

ANNUAL FINANCIAL REPORT
City of Gregory, Texas
Year ended September 30, 2021

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City of Gregory, Texas
Annual Financial Report
Year ended September 30, 2021
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Introductory Section

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CITY OF GREGORY

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The Honorable Mayor and City Council
City of Gregory
Gregory, Texas 78359

This report represents the Annual Financial Report for the City of Gregory, Texas for the fiscal year ended September 30, 2021.

This report is published to provide the City Council, City Staff, our citizens, our creditors and other interested parties with detailed information concerning the financial condition and activities of the city government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures rests with the city.

To the best of my knowledge and belief, the enclosed data is accurate in all material aspects, and is organized in a manner designed to fairly present the financial position and results of operations of the city, as measured by the financial activity of its various funds. I also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the city's financial affairs have been included.

The city staff is pleased to submit the Annual Financial Report for the City of Gregory, Texas, for the fiscal year ended September 30, 2021.

THE REPORT

This report is in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, a listing of the City Officials, and an organizational chart. The Financial Section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the Independent Auditor's report on the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Gregory MD&A can be found immediately following the report of the independent auditor. The Statistical Section includes financial and demographic information, usually presented on a multi-year basis that is relevant to the financial statement reader.

S. Noel Snedeker, II, CPA, a properly licensed certified public accountant, have audited the City of Gregory's financial statement. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Gregory for the fiscal year ending September 30, 2021 are free of material misstatement. The independent audit involves examining on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor based upon the audit, that there was a reasonable basis for the fiscal year ending September 30, 2021 financial statements to be considered to be fairly presented in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board and other professional promulgations, as applicable.

CITY PROFILE

Location

The City of Gregory is a city located in San Patricio County. Located in San Patricio County, Gregory is 12 miles from Corpus Christi and about 136 miles south of San Antonio. The city encompasses approximately 1.5 square miles of land within the city's corporate boundary. Gregory's population is estimated at about 1,983.

Gregory was incorporated as a town in 1951. The city operates under a General Law, Type A form of government.

Services Provided

Services provided by the city under the general governmental functions include public safety (police and fire), streets, sanitation, public improvements, and general administrative services. Other services include utilities operation. A private firm provides solid waste collection and disposal services under a contract with the city. In addition, a private firm provides emergency medical service response under a contract with the city. In addition, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses, payments on outstanding debt and reserves.

Blended Component Unit

The City of Gregory, Texas has formed the Gregory Economic Development Corporation (4B) as a blended component unit.

Discretely Presented Component Unit

The City of Gregory, Texas had no discretely presented component units.

Services provided by the city under the general governmental function include public safety (police and fire.)

Accounting System and Budgetary Control

The city's accounting record for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable, expenditures being recorded when services or goods are received, and the liabilities are incurred. Accounting records for the city's utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the city's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining

accountably for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgements by management.

The city requires that in or before the end of August, the City Secretary submits to the City Council a proposed budget and budget message to the City Council for the fiscal year commencing the following October 1. The budget message is the responsibility of the City Secretary. The City Council shall review the proposed budget and make any appropriate changes prior to adopting and publishing the final budget. The budget is legally enacted through passage of an ordinance on or before September 30. The City Secretary is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Secretary may be authorized, by ordinance and the adoption thereof by the City Council, to expend limited amounts, which are included within the budget. Expenditures over this amount require authorization by the City Council.

Budgetary control has been established at the individual fund level. Financial reports are showing budget and actual expenditures by line item for the current month and year-to-date and are distributed monthly to city department supervisors as well as other upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personal expenditures are monitored and controlled at a position level and capital expenditures are controlled item by item.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the city operates.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

Regional Economy

San Patricio County is located at the center of the Corpus Christi Bay Area on the Gulf of Mexico. Linked to Corpus Christi by the Harbor Bridge, the county is part of a two county MSA, which celebrates being the industrial area in the nation that has clear air, healthy bays and estuaries and plentiful water supplies. Coupled with an abundant land and a young workforce, San Patricio County is poised to be the center of growth in the region. Rail and interstate connectivity also link San Patricio County to Mexican and U.S. markets.

As a bedroom community to the larger City of Corpus Christi, which is to our south, our economy is largely related to providing high quality of life for the families that reside here. Housing sales have remained slow in contrast to the national trend. Gregory's housing remains affordable and in most cases is close to 25% less than a comparable property in neighboring metropolitan Corpus Christi. The city has however started to see the development of additional affordable housing, starting with the 72-unit complex on FM 2986 and the renovation of the existing Gregory Housing Authority complexes. New construction of a 144-unit affordable housing project commenced this reporting year.

The following facts reflect upon Gregory's economic condition and outlook:

Major industrial construction continues at an increasing pace.

Gregory and its adjacent land continue to serve as plant locations for some of the nation's largest corporations:

- Chemours
- OxyChem
- Tianjin Pipe Company
- Cheniere Energy
- Voestalpine Group Steel Company
- Gulf Coast Growth Venture (ExxonMobil)

Total taxable value for all residential and commercial property in the City of Gregory exceeded \$84 million for the fiscal year 2020, an 8% increase from the previous year.

Total sales tax collections have increased \$119k or 21% over the prior fiscal year. The overall growth of the area is considered a positive factor.

Current Economic Outlook and New Developments

The City of Gregory has taken several steps in the recent years and continues to move forward on several projects to improve the quality of life, by capitalizing on the natural beauty of the area and preserving public access to natural areas.

New Developments

Gulf Coast Growth Ventures (ExxonMobil) has opened their first building, The Administrative Building, which is fully staffed and functioning. The Heavy Haul Road is in place, and the Processing Plant is complete and operational.

Cheniere Energy is up and running and have completed Train 3 and will be adding an additional four (4) trains.

Cash Management

City officials invest idle cash by deposits in the Texas Class Investment Pool, when the interest rates available provide local government investment opportunities, while protecting principle and liquidity. It is in the city's policy that all demand deposits and time deposits are secured by pledged collateral, with a market value equal to no less than 100% of the deposits, less an amount insured by the FDIC. Evidence of the pledged collateral is periodically obtained at a third-party financial institution. Collateral is reviewed to assure the market value of the securities pledged, equals or exceeds the related bank balances. All collateral is subject to inspection and audit by the city's independent auditors.

The Honorable Mayor and City Council
City of Gregory
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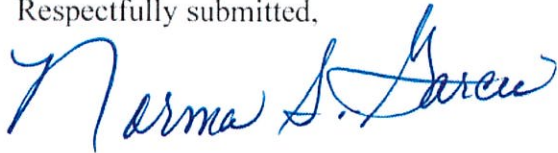
OTHER INFORMATION

Acknowledgements

Appreciation is expressed to each city employee who, throughout the past year, has faithfully and diligently served the city and its community. They are to be thanked.

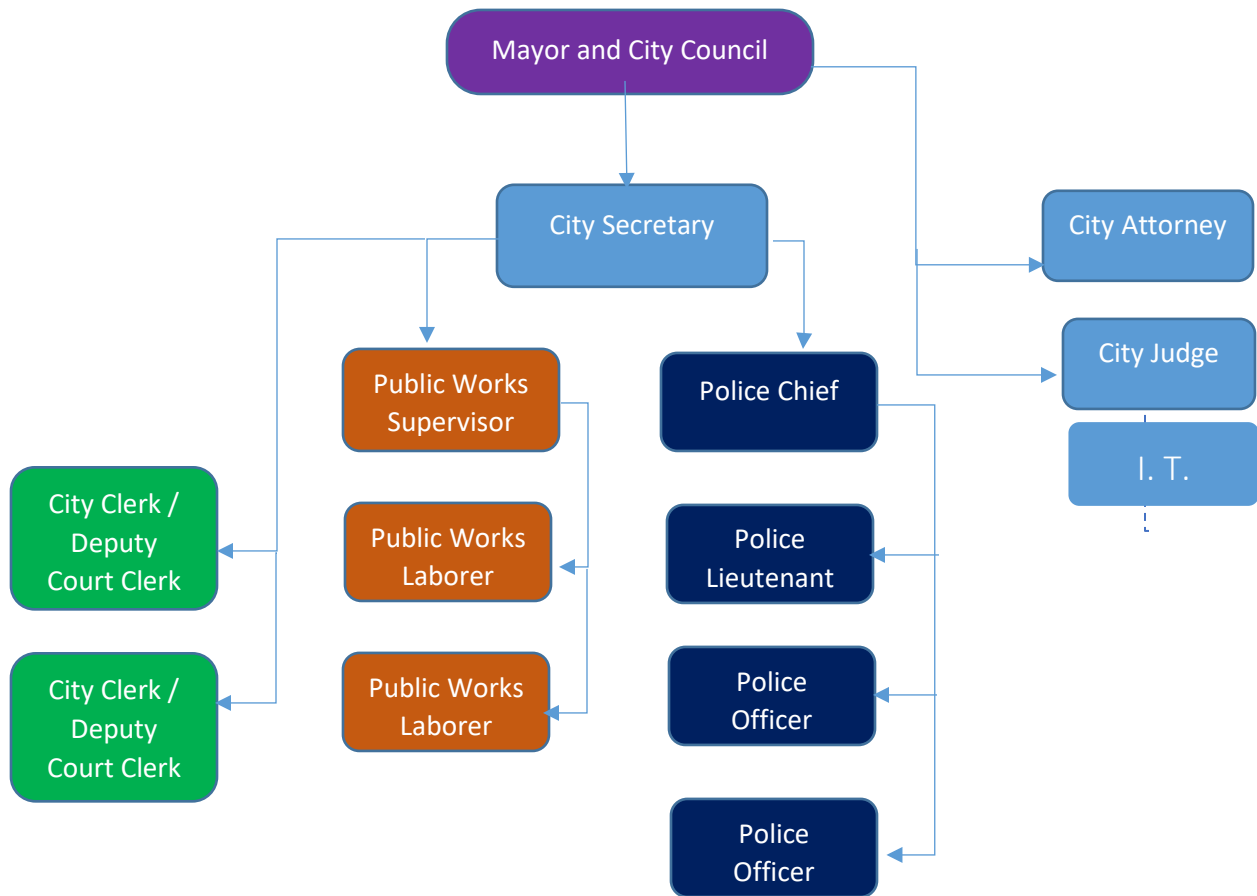
The Mayor, members of the City Council, and Citizens, are to be thanked for their active participation in the support of the operations of the city. The city continues to grow and enhance its overall operations, as it plans for the future of the City of Gregory, Texas. While challenges remain, there are also opportunities. As with any effort to improve, we are continuing a process toward attaining a goal. Further, this will not be one person's effort, but the efforts of everyone.

Respectfully submitted,



Norma S. Garcia
City of Gregory, Texas
City Secretary

CITY OF GREGORY- Organizational Chart



City of Gregory, Texas

Principal Officials

City Council

Jeronimo B. Garcia, Mayor

Odilia Reyes, Mayor Pro-Term

Alvaro Lopez, Jr., City Council

Pablo Martinez, City Council

George Hernandez, City Council

Christopher Flores, City Council

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Financial Section

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S. NOEL SNEDEKER, II

CERTIFIED PUBLIC ACCOUNTANT

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Report of Independent Auditors

To the Mayor and Members of the City Council
City of Gregory, Texas

Opinions

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gregory, Texas (The "City") as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Gregory, Texas, as of September 30, 2021 and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Management's Responsibility for the Financial Statements

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

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 Gregory, Texas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility 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 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

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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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards,

- Exercise professional judgement 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 of Gregory, Texas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgement, there are conditions, or events, considered in the aggregate, that raise substantial doubt about the City of Gregory, Texas's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gregory, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and my auditor's report thereon. My opinions on the basic financial statements do not cover the other information, and I do not express an opinion or any form of assurance thereon.

In connection with my audit of the basic financial statements, my 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, I conclude that an uncorrected material misstatement of the other information exists, I am required to describe it in the report.



S. Noel Snedeker, II
Certified Public Accountant
September 28, 2022

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Management's Discussion and Analysis

City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021

This discussion and analysis of the City of Gregory, Texas's financial performance is intended to provide an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2021. The reader is encouraged to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Gregory, Texas, were more than its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,705,369 (net position). Of this amount, \$2,855,321 or 29.42% (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total debt is \$1,797,000. This debt is a result of the City of Gregory, Texas General Obligation Refunding Bonds, Series 2021.
- As of September 30, 2021, the City of Gregory, Texas's General Fund reported an ending fund balance of \$2,436,270 compared to \$2,115,465 in the prior year.
- As of September 30, 2021, the City of Gregory, Texas's governmental funds reported combined ending fund balance of \$3,304,040 compared to \$2,816,553 in the year before. This increase is due to increase in taxes, revenues, and cash and equivalents.
- The net position of the City of Gregory, Texas at the close of the fiscal year ending September 30, 2021 was \$9,705,369 an increase of \$448,342 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of Net Position presents information on all of the City of Gregory, Texas's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the assets and deferred outflows of resources and liabilities and deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Gregory, Texas is improving or deteriorating. This statement combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. To assess the overall health or financial condition of the City, other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.).

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned

City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021

but not used vacation leave). Both of the statements of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statements of Net Position and the Statement of Activities, the City is divided into two kinds of activities:

- **Governmental Activities-** Most of the City's basic services are reported here, including the police, fire, library, building and inspections, sanitation, code enforcement, parks, and recreation and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.
- **Business type Activities-** the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.

Reporting the City's most Significant Funds

Fund financial statements – The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City has established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and business type - utilize different accounting guidelines.

Governmental Funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long-term effect of the government's near-term operating decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statement.

The City of Gregory, Texas maintains four individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

Proprietary funds – The City charges customers for the services it provides. These services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the governmental-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Notes to the basic financial statements - These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021

Other information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

The City as a Whole - GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$9,705,369 as of September 30, 2021. Analyzing the net position and net expenses of governmental and business-type activities separately, the Governmental Activities was \$5,606,938 and the business type activities net position was \$4,098,431. The analysis focuses on the net position (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business type-activities.

By far the largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and furniture); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table I
City of Gregory, Texas
Statement of Net Position

| | <u>Governmental Activities</u> | | <u>Business-Type Activity</u> | |
|--------------------------------------|--------------------------------|---------------------|-------------------------------|---------------------|
| | <u>FY 2021</u> | <u>FY 2020</u> | <u>FY 2021</u> | <u>FY 2020</u> |
| Current and Other Assets | \$ 3,741,277 | \$ 3,158,139 | \$ 841,078 | \$ 778,854 |
| Capital Assets | 4,132,207 | 4,233,490 | 3,647,071 | 3,526,853 |
| Total Assets | <u>7,873,484</u> | <u>7,391,629</u> | <u>4,488,149</u> | <u>4,305,707</u> |
| Deferred Outflows of Resources | 33,830 | 25,599 | 33,830 | 9,469 |
| Total Deferred Outflows of Resources | <u>33,830</u> | <u>25,599</u> | <u>33,830</u> | <u>9,469</u> |
| Long-Term Liabilities Outstanding | 1,606,000 | 1,895,000 | - | - |
| Other Liabilities | 580,478 | 250,193 | 378,598 | 224,680 |
| Total Liabilities | <u>2,186,478</u> | <u>2,145,193</u> | <u>378,598</u> | <u>224,680</u> |
| Deferred Inflows of Resources | 63,897 | 77,016 | 23,633 | 28,486 |
| Total Deferred Inflows of Resources | <u>63,897</u> | <u>77,016</u> | <u>23,633</u> | <u>28,486</u> |
| Net Position: | | | | |
| Net Investment in Capital Assets | 2,335,207 | 2,338,490 | 3,647,071 | 3,526,853 |
| Restricted | 867,770 | 701,088 | - | - |
| Unrestricted | 2,403,961 | 2,155,441 | 451,360 | 535,155 |
| Total Net Position | <u>\$ 5,606,938</u> | <u>\$ 5,195,019</u> | <u>\$ 4,098,431</u> | <u>\$ 4,062,008</u> |

City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021

Table II
City of Gregory, Texas
Changes in Net position

| | Governmental Activities | | Business-Type Activities | |
|---|-------------------------|---------------------|--------------------------|---------------------|
| | FY 2020-21 | FY 2019-20 | FY 2020-21 | FY 2019-20 |
| Revenue | | | | |
| Property Taxes | \$ 728,081 | \$ 626,754 | \$ - | \$ - |
| Sales Taxes | 488,299 | 660,528 | - | - |
| Franchise Taxes | 64,679 | 64,184 | - | - |
| Penalty and Interest on Taxes | 9,873 | 40,043 | - | - |
| Charges for Services | 228,036 | | 857,880 | 1,156,304 |
| Grants and Contributions | 1,033,976 | 331,985 | - | - |
| Other Revenues | 472,340 | 794,952 | 182,975 | 115,487 |
| Investment Earnings | 1,167 | 10,242 | - | - |
| Total Revenues | <u>3,026,451</u> | <u>2,528,688</u> | <u>1,040,855</u> | <u>1,271,791</u> |
| Expense | | | | |
| General Government | 559,715 | 642,875 | - | - |
| Municipal Court and Other Fees | 254,529 | 180,408 | - | - |
| Public Safety | 721,715 | 525,611 | - | - |
| Public Works | 314,437 | 222,354 | - | - |
| Streets | 283,070 | 317,820 | - | - |
| Bond Interest | 184,722 | 45,696 | - | - |
| Business Type | - | - | 1,004,432 | 1,009,423 |
| Total Expenses | <u>2,318,188</u> | <u>1,934,764</u> | <u>1,004,432</u> | <u>1,009,423</u> |
| Change in Net Position Before Transfers | 708,263 | 593,924 | 36,423 | 262,368 |
| Transfers | - | 384,198 | - | (384,198) |
| Change in Net Position | <u>708,263</u> | <u>978,122</u> | <u>36,423</u> | <u>(121,830)</u> |
| Net Position, Beginning of Year | 5,195,019 | 4,216,897 | 4,062,010 | 4,183,840 |
| Prior Period Adjustment (Note L) | (296,344) | | | |
| Net Position, End of Year | <u>\$ 5,606,938</u> | <u>\$ 5,195,019</u> | <u>\$ 4,098,431</u> | <u>\$ 4,062,010</u> |

Governmental Fund Activities – The City’s general fund revenues decreased when compared to the prior year by 24.2 percent or \$498,608 due to a decrease sales tax and contributions. The assessed value of the property in the City increased by \$3.12 million from \$78,946,247 to \$82,061,288, or 3.94 percent, as compared to the prior year. In addition to ad valorem property taxes, the City collects sales taxes, franchise taxes, beverage taxes and other taxes in lieu of ad valorem taxes.

**City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021**

**Table III
City of Gregory, Texas
General Fund Revenue**

| | 2021 | 2020 | Increase (Decrease) |
|--------------------------------------|---------------------|---------------------|------------------------|
| Taxes | \$ 1,075,094 | \$ 1,205,394 | \$ (130,300) |
| Licenses and Permits | 46,688 | 55,197 | (8,509) |
| Intergovernmental Revenue and Grants | | 54,293 | (54,293) |
| Charges for Services | 228,036 | 221,499 | 6,537 |
| Fines | | 228,100 | (228,100) |
| Other Revenue | 211,089 | 295,029 | (83,940) |
| Total General Revenue | \$ 1,560,907 | \$ 2,059,512 | \$ (498,605) |

The most significant governmental expense for the City was in the public safety and general government. The public safety incurred expenses of \$721,715. The general government incurred expenses of \$559,715

Enterprise Fund Activities – Revenues of the City's Utility Funds were \$884,373 for the fiscal year ending September 30, 2021. Operating expenses were \$1,004,432 for the year, resulting in a net income of (\$120,059) before transfers are taken into account. The most significant expense of the utility Fund was \$252,155 to purchase water.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2021, the City of Gregory, Texas had approximately \$12.87 million invested in a broad range of capital assets, including police and fire equipment building, land, park facilities, roads, bridges, vehicles, and water and sewer lines as below:

**Table IV
City of Gregory, Texas
Capital Assets after Depreciation**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| | FY 2021 | FY 2020 | FY 2021 | FY 2020 | FY 2021 | FY 2020 |
| Land | \$ 102,504 | \$ 102,504 | \$ 44,814 | \$ 44,814 | \$ 147,318 | \$ 147,318 |
| Construction in Progress | | - | | 46,792 | - | 46,792 |
| Buildings & Improvements | 157,793 | 157,793 | - | - | 157,793 | 157,793 |
| Machinery & Equipment | 1,027,018 | 983,159 | 273,419 | 265,724 | 1,300,437 | 1,248,883 |
| Infrastructure | - | - | - | - | - | - |
| Water & Sewer System | 5,252,313 | 5,252,313 | 6,165,696 | 5,872,496 | 11,418,009 | 11,124,809 |
| Total | \$ 6,539,628 | \$ 6,495,769 | \$ 6,483,929 | \$ 6,229,826 | \$ 13,023,557 | \$ 12,725,595 |

**City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021**

Debt

At year-end, the City of Gregory, Texas had \$1,797,000 in General Certificates of Obligation and Loans compared to \$2,040,000 at the end of the prior fiscal year.

**Table V
City of Gregory, Texas
Outstanding Long-term Debt**

| | Governmental Activities | | Business-Type Activities | |
|-----------------|-------------------------|---------------------|--------------------------|-------------|
| | FY 2021 | FY 2020 | FY 2021 | FY 2020 |
| Certificates of | | | | |
| Obligations | \$ 1,797,000 | \$ 2,040,000 | \$ - | \$ - |
| Total | \$ 1,797,000 | \$ 2,040,000 | \$ - | \$ - |

The above outstanding debt represents long term debt. The City Charter authorizes the City of Gregory, Texas to issue bonds, when authorized by the voters or the City Council, for any purpose for which a city may issue bonds under the Constitution and laws of the State of Texas. The Charter precludes the use of bond proceeds for any other purpose other than that for which the bonds were sold. At September 30, 2021, the City had no bonds of any type approved that had not been issued.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2021, the governmental funds of the City reported a combined fund balance of \$3,304,040. The majority of it is the general fund and other funds which were \$2,436,270, \$867,770, respectively at September 30, 2021.

In the Proprietary Funds, net position at September 30, 2021 are \$4,062,008 an increase of \$36,423.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2021 budget, tax rates and fees that will be charged for the business-type activities. The total growth of the City's commercial development and revenues remain on target. Total property tax valuation continues to increase; thus, the property tax revenues are still increasing while the tax rate decreases. Water and sewer utility rates provide adequate revenue to cover the cash expenses of the Utility fund but are expected to improve due to the new installation of automatic water meters.

Component Unit

The government-wide financial statements for the Gregory Economic Development Corporation (GEDC), a component unit of the City of Gregory, are included in this report.

Component Unit Financial Highlights:

- The assets of the GEDC exceeded its liabilities by \$519,677 at September 30, 2021.
- Net position increased \$172,520 in comparison with the prior year.

City of Gregory, Texas
Management's Discussion and Analysis
September 30, 2021

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives from all sources. If you have questions about this report or need additional financial information, contact the Office of the Finance Department, P.O. Box 297, Gregory, Texas 78359.

BASIC FINANCIAL STATEMENTS

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CITY OF GREGORY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

EXHIBIT A-1

| | Primary Government | | | Component Unit |
|---|----------------------------|----------------------------------|---------------------|-------------------------------|
| | Governmental Activities | Business - Type Activities | Total | Nonmajor Component Unit |
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 823,860 | \$ 123,109 | \$ 946,969 | \$ 519,677 |
| Investments - Current | 2,544,103 | 500,165 | 3,044,268 | - |
| Taxes Receivable, Net | 119,547 | - | 119,547 | - |
| Accounts Receivable Net | 20,105 | 194,883 | 214,988 | - |
| Due from Other Funds | - | 22,921 | 22,921 | - |
| Temporarily Restricted Asset - TDEM Funds | 233,662 | - | 233,662 | - |
| Capital Assets: | | | | |
| Land Purchase and Improvements | 102,504 | 44,814 | 147,318 | - |
| Infrastructure, Net | 3,926,190 | 3,602,257 | 7,528,447 | - |
| Buildings, Net | 41,931 | - | 41,931 | - |
| Furniture and Equipment, Net | 61,582 | - | 61,582 | - |
| Total Assets | <u>7,873,484</u> | <u>4,488,149</u> | <u>12,361,633</u> | <u>519,677</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflow Related to Pension Plan | 28,574 | 10,568 | 39,142 | - |
| Deferred Resource Outflow Related to OPEB | 5,256 | 1,944 | 7,200 | - |
| Total Deferred Outflows of Resources | <u>33,830</u> | <u>12,512</u> | <u>46,342</u> | <u>-</u> |
| LIABILITIES | | | | |
| Accounts Payable | 104,155 | 323,443 | 427,598 | - |
| Wages and Salaries Payable | 12,479 | - | 12,479 | - |
| Payroll Liabilities | 1,580 | - | 1,580 | - |
| Sales Tax Payable | 187,544 | - | 187,544 | - |
| Due to Component Unit | - | 4,838 | 4,838 | - |
| Liabilities Payable from Restricted Assets | 22,539 | 27,689 | 50,228 | - |
| Noncurrent Liabilities: | | | | |
| Debt Due Within One Year | 191,000 | - | 191,000 | - |
| Bonds Payable - Noncurrent | 1,606,000 | - | 1,606,000 | - |
| Net Pension Liability | 40,246 | 14,885 | 55,131 | - |
| Net OPEB Liability | 20,936 | 7,743 | 28,679 | - |
| Total Liabilities | <u>2,186,479</u> | <u>378,598</u> | <u>2,565,077</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflow Related to Pension Plan | 61,256 | 22,656 | 83,912 | - |
| Deferred Resource Inflow Related to OPEB | 2,641 | 977 | 3,618 | - |
| Total Deferred Inflows of Resources | <u>63,897</u> | <u>23,633</u> | <u>87,530</u> | <u>-</u> |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 2,335,207 | 3,647,071 | 5,982,278 | - |
| Restricted for: | | | | |
| Restricted for Municipal Court | 213,162 | - | 213,162 | - |
| Restricted for Debt Service | 261,752 | - | 261,752 | - |
| Restricted for Federal or State Grant Funds | 233,662 | - | 233,662 | - |
| Restricted for Construction | 159,194 | - | 159,194 | - |
| Restricted for EDC | - | - | - | 519,677 |
| Unrestricted | 2,403,961 | 451,360 | 2,855,321 | - |
| Total Net Position | <u>\$ 5,606,938</u> | <u>\$ 4,098,431</u> | <u>\$ 9,705,369</u> | <u>\$ 519,677</u> |

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

CITY OF GREGORY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

| | Expenses | Program Revenues <u>Charges for Services</u> |
|--------------------------------|--------------|---|
| Primary Government: | | |
| GOVERNMENTAL ACTIVITIES: | | |
| General Government | \$ 567,309 | \$ - |
| Judicial | 206,017 | - |
| Financial Administration | 26,489 | - |
| Police | 610,141 | - |
| Fire Protection | 111,574 | - |
| Public Works | 314,437 | - |
| Streets | 283,070 | - |
| Parks | 14,429 | - |
| Interest on Debt | 184,722 | - |
| Total Governmental Activities | 2,318,188 | - |
| BUSINESS-TYPE ACTIVITIES: | | |
| Total Business-Type Activities | 1,004,432 | 857,880 |
| Total Business-Type Activities | 1,004,432 | 857,880 |
| TOTAL PRIMARY GOVERNMENT | \$ 3,322,620 | \$ 857,880 |
| Component Unit: | | |
| Nonmajor Component Unit | \$ 6,842 | \$ - |
| TOTAL COMPONENT UNITS | \$ 6,842 | \$ - |

General Revenues:

Taxes:

| |
|---|
| Property Taxes, Levied for General Purposes |
| General Sales and Use Taxes |
| Franchise Tax |
| Penalty and Interest on Taxes |
| Grants and Contributions |
| Miscellaneous Revenue |
| Investment Earnings |
| Transfers In (Out) |
| Total General Revenues and Transfers |

Change in Net Position

| |
|--------------------------|
| Net Position - Beginning |
| Prior Period Adjustment |
| Net Position - Ending |

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

| Net (Expense) Revenue and Changes in Net Position | | | |
|--|-----------------------------|---------------------|-------------------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-Type Activities | Total | Nonmajor Component Unit |
| \$ (567,309) | \$ - | \$ (567,309) | \$ - |
| (206,017) | - | (206,017) | - |
| (26,489) | - | (26,489) | - |
| (610,141) | - | (610,141) | - |
| (111,574) | - | (111,574) | - |
| (314,437) | - | (314,437) | - |
| (283,070) | - | (283,070) | - |
| (14,429) | - | (14,429) | - |
| (184,722) | - | (184,722) | - |
| <u>(2,318,188)</u> | <u>-</u> | <u>(2,318,188)</u> | <u>-</u> |
| - | (146,552) | (146,552) | - |
| - | (146,552) | (146,552) | - |
| <u>(2,318,188)</u> | <u>(146,552)</u> | <u>(2,464,740)</u> | <u>-</u> |
| - | - | - | (6,842) |
| - | - | - | (6,842) |
| 728,081 | - | 728,081 | - |
| 488,299 | - | 488,299 | 179,362 |
| 64,679 | - | 64,679 | - |
| 10,901 | - | 10,901 | - |
| 695,206 | - | 695,206 | - |
| 1,033,976 | 26,493 | 1,060,469 | - |
| 5,309 | - | 5,309 | - |
| - | 156,482 | 156,482 | - |
| <u>3,026,451</u> | <u>182,975</u> | <u>3,209,426</u> | <u>179,362</u> |
| 708,263 | 36,423 | 744,686 | 172,520 |
| 5,195,019 | 4,062,008 | 9,257,027 | 347,157 |
| (296,344) | - | (296,344) | - |
| <u>\$ 5,606,938</u> | <u>\$ 4,098,431</u> | <u>\$ 9,705,369</u> | <u>\$ 519,677</u> |

CITY OF GREGORY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

| | General Fund | Municipal Court Fund | TxCDBG Fund |
|---|---------------------|----------------------------|----------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 419,590 | \$ 213,319 | \$ - |
| Investments - Current | 2,314,108 | - | - |
| Taxes Receivable | 117,041 | - | - |
| Allowance for Uncollectible Taxes (credit) | (17,556) | - | - |
| Accounts Receivable - Net | 20,105 | - | - |
| Due from Other Funds | 11,266 | - | - |
| Temporarily Restricted Asset - TDEM Funds | 233,662 | - | - |
| Total Assets | <u>\$ 3,098,216</u> | <u>\$ 213,319</u> | <u>\$ -</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 104,155 | \$ - | \$ - |
| Wages and Salaries Payable | 12,479 | - | - |
| Payroll Liabilities | 1,423 | 157 | - |
| Sales Tax Payable | 187,544 | - | - |
| Due to Other Funds | 234,321 | - | - |
| Liabilities Payable from Restricted Assets | 22,539 | - | - |
| Total Liabilities | <u>562,461</u> | <u>157</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue - Property Taxes | 99,485 | - | - |
| Total Deferred Inflows of Resources | <u>99,485</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES | | | |
| Federal or State Funds Grant Restriction | - | - | - |
| Construction | - | - | - |
| Retirement of Loans or Notes Payable | - | - | - |
| Other Assigned Fund Balance | - | 213,162 | - |
| Unassigned Fund Balance | 2,436,270 | - | - |
| Total Fund Balances | <u>2,436,270</u> | <u>213,162</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 3,098,216</u> | <u>\$ 213,319</u> | <u>\$ -</u> |

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

| Debt Service Fund | Other Funds | Total Governmental Funds |
|-------------------------|-------------------|--------------------------------|
| \$ 31,757 | \$ 159,194 | \$ 823,860 |
| 229,995 | - | 2,544,103 |
| 23,602 | - | 140,643 |
| (3,540) | - | (21,096) |
| - | - | 20,105 |
| - | 233,662 | 244,928 |
| - | - | 233,662 |
| <u>\$ 281,814</u> | <u>\$ 392,856</u> | <u>\$ 3,986,205</u> |
| \$ - | \$ - | \$ 104,155 |
| - | - | 12,479 |
| - | - | 1,580 |
| - | - | 187,544 |
| - | - | 234,321 |
| - | - | 22,539 |
| <u>-</u> | <u>-</u> | <u>562,618</u> |
| 20,062 | - | 119,547 |
| <u>20,062</u> | <u>-</u> | <u>119,547</u> |
| - | 233,662 | 233,662 |
| - | 159,194 | 159,194 |
| 261,752 | - | 261,752 |
| - | - | 213,162 |
| - | - | 2,436,270 |
| <u>261,752</u> | <u>392,856</u> | <u>3,304,040</u> |
| <u>\$ 281,814</u> | <u>\$ 392,856</u> | <u>\$ 3,986,205</u> |

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CITY OF GREGORY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

| | | |
|---|-----------|------------------|
| Total Fund Balances - Governmental Funds | \$ | 3,304,040 |
| Included in the items related to debt is recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of (\$20,936), a deferred resource inflow in the amount of (\$2,641), a net OPEB liability in the amount of \$5,256. This resulted in an increase (decrease) in net position. | | (18,321) |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. | | 2,193,490 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2021 capital outlays and debt principal payments is to increase (decrease) net position. | | 236,859 |
| Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TES included a deferred resource outflow in the amount of (\$40,246), a deferred resource inflow in the amount of (\$61,256), a net pension liability in the amount of \$28,574. This resulted in an increase (decrease) in net position. | | (72,928) |
| The 2021 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | | (145,142) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | 108,940 |
| Net Position of Governmental Activities | \$ | 5,606,938 |

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

CITY OF GREGORY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

| | General Fund | Municipal Court Fund | Tx CDBG Fund |
|--|-----------------|----------------------------|-----------------|
| REVENUES: | | | |
| Taxes: | | | |
| Property Taxes | \$ 512,243 | \$ - | \$ - |
| General Sales and Use Taxes | 488,299 | - | - |
| Franchise Tax | 64,679 | - | - |
| Penalty and Interest on Taxes | 9,873 | - | - |
| Licenses and Permits | 46,688 | - | - |
| Intergovernmental Revenue and Grants | - | - | 246,408 |
| Charges for Services - Water | 228,036 | - | - |
| Special Assessments | - | - | - |
| Investment Earnings | 1,167 | - | - |
| Contributions & Donations from Private Sources | 130,656 | - | - |
| Other Revenue | 79,266 | 723,286 | - |
| Total Revenues | 1,560,907 | 723,286 | 246,408 |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government | 557,555 | - | - |
| Judicial | - | 206,017 | - |
| Financial Administration | 2,160 | - | - |
| Public Safety: | | | |
| Police | 623,845 | - | - |
| Fire Protection | 111,574 | - | - |
| Public Works | 2,374 | - | 246,408 |
| Streets | 244,350 | - | - |
| Culture and Recreation: | | | |
| Parks | 14,107 | - | - |
| Debt Service: | | | |
| Principal on Debt | - | - | - |
| Interest on Debt | - | - | - |
| Total Expenditures | 1,555,965 | 206,017 | 246,408 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 4,942 | 517,269 | - |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers In | 4,634,382 | - | - |
| Transfers Out (Use) | (4,106,655) | (304,107) | - |
| Total Other Financing Sources (Uses) | 527,727 | (304,107) | - |
| Net Change in Fund Balances | 532,669 | 213,162 | - |
| Fund Balance - October 1 (Beginning) | 2,115,465 | - | - |
| Prior Period Adjustment | (211,864) | - | - |
| Fund Balance - September 30 (Ending) | \$ 2,436,270 | \$ 213,162 | \$ - |

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

| Debt Service Fund | Other Funds | Total Governmental Funds |
|-------------------------|-------------------|--------------------------------|
| \$ 96,291 | \$ - | \$ 608,534 |
| - | - | 488,299 |
| - | - | 64,679 |
| 1,028 | - | 10,901 |
| - | - | 46,688 |
| - | 318,142 | 564,550 |
| - | - | 228,036 |
| 217,640 | - | 217,640 |
| 4,142 | - | 5,309 |
| - | - | 130,656 |
| - | 24,329 | 826,881 |
| <u>319,101</u> | <u>342,471</u> | <u>3,192,173</u> |
| - | - | 557,555 |
| - | - | 206,017 |
| - | 24,329 | 26,489 |
| - | - | 623,845 |
| - | - | 111,574 |
| - | - | 248,782 |
| - | - | 244,350 |
| - | - | 14,107 |
| 333,000 | - | 333,000 |
| 94,722 | - | 94,722 |
| <u>427,722</u> | <u>24,329</u> | <u>2,460,441</u> |
| <u>(108,621)</u> | <u>318,142</u> | <u>731,732</u> |
| 326,394 | - | 4,960,776 |
| <u>(497,915)</u> | <u>-</u> | <u>(4,908,677)</u> |
| <u>(171,521)</u> | <u>-</u> | <u>52,099</u> |
| (280,142) | 318,142 | 783,831 |
| 541,894 | 159,194 | 2,816,553 |
| - | (84,480) | (296,344) |
| <u>\$ 261,752</u> | <u>\$ 392,856</u> | <u>\$ 3,304,040</u> |

CITY OF GREGORY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

| | | |
|--|-----------|----------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 783,831 |
| GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. This contribution made after the measurement date of the plan caused the change in ending net position to increase by (\$5,248). | | (5,248) |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase (decrease) the change in net position. | | 286,859 |
| GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. This contribution made after the measurement date of the plan caused the change in ending net position to increase by \$14,147. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability. This caused a decrease in net position totaling (\$10,589). Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net pension by (\$29,626). The net result is an increase (decrease) in the change in net position. | | (35,708) |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position. | | (145,142) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position. | | (176,329) |
| Change in Net Position of Governmental Activities | <u>\$</u> | <u>708,263</u> |

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

CITY OF GREGORY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2021

Business Type Activities

ASSETS

Current Assets:

| | |
|---------------------------|------------|
| Cash and Cash Equivalents | \$ 123,109 |
| Investments - Current | 500,165 |
| Accounts Receivable - Net | 194,883 |
| Due from Other Funds | 22,921 |
| Total Current Assets | 841,078 |

Noncurrent Assets:

Capital Assets:

| | |
|--|-------------|
| Land Purchase and Improvements | 44,814 |
| Infrastructure | 4,798,309 |
| Furniture and Equipment | 1,640,805 |
| Accumulated Depreciation - Furniture & Equipment | (2,836,857) |
| Total Noncurrent Assets | 3,647,071 |

Total Assets

4,488,149

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|--------|
| Deferred Outflow Related to Pension Plan | 10,568 |
| Deferred Resource Outflow Related to OPEB | 1,944 |
| Total Deferred Outflows of Resources | 12,512 |

LIABILITIES

Current Liabilities:

| | |
|--|---------|
| Accounts Payable | 323,443 |
| Due to Component Unit | 4,838 |
| Liabilities Payable from Restricted Assets | 27,689 |
| Total Current Liabilities | 355,970 |

Noncurrent Liabilities:

| | |
|------------------------------|--------|
| Net Pension Liability | 14,885 |
| Net OPEB Liability | 7,743 |
| Total Noncurrent Liabilities | 22,628 |

Total Liabilities

378,598

DEFERRED INFLOWS OF RESOURCES

| | |
|--|--------|
| Deferred Inflow Related to Pension Plan | 22,656 |
| Deferred Resource Inflow Related to OPEB | 977 |
| Total Deferred Inflows of Resources | 23,633 |

NET POSITION

| | |
|----------------------------------|--------------|
| Net Investment in Capital Assets | 3,647,071 |
| Unrestricted | 451,360 |
| Total Net Position | \$ 4,098,431 |

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

CITY OF GREGORY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

EXHIBIT D-2

| | Business-Type Activities |
|--|-----------------------------|
| <hr/> | |
| OPERATING REVENUES: | |
| Charges for Services - Water | \$ 603,450 |
| Charges for Services - Sewer | 254,430 |
| Investment Earnings | 164 |
| Other Revenue | 26,329 |
| Total Operating Revenues | 884,373 |
| OPERATING EXPENSES: | |
| Professional & Technical Services - Water | 747,847 |
| Professional & Technical Services - Sewer | 256,585 |
| Total Operating Expenses | 1,004,432 |
| Income (Loss) Before Transfers | (120,059) |
| Nonoperating Transfers In | 4,575,848 |
| Transfers Out (Use) | (4,419,366) |
| Change in Net Position | 36,423 |
| Total Net Position - October 1 (Beginning) | 4,062,008 |
| Total Net Position - September 30 (Ending) | \$ 4,098,431 |

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

CITY OF GREGORY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

| | Business-Type Activities |
|--|-----------------------------|
| <hr/> | |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from User Charges | \$ 884,372 |
| Cash Payments to Employees for Services | (172,111) |
| Cash Payments for Suppliers | (574,820) |
| | 137,441 |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | |
| Operating Transfer Out | 36,423 |
| | 36,423 |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | |
| Acquisition of Capital Assets | (82,437) |
| | (82,437) |
| Net Increase in Cash and Cash Equivalents | 91,427 |
| Cash and Cash Equivalents at the Beginning of the Year | 531,847 |
| | 531,847 |
| Cash and Cash Equivalents at the End of the Year | \$ 623,274 |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u> | |
| Operating Income (Loss) | \$ (120,059) |
| Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities: | |
| Depreciation | 133,884 |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Decrease (Increase) in Receivables | (3,718) |
| Increase (Decrease) in Accounts Payable | 128,757 |
| Increase (Decrease) in Payroll Deductions | (1,423) |
| | 123,616 |
| Net Cash Provided by Operating Activities | \$ 137,441 |

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

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NOTES TO BASIC FINANCIAL STATEMENTS

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City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 1 Summary of Significant Accounting Policies

Financial Reporting Entity

The City of Gregory, Texas (the “City”) was incorporated on June 16, 1951 under the provisions of the laws for the State of Texas. The City operates under a General Law type of government and provides the following services: public safety (police and fire), highways and streets, sanitation, waterworks, cultural and recreation, public improvements, planning and zoning, and general and administrative services. As required by the generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the City operations and so data from these units are combined with data from the City. If applicable, discretely presented units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City.

Blended Component Units

There are no blended component units

Discretely Presented Component Unit

The 4B Corporation was formed to promote economic development with the City and the State of Texas in order to eliminate unemployment and the public welfare of, for and on behalf of the City by undertaking, developing, implanting, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4B of the Act. The 4B Corporation receives funding from a one-half cent sales tax. The government-wide financial statements for the Gregory Economic Development Corporation (GEDC), a component unit of the City of Gregory, are included in this report.

Related and Jointly Governed Organizations

There are no jointly governed organizations.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of Net Position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes while business type activities rely, to a significant extent, on fees and charges for support.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues. Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

B. Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue. Expenditures generally are recorded when a fund liability is incurred.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other funds are accounted for in this fund. General operating expenditure, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Economic Development Corporation (EDC) is a discreetly presented component unit that was organized specifically for the public purpose to study and fund permissible projects prescribed in the Development Corporation Act.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determination of net income, financial position, and cash flow. The City has presented the following major proprietary fund:

The Utility Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the costs (expenses) of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, contractual and operational services, supplies, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when the revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The General Fund and the other governmental fund are accounted for using the modified accrual basis of accounting. Its revenues are recognized when they become measurable and available as net current assets.

Gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

The Utility Fund is accounted for using the accrual basis of accounting. Its revenues are recognized when they are earned, and its expenses are recognized when they are incurred.

D. Gregory Economic Development Corporation

Gregory Economic Development Corporation (EDC) was established under the provisions of Section 4B of the Development Corporation Act of 1979 as a Texas Municipal Corporation. EDC was organized specifically for the public purposes to study and fund permissible projects prescribed in the Development Corporation Act.

The EDC is included in the basic financial statements as a discreetly presented component unit. The EDC is supported principally through the collection of a one-half percent sales tax on goods and services sold within the City of Gregory, Texas. These taxes are collected by the State of Texas, remitted to the City of Gregory, and then distributed to the EDC by the City offices.

E. Encumbrances/Commitments

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resource are recoded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2021.

F. Cash Equivalents

The City can legally invest in certificates of deposit, obligations of the U.S. Government and its agencies or instrumentalities, state obligations, local government investment pools, and certain money market funds. For purposes of the statement of cash flows, the City considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

G. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

H. Allowance for Uncollectible Accounts

The allowance for doubtful accounts is calculated using prior bad debt experience and takes into account management's estimate of specific uncollectible accounts through review of individual accounts and other information available.

I. Inventory

The enterprise fund inventories are valued at cost. Cost is determined primarily by the first-in, first-out method.

J. Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government –wide financial statements as “internal balances”.

K. Transfer

Legally authorized transfers are treated as interfund transfer and are included in the results of operations of both Governmental and Proprietary Funds.

L. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, sidewalks, curbs and drainage systems) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follow:

| | |
|-------------------------|-------------|
| Buildings | 10-50 Years |
| Water and Sewer System | 20-50 Years |
| Infrastructure | 20-30 Years |
| Machinery and Equipment | 5-10 Years |
| Improvements | 10-20 Years |
| Vehicles | 5-10 Years |

M. Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability of unpaid accumulated sick leave since the government does not have a policy to pay any amount when employees separate from service with the government. All vacation pay is accrued and incurred in the government-wide proprietary fund financial statements. The liabilities for these amounts are immaterial and are not accrued in the governmental funds.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

N. Nature and Purpose of Designations of Fund Equity

The City implemented Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances effective with its financial statement ended September 30, 2021, and thereafter, as follows:

1. Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.
2. Spendable Fund Balance
 - a. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments’ laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction. The aggregate fund balance of the Economic Development Corporation is legally restricted for the promotion of economic development within the City.
 - b. Committed Fund Balance – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.
 - c. Assigned Fund Balance – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year’s budget.
 - d. Unassigned Fund Balance – Includes the residual classification of the general fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

In circumstances where expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be extended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

O. Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net asset classifications, restricted Net Position will be fully utilized first followed by unrestricted as necessary.

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Due from Others

None

R. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72 provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

As of September 30, 2021, the City has no assets or liabilities reporting in the fair value hierarchy.

NOTE 2 DEPOSITS AND INVESTMENTS

Cash and Investment

Legal and contractual provisions governing deposits and investments

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

The Public Funds Investment Act (Texas Government Code Charter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. treasury, certain U.S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Cash Deposits

On September 30, 2021 the carrying amount of the City's deposits (cash, certificate of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,966,204 and the combined bank account balances amounted to \$2,001,760. The difference of \$35,556 is due to a combination of deposits in transit and outstanding checks. The City has not experienced any losses related to these deposits.

For purposes of the statement of cash flows (proprietary fund types), the City considers cash deposits and highly liquid investments (including restricted assets) maturing in three months or less when purchased, to be cash equivalents.

Investments

As of September 30, 2021, The City had \$2,544,103 in investments.

Interest Rate Risk - In accordance with state law and City policy, the City does not purchase any investments with maturities greater than 10 years.

Credit Risk - In accordance with state law and the City's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, countries, etc. must be rated at least A. The City's investments in investment pools were rated AAA.

Concentration of Credit Risk - The City does not place a limit on the amount the City may invest in any one issuer. The City does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a custodial credit risk.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 3 Capital Assets

Capital assets activity for the year ended September 30, 2021, was as follows:

| | Balance September 30, 2020 | Additions/ Completions | Retirements/ Adjustments | Balance September 30, 2021 |
|---|----------------------------------|---------------------------|-----------------------------|----------------------------------|
| Governmental Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 102,504 | \$ - | \$ - | \$ 102,504 |
| Total Capital Assets Not Being Depreciated | <u>102,504</u> | <u>-</u> | <u>-</u> | <u>102,504</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and Improvements | 157,793 | - | - | 157,793 |
| Machinery and Equipment | 983,159 | 43,859 | - | 1,027,018 |
| Infrastructure | 5,252,313 | - | - | 5,252,313 |
| Total Capital Assets Being Depreciated | <u>6,393,265</u> | <u>43,859</u> | <u>-</u> | <u>6,437,124</u> |
| Less Accumulated Depreciation For: | | | | |
| Buildings and Improvements | 112,706 | 3,156 | - | 115,862 |
| Machinery and Equipment | 933,709 | 31,727 | - | 965,437 |
| Infrastructure | 1,215,864 | 110,259 | - | 1,326,123 |
| Total Accumulated Depreciation | <u>2,262,279</u> | <u>145,142</u> | <u>-</u> | <u>2,407,421</u> |
| Total Capital Assets Being Depreciated, Net | <u>4,130,986</u> | <u>(101,283)</u> | <u>-</u> | <u>4,029,703</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 4,233,490</u> | <u>\$ (101,283)</u> | <u>\$ -</u> | <u>\$ 4,132,207</u> |
| Business-Type Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 44,814 | \$ - | \$ - | \$ 44,814 |
| Construction in Progress | 46,792 | - | (46,792) | - |
| Total Capital Assets Not Being Depreciated | <u>91,606</u> | <u>-</u> | <u>(46,792)</u> | <u>44,814</u> |
| Capital Assets Being Depreciated | | | | |
| Distribution System | 5,872,496 | 293,200 | - | 6,165,696 |
| Machinery and Equipment | 265,724 | 7,695 | - | 273,419 |
| Total Capital Assets Being Depreciated | <u>6,138,220</u> | <u>300,895</u> | <u>-</u> | <u>6,439,115</u> |
| Less Accumulated Depreciation for: | | | | |
| Distribution System | 2,522,758 | 124,646 | - | 2,647,404 |
| Machinery and Equipment | 180,216 | 9,238 | - | 189,453 |
| Total Accumulated Depreciation | <u>2,702,973</u> | <u>133,884</u> | <u>-</u> | <u>2,836,857</u> |
| Total Capital Assets Being Depreciated, Net | <u>3,435,247</u> | <u>-</u> | <u>-</u> | <u>3,602,258</u> |
| Business-Type Capital Assets, Net | <u>\$ 3,526,853</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,647,072</u> |

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 20201

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

| | |
|---|------------|
| Governmental Activities | |
| Culture & Recreation | \$ 322 |
| General government administration | 10,290 |
| Public Safety | 30,155 |
| Public Works | 65,655 |
| Transportation | 38,720 |
| Total depreciatoin expense - Governmental activities | \$ 145,142 |
| Business-Type Activities | |
| Machinery and Equipment | \$ 4,339 |
| Distribution System | 129,545 |
| Total depreciation expense - Business-type activities | \$ 133,884 |

NOTE 4 Long-Term Debt

A summary of long-term debt as of September 30, 2021 is as follows:

| | Governmental | Business-Type |
|--|---------------------|----------------------|
| City of Gregory, Texas General Obligation Refunding Bonds, Series 2021 | <u>\$1,797,000</u> | |
| Total | <u>\$1,797,000</u> | |

Long-Term Liabilities

The Following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2021:

| | Beginning Balance | Addition | Reductions | Ending Balance | Due Within One Year |
|-------------------------------------|-------------------|--------------|--------------|----------------|---------------------|
| Governmental Activities | | | | | |
| Certificates of Obligation | \$ 2,040,000 | | \$ 2,040,000 | \$ - | \$ 191,000 |
| Note Payable -2021 | | \$ 1,990,000 | \$ 193,000 | \$ 1,797,000 | |
| Total Governmental Activities | 2,040,000 | 1,990,000 | 2,233,000 | 1,797,000 | 191,000 |
| Business-Type Activities | | | | | |
| Total Business-Type Activities | - | - | - | - | - |
| Total Governmental | \$ 2,040,000 | \$ 1,990,000 | \$ 2,233,000 | \$ 1,797,000 | \$ 191,000 |

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

The annual requirements for bonds for years subsequent to September 30, 2021, are as follows: NOT DONE

| | Governmental Activities | | | Business-Type Activities | | |
|------------|-------------------------|-------------------|---------------------|--------------------------|-------------|-------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2021 | 193,000 | 3,442 | 196,442 | - | - | - |
| 2022 | 191,000 | 21,754 | 212,754 | - | - | - |
| 2023 | 195,000 | 20,509 | 215,509 | - | - | - |
| 2024 | 194,000 | 19,038 | 213,038 | - | - | - |
| 2025 | 198,000 | 17,230 | 215,230 | - | - | - |
| 2026-2030 | 1,019,000 | 48,360 | 1,067,360 | - | - | - |
| Thereafter | - | - | - | - | - | - |
| Total | <u>\$ 1,990,000</u> | <u>\$ 130,333</u> | <u>\$ 2,120,333</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Restricted Cash and Investments - Utility Fund

The components of restricted cash and investments as of September 30, 2021 are as follows:

| | |
|---------------------------------------|------------------|
| Meter Deposit Funds | <u>\$ 27,689</u> |
| Total Restricted Cash and Investments | <u>\$ 27,689</u> |

Capital Leases

The City did not have any material or significant capital leases during the fiscal year.

NOTE 5 Commitments Under Non-Capitalized Leases

Operating Leases: The City leases equipment. Most of the leases are cancelable. Minimum lease commitments for the next five years are immaterial.

NOTE 6 Inter-fund Transactions and Balances

The inter-fund balances at September 30, 2021 are generally short-term loans to cover temporary cash flows and reimbursements for various funds. Inter-fund transfers during the year ended September 30, 2020 were as follows:

| Transfer To | Transfer From | Amount |
|---------------------------|-------------------|------------------|
| General Fund | Debt Service Fund | \$ - |
| General Fund | Enterprise Fund | - |
| Debt Service Fund | Enterprise Fund | - |
| | | <u>-</u> |
| Enterprise Fund | General Fund | 380,103 |
| Economic Development Fund | General Fund | - |
| Debt Service Fund | General Fund | (171,522) |
| Enterprise Fund | Debt Service Fund | (156,482) |
| Debt Service Fund | Enterprise Fund | - |
| Economic Development Fund | Debt Service Fund | - |
| | | <u>\$ 52,099</u> |

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 7 Disaggregation of Receivables and payables

Receivables at September 30, 2021 were as follows:

| | Taxes Receivable | Due From Other Funds | Other | Total Receivables |
|---------------------------------|---------------------|-------------------------|------------------|----------------------|
| Governmental Activities | | | | |
| General Fund - Net | \$ 99,485 | \$ 11,266 | \$ 20,105 | \$ 130,856 |
| Debt Service Fund | \$ 20,062 | \$ - | \$ - | 20,062 |
| Municipal Complex Fund | - | 233,662 | - | 233,662 |
| Total - Governmental Activities | <u>\$ 119,547</u> | <u>\$ 244,928</u> | <u>\$ 20,105</u> | <u>\$ 384,580</u> |

Payables at September 30, 2021 were as follows:

| | Accounts Payable | Due To Other Funds | Due To Other Governments | Total Payables |
|---------------------------------|---------------------|-----------------------|-----------------------------|-------------------|
| Governmental Activities | | | | |
| General Fund - Net | \$ 118,057 | \$ 234,321 | \$ 187,544 | \$ 539,922 |
| Debt Service Fund | - | - | - | - |
| Total - Governmental Activities | <u>\$ 118,057</u> | <u>\$ 234,321</u> | <u>\$ 187,544</u> | <u>\$ 539,922</u> |

NOTE 8 Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied on October 1 based on 100% of appraise value of property as listed on the previous January 1. Appraised values are determined by the San Patricio County Appraisal District; approved by the San Patricio County Appraisal Review Board; and certified by the Chief Appraiser. Property taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1st of the year following the year in which imposed. The city does not offer a discount or early payment of taxes. The City's taxes are billed and collected by the San Patricio County Tax Office. Ad valorem taxes of \$636,202 were assessed on property values totaling \$76,533,567 using a tax rate of \$0.773931 (\$0.60085 for general operations and \$0.173081 for debt service) per \$100 assessed value. The percent of property taxes collected was 96.60%.

NOTE 9 Pension Plan

Plan Description

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

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. 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:

| | Plan Year 2019 | Plan Year 2018 |
|--|---------------------------|---------------------------|
| Deposit rate | 5% | 5% |
| Matching ratio (City to Employee) | 1.5 to 1 | 1.5 to 1 |
| Years required for vesting | 5 years | 5 years |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/25 | 60/5, 0/25 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity to increase (to retirees) | 70% of CPI | 70% of CPI |

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

At December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 2 |
| Inactive employees entitled to but not yet receiving benefits | 15 |
| Active employees | 9 |
| Total | 26 |

Contributions

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

Employees for the City of Gregory were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Gregory were 3.90% and 4.50% in calendar years 2019 and 2020, respectively. The city’s contributions to TMRS for the year ended September 30, 2021 were \$25,693 and were equal to the required contributions.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 9 Pension Plan (continued)

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.0% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males' rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality 16 rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 9 Pension Plan (continued)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|----------------------|---|
| Domestic Equity | 17.50% | 4.55% |
| International Equity | 17.50% | 6.35% |
| Core Fixed Income | 10% | 1.00% |
| Non-Core Fixed Income | 20% | 4.15% |
| Real Return | 10% | 4.15% |
| Real Estate | 10% | 4.75% |
| Absolute Return | 10% | 4.00% |
| Private Equity | 5% | 7.75% |
| Total | <u>100.00%</u> | |

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the net pension liability for the City are summarized in the following table:

| | <u>Changes in the Net Pension Liability</u> | | |
|---|---|--|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at 12/31/2019 | \$ 436,005 | \$ 642,829 | \$ (206,824) |
| Changes for the year: | | | |
| Service cost | 54,428 | - | 54,428 |
| Interest | 30,675 | - | 30,675 |
| Changes of benefits terms | - | - | - |
| Difference between expected and actual experience | (5,694) | - | (5,694) |
| Changes of assumptions | - | - | - |
| Contribution - employer | - | - | - |
| Contribution - employee | - | 24,606 | (24,606) |
| Net Investment Income | - | - | - |
| Benefit payments, including refunds of employee contributions | - | - | - |
| Administrative expense | - | (316) | 316 |
| Other changes | - | (12) | 12 |
| Net changes | <u>79,409</u> | <u>24,278</u> | <u>55,131</u> |
| Balance at 12/31/2020 | <u>\$ 515,414</u> | <u>\$ 667,107</u> | <u>\$ (151,693)</u> |

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 9 Pension Plan (continued)

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

The following table presents the net pension liability of the City, calculated using the discount rate of 6.75% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

| | 1% Decrease in Discount Rate (5.75%) | Current Single Rate Assumption(6.75%) | 1% Increase in Discount Rate (7.75%) |
|------------------------------|---|--|---|
| City's Net Pension Liability | \$ - | \$ 55,131 | \$ - |

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2021, the City recognized pension expense of \$5,705 and the calculation of the expense is summarized in the following table:

| Schedule of Pension Expense | |
|---|-----------|
| Total Service Cost | \$ 54,428 |
| Interest on the Total Pension Liability | 30,675 |
| Current Period Benefit Changes | - |
| Employee Contributions (Reduction of Expense) | (24,606) |
| Projected Earnings on Plan Investments (Reduction of Expense) | - |
| Administrative Expense | (316) |
| Other Changes in Fiduciary Net Position 17 | (12) |
| Recognition of Current Year Outflow (Inflow) of Resources- Liabilities | - |
| Recognition of Current Year Outflow (Inflow) of Resources- Assets | - |
| Amortization of Prior Year Outflows (Inflows) of Resources- Liabilities | - |
| Amortization of Prior Year Outflows (Inflows) of Resources- Assets | - |
| Total Pension Expense | \$ 60,169 |

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources | 2018 Recognized in Current Pension Expense | Deferred (Inflow)/Outflow in Future Expense |
|---|--------------------------------------|-------------------------------------|--|---|
| Differences between expected and actual economic experience | \$ 19,762 | \$ 53,649 | \$ - | \$ - |
| Changes in Actuarial Assumptions | | \$ 2,155 | | |
| Difference between projected and actual investment earnings | - | 28,108 | - | - |
| Contributions subsequent to the measurement date | 19,380 | - | - | - |
| Total | \$ 39,142 | \$ 83,912 | \$ - | \$ - |

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 9 Pension Plan (continued)

The amount of \$19,380 reported in the above schedule as “Contributions subsequent to the measurement date” will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | | Net Deferred Outflows (Inflows) of Resources |
|------------|----|--|
| 2022 | \$ | 20,242 |
| 2023 | | (16,865) |
| 2024 | | (15,619) |
| 2025 | | (6,249) |
| 2026 | | (3,915) |
| Thereafter | | (1,260) |
| Total | \$ | (23,666) |

NOTE 10 Other postemployment benefit (OPEB) obligations

Plan Description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost.

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 10 Other postemployment benefit (OPEB) obligations (Continued)

| | 2019 |
|--|------|
| Inactive employees or beneficiaries currently receiving benefits | 1 |
| Inactive employees entitled to but not yet receiving benefits | 1 |
| Active employees | 1 |
| Total | 3 |

Actuarial assumptions

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|--|
| Inflation | 2.5% per year |
| Salary increases | 3.50% to 10.5% including inflation |
| Discount rate* | 3.31% |
| Retirees' share of benefit-related costs | \$0 |
| Administrative expenses | All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68 |
| Mortality rates – service retirees | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. |
| Mortality rates – disabled retirees | RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor. |

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018

Note: The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the OPEB Liability

Changes in the OPEB liability for the City are summarized in the following table:

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 10 Other postemployment benefit (OPEB) obligations (continued)

| | Changes in the OPEB Liability |
|---|----------------------------------|
| | Total OPEB Liability (a) |
| Balance at 12/31/2019 | \$ 22,342 |
| Changes for the year: | |
| Service cost | 3,986 |
| Interest on Total OPEB Liability | 667 |
| Changes of benefit terms | - |
| Difference between expected and actual experience | (1,682) |
| Changes in assumptions or other inputs | 3,563 |
| Benefit payments | (197) |
| Net changes | 6,337 |
| Balance at 12/31/2020 | \$ 28,679 |

Sensitivity of the OPEB liability to changes in the discount rate:

The following presents the OPEB liability of the City, calculated using the discount rate of 2.00%, as well as what the City's OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

| Sensitivity of the OPEB Liability to Changes in the Discount Rate | | | |
|---|---|-------------------------|---|
| | 1% Decrease in Discount Rate -1.75% | Discount Rate -2.00% | 1% Increase in Discount Rate -3.00% |
| Town's net pension liability | \$ 34,894 | \$ 28,679 | \$ 24,033 |

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

For the fiscal year ended September 30, 2021, the City recognized OPEB expense of \$ 4,456 and the calculation of the expense is summarized in the following table:

| Schedule of OPEB Expense | |
|--|----------|
| Service cost | \$ 3,986 |
| Interest on total OPEB liability | 667 |
| Changes in benefit terms | - |
| Employer administrative costs | - |
| Recognition of deferred outflows/inflows of resources: | - |
| Differences between expected and actual experience * | - |
| Changes in assumptions or other inputs ** | - |
| Administrative Expense | (197) |
| Total pension expense | \$ 4,456 |

*In the year of implementation, the beginning of year liability is rolled back from the measurement date, so there will be no experience loss / (gain).

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 10 Other postemployment benefit (OPEB) obligations (continued)

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

| | Schedule of Deferred Outflows and | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual economic experience | \$ - | \$ 3,104 |
| Changes in assumptions and other inputs | 7,200 | 514 |
| Contributions subsequent to the measurement date | - | - |
| Total | \$ 7,200 | \$ 3,618 |

\$792 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Net Deferred Outflows/(Inflows) of Resources

| Year ended December 31 | Amount |
|------------------------|----------|
| 2022 | \$ 792 |
| 2023 | 792 |
| 2024 | 614 |
| 2025 | 922 |
| 2026 | 462 |
| Thereafter | 201 |
| Total | \$ 3,783 |

NOTE 11 Contingencies

The City is involved in lawsuits with other parties from time to time. While the ultimate result of these matters cannot be predicted with certainty, the City does not expect them to have a materially adverse effect on its Basic Financial Statements.

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

City of Gregory, Texas
Notes to Basic Financial Statements
For the Fiscal Year Ending September 30, 2021

NOTE 12 Prior Period Adjustments

None

NOTE 13 Subsequent Events

Subsequent events have been evaluated through September 28, 2022 which is the date the financial statements were available to be issued.

The 2020 COVID-19 (Coronavirus) pandemic has caused extensive disruptions to businesses in America and the entire World. In the face of these disruptions, the fluid situation has become difficult to assess the likely impact to not only the economy in America but also the local economy. The Organization is striving to be highly attuned and is maintaining a heightened state of readiness for the principal risks and increased uncertainties ahead. Given the potential for rapid spreading of the virus, management will be evaluating the current and potential effects on its operations and financial reporting.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Gregory, Texas
Notes to Required Supplementary Information
For the Fiscal Year Ending September 30, 2021

Budgetary Data

Annual budgets are legally adopted by council. The Mayor is authorized to transfer budgeter amount within departments; however, any revisions that after the total expenditures of a department must be approved by the City Council. Budgeted amounts reported in the 2020-2021 financial statements present the original and final amended budget approved by the Council. All unencumbered budget appropriations except project budget, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

1. Prior to August 6th each year, the Mayor is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them
2. Advertised public hearings are conducted.
3. The budget is required to be approved by September 20th.
4. The tax rates are approved after the budget has been approved
5. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

City of Gregory, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
For the Fiscal Year Ending September 30, 2021

| | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-------------------|
| Total pension liability | | | | |
| Service cost | \$ 54,428 | \$ 50,337 | \$ 44,245 | \$ 44,245 |
| Interest | 30,675 | 27,484 | 25,235 | 25,235 |
| Change of benefit terms | - | - | - | - |
| Difference between expected and actual experience | (5,694) | (9,568) | 32,377 | 32,377 |
| Changes of assumptions | - | (5,551) | - | - |
| Benefit payments, including refunds of employee contributions | - | (17,402) | (73,340) | (73,340) |
| Net Change in Total Pension Liability | 79,409 | 45,300 | 28,517 | 28,517 |
| Total Pension Liability - Beginning | 390,705 | 390,705 | 362,188 | 362,188 |
| Total Pension Liability - Ending (a) | <u>470,114</u> | <u>436,005</u> | <u>390,705</u> | <u>390,705</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions-employer | - | 18,107 | 17,020 | 17,020 |
| Contributions-employee | 24,606 | 22,136 | 19,700 | 19,700 |
| Net investment income | - | 83,117 | (16,117) | (16,117) |
| Benefit payments, including refunds of employee contributions | - | (17,402) | (73,340) | (73,340) |
| Administrative expense | (316) | (469) | (311) | (311) |
| Other changes | (12) | (14) | (16) | (16) |
| Net Change in Plan Fiduciary Net Position | 24,278 | 105,475 | (53,064) | (53,064) |
| Plan Fiduciary Net Position - Beginning | 537,988 | 537,988 | 537,988 | 537,988 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 642,829</u> | <u>\$ 642,829</u> | <u>\$ 484,924</u> | <u>\$ 484,924</u> |
| Net Pension Liability - Ending (a) - (b) | \$ 55,131 | \$ (206,824) | \$ (94,219) | \$ (94,219) |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 30.57% | 147.44% | 124.12% | 124.12% |
| Covered Employee Payroll | - | 442,718 | 393,992 | 393,992 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | | -46.72% | -23.91% | -23.91% |

City of Gregory, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
For the Fiscal Year Ending September 30, 2021

| | 2016 | 2015 | 2014 | 2013 |
|--|-------------------|-------------------|-------------------|------------|
| Total pension liability | | | | |
| Service cost | \$ 44,334 | \$ 39,610 | \$ 29,681 | N/A |
| Interest | 23,423 | 21,644 | 24,870 | N/A |
| Change of benefit terms | - | - | - | N/A |
| Difference between expected and actual experience | (108) | (9,544) | (60,709) | N/A |
| Changes of assumptions | - | 3,558 | - | N/A |
| Benefit payments, including refunds of employee contributions | (19,667) | (19,982) | (69,800) | N/A |
| Net Change in Total Pension Liability | 47,982 | 35,286 | (75,958) | N/A |
| Total Pension Liability - Beginning | 334,679 | 299,393 | 375,351 | N/A |
| Total Pension Liability - Ending (a) | <u>382,661</u> | <u>334,679</u> | <u>299,393</u> | <u>N/A</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions-employer | 15,342 | 15,706 | 9,899 | N/A |
| Contributions-employee | 20,544 | 18,844 | 16,812 | N/A |
| Net investment income | 29,132 | 614 | 24,877 | N/A |
| Benefit payments, including refunds of employee contributions | (19,667) | (19,982) | (69,800) | N/A |
| Administrative expense | (329) | (374) | (260) | N/A |
| Other changes | (18) | (18) | (21) | N/A |
| Net Change in Plan Fiduciary Net Position | 45,004 | 14,790 | (18,493) | N/A |
| Plan Fiduciary Net Position - Beginning | 431,094 | 416,304 | 434,797 | N/A |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 476,098</u> | <u>\$ 431,094</u> | <u>\$ 416,304</u> | <u>N/A</u> |
| Net Pension Liability - Ending (a) - (b) | \$ (93,437) | \$ (96,415) | \$ (116,911) | N/A |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 124.42% | 128.81% | 139.05% | N/A |
| Covered Employee Payroll | 410,883 | 376,883 | 336,249 | N/A |
| Net Pension Liability as a Percentage of Covered Employee Payroll | -22.74% | -25.58% | -34.77% | N/A |

City of Gregory, Texas
 Required Supplementary Information
 Schedule of Contributions
 For the Fiscal Year Ending September 30, 2021

| Year Ending December 31 | Actuarially Determined Contribution | Actual Employer Contribution | Contribution Deficiency (Excess) | Pensionable Covered Payroll (1) | Actual Contribution as a % of Covered Payroll |
|--|--|---|---|--|--|
| 2011 | 46,852 | 53,905 | (7,053) | 629,736 | 8.60% |
| 2012 | 45,702 | 52,023 | (6,320) | 607,745 | 8.60% |
| 2013 | 54,313 | 54,313 | 0 | 595,537 | 9.10% |
| 2014 | 55,311 | 55,311 | 0 | 594,101 | 9.30% |
| 2015 | 53,607 | 53,607 | 0 | 589,097 | 9.10% |
| 2016 | 56,804 | 56,804 | 0 | 632,547 | 9.00% |
| 2017 | 63,647 | 63,596 | -129 | 648,283 | 9.80% |
| 2018 | 68,807 | 68,807 | 0.00 | 657,183 | 10.50% |
| 2019 | 72,819 | 72,819 | 0.00 | 672,240 | 10.80% |
| 2020 | 80,347 | 80,347 | 0.00 | 698,063 | 11.50% |

(1) Payroll is calculated based on contributions as reported to TCDRS.

City of Gregory, Texas
Required Supplementary Information
Schedule of Contributions
For the Fiscal Year Ending September 30, 2021

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 25 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 2.50% |
| Salary Increases | 3.50% to 11.5% including inflation |
| Investment Rate of Return | 6.75% |
| Retirement Age | |

Experience-based table of rebates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2014 - 2018

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes There were no benefit changes during the year

City of Gregory, Texas
 Budgetary Comparison Schedule – General Fund
 For the Fiscal Year Ending September 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|----------------------------|----------------------------|----------------------------|-------------------------------|
| | Original | Final | | Positive (Negative) |
| Revenues | | | | |
| Taxes: | | | | |
| Property taxes | \$ 547,660 | \$ 547,660 | \$ 512,243 | \$ 35,417 |
| General sales and use taxes | 326,000 | 326,000 | 488,299 | (162,299) |
| Franchise taxes | 25,000 | 25,000 | 64,679 | (39,679) |
| Penalty and interest on taxes | 79,055 | 79,055 | 9,873 | 69,182 |
| Licenses and permits | 45,350 | 45,350 | 46,688 | (1,338) |
| Intergovernmental revenue and grants | 50,000 | 50,000 | 100,000 | (50,000) |
| Charges for services | 1,949,490 | 1,949,490 | 228,036 | 1,721,454 |
| Fines | 125,000 | 125,000 | | 125,000 |
| Other revenue | 23,920 | 23,920 | 111,089 | (87,169) |
| Total revenues | <u>3,171,475</u> | <u>3,171,475</u> | <u>1,560,907</u> | <u>1,610,568</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 737,990 | 737,990 | 557,555 | 180,435 |
| Parks | 35,150 | 35,150 | 14,107 | 21,043 |
| Municipal court | 303,300 | 303,300 | - | 303,300 |
| Public safety | | | | |
| Police | 462,450 | 462,450 | 623,845 | (161,395) |
| Fire Protection | 48,200 | 48,200 | 111,574 | (63,374) |
| Public works | 799,720 | 799,720 | 2,374 | 797,346 |
| Sanitation | 416,570 | 416,570 | 244,350 | 172,220 |
| Capital outlay | 286,000 | 286,000 | - | 286,000 |
| Other Cost | 13,000 | 13,000 | 2,160 | 10,840 |
| Total expenditures | <u>3,102,380</u> | <u>3,102,380</u> | <u>1,555,965</u> | <u>1,546,415</u> |
| Excess (deficiency) of revenues over expenditures | 69,095 | 69,095 | 4,942 | 64,153 |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 4,634,382 | (4,634,382) |
| Transfers out | - | - | (4,106,655) | 4,106,655 |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>527,727</u> | <u>(527,727)</u> |
| Net change in fund balances | 69,095 | 69,095 | 532,669 | (463,574) |
| Fund balances - beginning | <u>2,115,465</u> | <u>2,115,465</u> | <u>2,115,465</u> | <u>-</u> |
| Prior Period Adjustment (Note ??) | <u>-</u> | <u>-</u> | <u>(211,864)</u> | <u>211,864</u> |
| Fund balances - ending | <u><u>\$ 2,184,560</u></u> | <u><u>\$ 2,184,560</u></u> | <u><u>\$ 2,436,270</u></u> | <u><u>\$ (463,574)</u></u> |

City of Gregory, Texas
 Budgetary Comparison Schedule – Municipal Court Fund
 For the Fiscal Year Ending September 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Income | | | | |
| Child Safety | \$ 100 | \$ 100 | \$ - | \$ 100 |
| MC Credit Card Income | 105,000 | 105,000 | - | 105,000 |
| Fines- Other | 300,000 | 300,000 | 697,057 | (397,057) |
| NSF/ Fees Over/Short | 100 | 100 | - | 100 |
| MC Tech Fine | 1,500 | 1,500 | 11,788 | (10,288) |
| MC Security Fine | 1,250 | 1,250 | 14,441 | (13,191) |
| Credit Card Swipe Fee | 900 | 900 | - | 900 |
| Total Revenues | <u>408,850</u> | <u>408,850</u> | <u>723,286</u> | <u>(314,436)</u> |
| Expenditures | | | | |
| Payroll | 9,600 | 9,600 | 10,262 | (662) |
| Court- Operating | 293,700 | 293,700 | 195,756 | 97,944 |
| Total expenditures | <u>303,300</u> | <u>303,300</u> | <u>206,018</u> | <u>97,283</u> |
| Excess (deficiency) of revenues over expenditures | <u>105,550</u> | <u>105,550</u> | <u>517,269</u> | <u>(411,719)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | (304,107) | 304,107 |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(304,107)</u> | <u>304,107</u> |
| Net change in fund balances | 105,550 | 105,550 | 213,162 | (107,612) |
| Fund balances - beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 105,550</u> | <u>\$ 105,550</u> | <u>\$ 213,162</u> | <u>\$ (107,612)</u> |

City of Gregory, Texas
 Budgetary Comparison Schedule – TxCDBG Fund
 For the Fiscal Year Ending September 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes: | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| General sales and use taxes | - | - | - | - |
| Franchise taxes | - | - | - | - |
| Penalty and interest on taxes | - | - | - | - |
| Licenses and permits | - | - | - | - |
| Intergovernmental revenue and grants | - | - | 246,408 | (246,408) |
| Charges for services | - | - | - | - |
| Fines | - | - | - | - |
| Other revenue | - | - | - | - |
| Total revenues | <u>-</u> | <u>-</u> | <u>246,408</u> | <u>(246,408)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Parks | - | - | - | - |
| Municipal court | - | - | - | - |
| Public safety | | | - | |
| Police | - | - | - | - |
| Fire Protection | - | - | - | - |
| Public works | - | - | 246,408 | (246,408) |
| Sanitation | - | - | - | - |
| Interest on Debt | - | - | - | - |
| Total expenditures | <u>-</u> | <u>-</u> | <u>246,408</u> | <u>(246,408)</u> |
| Excess (deficiency) of revenues over expenditures | - | - | - | - |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | - | - |
| Transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | - | - | - | - |
| Fund balances - beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances - ending | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

City of Gregory, Texas
 Budgetary Comparison Schedule – Debt Service Fund
 For the Fiscal Year Ending September 30, 2021

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget Positive (Negative) |
|---|------------------|-------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes: | | | | |
| Property taxes | \$ - | \$ - | \$ 96,291 | \$ (96,291) |
| General sales and use taxes | - | - | - | - |
| Franchise taxes | - | - | - | - |
| Penalty and interest on taxes | - | - | 5,170 | (5,170) |
| Licenses and permits | - | - | - | - |
| Intergovernmental revenue and grants | - | - | - | - |
| Charges for services | - | - | 217,640 | (217,640) |
| Fines | - | - | - | - |
| Other revenue | - | - | - | - |
| Total revenues | <u>-</u> | <u>-</u> | <u>319,101</u> | <u>(319,101)</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | - | - | - | - |
| Parks | - | - | - | - |
| Municipal court | - | - | - | - |
| Public safety | | | - | |
| Police | - | - | - | - |
| Fire Protection | - | - | - | - |
| Public works | - | - | - | - |
| Principal on Debt | - | - | 333,000 | (333,000) |
| Interest on Debt | - | - | 94,722 | (94,722) |
| Total expenditures | <u>-</u> | <u>-</u> | <u>427,722</u> | <u>(427,722)</u> |
| Excess (deficiency) of revenues over expenditures | - | - | (108,621) | 108,621 |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 326,394 | (326,394) |
| Transfers out | - | - | (497,915) | 497,915 |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(171,521)</u> | <u>171,521</u> |
| Net change in fund balances | - | - | (280,142) | 280,142 |
| Fund balances - beginning | <u>-</u> | <u>-</u> | <u>541,894</u> | <u>(541,894)</u> |
| Fund balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 261,752</u> | <u>\$ (261,752)</u> |

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Combining Schedules

CITY OF GREGORY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2021

| | FEMA State Disaster Fund | TDEM Fund | Total Nonmajor Special Revenue Funds |
|--|--------------------------------|-------------------|---|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ - | \$ - | \$ - |
| Due from Other Funds | - | 233,662 | 233,662 |
| Total Assets | <u>\$ -</u> | <u>\$ 233,662</u> | <u>\$ 233,662</u> |
| FUND BALANCES | | | |
| Federal or State Funds Grant Restriction | - | 233,662 | 233,662 |
| Construction | - | - | - |
| Total Fund Balances | <u>-</u> | <u>233,662</u> | <u>233,662</u> |
| Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ 233,662</u> | <u>\$ 233,662</u> |

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

| Municipal Complex Fund | Total Nonmajor Governmental Funds |
|------------------------------|--|
| \$ 159,194 | \$ 159,194 |
| - | 233,662 |
| <u>\$ 159,194</u> | <u>\$ 392,856</u> |
| - | 233,662 |
| 159,194 | 159,194 |
| <u>159,194</u> | <u>392,856</u> |
| <u>\$ 159,194</u> | <u>\$ 392,856</u> |

CITY OF GREGORY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

| | FEMA State Disaster Fund | TDEM Fund | Total Nonmajor Special Revenue Funds |
|--------------------------------------|--------------------------------|-------------------|---|
| REVENUES: | | | |
| Intergovernmental Revenue and Grants | \$ 84,480 | \$ 233,662 | \$ 318,142 |
| Other Revenue | - | - | - |
| Total Revenues | <u>84,480</u> | <u>233,662</u> | <u>318,142</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government: | | | |
| Financial Administration | - | - | - |
| Total Expenditures | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | 84,480 | 233,662 | 318,142 |
| Fund Balance - October 1 (Beginning) | - | - | - |
| Prior Period Adjustment | <u>(84,480)</u> | <u>-</u> | <u>(84,480)</u> |
| Fund Balance - September 30 (Ending) | <u>\$ -</u> | <u>\$ 233,662</u> | <u>\$ 233,662</u> |

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

| Municipal Complex Fund | Total Nonmajor Governmental Funds |
|------------------------------|--|
| \$ - | \$ 318,142 |
| <u>24,329</u> | <u>24,329</u> |
| <u>24,329</u> | <u>342,471</u> |
| | |
| <u>24,329</u> | <u>24,329</u> |
| <u>24,329</u> | <u>24,329</u> |
| - | 318,142 |
| 159,194 | 159,194 |
| - | <u>(84,480)</u> |
| <u>\$ 159,194</u> | <u>\$ 392,856</u> |

OTHER SUPPLEMENTARY INFORMATION

City of Gregory, Texas
 General Fund Comparative Balance Sheet
 At September 30, 2021

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,967,360 | \$ 2,184,243 |
| Receivable | 117,041 | 98,238 |
| Allowance for uncollectible taxes (credit) | (17,556) | (14,736) |
| Accounts Receivable | 20,105 | 20,105 |
| Due from other funds | 11,266 | |
| Total assets and other debits | <u>\$ 3,098,216</u> | <u>\$ 2,287,850</u> |
| Liabilities and Fund Balances | | |
| Liabilities | | |
| Accounts payable | \$ 140,596 | \$ 78,922 |
| Intergovernmental payable | 187,544 | 9,961 |
| Due to other funds | 234,321 | - |
| Unearned revenue - property taxes | 99,485 | 83,502 |
| Total liabilities | <u>661,946</u> | <u>172,385</u> |
| Fund balances | | |
| Long term receivable | - | |
| Unassigned fund balance | 2,436,270 | 2,115,465 |
| Total fund balances | <u>2,436,270</u> | <u>2,115,465</u> |
| Total liabilities and fund balances | <u>\$ 3,098,216</u> | <u>\$ 2,287,850</u> |

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**REPORT OF INDEPENDENT AUDITIOR ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERMENTAL AUDITING STANDARDS**

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CERTIFIED PUBLIC ACCOUNTANT

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Taft, Texas 78390

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

To the City Council
City of Gregory, Texas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discreetly presented component unit and the remaining fund information of the City of Gregory, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Gregory, Texas's basic financial statements, and have issued my report thereon dated September 28, 2022.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned cost, I did identify certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. I did not identify any material weaknesses that require disclosure.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as items [2021-01 and 2021-02] to be significant deficiencies.

Member: American Institute of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Gregory, Texas's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items.

City of Gregory, Texas's Response to Findings

City of Gregory, Texas's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned cost. City of Gregory, Texas's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



S. Noel Snedeker, II
Certified Public Accountant
September 28, 2022

City of Gregory, Texas
 Schedule of Findings and Questioned Cost
 For the Year Ended September 30, 2021

I. Summary of the Auditor's Results:

Financial statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified? . Yes X . No

Significant deficiencies identified not considered being
 material weaknesses? X . Yes .

Noncompliance material to financial statements noted? .Yes X . No

Federal Awards - N/A

Internal Control over major programs:

Material weakness (es) identified? . Yes . No

Significant deficiencies identified not considered to be
 material weaknesses? . Yes . No

Noncompliance material to financial statements noted? . Yes . No

Type of auditor's report issued on compliance for major programs: N/A:

Any audit findings disclosed that are required to be reported in

Accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? N/A:

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

The threshold used to distinguish between Type A and Type B federal programs was \$750,000.

The district was not classified as a low auditee in context of the Uniform Guidance.

City of Gregory, Texas
Schedule of Findings and Questioned Cost
For the Year Ended September 30, 2021

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

Finding No. 2021-01

Criteria: The City should account for interfund transfers, and fund due's to and due from's transaction activity during the fiscal year.

Condition: The City's accounting software does not facilitate fund accounting or tracking of interfund transfers or fund due to's or due from's. In addition, the City has no written policies or procedures as it pertains to recording interfund transfers, due to's, or due from's.

Cause: The City does not have an accounting software that facilitates fund accounting and lacks written policies or procedures as it pertains to recording interfund transfers, or due to's, or due from's.

Effect: The City does not account for activity between funds during the fiscal year.

Context: During the course of the audit, numerous audit entries were made to balance and reconcile internal fund transfers and due to's and due from's.

Recommendation: The City should migrate accounting software from QuickBooks to Incode as soon as possible, which will facilitate fund accounting for municipalities. In addition, written policies and procedures need to be developed.

Finding No. 2021-02

Criteria: The City should have procedures in place where accounting transactions are reviewed and approved by a second person on a more timely basis.

Condition: During the audit, several auditing adjustments were needed to complete the audit. In addition, the City has no written policies or procedures as it pertains to recording or approving accounting transactions.

Cause: The City does not have a written business office or accounting procedures manual.

Effect: The City's general ledger has many duplicated or omitted entries.

Context: During the course of the audit, numerous audit entries were required to complete the audit.

Recommendation: The City should consider generating a detailed written business office and accounting procedures manual which would include the accounting transaction approval process.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I. Above

None

City of Gregory, Texas
Schedule of Prior Audit Findings
For the Year Ended September 30, 2021

Finding No. 2020-01

Criteria: The City of Gregory should appropriately perform bank reconciliation monthly on a timely basis and identify any missing transactions.

Condition: The City of Gregory did not perform monthly bank reconciliation appropriately and on a timely basis. There were some checks and deposits missing from the accounting system.

Cause: Lack of full-time staff accountant and appropriate office staffing levels and knowledge of accounting.

Effect: The City of Gregory's banks were not properly reconciled. The missing checks and deposits were not identified timely.

Context: During the course of the audit, it was noted that bank statement reconciliations were not being done timely.

Recommendation: For accountability and internal control purposes, The City of Gregory should ensure proper bank reconciliations are performed on a timely basis.

Management Response: The City has hired a fee accountant CPA to assist in the reconciliations of the bank statements and there has been much improvement in this process but more improvement is necessary.

Finding No. 2020-02

Criteria: The City should account for interfund transfers during the fiscal year.

Condition: The City's accounting software does not facilitate fund accounting and tracking of interfund transfers during the fiscal year. In addition, the City has no written policies or procedures as it pertains to recording interfund transfers.

Cause: The City does not have an accounting software that facilitates fund accounting and lacks written policies or procedures as it pertains to recording interfund transfers .

Effect: The City does not account for transfers between funds ("transfers in" and "transfers out") during the fiscal year.

Context: During the course of the audit, numerous adjustments were made to balance and reconcile internal fund transfer.

Recommendation: The City should consider purchasing a new accounting software to maintain the City's books that will facilitate fund accounting for municipalities. In addition, written policies and procedures need to be developed to control internal fund transfers.

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