

CITY OF BELLS, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2023

City of Bells, Texas
Annual Financial Report
For the Year Ended September 30, 2023

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the City Council
City of Bells, Texas

Opinions

We have audited the accompanying modified cash basis financial statements 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 of Bells, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component units and each major fund of the City of Bells, Texas, as of September 30, 2023, and the respective changes in modified cash basis 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.

Basis for Opinions

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

Emphasis of Matter - Basis of Accounting

We 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. Our opinions are not modified with respect to this matter.

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, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Honorable Mayor and Members
of the City Council
City of Bells, Texas

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, we:

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

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

Other Matters

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the budgetary comparison information but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

McClanahan and Holmes, LLP
Certified Public Accountants

Bonham, Texas
November 6, 2024

City of Bells, Texas
Statement of Net Position - Modified Cash Basis
September 30, 2023

	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	\$ 715,799	\$ -	\$ 715,799	\$ 305,346	\$ 99,331
Investments - Certificates of Deposit	-	55,032	55,032	-	-
Restricted Cash	9,058	-	9,058	-	-
Internal Balances	347,316	(347,316)	-	-	-
Capital Assets not Being Depreciated:					
Land	161,289	27,924	189,213	-	-
Construction in Progress	-	-	-	-	-
Capital Assets net of Accumulated Depreciation:					
Buildings, Parks, and Improvements	483,619	-	483,619	-	-
Streets and Other Infrastructure	523,556	-	523,556	-	-
Furniture, Equipment, and Vehicles	339,229	175,586	514,815	-	-
Water and Sewer System	-	2,088,524	2,088,524	-	-
Total Assets	<u>2,579,866</u>	<u>1,999,750</u>	<u>4,579,616</u>	<u>305,346</u>	<u>99,331</u>
LIABILITIES					
Accrued Liabilities	5,577	2,319	7,896	-	-
Customer Deposits Payable	-	75,184	75,184	-	-
Noncurrent Liabilities:					
Due Within One Year	56,908	19,320	76,228	-	-
Due in More Than One Year	296,022	76,907	372,929	-	-
Total Liabilities	<u>358,507</u>	<u>173,730</u>	<u>532,237</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net Investment in Capital Assets	1,154,763	2,195,807	3,350,570	-	-
Restricted for:					
Economic Development	-	-	-	305,346	99,331
Court Security and Technology	8,373	-	8,373	-	-
Cemetery	153,577	-	153,577	-	-
Debt Service	69,948	-	69,948	-	-
Police Seizures	685	-	685	-	-
Unrestricted	<u>834,013</u>	<u>(369,787)</u>	<u>464,226</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>\$ 2,221,359</u>	<u>\$ 1,826,020</u>	<u>\$ 4,047,379</u>	<u>\$ 305,346</u>	<u>\$ 99,331</u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Activities - Modified Cash Basis
Year Ended September 30, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 786,242	\$ 25,442	\$ 284,085	\$ 56,794	\$ (419,921)	\$ -	\$ (419,921)
Police	348,857	-	-	-	(348,857)	-	(348,857)
Municipal Court	20,785	55,751	-	-	34,966	-	34,966
Fire Protection	128,837	-	30,000	-	(98,837)	-	(98,837)
Cemetery	21,405	-	50	-	(21,355)	-	(21,355)
Parks and Recreation	24,503	-	-	-	(24,503)	-	(24,503)
Sanitation	173,579	215,387	-	-	41,808	-	41,808
Interest on Long-Term Debt	17,440	-	-	-	(17,440)	-	(17,440)
Total Governmental Activities	1,521,648	296,580	314,135	56,794	(854,139)	-	(854,139)
Business-Type Activities:							
Water and Sewer	1,361,577	843,479	-	97,500	-	(420,598)	(420,598)
Total Business-Type Activities	1,361,577	843,479	-	97,500	-	(420,598)	(420,598)
Total Primary Government	\$ 2,883,225	\$ 1,140,059	\$ 314,135	\$ 154,294	(854,139)	(420,598)	(1,274,737)
Component Units:							
Bells 4A Economic Development Corporation	\$ 106,498	\$ -	\$ -	\$ -	-	-	\$ (106,498)
Bells 4B Economic Development Corporation	125,307	-	-	-	-	-	(125,307)
Total Component Units	\$ 231,805	\$ -	\$ -	\$ -	-	-	(106,498)
General Revenues:							
Property Taxes					532,459	-	532,459
General Sales and Use Taxes					181,977	-	181,977
Franchise Taxes					59,138	-	59,138
Gain (Loss) on Disposal of Capital Assets					(33,330)	2,508	(30,822)
Miscellaneous					139,503	-	139,503
Investment Earnings					6,509	240	6,749
Transfers					8,050	(8,050)	-
Total General Revenues and Transfers					894,306	(5,302)	889,004
Change in Net Position					40,167	(425,900)	(385,733)
Net Position - Beginning					2,102,030	2,707,038	4,809,068
Prior Period Adjustment					79,162	(455,118)	(375,956)
Net Position - Ending					\$ 2,221,359	\$ 1,826,020	\$ 4,047,379

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Balance Sheet - Modified Cash Basis
Governmental Funds
September 30, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 644,173	\$ 71,626	\$ 715,799
Restricted Cash and Cash Equivalents	9,058	-	9,058
Due from Other Funds	348,994	-	348,994
Total Assets	<u>\$ 1,002,225</u>	<u>\$ 71,626</u>	<u>\$ 1,073,851</u>
LIABILITIES			
Accrued Liabilities	\$ 5,577	\$ -	\$ 5,577
Due to Other Funds	-	1,678	1,678
Total Liabilities	<u>5,577</u>	<u>1,678</u>	<u>7,255</u>
FUND BALANCES			
Restricted for Court Security	5,812	-	5,812
Restricted for Court Technology	2,561	-	2,561
Restricted for Cemetery	153,577	-	153,577
Restricted for Debt Service	-	69,948	69,948
Restricted for Police Seizures	685	-	685
Unassigned	834,013	-	834,013
Total Fund Balances	<u>996,648</u>	<u>69,948</u>	<u>1,066,596</u>
Total Liabilities and Fund Balances	<u>\$ 1,002,225</u>	<u>\$ 71,626</u>	<u>\$ 1,073,851</u>

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

Fund Balance of the Governmental Funds \$ 1,066,596

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 \$2,681,594 and the accumulated depreciation is \$1,173,901. 1,507,693

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 (352,930)

Net Position of Governmental Activities \$ 2,221,359

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended September 30, 2023

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Taxes:			
Property	\$ 466,594	\$ 65,865	\$ 532,459
General Sales and Use	181,977	-	181,977
Franchise	59,138	-	59,138
Municipal Court	55,751	-	55,751
Sanitation	215,387	-	215,387
Intergovernmental	314,135	-	314,135
Other Revenue	139,503	-	139,503
Licenses and Permits	25,442	-	25,442
Interest Revenue	6,509	-	6,509
Total Revenues	<u>1,464,436</u>	<u>65,865</u>	<u>1,530,301</u>
EXPENDITURES			
Current:			
General Government	760,719	-	760,719
Police	332,739	-	332,739
Municipal Court	20,785	-	20,785
Fire Protection	96,144	-	96,144
Sanitation	173,579	-	173,579
Parks and Recreation	14,108	-	14,108
Cemetery	17,174	-	17,174
Capital Outlays	477,042	-	477,042
Debt Service:			
Principal	-	82,797	82,797
Interest	-	17,440	17,440
Total Expenditures	<u>1,892,290</u>	<u>100,237</u>	<u>1,992,527</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(427,854)</u>	<u>(34,372)</u>	<u>(462,226)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	160,000	-	160,000
Transfers (to) from Other Funds	(44,015)	52,065	8,050
Total Other Financing Sources (Uses)	<u>115,985</u>	<u>52,065</u>	<u>168,050</u>
Net Change in Fund Balance	(311,869)	17,693	(294,176)
Fund Balance - Beginning	<u>1,308,517</u>	<u>52,255</u>	<u>1,360,772</u>
Fund Balance - Ending	<u>\$ 996,648</u>	<u>\$ 69,948</u>	<u>\$ 1,066,596</u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Modified Cash Basis (Continued)
Governmental Funds
For the Year Ended September 30, 2023

Net Change in Fund Balances - Total Governmental Funds (p. 6)	\$ (294,176)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$473,503) exceeded depreciation (\$85,421) in the current year.	388,082
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The net effect of other transactions involving capital assets (i.e., sales, donations, and capital grants) is to increase net assets.	23,464
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Proceeds from the issuance of debt is income in the Governmental Fund, but increases liabilities in the Statements of Net Position.	(160,000)
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	<div style="border-top: 1px solid black; display: inline-block;">82,797</div>
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Change in Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 40,167</div>
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City of Bells, Texas
Statement of Net Position - Modified Cash Basis
Proprietary Fund
September 30, 2023

	Water and Sewer Fund
ASSETS	
Current Assets:	
Investments	\$ 55,032
Total Current Assets	<u>55,032</u>
Noncurrent Assets:	
Capital Assets:	
Land	27,924
Furniture, Equipment, and Vehicles	507,223
Water and Sewer System	3,777,357
Less Accumulated Depreciation	<u>(2,020,470)</u>
Total Noncurrent Assets	<u>2,292,034</u>
Total Assets	<u>2,347,066</u>
LIABILITIES	
Current Liabilities:	
Accrued Liabilities	2,319
Customer Deposits Payable	75,184
Due to General Fund	347,316
Note Payable - Current Portion	<u>19,320</u>
Total Current Liabilities	<u>444,139</u>
Noncurrent Liabilities:	
Note Payable - Long-Term Portion	<u>76,907</u>
Total Noncurrent Liabilities	<u>76,907</u>
Total Liabilities	<u>521,046</u>
NET POSITION	
Net Investment in Capital Assets	2,195,807
Unrestricted	<u>(369,787)</u>
Total Net Position	<u>\$ 1,826,020</u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Revenues, Expenses, and Changes in Net Position -
Modified Cash Basis
Proprietary Fund
September 30, 2023

Water and Sewer
Fund

Operating Revenues:

Water and Sewer	\$ 767,481
Late Charges, Connect Fees, and Other	75,998
Total Operating Revenues	<u>843,479</u>

Operating Expenses:

Contractual and Professional Services	139,897
Depreciation	107,741
Dues, Subscriptions, and Other Fees	7,769
GTUA Service Expense	436,497
Insurance	11,345
Lab Fees	7,364
Other Operating Expenses	3,974
Postage	4,615
Salaries and Benefits	291,678
Supplies, Maintenance, and Repairs	295,668
Training	981
Utilities	51,097
Total Operating Expenses	<u>1,358,626</u>

Operating Income (Loss)	<u>(515,147)</u>
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Nonoperating Revenues (Expenses)

Capital Contribution	97,500
Interest Income	240
Gain on Disposal of Assets	2,508
Interest Expense	(2,951)
Total Nonoperating Revenue (Expenses)	<u>97,297</u>

Income (Loss) Before Transfers	(417,850)
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Transfers In (Out)	<u>(8,050)</u>
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Change in Net Position

(425,900)

Total Net Position - Beginning	2,707,038
Prior Period Adjustment	(455,118)
Total Net Position - Ending	<u>\$ 1,826,020</u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Cash Flows - Modified Cash Basis
Proprietary Fund
For the Year Ended September 30, 2023

	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 847,244
Cash Paid to Employees for Salaries and Benefits	(290,401)
Cash Paid to Suppliers for Goods and Services	(979,202)
Net Cash Used by Operating Activities	<u>(422,359)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer (to) from General Fund	<u>263,599</u>
Net Cash Provided by Noncapital Financing Activities	<u>263,599</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(217,231)
Contributions	97,500
Proceeds from New Debt	105,591
Interest Paid on Capital Debt	(2,951)
Principal Paid on Capital Debt	(9,364)
Proceeds from the Sale of Assets	2,508
Net Cash Used by Capital and Related Financing Activities	<u>(23,947)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	<u>240</u>
Net Cash Provided by Investing Activities	<u>240</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(182,467)
Cash and Cash Equivalents, October 1, 2022	<u>182,467</u>
Cash and Cash Equivalents, September 30, 2023	<u><u>\$ -</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (515,147)
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities	
Depreciation Expense	107,741
Increase (Decrease) in Deposits Payable	3,765
Increase (Decrease) in Accrued Liabilities	<u>(18,718)</u>
Net Cash Used by Operating Activities	<u><u>\$ (422,359)</u></u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Net Position - Modified Cash Basis
Fiduciary Funds
September 30, 2023

	<u>Custodial Fund</u>
	<u>Court Costs and Fees</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 3,411</u>
Total Assets	<u>3,411</u>
LIABILITIES	
Accounts Payable to State	<u>3,411</u>
Total Liabilities	<u>3,411</u>
NET POSITION	
Total Net Position	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Statement of Changes in Net Position - Modified Cash Basis
Fiduciary Funds
Year Ended September 30, 2023

	<u>Custodial Fund</u>
	<u>Court Costs and Fees</u>
ADDITIONS	
Contributions:	
State Court Fees Collected	\$ 22,939
Total Additions	<u>22,939</u>
DEDUCTIONS	
Payments of Court Fees to State	<u>22,939</u>
Total Deductions	<u>22,939</u>
Change in Net Position	-
Net Position - Beginning	<u>-</u>
Net Position - Ending	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of these financial statements.

City of Bells, Texas
Notes to Financial Statements
Year Ended September 30, 2023

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 organizations that are controlled by or dependent on the City. Control or dependency of the component 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 the 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 Financial Statements (continued)
Year Ended September 30, 2023

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 are presented for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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 funds:

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 proprietary 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.

Additionally, the City reports the following fund type:

Fiduciary Fund – The Court Cost and Fees Custodial Fund includes court costs collected by the City on behalf of the State of Texas, which are remitted to the State quarterly. These assets are excluded from the government-wide financial statements as they cannot be used to support the government's own programs.

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 the 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 at the gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. 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:

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 1: Summary of Significant Accounting Policies (continued)

E. Measurement Focus and Basis of Accounting (continued)

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

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

The City of Bells prepares its financial statements on the modified cash basis. The modified cash basis recognizes revenue when collected rather than when it is earned, and expenses are generally recognized when paid rather than when the obligation is incurred. Therefore, the financial statements do not reflect receivables, payables, lease obligations, 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. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

F. Budgetary Information

1. 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.

2. Excess of Expenditures Over Appropriations

For the year ended September 30, 2023, the City’s expenditures exceeded appropriation at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
General Government	\$ 323,987
Police	10,453
Sanitation	1,444
Parks and Recreation	2,833
Cemetery	503
Capital Outlays	477,042
Operating Transfers Out	55,547

The over-expenditures were funded by available fund balance.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 1: Summary of Significant Accounting Policies (continued)

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

Cash and Cash Equivalents

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

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.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 1: Summary of Significant Accounting Policies (continued)

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

Net Position (continued)

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

Fund Balances

The City implemented GASB Statement 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 balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

As of September 30, 2023, fund balances of the governmental funds are classified as follows:

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

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

Committed – Amounts that can be used only for 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 the 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 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, then assigned 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.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 1: Summary of Significant Accounting Policies (continued)

H. Revenues and Expenditures/Expenses (continued)

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 \$535,044 a total of 97.64% of the tax levy was collected. Property ad valorem tax rates per \$100 valuation for the year 2022 levy was 0.426334 for maintenance and operations and 0.060479 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 and 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.

Note 2: Cash and Cash Equivalents

Primary Government

The City has not adopted formal deposit and investment policies other than that of the State of Texas.

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 insurance (FDIC). Deposited funds may be invested in certificates of deposits in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This type of risk is typically expressed in terms of the credit ratings issued by a nationally recognized statistical rating organization. Certificates of Deposit do not receive a credit rating.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment balance consists of only Certificates of Deposit as described above.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Public Funds Investment Act requires the City to have independent auditors perform test procedures related to investment practices as prescribed by that legislation. The Act also requires a designated investment officer to complete training on topics pertaining to the Act and for the investment policy to be reviewed annually. The investment policy failed to be reviewed; therefore, the City lacks the requirements to be in compliance with the Texas Public Funds Investment Act.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 2: Cash and Cash Equivalents (continued)

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. At September 30, 2023, the carrying amount of deposits was \$783,300 and the bank balance was \$829,911. As of September 30, 2023, the City was not exposed to custodial credit risk since \$262,856 was insured by FDIC, \$99,068 was collateralized with securities held by the pledging financial institution, and \$467,987 was secured by a pledged FHLB Custodial Standby Letter of Credit. The City's carrying amount of deposits excluded negative cash reclassified to accounts payable, totaling \$291.

The City's Certificates of Deposit totaling \$55,032 are considered deposits for this footnote but are classified as investments on the face of the financial statements.

Discretely Presented Component Units

As of September 30, 2023, the Bells 4A Economic Development Corporation and Bells 4B Economic Development Corporation carrying amounts of deposits were \$305,346 and \$99,331, respectively. The bank balances were \$305,346 and \$117,125, respectively. As of September 30, 2023, both Corporations were insured up to \$250,000 by FDIC. Therefore, Bells 4A Economic Development Corporation had deposits of \$55,346 that were exposed to custodial credit risk because they were uninsured and uncollateralized. Bells 4B Economic Development Corporation was fully insured by FDIC.

Note 3: Capital Assets

A summary of changes in fixed assets for the year ended September 30, 2023, follows:

	Balance 9/30/2022	Additions	Retirements	Balance 9/30/2023
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	190,690	-	(29,401)	161,289
Capital Assets, Being Depreciated:				
Buildings, Parks, and Improvements	671,236	68,597	(15,942)	723,891
Streets and Other Infrastructure	458,611	165,171	-	623,782
Furniture, Equipment, and Vehicles	928,267	296,529	(52,164)	1,172,632
Total Capital Assets, Being Depreciated	2,058,114	530,297	(68,106)	2,520,305
Less Accumulated Depreciation for:				
Buildings, Parks, and Improvements	228,179	24,106	(12,013)	240,272
Streets and Other Infrastructure	87,616	12,610	-	100,226
Furniture, Equipment, and Vehicles	836,862	48,705	(52,164)	833,403
Total Accumulated Depreciation	1,152,657	85,421	(64,177)	1,173,901
Capital Assets, Being Depreciated, Net	905,457	444,876	(3,929)	1,346,404
Governmental Activities Capital Assets, Net	<u>\$ 1,096,147</u>	<u>\$ 444,876</u>	<u>\$ (33,330)</u>	<u>\$ 1,507,693</u>

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 3: Capital Assets (continued)

	Balance 9/30/2022	Additions	Retirements	Balance 9/30/2023
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	130,349	-	(102,425)	27,924
Capital Assets, Being Depreciated:				
Furniture, Equipment, and Vehicles	446,494	175,230	(114,501)	507,223
Water and Sewer System	3,632,931	144,426	-	3,777,357
Total Capital Assets, Being Depreciated	4,079,425	319,656	(114,501)	4,284,580
Less Accumulated Depreciation for:				
Furniture, Equipment, and Vehicles	408,253	37,885	(114,501)	331,637
Water and Sewer System	1,618,977	69,856	-	1,688,833
Total Accumulated Depreciation	2,027,230	107,741	(114,501)	2,020,470
Capital Assets, Being Depreciated, Net	2,052,195	211,915	-	2,264,110
Business-Type Activities Capital Assets, Net	<u>\$ 2,182,544</u>	<u>\$ 211,915</u>	<u>\$ (102,425)</u>	<u>\$ 2,292,034</u>

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

Governmental Activities:

General Government	\$ 25,523
Police	16,118
Fire Protection	32,693
Cemetery	692
Parks and Recreation	10,395
Total	<u>\$ 85,421</u>

Business-Type Activities:

Water and Sewer	<u>\$ 107,741</u>
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Note 4: Long-Term Debt

A summary of the City's long-term debt transactions for the year ended September 30, 2023, follows:

Type of Debt	Balance 9/30/22	Additions	Retirements	Balance 9/30/23	Due Within One Year
Governmental Activities:					
Notes Payable	\$ 275,727	\$ 160,000	\$ 82,797	\$ 352,930	\$ 56,908
Total Governmental Activities:	<u>\$ 275,727</u>	<u>\$ 160,000</u>	<u>\$ 82,797</u>	<u>\$ 352,930</u>	<u>\$ 56,908</u>
Business-Type Activities:					
Notes Payable	\$ -	\$ 105,591	\$ 9,364	\$ 96,227	\$ 19,320
Total Business-Type Activities:	<u>\$ -</u>	<u>\$ 105,591</u>	<u>\$ 9,364</u>	<u>\$ 96,227</u>	<u>\$ 19,320</u>

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 4: Long-Term Debt (continued)

Governmental-Type Activities Debt

\$57,204 note payable to First Financial Bank; issued in August 2022, payable in annual installments of \$16,049. The note matures in August 2026 and bears an interest rate of 4.221%. The note is secured by a police vehicle. \$ 44,588

\$180,000 note payable to First United Bank; issued in June 2022, payable in annual installments of \$30,825. The note matures in June 2029 and bears an interest rate of 4.68%. The note is unsecured. 157,716

\$160,000 note payable to First United Bank; issued in March 2023, payable in quarterly installments of \$7,110. The note matures in March 2030 and bears an interest rate of 6.2%. The note is secured by a truck used in the fire department. 150,626

Total Governmental Activities \$ 352,930

Business-Type Activities

\$105,591 note payable to First United Bank, issued March 2023, due in quarterly installments of \$6,157. The note matures in March 2028 and bears an interest rate of 5.95%. The note is secured by equipment used in the water department. \$ 96,227

Total Business-Type Activities \$ 96,227

The annual requirements at September 30, 2023, to retire debt obligations are as follows:

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		Total
	Principal	Interest	Principal	Interest	
2024	\$ 56,908	\$ 18,406	\$ 19,320	\$ 5,308	\$ 99,942
2025	59,909	15,405	20,496	4,132	99,942
2026	63,024	12,290	21,743	2,885	99,942
2027	50,257	9,008	23,066	1,562	83,893
2028	53,020	6,245	11,602	258	71,125
2029-2030	69,812	3,602	-	-	73,414
	<u>\$ 352,930</u>	<u>\$ 64,956</u>	<u>\$ 96,227</u>	<u>\$ 14,145</u>	<u>\$ 528,258</u>

Note 5: Interfund Receivables, Payables, and Transfers

Interfund balances at September 30, 2023 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Water and Sewer	\$347,316	For services earned/paid on behalf of other fund.
General	Debt Service	\$ 1,678	For services paid on behalf of other fund.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 5: Interfund Receivables, Payables, and Transfers (continued)

The composition of interfund transfers for the year ended September 30, 2023 are as follows:

	Transfer In			Total
	General	Debt Service	Water and Sewer	
Transfer Out:				
General	\$ -	\$ 48,952	\$ -	\$ 48,952
Debt Service	-	-	26,158	26,158
Water and Sewer	4,937	29,271	-	34,208
Total	<u>\$ 4,937</u>	<u>\$ 78,223</u>	<u>\$ 26,158</u>	<u>\$ 109,318</u>

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

Note 6: 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 budgets for these funds are prepared on a modified cash basis. Note 1.F.2., on the Excess of Expenditures Over Appropriations, describes budgetary violations that occurred for the year ended September 30, 2023. It also explains the provision that was used to remedy the violation.

Note 7: 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 three fiscal years.

Federal Grants

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Accordingly, the City's compliance with applicable grant requirements has not yet been established. The amount, if any, of reimbursements which may be required by the granting agencies cannot be determined at this time.

Restricted Assets

Restricted cash balances of \$8,373 and \$685 for the General Fund represent cash restricted by the State of Texas for court security and technology expenditures and police seizures, respectively.

Commitments

During the year, the City of Bells entered into an Agreement for the Provision of Advanced Life Support and Ambulance Medical Transportation Services with the City of Whitewright in the amount of \$100,000. As per the agreement, the City of Bells paid \$50,000 in the current year and will pay the remaining \$50,000 in monthly installments of \$4,166.67 from October 2023 to September 2024.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 7: Other Information (continued)

Commitments (continued)

The City has active construction contracts related to improvements of the City's water and sewer system and streets as of September 30, 2023. At year end, the City's commitment with the contractors is as follows:

Project Name	Contract Amount	Amount Spent as of September 30, 2023	Remaining Commitment
Antero – Water Priorities	\$ 27,250	\$ 19,536	\$ 7,714
Antero – Wastewater Engineering*	489,000	277,536	211,464
Total	<u>\$ 516,250</u>	<u>\$ 297,072</u>	<u>\$ 219,178</u>

*Project related to Contractual Service Agreement with Greater Texoma Utility Authority.

Contractual Service Agreement with Greater Texoma Utility Authority

The City has entered into contracts with the Greater Texoma Utility Authority (GTUA), whereby GTUA provides water services to the City. As part of the contractual agreements, GTUA issues debt for the benefit of the City, the proceeds of which are used to finance construction of water facilities and infrastructure within the City. As of September 30, 2023, the City had two agreements with GTUA with outstanding amounts of \$365,000 and \$7,105,000. Although this debt is not that of the City, the City is contractually obligated for the repayment of principal and interest on the debt through a pledging of water revenues.

Project capital assets are defined as direct and indirect costs associated with construction or acquisition related to bond-funded projects for participating entities. During the period in which bonds are outstanding on project facilities, ownership of these assets is vested in GTUA to comply with state and federal regulations. After all associated debt and claims have been extinguished, ownership is transferred to the City.

During the year ended September 30, 2023, the City paid \$436,497 in accordance with these contracts. Future payments under these contracts average approximately \$360,808 per year for the next 40 years.

A summary of the remaining debt service as of September 30, 2023, is as follows:

Year Ending September 30	Principal	Interest	Totals
2024	\$ 45,000	\$ 146,390	\$ 191,390
2025	150,000	290,199	440,199
2026	155,000	286,030	441,030
2027	155,000	281,711	436,711
2028	165,000	277,257	442,257
2029-2033	710,000	1,315,183	2,025,183
2034-2038	685,000	1,198,130	1,883,130
2039-2043	800,000	1,049,870	1,849,870
2044-2048	925,000	873,062	1,798,062
2049-2053	1,055,000	666,127	1,721,127
2054-2058	1,220,000	427,315	1,647,315
2059-2063	1,405,000	151,034	1,556,034
	<u>\$ 7,470,000</u>	<u>\$ 6,962,308</u>	<u>\$ 14,432,308</u>

GTUA unaudited financial statement balances as of and for the year ended September 30, 2023 for the City of Bells, as excerpted, are as follows: \$97,009 Cash and Investments, \$8,582 Receivables and Other Assets, \$346,579 Fixed Assets (Net), \$387,500 Liabilities, \$60,008 Revenue, \$64,981 Expenses, and \$69,643 Beginning Net Position. These assets, liabilities, and net position are not that of the City but are the City's allocation of resources held by GTUA.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 7: Other Information (continued)

Asset Retirement Obligation:

The City may incur certain asset retirement obligations related to the disposal of their wastewater treatment plants, per state regulations. The City is on the modified cash basis and therefore has not recorded a liability for the legally required closure costs of these facilities. Further, the estimated liability of the legally required closure costs for the wastewater treatment plant cannot be reasonably estimated as of September 30, 2023, since the specific legally required costs of retirement have not yet been identified. As of September 30, 2023, the City has not begun any retirement procedures related to the disposal of these assets.

Note 8: Pension Plan

Plan Description

The City of Bells participates as one of 919 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at [tmrs.com](https://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 member's benefit is calculated based on the sum of the member's contributions, with interest, and the city-financed monetary credits with interest. The retiring member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total member contributions and interest.

Employees covered by benefit terms

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	6
Inactive Employees Entitled to but not yet Receiving Benefits	15
Active Employees	11
	<u>32</u>

Contributions

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

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 8: Pension Plan (continued)

Employees for the City of Bells were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City of Bells were 3.52% and 3.70% in calendar years 2022 and 2023, respectively. The City's contributions to TMRS, which include amounts contributed for Supplemental Death Benefits, for the year ended September 30, 2023, were \$22,504 and were equal to the required contributions.

The funded status as of December 31, 2022, the most recent actuarial valuation 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
12/31/2022	\$ 557,904	\$ 461,425	120.9%	\$(96,479)	\$490,413	(19.7) %

Note 9: Other Post Employment Benefit (OPEB)

Supplemental Death Benefits Fund

The City also participates in the single-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.

Benefits

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other post-employment benefit" (OPEB) and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund.

Employees Covered by Benefit Terms

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	3
Inactive Employees Entitled to but not yet Receiving Benefits	4
Active Employees	<u>11</u>
Total	<u>18</u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

City of Bells, Texas
Notes to Financial Statements (continued)
Year Ended September 30, 2023

Note 9: Other Post Employment Benefit (OPEB) (continued)

Contributions (continued)

Employees of the City were not required to contribute to the OPEB plan during the fiscal year. The contribution rates for the City were 0.18% and 0.30% of gross earnings in calendar year 2022 and 2023, respectively.

Supplemental Death Benefits Fund Net Position

Detailed information about the plan's net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tnrs.com.

Note 10: Prior Period Adjustment

During fiscal year 2023, the City determined that an adjustment of \$79,162 was necessary to the beginning balance of governmental activities related to fixed assets not recorded in the prior year. The restated beginning fund balance for governmental activities was \$2,181,192. Additionally, the City determined that an adjustment of \$455,118 was necessary to the beginning balance of the proprietary fund related to deposits held in trust, fixed assets, and debt. The restated beginning net position of the proprietary fund was \$2,251,920.

Note 11: Subsequent Events

The City has evaluated subsequent events through November 6, 2024, which is the date the financial statements were available to be issued.

In December 2023, the City executed a Master Equity Lease Agreement with Enterprise Fleet Management (Enterprise) whereby the City will purchase new vehicles with equity leases to be financed over a period of time. When the vehicles are sold, the proceeds will go back to the City. The City expects this program to reduce its capital purchases as well as operating expenses related to its fleet of vehicles. As of November 6, 2024, the City has sold a police vehicle in the amount of \$45,786 and has transferred the title to a fire truck to Enterprise. The City is leasing both vehicles back. The proceeds for the police vehicle were used to pay off the First Financial Bank note for that vehicle (Note 4). Additionally, the City is leasing four new vehicles for the police and street departments. The City has made total down payments for these leases in the amount of \$70,305. In total, the City has the following leases: four vehicles under 4-year lease agreements with a total value of \$221,611 and annual lease payments totaling \$64,052; one vehicle under a 3-year lease agreement with a total value of \$47,786 and annual lease payments totaling \$18,766; and one vehicle under a 1-year lease agreement with a total value of \$1 and annual lease payments totaling \$321. All leases have an option to continue on a month-to-month basis for an unlimited amount of time.

City of Bells, Texas
General Fund Budgetary Comparison Schedule
Modified Cash Basis
Year Ended September 30, 2023

	<u>Original & Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
REVENUES			
Taxes:			
Property	\$ 450,000	\$ 466,594	\$ 16,594
General Sales and Use	160,000	181,977	21,977
Franchise	59,270	59,138	(132)
Municipal Court	76,900	55,751	(21,149)
Sanitation	218,990	215,387	(3,603)
Intergovernmental	-	314,135	314,135
Other Revenue	113,894	139,503	25,609
Licenses and Permits	18,800	25,442	6,642
Interest Revenue	2,600	6,509	3,909
Total Revenues	<u>1,100,454</u>	<u>1,464,436</u>	<u>363,982</u>
EXPENDITURES			
Current:			
General Government	436,732	760,719	(323,987) *
Police	322,286	332,739	(10,453) *
Municipal Court	21,100	20,785	315
Fire Protection	131,787	96,144	35,643
Sanitation	172,135	173,579	(1,444) *
Parks and Recreation	11,275	14,108	(2,833) *
Cemetery	16,671	17,174	(503) *
Capital Outlays	-	477,042	(477,042) *
Total Expenditures	<u>1,111,986</u>	<u>1,892,290</u>	<u>(780,304)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,532)</u>	<u>(427,854)</u>	<u>(416,322)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	-	160,000	160,000
Transfers (to) from Other Funds	11,532	(44,015)	(55,547) *
Total Other Financing Sources (Uses)	<u>11,532</u>	<u>115,985</u>	<u>104,453</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(311,869)	(311,869)
Fund Balance - Beginning	1,308,517	1,308,517	-
Fund Balance - Ending	<u>\$ 1,308,517</u>	<u>\$ 996,648</u>	<u>\$ (311,869)</u>

*Expenditures exceed appropriations at the legal level of control.