No

CITY OF ARCOLA, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2021

II. Financial Statement Findings

Finding 2021-001

Significant Deficiency in over Financial Reporting—SEFA Preparation

Criteria: A Schedule of Expenditures of Federal Awards, “SEFA” ,should be maintained in order to track receipt of grants and identify the year in which they are recognized and recorded on the SEFA.

Condition: The SEFA was not prepared initially and assistance was required to prepare the SEFA for reporting.

Context: Discovered during audit procedures and discussions.

Effect or Potential Effect: Without preparing and tracking the SEFA, it is possible the entity could report grant funds on the SEFA in the incorrect year.

Cause: The entity has had turnover and inconsistency in the past as to who is responsible for monitoring and preparing the SEFA. .

Recommendation: Monitor all revenues and expenditures related to all grants. Ensure all grant applications and awards are provided to the Finance Director so that they will have all information necessary to prepare the SEFA for reporting. .

Views of Responsible Official(s) and Planned Corrective Actions: The City has had turnover in the area of accounting and relied on the annual audit to adjust the financials from cash basis to accrual. In FY 2022, the City hired a full-time Finance Director with the knowledge to perform these procedures going forward.

CITY OF ARCOLA, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2021

II. Financial Statement Findings (continued)

Finding 2021-002

Significant Deficiency in over Financial Reporting—Year-end Close process

Criteria: The City should have year-end closing process in which all accruals are recorded and the trial balance prepared for audit which would include reviewing beginning fund balance to ensure it agrees to prior year and that any proposed audit entries are reviewed and posted if agreed on.

Condition: Multiple journal entries were required in order correct beginning fund balance due to previous year entries not being posted correctly when compared to the final audited financial statements.

Context: Discovered during audit procedures and discussions.

Effect or Potential Effect: Entity records that do not correlate with the audited financial statements.

Cause: The entity has had turnover and inconsistency in responsibilities for the accounting functions .

Recommendation: Develop monthly, quarterly and year-end closing procedures. Review current financials to ensure audit JE's were posted and reversed where appropriate.

Views of Responsible Official(s) and Planned Corrective Actions: The City has had turnover in the area of accounting and relied on the annual audit to adjust the financials from cash basis to accrual. In FY 2022, the City hired a full-time Finance Director with the knowledge to perform these procedures going forward.

III. Federal Award Findings and Questioned Costs

None noted

CITY OF ARCOLA, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended September 30, 2021

Federal Grantor/ Pass-Through Grantor/Program Title	Federal Assistance Listing Number*	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Passed through Fort Bend County:			
<i>Community Development Block Grant</i>	14.218	B-18-UC-48-004	\$ 609,843
U.S. Department of the Justice			
Passed through Houston-Galveston Area Council			
<i>Crime Prevention Grant</i>	16.738	4084101	21,939
U.S. Department of Treasury			
Passed through Fort Bend County			
<i>COVID-19 - CARES Act - Coronavirus Relief Fund (CRF)</i>	21.019	2020-CF-21019	400,965
U.S. Department of Homeland Security			
Passed through Texas Department of Emergency Management			
<i>Disaster Grants - Public Assistance - Hurricane Harvey</i>	97.036	PA-06-TX-4332	487,720
Total Expenditures of Federal Awards			\$ 1,520,467

* ALN formerly known as CFDA #.

CITY OF ARCOLA, TEXAS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2021

Note 1 - Summary of Significant Accounting Policies

The City accounts for awards under federal programs in the General and Special Revenue governmental funds.

In the Governmental funds, these programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The City has elected not to use a 10 percent de minimis indirect cost rate allowed under the Uniform Guidance on an overall basis. Certain grants allow for a negotiated indirect cost rate using a consistent basis, which has been implemented.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City under programs of the federal government for the year ended September 30, 2021. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents on a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

CITY OF ARCOLA, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2021

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None reported

CITY OF ARCOLA, TEXAS
CORRECTIVE ACTION PLAN
For the Year Ended September 30, 2021

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, “At the completion of the audit, the auditee must develop and implement a corrective action plan to address each audit finding included in the current year auditor's reports.”

I. Corrective Action Plan

Finding 2021-001

Significant Deficiency in over Financial Reporting—SEFA Preparation

The City has had turnover in the area of accounting and relied on the annual audit to adjust the financials from cash basis to accrual. In FY 2022, the City hired a full-time Finance Director with the knowledge to perform these procedures going forward.

Finding 2021-002

Significant Deficiency in over Financial Reporting—Year-end Close process

The City has had turnover in the area of accounting and relied on the annual audit to adjust the financials from cash basis to accrual. In FY 2022, the City hired a full-time Finance Director with the knowledge to perform these procedures going forward.

