

TOWN OF SAN FELIPE
ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED
SEPTEMBER 30, 2021

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TOWN OF SAN FELIPE

TOWN OFFICIALS

**MAYOR
MAYOR PRO-TEM**

ALDERMAN

TOWN SECRETARY

**BOBBY BYARS
LARRY GENTRY**

SANDRA "SANDY" BROOKS

DERRICK D. DABNEY

MICHEL ELLIOTT

ALFRED HALL

SUE FOLEY

**TOWN OF SAN FELIPE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the Town Council
Town of San Felipe, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund information of Town of San Felipe as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Town of San Felipe's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund information of Town of San Felipe, as of September 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

The Town of San Felipe's 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Town of San Felipe's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued a separate report dated August 8, 2023 on our consideration of the Town of San Felipe's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of San Felipe's internal control over financial reporting and compliance.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

August 8, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of San Felipe's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended September 30, 2021. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

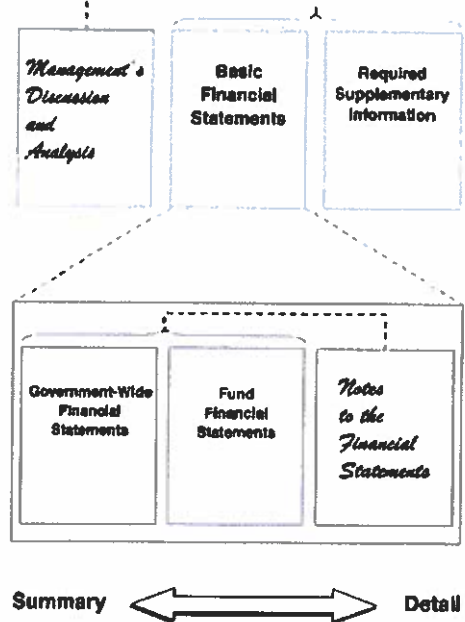
- The Town's total net position was \$3.1 million at September 30, 2021.
- During the year, the Town's governmental expenses were \$1.4 million less than the \$2.1 million generated in general and program revenues for governmental activities. The total cost of the Town's programs decreased 4.4% from the prior year.
- The general fund reported a fund balance this year of \$1.7 million, a decrease of \$258 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Town's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1F, Required Components of the Town's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the Town's Government-wide and Fund Financial Statements		
Type of Statements	Fund Statements	
	Government-wide	Governmental Funds
Scope	Entire Town's government (except fiduciary funds) and the Town's component units	The activities of the Town that are not proprietary or fiduciary
Required financial statements	• Statement of net position	• Balance Sheet
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.

Figure A-2 summarizes the major features of the Town's financial statements, including the portion of the Town government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's net position and how they have changed. Net position—the difference between the Town's assets and liabilities—is one way to measure the Town's financial health or *position*.

- Over time, increases or decreases in the Town's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town, one needs to consider additional non-financial factors such as changes in the Town's tax base.
- The government-wide financial statements of the Town include the *Governmental activities*. Most of the Town's basic services are included here, such as general admin, public safety, public works, and community center. Property and sales taxes finance most of these activities.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Net position. The Town's combined net position was \$3.1 million at September 30, 2021. (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities	
	2021	2020*
<i>Assets:</i>		
Current Assets	\$ 2,161,158	\$ 1,608,040
Other Assets	2,011,396	919,413
Total Assets	4,172,554	2,527,453
<i>Deferred Outflows of Resources:</i>	12,483	3,551
<i>Liabilities:</i>		
Current Liabilities	499,955	201,142
Long-Term Liabilities	588,865	666,153
Total Liabilities	1,088,820	867,295
<i>Deferred Inflows of Resources:</i>	22,333	21,353
<i>Net Position:</i>		
Net Investment in Capital Assets	1,404,989	132,874
Restricted	-	530,325
Unrestricted	1,668,895	979,157
Total Net Position	\$ 3,073,884	\$ 1,642,356

*2020 has been restated for the effects of a prior period adjustment

The unrestricted net position represents resources available to fund the programs of the Town next year.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant *funds*—not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Town Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Town has the following kinds of funds:

- *Governmental funds*—Most of the Town's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

Governmental Activities

- Property Tax Rates were assessed at \$0.126940 per \$100 valuation

Table A-2 summarizes the changes in the Town's net position for 2021 and 2020 fiscal years.

Table A-2
Changes in City's Net Position

	Governmental Activities	
	2021	2020*
<i>Program Revenues:</i>		
Charges for Services	\$ 51,153	\$ 32,305
Operating Grants and Contributions	-	92,260
Capital Contributions	1,367,448	-
<i>General Revenues:</i>		
Taxes	617,503	672,667
Other	31,243	55,223
TOTAL REVENUES	2,067,347	852,455
<i>Program Expenses:</i>		
Administration	519,346	469,311
Public Safety	22,698	68,035
Public Works	65,660	112,399
Community Center Expense	10,677	15,626
Interest	17,438	-
TOTAL EXPENSES	635,819	665,371
 Change in Net Position	 1,431,528	 187,084
 Net Position at Beginning of Year	 <u>1,642,356</u>	 <u>1,455,272</u>
Net Position at End of Year	<u>\$ 3,073,884</u>	<u>\$ 1,642,356</u>

**2020 has not been restated for the effects of a prior period adjustment*

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2021, the Town had invested \$2 million in a broad range of capital assets, including land, equipment, buildings, and infrastructure (road improvements). The significant additions for 2021 were the Old Town Hall improvements, and drainage and paving improvements. (See Table A-4.)

Table A-4
City's Capital Assets

	Governmental Activities	
	2021	2020*
Land	\$ 21,405	\$ 21,405
Buildings and Improvements	724,797	673,526
Furniture and Equipment	427,592	422,896
Infrastructure	541,457	492,357
Construction in Progress	1,770,215	205,049
Totals at Historical Cost	<u>3,485,466</u>	<u>1,815,233</u>
Accumulated Depreciation	<u>(1,474,070)</u>	<u>(1,426,145)</u>
Net Capital Assets	<u>\$ 2,011,396</u>	<u>\$ 389,088</u>

**2020 has been restated for the effects of a prior period adjustment*

More detailed information about the Town's capital assets is presented in the notes to the financial statements.

Long Term Debt

As of September 30, 2021, the Town had \$606 thousand in long term debt outstanding as shown in Table A-5. In fiscal year 2020, the Town issued a note payable for a Chevy Silverado. More detailed information about the Town's debt is presented in the notes to the financial statements.

Table A-5
City's Long-Term Debt

	Governmental Activities	
	2021	2020*
Bonds	\$ 590,000	\$ 635,000
Notes Payable	16,407	23,085
Total Long-Term Debt	<u>\$ 606,407</u>	<u>\$ 658,085</u>

**2020 has been restated for the effects of a prior period adjustment*

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Revenues from governmental fund types increased \$1.3 million to \$2.1 million. The increase in revenue was largely from a grant received for capital projects. The Town has been awarded 2 additional CDBG grants and will receive funds from ARPA in the future. Governmental expenditures decreased \$40 thousand.

Budgetary Highlights

The Town's actual expenditures in the General Fund were \$763 thousand less than final budgeted amounts and revenues were lower than the budget by \$1 million. Revenues fell short in capital grants from their current CDBG funding. The Town has a second CDBG grant that is awarded in a subsequent fiscal year that was estimated to be awarded in the current fiscal year. Additionally, funding for the current CDBG grant is based on a reimbursement basis and not all of the funds were expensed in the current year. Fund balance decreased \$264 thousand more than projected.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The 2021-2022 budget includes an increase in property tax rates as the rate increases to .132990 per \$100.
- Expenditures are expected to increase \$3.2 million or 58% from the 2021 actual expenditures.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Town Hall at (979)-885-7035 or visit the Town's website at www.townofsanfelipe.net.

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BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- **Government – Wide Financial Statements**
- **Fund Financial Statements:**
 - **Governmental Funds**

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

TOWN OF SAN FELIPE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

	Governmental Activities
ASSETS	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 259,536
Certificate of Deposit	1,404,859
Investments	82,203
Ad Valorem Taxes Receivable, Net	8,372
Sales Tax Receivable	83,486
Other Receivables	322,702
<i>Total Current Assets</i>	2,161,158
 <i>Noncurrent Assets:</i>	
Capital Assets, Net	2,011,396
<i>Total Noncurrent Assets</i>	2,011,396
TOTAL ASSETS	4,172,554
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pension Related Outflows	8,081
Deferred Other Post Employment Benefit Outflows	4,402
TOTAL DEFERRED OUTFLOWS	\$ 12,483

See accompanying notes to basic financial statements.

TOWN OF SAN FELIPE
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2021

	Governmental Activities
LIABILITIES	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 429,648
Accrued Wages	8,942
Accrued Interest	1,056
Accrued Compensated Absences	8,262
Current Maturities of Long-term Debt	52,047
<i>Total Current Liabilities</i>	499,955
 <i>Long-term Liabilities:</i>	
Long-term Debt (Net of Current)	554,360
Net Pension Liability	17,651
Total Other Post Employment Benefit Liability	16,854
<i>Total Long-term Liabilities</i>	588,865
TOTAL LIABILITIES	1,088,820
 DEFERRED INFLOWS OF RESOURCES	
Deferred Pension Related Inflows	20,026
Deferred Other Post Employment Benefits Inflows	2,307
TOTAL DEFERRED INFLOWS	22,333
 NET POSITION	
Net Investment in Capital Assets	1,404,989
Unrestricted (Deficit)	1,668,895
TOTAL NET POSITION	\$ 3,073,884

See accompanying notes to basic financial statements.

TOWN OF SAN FELIPE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and Changes</u> <u>Primary Government</u>
		<u>Charges for</u> <u>Services</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary Government:				
<i>Governmental Activities:</i>				
Administration	\$ 519,346	\$ -	\$ 1,367,448	\$ 848,102
Public Safety	22,698	45,758	-	23,060
Public Works	65,660	5,395	-	(60,265)
Community Center	10,677	-	-	(10,677)
Interest	17,438	-	-	(17,438)
<i>Total Governmental Activities</i>	<u>635,819</u>	<u>51,153</u>	<u>1,367,448</u>	<u>782,782</u>
General Revenues:				
Ad Valorem Taxes				172,454
Franchise Taxes				42,953
Sales Taxes				402,096
Interest and Investment Earnings				14,862
Miscellaneous				16,381
Total General Revenues				<u>648,746</u>
Change in Net Position				1,431,528
Net Position at Beginning of Year				1,566,161
Prior Period Adjustment				76,195
Net Position at End of Year				<u>\$ 3,073,884</u>

See accompanying notes to basic financial statements.

TOWN OF SAN FELIPE
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 259,536
Certificate of Deposit	1,404,859
Investments	82,203
Ad Valorem Taxes Receivable, Net	8,372
Sales Tax Receivable	83,486
Other Receivables, Net	322,702
TOTAL ASSETS	\$ 2,161,158
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
<i>Liabilities:</i>	
Accounts Payable	\$ 429,648
Accrued Wages	8,942
<i>Total Liabilities</i>	438,590
 <i>Deferred Inflows of Resources:</i>	
Unavailable Revenues - Property Taxes	8,372
 <i>Fund Balances:</i>	
Unassigned	1,714,196
<i>Total Fund Balances</i>	1,714,196
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 \$ 2,161,158

See accompanying notes to basic financial statements.

TOWN OF SAN FELIPE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 1,714,196

Amounts reported for governmental activities in the Statement of Net Position are different because:

Property taxes receivable are not available to pay current period expenditures and, therefore, are deferred in the fund statements. 8,372

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 2,011,396

Long-term liabilities, including bonds and notes payables are not due and payable in the current period and, therefore are not reported in the governmental funds. (606,407)

Net Pension Assets (and related deferred inflows and outflows of resources) do not consume (or create) current financial resources and are not reported in governmental funds.

Net Pension Liability	(17,651)	
Pension Related Deferred Outflows	8,081	
Pension Related Deferred Inflows	<u>(20,026)</u>	(29,596)

Total Other Post Employment Benefit (OPEB) Liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in governmental funds.

Total OPEB Liability	(16,854)	
OPEB Related Deferred Outflows	4,402	
OPEB Related Deferred Inflows	<u>(2,307)</u>	(14,759)

Other liabilities are not due and payable in the current period, and therefore, not reported in the funds.

Accrued Interest	(1,056)	
Accrued Compensated Absences	<u>(8,262)</u>	(9,318)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 3,073,884

See accompanying notes to basic financial statements.

**TOWN OF SAN FELIPE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	General Fund
REVENUES	
Ad Valorem Taxes	\$ 172,228
Grants and Donations	1,367,448
Franchise Fees	42,953
Sales Taxes	402,096
Fines and Forfeitures	45,758
Licenses, Permits, and Fees	5,395
Interest Income	14,862
Misc Income	16,382
TOTAL REVENUES	2,067,122
EXPENDITURES	
Current:	
Administration	433,711
Public Safety	29,376
Public Works	110,660
Community Center	10,677
Capital Outlay	1,670,234
Debt Service:	
Principal	51,678
Interest	18,477
TOTAL EXPENDITURES	2,324,813
Net Change in Fund Balance	(257,691)
BEGINNING FUND BALANCE	1,978,312
Prior Period Adjustment	(6,425)
ENDING FUND BALANCE	\$ 1,714,196

See accompanying notes to basic financial statements.

TOWN OF SAN FELIPE
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (257,691)

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital Outlay	1,670,233	
Depreciation Expense	<u>(47,925)</u>	1,622,308

The issuance of long-term debt (e.g. bonds and notes payable) provide current financial resources of governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report interest expense and compensated absences when they are due and payable, while the statement of activities recognizes interest expense and compensated absences when incurred.

Principal Payments on Long-term Debt	51,678	
Change in Compensated Absences	(12,547)	
Change in Accrued Interest	<u>1,039</u>	40,170

Governmental funds report required contributions to employee pensions as expenditures. However, in the Statement of Activities the expense for the pension is recorded based on the actuarially determined cost of the plan. This is the amount that contributions differed from the actuarially determined pension expense.

27,917

Governmental funds report required contributions to Other Post Employment Benefits (OPEB) as expenditures. However, in the Statement of Activities the expense for the OPEB is recorded based on the actuarially determined cost of the plan. This is the amount that contributions differed from the actuarially determined OPEB expense.

(1,402)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

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CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 1,431,528

See accompanying notes to basic financial statements.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of San Felipe, Texas ("Town"), established in 1837, in Austin County, just west of Houston. The Town is governed by an elected mayor, mayor pro-term and 4 aldermen elected at large. The Town provides the following services: court, police, park maintenance, street maintenance, and trash pick-up.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. THE FINANCIAL REPORTING ENTITY

In evaluating how to define the government for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14, "The Financial Reporting Entity." The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the forgoing criteria, there was no component units identified that would require inclusion in this report.

2. 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 Town. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of activities reflects the degree to which the direct expenses of a given function or segments are 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 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 **fund financial statements** are provided for governmental funds. The General Fund meets the criteria of a *major governmental fund*.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from taxes, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using 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. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Property taxes which were levied prior to September 30, 2020, and became due October 1, 2020 have been assessed to finance the budget of the fiscal year beginning October 1, 2020.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental fund:

General Fund is the general operating fund of the Town and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include taxes and intergovernmental revenues. Primary expenditures are for general administration, public safety, public works and community center.

**TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021**

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the Town.

5. INVESTMENTS

State statutes authorize the Town to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

The Town reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments are stated at fair value (plus accrued interest) except for money market investments, certificates of deposit and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost.

The Town's investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Therefore, the investments are reported a \$1 per share, which approximates fair value.

TOWN OF SAN FELIPE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. ACCOUNTS RECEIVABLE/REVENUE RECOGNITION

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2020 and past due after January 31, 2021. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the Town. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unearned revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. PREPAID ITEMS

Payments made for goods and services in advance are recorded as prepaid items on the balance sheet.

8. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more and a useful life in excess of two years. Infrastructure assets include Town-owned streets, water system, and sewer system. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Buildings and Improvements	25-50 years
Infrastructure	20-40 years
Equipment	8-10 years

**TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. COMPENSATED ABSENCES

Full-time employees earn sick and vacation leave at varying rates depending on length of service. Unused sick leave is not paid on termination and is not accrued in these financial statements. Vacation leave is paid on termination. Vacation leave is accrued as incurred in the government-wide and proprietary statements. However, it is recognized on the governmental fund statements only when it is due and payable.

10. UNAVAILABLE/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as unavailable revenue (a deferred inflow of resources). Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

11. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified basis of accounting. Unavailable revenues from property tax is deferred and recognized as an inflow of resources in the period the amounts become available.

Property tax is recognized when they become both measurable and available in the fund statements. Available means when due or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as deferred inflows. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of accounting. Unavailable revenues from property tax is deferred and recognized as inflow of resource in the period the amount becomes available.

12. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt (including capital leases) and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the discount. Bond issuance costs are expensed as incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. PENSIONS

The net pension liability, deferred inflows, and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. OPEB LIABILITY

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and OPEB expense, information about the Total OPEB Liability of the Texas Municipal Retirement System (TMRS) and additions to/deduction from TMRS's Total OPEB Liability have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. The general fund has typically been used in the prior year to liquidate OPEB liabilities.

15. NET POSITION

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

16. FUND BALANCES

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable - Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted - Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed - Represents amounts that can only be used for a specific purpose by a resolution of Town Council. Committed amounts cannot be used for any other purpose unless the Town Council removes those constraints through the same formal action.

TOWN OF SAN FELIPE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. FUND BALANCES (CONTINUED)

Assigned - Represents amounts which the Town intends to use for a specific purpose but do not meet the criteria of restricted or committed. The Town Council has also given the authority to create assignments to the Town Administrator.

Unassigned - Represents the residual balance that may be spent on any other purpose of the Town.

When an expenditure is incurred for a purpose in which multiple classifications are available, the Town considers restricted balances spent first, committed second and assigned third.

17. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

18. SUBSEQUENT EVENTS – NEW PRONOUNCEMENTS

Beginning after September 30, 2021, the Town will implement GASB statement No. 84. GASB statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The criteria generally focus on: whether a government is controlling the assets of the fiduciary activity, and the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

NOTE B – DEPOSITS AND INVESTMENTS

As of and for the year ending September 30, 2021, the Town had the following investments

Investment Type	Net Asset		Weighted Average	
	Value	Maturity (Days)	Rating	Agency
TexPool	\$ 82,203	53	AAA	Standard & Poor's

Investment Rate Risk. The City and component unit manage exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE B -- DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk. The Town's investment policy limits investments to obligations of the United States (up to 95% of total invested funds) or its agencies and instrumentalities (maximum 80% of funds); direct obligations of the State of Texas; obligations of states, agencies, contracts, cities, and other political subdivisions rated as to investment quality of not less than AAA by a nationally recognized investment firm. U.S. Government Securities are not considered to have credit risk and do not require disclosure of credit quality.

The Town may also invest funds in government investment pools provided the pool maintains a AAA rating, the pool maintains a stable asset value, and the average dollar weighted maturity does not exceed 90 days. As of September 30, 2021, the investment in TexPool was rated AAAM by Standard & Poor's. The Town may invest in Money Market Mutual funds that are regulated by the SEC and have a dollar weighted average stated maturity of 90 days or less and maintain a net asset value of \$1.00 per share.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Town's cash and cash equivalents are held in a couple of financial institutions, and cash balances of up to \$250,000 are secured by the Federal Deposit Insurance Corporation (FDIC) at each financial institution. Cash balances at one institution were \$81,086 in excess of federal deposit insurance coverage as of September 30, 2021.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2021, the Town was not exposed to custodial credit risk.

NOTE C -- PROPERTY TAX CALENDAR

The Town's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the Town. Assessed values are established by the Austin County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2020, upon which the fiscal 2021 levy was based, was \$132 million (i.e., market value less exemptions).

The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2021, was \$.126940 per \$100 of assessed value. The Town may not adopt a tax rate that exceeds the voter approved tax rate calculated in accordance with the Texas Property Tax Code without holding an election. The Town may levy an interest and sinking tax rate at any level necessary to service voter approved debts. The maintenance and operations tax rate is limited to annual growth of 3.5% without an election.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE D -- OTHER RECEIVABLES

Other receivables for the Town as of September 30, 2021 are as follows:

	General Fund
IRS Overpayment	\$ 4,637
Grant Receivable	318,065
Total Other Receivables	\$ 322,702

Ad Valorem Taxes on the Statement of Activities are net of an allowance for doubtful of \$1,034.

NOTE E -- CAPITAL ASSETS

Capital asset activity in the governmental funds for the year ended September 30, 2021, was as follows:

	Balance *10/1/2020	Additions	Disposals/ Transfers	Balance 9/30/2021
<i>Governmental Activities</i>				
Land	\$ 21,405	\$ -	\$ -	\$ 21,405
Buildings and Improvements	673,526	-	51,271	724,797
Furniture and Equipment	422,896	4,696	-	427,592
Infrastructure	492,357	49,100	-	541,457
Construction in Progress	205,049	1,616,437	(51,271)	1,770,215
	1,815,233	1,670,233	-	3,485,466
 Less Accumulated Depreciation				
Buildings and Improvements	(630,683)	(7,767)	-	(638,450)
Furniture and Equipment	(362,887)	(14,165)	-	(377,052)
Infrastructure	(432,575)	(25,993)	-	(458,568)
	(1,426,145)	(47,925)	-	(1,474,070)
 Governmental Activities, Net	 \$ 389,088	 \$ 1,622,308	 \$ -	 \$ 2,011,396

Land and Construction in Progress are not depreciated.

*Beginning balances were restated for prior period adjustments. See Note L for more details.

Depreciation expense was charged to the governmental functions as follows:

Administration	\$ 10,368
Public Safety	7,951
Public Works	29,606
Total Depreciation Expense - Governmental Activities	\$ 47,925

**TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021**

NOTE F – LONG-TERM DEBT

Changes in long-term debt were as follows:

	Balance 10/1/2020	Additions	Reductions	Balance 9/30/2021
<i>Governmental Activities:</i>				
Bonds and Notes	\$ 658,085	\$ -	\$ (51,678)	\$ 606,407
Compensated Absences	4,285	3,977	-	8,262
Net Pension Liability	36,160	-	(18,509)	17,651
Total OPEB Liability	16,908	-	(54)	16,854
<i>Total Governmental</i>	<u>715,438</u>	<u>3,977</u>	<u>(70,241)</u>	<u>649,174</u>

NOTE G – BONDS, CERTIFICATES AND NOTES PAYABLE

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017

On March 9, 2017, the Town issued \$725,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 for the costs associated with the design, planning, acquisition, construction, equipping, expansion, repair, renovation, and/or rehabilitation of certain public property, including (1) a community center; (2) parks and recreation facilities and improvements; (3) constructing, repairing and improving town streets, sidewalks and drainage; (4) an equipment shed and storage facility; (5) payment of contractual obligations for professional services in connection therewith. Principal is due annually on February 15. Interest is due semiannually on February 15 and August 15 at a rate of 2.84%. The final maturity date of the bonds is February 15, 2032.

2019 Note Payable

On January 28, 2019, the Town entered into an agreement with KS State Bank for the purchase of a new 2019 Chevy Silverado for \$33,940. The note requires 60 payments of \$646.66 and ends on 12/28/2023. The note carries an interest rate of .45%

Changes in bonds, notes and certificates were as follows:

	Balance 10/1/2020	Additions	Reductions	Balance 9/30/2021	Due Within One Year
<i>Governmental Activities:</i>					
CO, Series 2017	\$ 635,000	\$ -	\$ (45,000)	\$ 590,000	\$ 45,000
Notes Payable	23,085	-	(6,678)	16,407	7,047
<i>Total Governmental</i>	<u>658,085</u>	<u>-</u>	<u>(51,678)</u>	<u>606,407</u>	<u>52,047</u>

**TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021**

NOTE G -- BONDS, CERTIFICATES AND NOTES PAYABLE (CONTINUED)

The annual requirements to amortize all long-term debt and obligations outstanding, excluding compensated absences and bond premium, as of September 30, 2021, including interest payments, are as follows:

Fiscal Year Ending	2019 Note Payable - Truck		
	Principal	Interest	Total
<u>September 30</u>			
2022	\$ 7,047	\$ 713	\$ 7,760
2023	7,437	323	7,760
2024	1,923	17	1,940
Total	<u>\$ 16,407</u>	<u>\$ 1,053</u>	<u>\$ 17,460</u>

Fiscal Year Ending	CO, Series 2017		
	Principal	Interest	Total
<u>September 30</u>			
2022	\$ 45,000	\$ 16,117	\$ 61,117
2023	50,000	14,768	64,768
2024	50,000	13,348	63,348
2025	50,000	11,928	61,928
2026	50,000	10,508	60,508
2027-2031	285,000	29,181	314,181
2032	60,000	852	60,852
Total	<u>\$ 590,000</u>	<u>\$ 96,702</u>	<u>\$ 686,702</u>

NOTE H -- PENSION PLAN

Plan Description

The Town participates as one of 888 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 annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

TOWN OF SAN FELIPE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE H – PENSION PLAN (CONTINUED)

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years.

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

	2020
Inactive Employees or Beneficiaries Currently Receiving Benefits	4
Inactive Employees Entitled to but Not Yet Receiving Benefits	4
Active employees	4
	12

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contribution rate for each Town 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.

For the year ending September 30, 2021, employees for the Town were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 4.62% and 5.05% in calendar years 2020 and 2021, respectively. The Town’s contributions to TMRS for the year ended September 30, 2021 were \$9,734, and were equal to the required contributions.

TOWN OF SAN FELIPE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE H – PENSION PLAN (CONTINUED)

Actuarial Assumptions

The Town's net pension liability (NPL) was measured as of December 31, 2020 and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date. The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions:

Inflation	2.50% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return*	6.75%

* Presented net of pension plan investment expense, including inflation

Actuarial Assumptions (Continued)

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 Health Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the Town, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality 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 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, 2010 to December 31, 2014. 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.

**TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021**

NOTE H – PENSION PLAN (CONTINUED)

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 arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
	<u>100.00%</u>	

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

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE H -- PENSION PLAN (CONTINUED)

Changes in the Net Pension Liability (Asset)

The below schedule presents the changes in the Net Pension Liability (Asset) as of December 31, 2020:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2019	\$ 345,940	\$ 309,780	\$ 36,160
Changes for the year:			
Service Cost	13,597	-	13,597
Interest	23,305	-	23,305
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(12,313)	-	(12,313)
Changes of Assumptions	-	-	-
Contributions - Employer	-	9,472	(9,472)
Contributions - Employee	-	10,254	(10,254)
Net Investment Income	-	23,530	(23,530)
Benefit Payments, Including Refunds of Employee Contributions	(14,970)	(14,970)	-
Administrative Expense	-	(152)	152
Other Changes	-	(6)	6
Net Changes	<u>9,619</u>	<u>28,128</u>	<u>(18,509)</u>
Balance at December 31, 2020	<u>\$ 355,559</u>	<u>\$ 337,908</u>	<u>\$ 17,651</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate.

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability (Asset)	\$ 60,289	\$ 17,651	\$ (17,874)

Pension Plan Fiduciary Net Position

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

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE H -- PENSION PLAN (CONTINUED)

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

For the year ended September 30, 2021, the Town recognized pension income of \$1,457. Also as of September 30, 2021, the Town 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
Differences between Expected and Actual Economic Experience	\$ -	\$ 9,387
Changes in Actuarial Assumptions	708	-
Differences Between Projected and Actual Investment Earnings	-	10,639
Contributions Subsequent to the Measurement Date	7,373	-
	\$ 8,081	\$ 20,026

Deferred outflows of resources in the amount of \$7,373 is resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Plan Year ended December 31,	
2021	\$ (7,274)
2022	(3,701)
2023	(7,820)
2024	(523)
	\$ (19,318)

NOTE I -- OTHER POST-EMPLOYMENT BENEFIT

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

TOWN OF SAN FELIPE
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021

NOTE I -- OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB. Membership in the plan at December 31, 2020, the valuation and measurement date, consisted of:

	2020
Inactive Employees or Beneficiaries Currently Receiving Benefits	2
Inactive Employees Entitled to but Not Yet Receiving Benefits	1
Active employees	4
	7

The SDBF required contribution rates, based on these assumptions, are as follows:

	Total SDBF Contribution Rate	Retiree SDBF Contribution Rate
For the Plan Year Ended December 31,		
2020	0.23%	0.11%
2019	0.20%	0.09%

These contribution rates are based on actuarial assumptions developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. 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.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE I -- OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)

These assumptions are summarized below:

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.50% to 11.50% Including Inflation
Discount Rate	2.00% (Based on Fidelity's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid thru the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The Town's Total OPEB Liability (TOL), based on the above actuarial factors, as of December 31, 2020, the measurement and actuarial valuation date, was calculated as follows:

	Total OPEB Liability
Balance at December 31, 2019	\$ 16,908
Changes for the year:	
Service Cost	800
Interest	475
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	(3,883)
Changes in Assumptions or Other Inputs	2,616
Benefit Payments	(62)
Net Changes	(54)
Balance at December 31, 2020	\$ 16,854

There is no separate trust maintained to fund this TOL. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75 to pay related benefits.

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE I – OTHER POSTEMPLOYMENT BENEFIT (CONTINUED)

The following presents the TOL of the Town, calculated using the discount rate of 2.0% as well as what the Town’s TOL would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate:

	Discount Rate 1.00%	Discount Rate 2.00%	Discount Rate 3.00%
Total OPEB Liability	\$ 21,362	\$ 16,854	\$ 13,503

For the year ended September 30, 2021, the Town recognized OPEB expense of \$464. Also as of September 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ 4,240	\$ -
Changes in Experience	-	2,307
Contributions Subsequent to the Measurement Date	162	-
	\$ 4,402	\$ 2,307

Deferred outflows of resources in the amount of \$162 is resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total OPEB liability for the plan year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Plan Year ended December 31,	
2021	\$ 351
2022	351
2023	351
2024	279
2025	445
Thereafter	156
	\$ 1,933

TOWN OF SAN FELIPE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021

NOTE J – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The Town contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the Town is generally limited to the contributed amounts for losses up to coverage limits.

NOTE K -- COMMITMENTS AND CONTINGENCIES

Commitments

As of September 30, 2021, the Town had entered into contracts for engineering and construction services for drainage and pavement improvements project for an estimated total of \$1.8 million. Of this amount, \$1.3 million had been incurred through September 30, 2021, leaving an estimated commitment of \$500 thousand.

Litigation

The Town is not aware of any pending or threatened litigation.

NOTE L -- PRIOR PERIOD ADJUSTMENT

Adjustments were made to correct items in the financial statements for the year ending September 30, 2020. These adjustments are summarized as follows:

	General Fund
Beginning Fund Balance, Previously Reported	\$ 1,978,312
Unrecorded Sales Tax Receivable	65,340
Unrecorded Accounts Payable	(71,765)
Beginning Fund Balance, Restated	\$ 1,971,887
	Governmental Activities
Beginning Net Position, Previously Reported	\$ 1,566,161
Unrecorded Sales Tax Receivable	65,340
Unrecorded Accounts Payable	(71,765)
Unrecorded Capital Assets	105,705
Unrecorded Notes Payable	(23,085)
Beginning Net Position, Restated	\$ 1,642,356

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- **Budgetary Comparison Schedule – General Fund**
- **Schedule of Changes – Net Pension Liability and Related Ratios**
- **Schedule of Contributions – Defined Benefit Pension Plan**
- **Schedule of Changes – Total Other Post-Employment Benefit Liability and Related Ratios**

TOWN OF SAN FELIPE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budget Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Ad Valorem Taxes	\$ 170,000	\$ 170,000	\$ 172,228	\$ 2,228
Grants and Donations	2,411,828	2,411,828	1,367,448	(1,044,380)
Franchise Fees	43,000	43,000	42,953	(47)
Sales Taxes	390,000	390,000	402,096	12,096
Fines and Forfeitures	20,000	20,000	45,758	25,758
Licenses, Permits and Fees	5,000	5,000	5,395	395
Interest Income	29,225	29,225	14,862	(14,363)
Miscellaneous	24,400	24,400	16,382	(8,018)
TOTAL REVENUES	<u>3,093,453</u>	<u>3,093,453</u>	<u>2,067,122</u>	<u>(1,026,331)</u>
EXPENDITURES				
<i>Current:</i>				
Administration	1,148,822	1,155,322	433,711	721,611
Public Safety	49,000	42,000	29,376	12,624
Public Works	126,000	139,000	110,660	28,340
Community Center	10,677	10,677	10,677	-
Capital Outlay	1,670,234	1,670,234	1,670,234	-
Debt Service:				-
Principal	51,678	51,678	51,678	-
Interest	18,477	18,477	18,477	-
TOTAL EXPENDITURES	<u>3,074,888</u>	<u>3,087,388</u>	<u>2,324,813</u>	<u>762,575</u>
NET CHANGE IN FUND BALANCE	18,565	6,065	(257,691)	(263,756)
BEGINNING FUND BALANCE	1,978,312	1,978,312	1,978,312	-
Prior Period Adjustment	-	-	(6,425)	(6,425)
ENDING FUND BALANCE	<u>\$ 1,996,877</u>	<u>\$ 1,984,377</u>	<u>\$ 1,714,196</u>	<u>\$ (270,181)</u>

TOWN OF SAN FELIPE
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
SEPTEMBER 30, 2021

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The Town maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the Town Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

The Town does not use encumbrances.

**TOWN OF SAN FELIPE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES - NET PENSION LIABILITY AND RELATED RATIOS
LAST SEVEN PLAN (CALENDAR) YEARS**

	Total Pension Liability		
	2014	2015	2016
Service Cost	\$ 9,910	\$ 11,935	\$ 13,238
Interest (on the Total Pension Liability)	16,339	18,027	19,421
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(2,896)	(6,928)	(1,223)
Change of Assumptions	-	10,618	-
Benefit Payments, Including Refunds of Employee Contributions	-	(501)	(7,737)
Net Change in Total Pension Liability	23,353	33,151	23,699
Total Pension Liability - Beginning	228,464	251,817	284,968
Total Pension Liability - Ending	<u>\$ 251,817</u>	<u>\$ 284,968</u>	<u>\$ 308,667</u>
	Plan Fiduciary Net Position		
	2014	2015	2016
Contributions - Employer	\$ 7,753	\$ 8,847	\$ 7,155
Contributions - Employee	8,318	9,517	10,029
Net Investment Income	10,554	311	15,489
Benefit Payments, Including Refunds of Employee Contributions	-	(501)	(7,737)
Administrative Expense	(110)	(190)	(174)
Other	(9)	(9)	(9)
Net Change	26,506	17,975	24,753
Beginning Plan Fiduciary Net Postion	184,445	210,951	228,926
Ending Plan Fiduciary Net Postion	<u>\$ 210,951</u>	<u>\$ 228,926</u>	<u>\$ 253,679</u>
Net Pension Liability - Ending	\$ 40,866	\$ 56,042	\$ 54,988
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.77%	80.33%	82.19%
Covered Payroll	\$ 166,351	\$ 190,348	\$ 200,570
Net Pension Liability as a Percentage of Covered Payroll	24.57%	29.44%	27.42%

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.

Total Pension Liability			
2017	2018	2019	2020
\$ 11,960	\$ 13,485	\$ 11,606	\$ 13,597
20,684	22,025	22,742	23,305
-	-	-	-
864	(140)	(3,180)	(12,313)
-	-	1,312	-
<u>(16,447)</u>	<u>(12,335)</u>	<u>(35,303)</u>	<u>(14,970)</u>
17,061	23,035	(2,823)	9,619
308,667	325,728	348,763	345,940
<u>\$ 325,728</u>	<u>\$ 348,763</u>	<u>\$ 345,940</u>	<u>\$ 355,559</u>

Plan Fiduciary Net Position			
2017	2018	2019	2020
\$ 7,308	\$ 7,600	\$ 7,606	\$ 9,472
9,143	9,930	8,546	10,254
35,201	(8,658)	44,134	23,530
(16,447)	(12,335)	(35,303)	(14,970)
(182)	(167)	(249)	(152)
<u>(9)</u>	<u>(9)</u>	<u>(8)</u>	<u>(6)</u>
35,014	(3,639)	24,726	28,128
253,679	288,693	285,054	309,780
<u>\$ 288,693</u>	<u>\$ 285,054</u>	<u>\$ 309,780</u>	<u>\$ 337,908</u>

\$ 37,035	\$ 63,709	\$ 36,160	\$ 17,651
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88.63%	81.73%	89.55%	95.04%
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\$ 182,870	\$ 198,600	\$ 170,928	\$ 205,084
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20.25%	32.08%	21.16%	8.61%
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**TOWN OF SAN FELIPE
SCHEDULE OF EMPLOYER CONTRIBUTIONS – DEFINED BENEFIT PENSION PLAN
LAST TWO FISCAL YEARS**

Fiscal Year Ending September 30,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2020	\$ 8,998	\$ 8,998	\$ -	\$ 196,327	4.6%
2021	9,734	9,734	-	201,643	4.8%

Notes to Schedule of Contributions

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen (13) months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year Smoothed Market; 12% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% Including Inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.

**TOWN OF SAN FELIPE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES – TOTAL OTHER POST-EMPLOYMENT BENEFIT LIABILITY AND
RELATED RATIOS
LAST FOUR CALENDAR (PLAN) YEARS**

	Total OPEB Liability			
	2017	2018	2019	2020
Service Cost	\$ 402	\$ 496	\$ 376	\$ 800
Interest	395	405	438	475
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	-	(401)	1,524	(3,883)
Changes in Assumptions or Other Inputs	960	(829)	2,972	2,616
Benefit Payments	-	(20)	(51)	(62)
Net Change in Total Pension Liability	1,757	(349)	5,259	(54)
Total OPEB Liability - Beginning	10,241	11,998	11,649	16,908
Total OPEB Liability - Ending	<u>\$ 11,998</u>	<u>\$ 11,649</u>	<u>\$ 16,908</u>	<u>\$ 16,854</u>
 Covered Payroll	 \$ 182,870	 \$ 198,600	 \$ 170,928	 \$ 205,084
 Total OPEB Liability as a Percentage of Covered Payroll	 6.56%	 5.87%	 9.89%	 8.22%

Notes to Schedule

Changes in Benefit Terms: None

Changes in Assumptions:

2021 Discount rate reduced to 2%
 2020 Discount rate reduced to 2.75%
 2019 Discount rate increased to 3.71%
 2018 Discount rate reduced to 3.31%

Trust:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75 to pay related benefits.

Information for this schedule is being accumulated prospectively until a rolling ten year period is available.

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TOWN OF SAN FELIPE
COMPLIANCE
FEDERAL AWARDS

For the Year Ended
September 30, 2021

TOWN OF SAN FELIPE
FEDERAL AND STATE SINGLE AUDIT
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Council
Town of San Felipe

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of San Felipe, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of San Felipe, basic financial statements and have issued our report thereon dated August 8, 2023.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the Town of San Felipe in a separate letter dated August 8, 2023.

Purpose of this Report

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



Armstrong, Vaughan & Associates, P.C.

August 8, 2023



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Council
Town of San Felipe

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Calhoun County Texas' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

We noted certain matters that we have reported to management of the Town of San Felipe in a separate letter dated August 8, 2023.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented each major fund, and the aggregate remaining fund information of Town of San Felipe as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Town of San Felipe's basic financial statements. We issued our report thereon dated August 8, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) and is 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 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 our opinion, the schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

August 8, 2023

TOWN OF SAN FELIPE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial Statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with CFR Part 200 of the Uniform Guidance? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant – Disaster Recovery

Dollar threshold used to distinguish between Type A and type B Programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

**TOWN OF SAN FELIPE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

<u>Explanation Finding/Recommendation</u>	<u>Current Status</u>	Management's Explanation <u>If Not Implemented</u>
Not Applicable		

TOWN OF SAN FELIPE
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

FEDERAL AWARDS	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed Through Texas General Land Office			
Community Development Block Grant Disaster Recovery	14.228	20-065-064-C182	<u>\$ 1,368,279</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>1,368,279</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,368,279</u>

**TOWN OF SAN FELIPE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of San Felipe and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ in amounts presented in, or used in the preparation of, the financial statements.

Currently, the Town has elected not to use the 10% de Minimis cost rate.