

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

City of Bells, Texas
Table of Contents
September 30, 2022

| | PAGE |
|---|-------------|
| AUDITOR’S REPORT | |
| Independent Auditor’s Report | 1 - 2 |
| BASIC FINANCIAL STATEMENTS | |
| Government-Wide Financial Statements | |
| Statement of Net Position – Modified Cash Basis | 3 |
| Statement of Activities – Modified Cash Basis | 4 |
| Fund Financial Statements | |
| Balance Sheet – Governmental Funds – Modified Cash Basis..... | 5 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - – Governmental Funds - Modified Cash Basis | 6 |
| Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes In Fund Balances to the Statement of Activities – Governmental Funds - Modified Cash Basis..... | 7 |
| Statement of Net Position – Proprietary Fund - Modified Cash Basis | 8 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position - – Proprietary Fund - Modified Cash Basis | 9 |
| Statement of Cash Flows – Proprietary Fund - Modified Cash Basis..... | 10 |
| Notes to the Financial Statements | 11 – 22 |
| OTHER INFORMATION | |
| Budgetary Comparison Schedule – General Fund - Modified Cash Basis | 23 |

AUDITOR'S REPORT



292 Mountain Climb Road
Sherman, TX 75092
(903) 815-6610
FAX: (903) 598-7850
Lori@LoriAnnCannonCPA.com

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Bells, Texas

Report on the Audit of the Financial Statements.

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bells, Texas as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City Bells' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Bells' ability to continue as a going concern for a reasonable period of time.

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

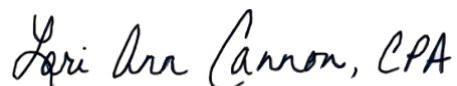
Basis of Accounting

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

Other Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

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



Lori Ann Cannon, CPA
Sherman, Texas
May 19, 2023

BASIC FINANCIAL STATEMENTS

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

| | Primary Government | | | Component Units | |
|--|----------------------------|-----------------------------|---------------------|--|--|
| | Governmental Activities | Business-Type Activities | Total | Bells 4A Economic Development Corporation | Bells 4B Economic Development Corporation |
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,268,926 | \$ 182,467 | \$ 1,451,393 | \$ 316,080 | \$ 132,374 |
| Investments - Certificates of Deposit | 6,804 | 55,032 | 61,836 | 216 | - |
| Restricted Cash | 9,375 | - | 9,375 | - | - |
| Deposits Held in Trust by GTUA | - | 7,298,650 | 7,298,650 | - | - |
| Internal Balances | 75,667 | (75,667) | - | - | - |
| Capital Assets Not Being Depreciated | | | | | |
| Land | 161,289 | 27,924 | 189,213 | - | - |
| Construction in Progress | 29,401 | 102,425 | 131,826 | - | - |
| Capital Assets Net of Depreciation | | | | | |
| Buildings, Parks and Improvements | 383,893 | - | 383,893 | - | - |
| Furniture, Equipment and Vehicles | 91,406 | - | 91,406 | - | - |
| Streets and Other Infrastructures | 350,996 | - | 350,996 | - | - |
| Water and Sewer Systems | - | 2,835,040 | 2,835,040 | - | - |
| Total Assets | <u>2,377,757</u> | <u>10,425,871</u> | <u>12,803,628</u> | <u>316,296</u> | <u>132,374</u> |
| LIABILITIES | | | | | |
| Accounts Payable and Other Liabilities | - | 21,037 | 21,037 | - | - |
| Water Deposits Payable to Customers | - | 71,419 | 71,419 | - | - |
| Due to Other Funds | - | - | - | - | - |
| Noncurrent Liabilities | | | | | |
| Due Within One Year | 65,326 | 148,432 | 213,758 | - | - |
| Due in More Than One Year | 210,401 | 7,477,945 | 7,688,346 | - | - |
| Total Liabilities | <u>275,727</u> | <u>7,718,833</u> | <u>7,994,560</u> | <u>-</u> | <u>-</u> |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | 741,258 | 2,539,012 | 3,280,270 | - | - |
| Restricted for: | | | | | |
| Economic Development | - | - | - | 310,296 | 132,374 |
| Court Security and Technology | 8,690 | - | 8,690 | - | - |
| Deposits Held in Trust by GTUA | - | 7,298,650 | 7,298,650 | - | - |
| Cemetery | 183,104 | - | 183,104 | - | - |
| Police Seizures | 685 | - | 685 | - | - |
| Unrestricted | 1,168,293 | (7,130,624) | (5,962,331) | - | - |
| Total Net Position | <u>\$ 2,102,030</u> | <u>\$ 2,707,038</u> | <u>\$ 4,809,068</u> | <u>\$ 310,296</u> | <u>\$ 132,374</u> |

The accompanying notes are an integral part of these financial statements

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

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | | |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|-------------------------------------|-------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Units | |
| | | | | | Governmental Activities | Business-Type Activities | Total | 4A Economic Development Corporation | 4B Economic Development Corporation |
| Primary Government | | | | | | | | | |
| Governmental Activities | | | | | | | | | |
| General Government | \$ 410,773 | \$ 20,723 | \$ 73,136 | \$ - | \$ (316,914) | \$ - | \$ - | | |
| Police | 340,409 | - | - | - | (340,409) | - | - | | |
| Municipal Court | 19,741 | 198,910 | - | - | 179,169 | - | - | | |
| Fire Protection | 191,504 | - | - | - | (191,504) | - | - | | |
| Cemetery | 19,543 | - | - | - | (19,543) | - | - | | |
| Parks and Recreation | 22,343 | - | - | - | (22,343) | - | - | | |
| Sanitation | 164,221 | 98,239 | - | - | (65,982) | - | - | | |
| Interest on Long-Term Debt | 31,839 | - | - | - | (31,839) | - | - | | |
| Total Governmental Activities | <u>1,200,373</u> | <u>317,872</u> | <u>73,136</u> | <u>-</u> | <u>(809,365)</u> | <u>-</u> | <u>-</u> | | |
| Business-Type Activities | | | | | | | | | |
| Water and Sewer | <u>646,992</u> | <u>906,309</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>259,317</u> | <u>259,317</u> | | |
| Total Business-Type Activities | <u>646,992</u> | <u>906,309</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>259,317</u> | <u>259,317</u> | | |
| Total Primary Government | <u>\$ 1,847,365</u> | <u>\$ 1,224,181</u> | <u>\$ 73,136</u> | <u>\$ -</u> | <u>\$ (809,365)</u> | <u>\$ 259,317</u> | <u>\$ (550,048)</u> | | |
| Component Units: | | | | | | | | | |
| Bells 4A Economic Development Corporation | \$ 209,875 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (209,875) | \$ - |
| Bells 4B Economic Development Corporation | 144,131 | - | - | - | - | - | - | - | (144,131) |
| Total Component Units | <u>\$ 354,006</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(209,875)</u> | <u>(144,131)</u> |
| General Revenues | | | | | | | | | |
| Property Taxes | | | | | 522,063 | - | 522,063 | - | - |
| General Sales and Use Taxes | | | | | 157,123 | - | 157,123 | 78,562 | 78,562 |
| Franchise Taxes | | | | | 55,478 | - | 55,478 | - | - |
| Miscellaneous | | | | | 151,430 | - | 151,430 | - | - |
| Insurance Proceeds | | | | | - | 30,100 | 30,100 | - | - |
| Investment Earnings | | | | | 4,224 | 823 | 5,047 | 989 | 304 |
| Transfers | | | | | 410,254 | (410,254) | - | - | - |
| Total General Revenue and Transfers | | | | | <u>1,300,572</u> | <u>(379,331)</u> | <u>921,241</u> | <u>79,551</u> | <u>78,866</u> |
| Change in Net Position | | | | | 491,207 | (120,014) | 371,193 | (130,324) | (65,265) |
| Net Position - Beginning | | | | | <u>1,610,823</u> | <u>2,827,052</u> | <u>4,437,875</u> | <u>440,620</u> | <u>197,639</u> |
| Net Position - Ending | | | | | <u>\$ 2,102,030</u> | <u>\$ 2,707,038</u> | <u>\$ 4,809,068</u> | <u>\$ 310,296</u> | <u>\$ 132,374</u> |

The accompanying notes are an integral part of these financial statements

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

| | General Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,216,671 | \$ 52,255 | \$ 1,268,926 |
| Investments - Certificates of Deposit | 6,804 | - | 6,804 |
| Restricted Cash | 9,375 | - | 9,375 |
| Due from Business-Type Activities | 75,667 | - | 75,667 |
| Total Assets | \$ 1,308,517 | \$ 52,255 | \$ 1,360,772 |
| LIABILITIES | | | |
| Total Liabilities | - | - | - |
| FUND BALANCES | | | |
| Restricted for Court Security | 6,253 | - | 6,253 |
| Restricted for Court Technology | 2,437 | - | 2,437 |
| Restricted for Cemetery | 183,104 | - | 183,104 |
| Restricted for Debt Service | - | 52,255 | 52,255 |
| Restricted for Police Seizures | 685 | - | 685 |
| Unassigned | 1,116,038 | - | 1,116,038 |
| Total Fund Balances | 1,308,517 | 52,255 | 1,360,772 |
| Total Liabilities and Fund Balances | \$ 1,308,517 | \$ 52,255 | \$ 1,360,772 |

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

| | |
|---|--------------|
| Fund Balance of the Governmental Funds | \$ 1,360,772 |
|---|--------------|

| | |
|---|-----------|
| Capital assets used in governmental activities are not financial resources, therefore, they are not reported in the Governmental Fund. The cost of these assets is \$2,169,642 and the accumulated depreciation is \$1,152,657. | 1,016,985 |
|---|-----------|

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund. Those liabilities consist of:

| | |
|---|---------------------|
| Notes Payable | <u>(275,727)</u> |
| Net Position of Governmental Activities | <u>\$ 2,102,030</u> |

The accompanying notes are an integral part of these financial statements

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

| | General Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|
| REVENUES | | | |
| Taxes | | | |
| Property | \$ 454,427 | \$ 67,636 | \$ 522,063 |
| General Sales and Use | 157,123 | - | 157,123 |
| Franchise | 55,478 | - | 55,478 |
| Municipal Court | 198,910 | - | 198,910 |
| Sanitation | 98,239 | - | 98,239 |
| Other Revenue | 149,086 | - | 149,086 |
| Licenses and Permits | 20,723 | - | 20,723 |
| Interest Revenue | 4,224 | - | 4,224 |
| Total Revenues | <u>1,138,210</u> | <u>67,636</u> | <u>1,205,846</u> |
| EXPENDITURES | | | |
| Current | | | |
| General Government | 387,818 | - | 387,818 |
| Police | 320,445 | - | 320,445 |
| Municipal Court | 19,741 | - | 19,741 |
| Fire Protection | 153,368 | - | 153,368 |
| Sanitation | 164,221 | - | 164,221 |
| Parks and Recreation | 12,506 | - | 12,506 |
| Cemetery | 19,060 | - | 19,060 |
| Debt Service | | | |
| Principal | - | 67,711 | 67,711 |
| Interest | - | 31,839 | 31,839 |
| Total Expenditures | <u>1,077,159</u> | <u>99,550</u> | <u>1,176,709</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>61,051</u> | <u>(31,914)</u> | <u>29,137</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers (to) from Other Funds | 373,567 | 36,687 | 410,254 |
| Capital Contributions | 21,754 | 51,382 | 73,136 |
| Proceeds from Sale of Assets | 2,344 | - | 2,344 |
| Loan Proceeds | 237,204 | - | 237,204 |
| Total Other Financing Sources (Uses) | <u>634,869</u> | <u>88,069</u> | <u>722,938</u> |
| Net Change in Fund Balances | 695,920 | 56,155 | 752,075 |
| Fund Balance - Beginning | <u>612,597</u> | <u>(3,900)</u> | <u>608,697</u> |
| Fund Balance - Ending | <u>\$ 1,308,517</u> | <u>\$ 52,255</u> | <u>\$ 1,360,772</u> |

The accompanying notes are an integral part of these financial statements

City of Bells, Texas

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

Amounts reported for Governmental Activities in the Statement of Activities (page 4) are different because:

Net Change in Fund Balance - Total Governmental Funds (Page 6) \$ 752,075

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation Expense (91,375) (91,375)

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.

Proceeds (237,204)
Retirements 67,711 (169,493)

Change in Net Position of Governmental Activities \$ 491,207

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

| ASSETS | <u>Business-Type Activities</u> |
|--|-------------------------------------|
| Current Assets | |
| Cash and Cash Equivalents | \$ 182,467 |
| Restricted Deposits Held by GTUA | 7,298,650 |
| Investments | 55,032 |
| Total Current Assets | <u>7,536,149</u> |
| Noncurrent Assets | |
| Capital Assets | |
| Land | 27,924 |
| Construction in Progress | 102,425 |
| Furniture, Equipment and Vehicle | 446,494 |
| Water and Sewer System | 4,767,489 |
| Less Accumulated Depreciation | (2,378,943) |
| Total Noncurrent Assets | <u>2,965,389</u> |
| Total Assets | <u>10,501,538</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts Payable and Other Liabilities | 21,037 |
| Water Deposits Payable to Customers | 71,419 |
| Due to General Fund | 75,667 |
| Contractual Obligation - Current Portion | 140,000 |
| Loan Payable - Current Portion | 8,432 |
| Total Current Liabilities | <u>316,555</u> |
| Noncurrent Liabilities | |
| Contractual Obligation - Long-Term Portion | 7,470,000 |
| Loan Payable - Long-Term Portion | 7,945 |
| Total Noncurrent Liabilities | <u>7,477,945</u> |
| Total Liabilities | <u>7,794,500</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 2,539,012 |
| Restricted Deposits with GTUA | 7,298,650 |
| Unrestricted | (7,130,624) |
| Total Net Position | <u>\$ 2,707,038</u> |

The accompanying notes are an integral part of these financial statements

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

| | <u>Business-Type Activities</u> |
|--|-------------------------------------|
| Operating Revenues | |
| Water and Sewer | \$ 745,726 |
| Late Charges, Connect Fees, and Other | <u>160,583</u> |
| Total Operating Revenues | <u>906,309</u> |
| Operating Expenses | |
| Service Contract | 34,300 |
| Supplies, Maintenance and Repairs | 311,815 |
| Depreciation | 123,286 |
| Salaries and Benefits | 241,895 |
| Utilities | 43,198 |
| Other Operating Expenses | 16,524 |
| Dues, Subscriptions and Other Fees | 6,545 |
| Lab Fees and Other Contracted Services | 6,281 |
| Postage | 4,021 |
| Training | <u>253</u> |
| Total Operating Expenses | <u>788,118</u> |
| Operating Income (Loss) | <u>118,191</u> |
| Nonoperating Revenues (Expenses) | |
| Interest Income | 823 |
| Interest Expense | (83,961) |
| Grant Funding | 225,087 |
| Insurance Proceeds | <u>30,100</u> |
| Total Nonoperating Revenues (Expenses) | <u>172,049</u> |
| Income (Loss) Before Contributions and Transfers | 290,240 |
| Transfers In (Out) | <u>(410,254)</u> |
| Change in Net Position | (120,014) |
| Total Net Position - Beginning | <u>2,827,052</u> |
| Total Net Position - Ending | <u>\$ 2,707,038</u> |

The accompanying notes are an integral part of these financial statements

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

| | Business-Type Activities |
|--|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Customers | \$ 906,309 |
| Cash Paid to Employees for Salaries and Benefits | (241,895) |
| Cash Paid to Suppliers for Goods and Services | (419,879) |
| Net Cash Provided By (Used For) Operating Activities | 244,535 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Transfer (to) from General Fund | (410,254) |
| Net Cash Provided By (Used For) Noncapital Financing Activities | (410,254) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Capital Grants | 225,087 |
| Insurance Proceeds | 30,100 |
| Interest Paid on Capital Debt | (83,961) |
| Principal Paid on Capital Debt | (48,088) |
| Net Cash Provided By (Used For) Capital and Related Financing Activities | 123,138 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on Investments | 823 |
| Net Cash Provided By (Used For) Investing Activities | 823 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (41,758) |
| Cash and Cash Equivalents, Beginning of Year | 224,225 |
| Cash and Cash Equivalents, End of Year | \$ 182,467 |
| Reconciliation of Operating Income (Loss) to Net Cash | |
| Provided (Used) by Operating Activities: | |
| Operating Income (Loss) | \$ 118,191 |
| Adjustments to Reconcile Operating Income to Net Cash | |
| Provided by (Used for) Operating Activities | |
| Depreciation Expense | 123,286 |
| Increase (Decrease) in Due to General Fund | (20,500) |
| Increase (Decrease) in Accounts Payable and Other Liabilities | 21,038 |
| Increase (Decrease) in Deposits Payable | 2,520 |
| Net Cash Provided by (Used for) Operating Activities | \$ 244,535 |

Noncash Disclosure: In this fiscal year, the City was issued \$7,200,000 in new debt with the Greater Texoma Utility Association (GTUA). As of September 30, 2022, the cash from the debt is being held at GTUA.

The accompanying notes are an integral part of these financial statements

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

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Bells, Texas (City), was established in 1876 and incorporated in 1880. The City operates under a city council form of government. The general governmental functions include law enforcement, fire and other public safety activities, streets, public improvements, parks and recreation, sanitation, and general administrative services. Enterprise Funds are used to account for the operations of its water and sewer systems.

The accompanying financial statements present the primary government, the City, and its component units, entities that are legally separate but are included in the financial statements because the primary government is considered to be financially accountable. The component units presented are those separately administered unit to the City is determined on the basis of the appointment of the respective governing board, ability to influence projects, whether a financial benefit/burden relationship exists, and other factors. Further, the presentation in the financial statements is determined by whether the component unit's governing body is substantially the same as the City, who is the primary beneficiary of the services provided, and the expectation of what resources will be used to pay debts.

The Bells 4A Economic Development Corporation (4A) and the Bells 4B Economic Development Corporation (4B) are discretely presented component units of the City. The discrete presentation is required because governing boards are essentially the same as the City and a financial benefit or burden relationship exists between the 4A, 4B, and the City. The 4A and 4B are non-profit organizations established on behalf of the City under the Development Act of 1979. The transactions of the 4A and 4B are maintained in separate funds and are discretely presented in separate columns in the financial statements. The discretely presented methodology was selected after evaluation of the circumstances and standards, as noted above. The 4A and 4B do not issue separate financial statements.

Except for the use of the modified cash basis of accounting as discussed in Note 1.E., the City complies with accounting principles generally accepted in the United States of America as applicable to governments. Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financials are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while the business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Note 1: Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The City reports the following major governmental fund:

General Fund – The General Fund is the City's primary operating fund. It accounts for all financial resources, except those accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund. The General Fund accounts for the transactions relating to most City operations including police, fire, court, sanitation, and streets.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general obligation debt of governmental funds.

The City reports the following major enterprise fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system, and billing and collections activities. The fund also accounts for the accumulation of resources for, and the payment of long-term debt principal and interest for water and sewer debt. Most costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Similarly, balances between funds included in the business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

E. Measurement Focus and Basis of Accounting

In the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below:

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

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

Note 1: Summary of Significant Accounting Policies (continued)

E. Measurement Focus and Basis of Accounting (continued)

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

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

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

F. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with the modified cash basis of accounting. Any capital projects funds are appropriated on a project-length basis. The appropriated budget is prepared by fund, function, and department. The City’s department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the council. The level of budgetary control is the department level. Appropriations in all budgeted funds lapse at the end of the fiscal year.

G. Assets, Liabilities, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, bank overdrafts, and short-term investments with original maturity of three months or less from the date of acquisition. Bank overdrafts are included in the liabilities on the balance sheet.

Investments

The City’s investment policy states that City investments will be with any of the following institutions or groups consistent with federal, state law, and City Code provisions:

1. Depository bank(s) of the City;
2. Other state, savings and loan, or national banks domiciled in Texas with offices in surrounding cities that are insured by the FDIC;
3. Investment Pools with a rating of AAA or AAAM;
4. Treasury Securities issued by the Federal Government.

The City is empowered by statute to invest in certificates of deposit issued by state or national bank domiciled in this state or a savings and loan association and is secured by obligations guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successors. The City’s investments consist of Certificates of Deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

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

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

Note 1: Summary of Significant Accounting Policies (continued)

G. Assets, Liabilities, and Net Position/Fund Balance (continued)

Use of Estimates

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

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment. The City elected not to report major general infrastructure assets retroactively. Therefore, infrastructure assets acquired after October 1, 2003 will be recorded at cost.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

| | |
|------------------------------------|---------------|
| Buildings, Parks, and Improvements | 10 – 39 Years |
| Furniture, Equipment, and Vehicles | 3 – 10 Years |
| Streets and Other Infrastructure | 20 – 50 Years |
| Water and Sewer System | 40 – 75 Years |

Net Position

The City will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

Fund Balances

The City implemented GASB Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on purposes for which resources can be used.

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

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

Restricted - Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

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

Note 1: Summary of Significant Accounting Policies (continued)

G. Assets, Liabilities, and Net Position/Fund Balance (continued)

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

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for a specific purpose. Under the City’s policy, only the City Council may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds.

H. Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions. All taxes, including those dedicated for a specific purpose, are reported as general revenues.

Property Taxes

Property taxes attach as an enforceable lien on real property and are levied as of October 1st each year and become delinquent on February 1st. Delinquent real property taxes are expected to be collected, as the delinquent amounts are a lien against the related property until paid. Property subject to taxation consists of real property and certain personal property situated in the City. Certain properties of religion, education, and charitable organizations, as well as the Federal government and the State of Texas are exempt from taxation. Additionally, certain exemptions are granted to property owners in arriving at the net assessed valuation of property subject to City taxation. For the current year’s tax levy of \$467,438 a total of 97.22% of the tax levy was collected. Property ad valorem tax rates per \$100 valuation for the year 2022 levy was 0.50756 for maintenance and operations and 0.043228 for the interest and sinking fund.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues are expenses generally result from providing services and products in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Note 1: Summary of Significant Accounting Policies (continued)

I. New Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, for reporting leases. The City does not have any material leases that must be accounted for under this new standard.

Note 2: Cash and Cash Equivalents

Custodial Credit Risk Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned, or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. Allowable collateral includes certificates of indebtedness or Treasury Notes of the United States, obligations insured by the United States, or a bond of the State of Texas (or other political subdivision of Texas) with a nationally determined investment rating of "A" or above. Collateral agreements must be approved prior to the deposit of funds as provided by law.

As of September 30, 2022, the City's carrying amount of deposits was \$1,522,604 and the bank's balances were \$1,572,726. The City was not exposed to custodial credit risk since all deposits were either insured by FDIC coverage or collateralized with securities held by pledging financial institution's trust department or agent in the name of the City. The City's Certificates of Deposit totaling \$61,836 are considered deposits for this footnote but are classified as Investments – Certificates of Deposit on the face of the financial statements.

Discretely Presented Component Units

As of September 30, 2022, the Bells 4A Economic Development Corporation and Bells 4B Economic Development Corporation carrying amount of deposits and bank balances were \$316,296 and \$132,374, respectively. Both Corporation deposit totals were fully insured by FDIC coverage; therefore, neither corporation was exposed to custodial credit risk as of September 30, 2022. The Bells 4A Economic Corporation's Certificate of Deposit totaling \$216 is considered a deposit for this footnote but is classified as Investments – Certificates of Deposit on the face of financial statements.

Note 3: Capital Assets

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

| | Balance October 1, 2021 | Additions | Retirements | Balance September 30, 2022 |
|---|--|--------------------|--------------------|---|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 161,289 | \$ - | \$ - | \$ 161,289 |
| Construction in Progress | 29,401 | - | - | 29,401 |
| Total Capital Assets, Not Being Depreciated | <u>190,690</u> | <u>-</u> | <u>-</u> | <u>190,690</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings, Parks and Improvements | 612,073 | - | - | 612,073 |
| Furniture, Equipment and Vehicles | 928,267 | - | - | 928,267 |
| Streets and Other Infrastructure | 438,612 | - | - | 438,612 |
| Total Capital Assets Being Depreciated | <u>1,978,952</u> | <u>-</u> | <u>-</u> | <u>1,978,952</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings, Parks and Improvements | (204,206) | (23,973) | - | (228,179) |
| Furniture, Equipment and Vehicles | (778,522) | (58,340) | - | (836,862) |
| Streets and Other Infrastructure | (78,554) | (9,062) | - | (87,616) |
| Total Accumulated Depreciation | <u>(1,061,282)</u> | <u>(91,375)</u> | <u>-</u> | <u>(1,152,657)</u> |
| Capital Assets Being Depreciated, Net | <u>917,670</u> | <u>(91,375)</u> | <u>-</u> | <u>826,295</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 1,108,360</u> | <u>\$ (91,375)</u> | <u>\$ -</u> | <u>\$ 1,016,985</u> |

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

Note 3: Capital Assets (continued)

| | Balance October 1, 2021 | Additions | Retirements | Balance September 30, 2022 |
|---|-------------------------------|---------------------|-------------|----------------------------------|
| Business-Type Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 27,924 | \$ - | \$ - | \$ 27,924 |
| Construction in Progress | 102,425 | - | - | 102,425 |
| Total Capital Assets, Not Being Depreciated | <u>130,349</u> | <u>-</u> | <u>-</u> | <u>130,349</u> |
| Capital Assets Being Depreciated | | | | |
| Furniture, Equipment and Vehicles | 446,494 | - | - | 446,494 |
| Water and Sewer System | 4,767,489 | - | - | 4,767,489 |
| Total Capital Assets Being Depreciated | <u>5,213,983</u> | <u>-</u> | <u>-</u> | <u>5,213,983</u> |
| Less Accumulated Depreciation for: | | | | |
| Furniture, Equipment and Vehicles | (374,718) | (33,535) | - | (408,253) |
| Water and Sewer System | (1,880,939) | (89,751) | - | (1,970,690) |
| Total Accumulated Depreciation | <u>(2,255,657)</u> | <u>(123,286)</u> | <u>-</u> | <u>(2,378,943)</u> |
| Capital Assets Being Depreciated, Net | <u>2,958,326</u> | <u>(123,286)</u> | <u>-</u> | <u>2,835,040</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 3,088,675</u> | <u>\$ (123,286)</u> | <u>\$ -</u> | <u>\$ 2,965,389</u> |

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

Governmental Activities

| | |
|----------------------|------------------|
| General Government | \$ 22,955 |
| Police | 19,964 |
| Fire Protection | 38,136 |
| Cemetery | 483 |
| Parks and Recreation | 9,837 |
| Total | <u>\$ 91,375</u> |

Business-Type Activities

| | |
|-----------------|-------------------|
| Water and Sewer | <u>\$ 123,286</u> |
|-----------------|-------------------|

Note 4: Changes in Long-Term Debt

A summary of the City's long-term debt transactions for the year ended September 30, 2022, follows:

| Governmental Activities | Interest | September 30, 2021 | Payments | Additions | September 30, 2022 | Current Portion |
|---------------------------------------|-----------------|-----------------------|--------------------|-------------------|-----------------------|--------------------|
| | Rate Payable | | | | | |
| Note Payable - Pumper Truck | 3.60% | \$ 7,591 | \$ (7,591) | \$ - | \$ - | \$ - |
| Note Payable - Police Trucks | 4.20% | - | - | 57,204 | 57,204 | 13,603 |
| Note Payable - Fire Dept | 4.47% | 18,993 | (6,170) | - | 12,823 | 6,439 |
| Note Payable - Police Units | 4.20% | 18,150 | (18,150) | - | - | - |
| Note Payable - Infrastructure Repairs | 2.60% | 61,500 | (35,800) | - | 25,700 | 23,000 |
| Note Payable - Street Rehabilitation | 4.70% | - | - | 180,000 | 180,000 | 22,284 |
| Total Notes Payable | | <u>\$ 106,234</u> | <u>\$ (67,711)</u> | <u>\$ 237,204</u> | <u>\$ 275,727</u> | <u>\$ 65,326</u> |

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

Note 4: Changes in Long-Term Debt (continued)

| Proprietary Activities | Interest Rate Payable | September 30, 2021 | Payments | Additions | September 30, 2022 | Current Portion |
|---------------------------------|-----------------------------|-----------------------|--------------------|---------------------|-----------------------|--------------------|
| GTUA Certificates of Obligation | 2.79% | \$ 450,000 | \$ (40,000) | \$ 7,200,000 | \$ 7,610,000 | \$ 140,000 |
| Note Payable - Ford F350 | 4.47% | 24,465 | (8,088) | - | 16,377 | 8,432 |
| Total Notes Payable | | <u>\$ 474,465</u> | <u>\$ (48,088)</u> | <u>\$ 7,200,000</u> | <u>\$ 7,626,377</u> | <u>\$ 148,432</u> |

Note 5: Long-Term Debt – Governmental Activities

Governmental-Type Activities Debt

\$30,840, note payable to Cendera Bank; issued April 2019, payable in annual installments of \$7,019. The note matures in March 2024 and bears an interest rate of 4.47%. The note is secured by a truck used in the fire department. \$ 12,823

\$60,000 note payable to North Dallas Bank and Trust; issued in November 2016, payable in monthly installments of \$809. The note matures in October 2023 and bears an interest rate of 3.57%. The note is secured by a pumper truck used in the fire department. Extra payments resulted in this debt being fully paid in this fiscal year. -

\$69,303 note payable to Citizen's 1st Bank; issued in April 2018, payable in annual installments of \$19,170. The note matures in April 2022 and bears an interest rate of 4.197%. The note is secured by ad valorem tax. -

\$156,000 note payable to Southside Bank; issued in October 2017, payable in annual installments of \$21,000 to \$24,000, with semi-annual interest payments. The note matures in October 2024 and bears an interest rate of 2.6%. The note is secured by ad valorem tax. 25,700

\$57,204 note payable to First Financial Bank; issued in August 2022, payable in annual installments of \$16,049 with semi-annual interest payments. The note matures in August 2026 and bears an interest rate of 4.2% 57,204

\$180,000 note payable to First United; issued in June 2022, payable in annual installments of \$30,825 which includes principal and interest. The note matures in June 2029 and bears an interest rate of 4.7%. 180,000

Total Governmental-Type Activities Debt \$ 275,727

Note 6: Long-Term Debt – Business-Type Activities

Contractual Obligations with Greater Texoma Utility Authority

Under the terms of long-term water supply and sewer service contracts between the City and the Greater Texoma Utility Authority (GTUA), the City recognizes the GTUA has an undivided ownership interest in the City's water system and sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance of GTUA bonds.

The City has a contractual obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributed to the bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds. Under terms of the contracts the City's obligation to

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

Note 6: Long-Term Debt – Business-Type Activities (continued)

make payments to GTUA, as well as GTUA’s ownership interest in the facilities terminates, when all of GTUA’s bond issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding.

Business-Type Activities Debt

The annual requirements at September 30, 2022 to retire debt obligations are as follows:

\$40,428 note payable to Cendera bank, issued November 2018, due in annual installments of \$9,202 through November 2023, with interest at 4.473%. The note was secured by a truck used in the water department. \$ 16,377

\$915,000 Greater Texoma Utility Authority (GTUA) Certificate of Obligation, has principal payments due every April 1st in amounts ranging from \$25,000 to \$60,000 through 2030. Interest is paid every April 1st and October 1st. Interest rates are variable and are determined every April 1st. The latest available reset of interest is 2.79% as determined on April 1, 2017. 410,000

\$7,200,000 Greater Texoma Utility Authority (GTUA) Certificate of Obligation, has principal payments due every April 1st in amounts ranging from \$95,000 to \$295,000 through 2062. Interest is paid every April 1st and October 1st. The interest rates range between 2.41% and 4.21% for the duration of the debt. 7,200,000

Total Business-Type Activities Debt \$ 7,626,377

The annual requirements at September 30, 2022 to retire debt obligations are as follows:

| | Interest Rate Payable | September 30, 2021 | Payments | Additions | September 30, 2022 | Current Portion |
|--------------------------------------|-----------------------|--------------------|--------------------|---------------------|---------------------|-------------------|
| GTUA Certificates of Obligation | 2.79% | \$ 450,000 | \$ (40,000) | \$ 7,200,000 | \$ 7,610,000 | \$ 140,000 |
| Note Payable - Ford F350 | 4.47% | 24,465 | (8,088) | - | 16,377 | 8,432 |
| Total Notes and Bonds Payable | | <u>\$ 474,465</u> | <u>\$ (48,088)</u> | <u>\$ 7,200,000</u> | <u>\$ 7,626,377</u> | <u>\$ 148,432</u> |

Note 7: Interfund Receivables, Payables, and Transfers

Interfund balances as September 30, 2022 are as follows:

| Receivable Fund | Payable Fund | Amount | Purpose |
|-----------------|-----------------|-----------|--|
| General | Water and Sewer | \$ 75,667 | For services earned/paid on behalf of another fund |

The composition of interfund transfers for the year ended September 30, 2022 are as follows:

| | Transfer In | | Total |
|-----------------|-------------------|------------------|-------------------|
| | General | Debt Service | |
| Transfer Out | | | |
| General | \$ - | \$ - | \$ - |
| Water and Sewer | <u>373,567</u> | <u>36,687</u> | <u>410,254</u> |
| Total | <u>\$ 373,567</u> | <u>\$ 36,687</u> | <u>\$ 410,254</u> |

The transfers to the Debt Service Fund were to assist in current year debt payments. The transfers to the General Fund were for regular operations of the City.

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

Note 8: Stewardship, Compliance, and Accountability

Budget and Budgetary Accounting

The City Council adopts an annual budget for the General Fund, the Debt Service Fund, and the Water and Sewer Fund. The annual budget for these funds are prepared on a modified cash basis.

The following departments have an excess of expenditures over appropriations:

| | |
|-----------------------|----------|
| Police: | \$ 3,667 |
| Fire Protection: | 41,331 |
| Sanitation: | 1,651 |
| Parks and Recreation: | 1,031 |
| Cemetery: | 6,195 |

Note 9: Other Information

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The City purchases insurance coverage through the Texas Municipal League (TML) Intergovernmental Risk Pool to limit the risk of loss in these areas. There were no reductions in coverage in the past fiscal year. Settled claims have not exceeded insurance coverage in any of the past four fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally federal and state governments. And disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor is indeterminable. The City expects disallowed amounts, if any, to be insignificant.

Restricted Assets

Restricted Fund Balances of \$8,690 and \$685 for the General Fund represent cash restricted by the State of Texas for court security and technology expenditures and police seizures, respectively.

General Fund balances related to certain bank cash and certificate of deposit accounts totaling \$183,104 are restricted for on-going cemetery maintenance and improvements.

Commitments

The City has active construction contracts related to improvements of the City's streets for \$180,000 outstanding at September 30, 2022.

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

Note 10: Pension Plan

Plan Description

The City of Bells participates as one of 903 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of the 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.

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

| | <u>Plan Year 2022</u> |
|-----------------------------------|--|
| Employee deposit rate | 7% |
| Matching ratio (City to employee) | 1.5 to 1 |
| Years required for vesting | 5 years of service |
| Service retirement eligibility | Minimum age 60 with 5 years of service Any age with 20 years of service |
| Updated service credits | 0% |
| Annuity increase (to retirees) | 0% of CPI |

Employees covered by benefit terms

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

| | |
|--|-------|
| Inactive employees or beneficiaries currently receiving benefits | 5 |
| Inactive employees entitled to but not yet receiving benefits | 18 |
| Active employees | 9 |
| | <hr/> |
| Total | 32 |
| | <hr/> |

Contributions

The contribution rates for employees in TMRS either 5%, 6%, or 7% of employee gross earnings, and the City matching percentage 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

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

Note 10: Pension Plan (continued)

to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 3.52% and 3.60% in calendar years 2021 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022 were \$15,078 and were equal to the required contributions.

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

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|--|-----------------|---------------------------|--------------------|---|
| 12/31/2021 | \$ 566,554 | \$ 429,749 | 131.83% | \$ (136,805) | \$ 440,084 | (31.09%) |

Supplemental Death Benefits Fund

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

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

Contributions

The City contributes to the SDBF at the contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing in-year term life insurance. The funding policy for the SDBF program is to ensure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employee's entire careers. The City's contributions to the TMRS SDBF for the years ended 2022, 2021, and 2020 were \$484, \$743, and \$486, respectively, which equaled the required contributions each year.

Note 11: Subsequent Events

The City purchased a vehicle after year end for approximately \$57,000. In addition, the City completed \$180,000 of major repairs on a street project after year end. The City has evaluated subsequent events through May 19, 2023, which is the date the financial statements were available to be issued.

OTHER INFORMATION

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

| | <u>Original and Final Budget</u> | <u>Actual Amounts</u> | Variance with Final Budget Positive (Negative) |
|--|--|---------------------------|---|
| REVENUES | | | |
| Taxes: | | | |
| Property | \$ 545,420 | \$ 522,063 | \$ (23,357) |
| Franchise | 53,790 | 55,478 | 1,688 |
| General Sales and Use | 160,000 | 157,123 | (2,877) |
| Municipal Court | 210,156 | 198,910 | (11,246) |
| Sanitation | 90,890 | 98,239 | 7,349 |
| Other Revenue | 137,217 | 149,086 | 11,869 |
| Licenses and Permits | 17,392 | 20,723 | 3,331 |
| Interest Revenue | 5,805 | 4,224 | (1,581) |
| Total Revenues | <u>1,220,670</u> | <u>1,205,846</u> | <u>(14,824)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| Police | 316,778 | 320,445 | (3,667) |
| Municipal Court | 21,839 | 19,741 | 2,098 |
| General Government | 455,775 | 387,818 | 67,957 |
| Fire Protection | 112,037 | 153,368 | (41,331) |
| Sanitation | 162,570 | 164,221 | (1,651) |
| Parks and Recreation | 11,475 | 12,506 | (1,031) |
| Cemetery | 12,865 | 19,060 | (6,195) |
| Debt Service: | | | |
| Principal | 104,781 | 67,711 | 37,070 |
| Interest | 144,919 | 31,839 | 113,080 |
| Total Expenditures | <u>1,343,039</u> | <u>1,176,709</u> | <u>166,330</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(122,369)</u> | <u>29,137</u> | <u>151,506</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Capital Contributions | 161,635 | 73,136 | (88,499) |
| Loan Proceeds | - | 237,204 | 237,204 |
| Proceeds from Sale of Assets | - | 2,344 | 2,344 |
| Transfers (to) from Other Funds | (29,000) | 410,254 | 439,254 |
| Total Other Financing Sources (Uses) | <u>132,635</u> | <u>722,938</u> | <u>590,303</u> |
| Net Change in Fund Balance | <u>\$ 10,266</u> | <u>\$ 752,075</u> | <u>\$ 741,809</u> |

The accompanying notes are an integral part of these financial statements