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**CITY OF ODEM, TEXAS**  
**AUDITED ANNUAL FINANCIAL REPORT**  
**FOR YEAR ENDED SEPTEMBER 30, 2021**

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**ADRIAN WEBB**  
**CERTIFIED PUBLIC ACCOUNTANT**

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CITY OF ODEM  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

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# ADRIAN WEBB, CPA

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Certified Public Accountant  
Edinburg, Texas

## Independent Auditor's Report

To the Honorable Mayor and Members of the City Commission of the  
City of Odem, Texas

### **Qualified Opinion**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Odem as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Odem's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material aspects, the financial position of the City of Odem, as of September 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Qualified Opinion**

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

#### *Matter Giving Rise to the Qualified Opinion*

Management has not performed a thorough and complete inventory of fixed assets, including infrastructure, nor developed a complete and accurate depreciation expense calculation. Accounting principles generally accepted in the United States of America require that a complete fixed asset inventory be conducted to properly account for all fixed assets of the City, which would materially affect the assets and net position in the Government-Wide Statement of Net Assets and Statement of Activities. The amount by which this departure would affect the assets, net position, and expenses of the City has not yet been determined.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in the notes to the financial statements, in the year ending September 30, 2021, the City adopted new accounting guidance, *Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-Based Technology Arrangements*, and *GASB Statement No. 87, Leases*. Our opinions are not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibility 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental 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 and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Odem's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2024, on our consideration of the City of Odem'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 solely 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 the effectiveness of the City of Odem's 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 City of Odem's internal control over financial reporting and compliance.

*Adrian Webb, CPA*

Adrian Webb, CPA  
Edinburg, Texas  
September 6, 2024

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# **MANAGEMENT DISCUSSION & ANALYSIS**

**CITY OF ODEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED SEPTEMBER 30, 2021**

As management of the City of Odem, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Odem for the fiscal year ended September 30, 2021. We encourage readers to consider the information presented here in conjunction with the independent auditors' report and the City's financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's total net position increased by \$385,622. Net position from governmental activities increased \$241,646, while net position from business-type activities increased \$143,976.
- The General Fund ended the year with a fund balance of \$716,619, a \$176,562 decrease from prior year's balance of \$893,181.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Activities of the City as a whole include governmental activities, and business-type activities. Governmental activities are those activities, which are financed primarily through taxes and grants.

Most of the City's basic services are reported as governmental activities. Business-type activities are those activities that are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Odem Development Corporation, which are legally separate entities, and are reported as discretely presented component units. These are other governmental units of which the City (the City Commission, acting as a group) can exercise influence. Financial information for Odem Development Corporation is reported separately from the financial information presented for the primary government itself.

**CITY OF ODEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED SEPTEMBER 30, 2021**

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide detail information about the most significant funds – not the City as a whole. Some funds are required to be established by law, bond covenants or by contracts. Still other funds are established by the City Commission to assist in managing money that is to be spent for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds

Most of the City's basic services are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future to finance the City's programs. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds in reconciliation schedules following each of the fund financial statements.

- Proprietary funds

The City reports the activities for which it charges users (whether outside customers or other units of the City). The proprietary funds use the accrual basis, the same accounting method employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows.

**NOTES TO THE FINANCIAL STATEMENTS**

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

**THE CITY'S FUNDS**

Being that the City is a government entity, it tracks all transactions using fund accounting. What this means is that it isolates different types of activity into funds, which it then tracks separately. Each fund essentially becomes its own entity, which then interacts with other funds. This allows for separate management of governmental funds, grants, enterprise funds (utility fund) and any other restricted funds.

As a result of this year's operations, all combined governmental funds, including Municipal Court Fund and Nonmajor Governmental Funds reported a combined fund balance of \$1,355,430 an increase of \$150,813 from the previous year ending September 30, 2021.

**CITY OF ODEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED SEPTEMBER 30, 2021**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities totaled \$2,048,485. Unrestricted net position – the part of net position that can be used to finance day to day operations without constraints from debt covenants, legislation or other legal requirements was \$890,724 as of September 30, 2021.

In 2021, net position of business-type activities totaled \$6,535,748, with an Unrestricted net position totaling \$389,380. Table I, below illustrates a comparative summary of the City's statement of net position as of September 30, 2021.

**Table I**

	<u>Governmental</u> <u>2021</u>	<u>Business-Type</u> <u>2021</u>	<u>Totals</u> <u>2021</u>
Current Assets	\$ 1,809,821	\$ 630,525	\$ 2,440,346
Capital Assets, Net	1,157,761	6,532,775	7,690,536
Total Assets	2,967,582	7,163,300	10,130,883
Deferred Outflows of Resources	35,768	49,184	84,952
Total assets and deferred outflows of resources	<u>3,003,351</u>	<u>7,212,484</u>	<u>10,215,835</u>
Other Liabilities	362,849	257,204	620,053
Long-Term Liabilities	384,993	399,572	784,565
Total Liabilities	<u>747,842</u>	<u>656,776</u>	<u>1,404,618</u>
Deferred Inflows of Resources	207,023	19,960	226,983
Net Invested in Capital Assets	1,157,761	6,146,368	7,304,129
Restricted	-	-	-
Unrestricted	890,724	389,380	1,280,104
Total Net Position	<u>2,048,485</u>	<u>6,535,748</u>	<u>8,584,233</u>
Total Liabilities, deferred inflows of resources and net position	<u>\$ 3,003,351</u>	<u>\$ 7,212,484</u>	<u>\$ 10,215,835</u>

**CITY OF ODEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED SEPTEMBER 30, 2021**

**Table II**

	<u>Governmental</u> <u>2021</u>	<u>Business-Type</u> <u>2021</u>	<u>Totals</u> <u>2021</u>
Revenues			
Program Revenues			
Charges for Services	\$ 522,955	\$ 1,750,674	\$ 2,273,629
Operating Grants and Contributions	292,387	-	292,387
General Revenues			
Property Taxes	1,008,321	-	1,008,321
General Sales and Use Taxes	117,644	-	117,644
Franchise Taxes	74,576	-	74,576
Penalties and Interest	20,318	-	20,318
Licenses and Permits	73,703	-	73,703
Other Revenues	212,601	39,621	252,222
Investment Earnings	1,810	1,609	3,419
Miscellaneous	253,096	-	253,096
Total Revenues	<u>2,577,411</u>	<u>1,791,904</u>	<u>4,348,997</u>
Expenses			
General Government	813,420	-	813,420
Public safety	1,093,534	-	1,093,534
Highway and Streets	215,555	-	215,555
Health and Welfare	-	-	-
Culture and Recreation	58,992	-	58,992
Interest on Debt	7,918	-	7,918
Water & Sewer	-	1,380,130	1,380,130
Garbage	-	414,144	414,144
Total Expenses	<u>2,189,419</u>	<u>1,794,274</u>	<u>3,983,693</u>
Increase in net position before transfers	387,992	(2,370)	365,304
Transfers	<u>(146,346)</u>	<u>146,346</u>	<u>-</u>
Change in Net Position	241,646	143,976	385,622
Net Position Beginning	1,806,840	6,379,043	8,185,883
Prior Period Adjustment	-	12,728	12,728
Net Position Ending	<u>\$ 2,048,486</u>	<u>\$ 6,535,747</u>	<u>\$ 8,584,234</u>

The cost of all governmental activities in the current year was \$2,189,419. However, as shown in Table II, the amount financed by property and non-property taxes were \$1,008,321 and \$192,220, respectively. The remaining costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year, the City had \$7,690,536 (net of depreciation) invested in capital assets, including facilities, land, infrastructure, vehicles, and equipment, as further discussed in Note D – Capital Assets.

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**CITY OF ODEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR YEAR ENDED SEPTEMBER 30, 2021**

**Long-Term Debt**

By the end of the fiscal year, the City had long-term obligations totaling \$455,744. The following is a summary of long-term obligations:

	<b>Governmental</b>
	<b>2021</b>
General obligation debt	\$ 193,358
Compensated Absences	31,489
	<b>\$ 224,847</b>
	<b>Business-Type</b>
	<b>2021</b>
General obligation debt	\$ 230,897
Compensated Absences	-
	<b>\$ 230,897</b>

The City also recognized net pension and OPEB liabilities of \$287,750 and \$72,560, respectively.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Odem' finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director, at City of Odem, 514 Voss Ave, Odem, TX 78370.

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# **BASIC FINANCIAL STATEMENTS**

**City of Odem**  
**Statement of Net Position**  
**As of September 30, 2021**

**EXHIBIT A-1**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	ODEM DEVELOPMENT CORPORATION
<b>ASSETS:</b>				
Current Assets:				
1010 Cash and Cash Equivalents	\$ 870,348	\$ -	\$ 870,348	\$ 514,169
1030 Investments - Current	481,599	481,600	963,199	-
1050 Taxes Receivable	118,727	-	118,727	-
1150 Accounts Receivable, Net	159,986	148,925	308,911	346
Restricted Assets:	24,889	-	24,889	
Total Current Assets	1,809,821	630,525	2,440,346	536,278
Noncurrent Assets				
1791 Capital Assets Not Being Depreciated	196,875	923,456	1,120,331	-
1792 Capital Assets Being Depreciated	8,711,557	11,680,096	20,391,653	-
1780 Accumulated Depreciation	(7,750,670)	(6,070,778)	(13,821,448)	-
Total Noncurrent Assets	1,157,761	6,532,775	7,690,537	-
TOTAL ASSETS	2,967,583	7,163,300	10,130,883	536,278
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
1992 Deferred Outflow Related to Pension	29,298	40,779	70,077	-
1993 Deferred Outflow Related to OPEB	6,470	8,405	14,875	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	35,768	49,184	84,952	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,003,351</b>	<b>\$ 7,212,484</b>	<b>\$ 10,215,835</b>	<b>\$ 536,278</b>
<b>LIABILITIES:</b>				
Current Liabilities:				
2010 Accounts Payable	\$ 36,929	\$ 14,045	\$ 50,974	-
2020 Payroll Liabilities	12,840	4,062	16,902	-
2030 Compensated Absences Payable	31,489	-	31,489	-
2040 Claims and Judgments Payable	-	82,670	82,670	-
2090 Due to Others	36,929	-	36,929	-
2100 Due to Component Unit	21,763	-	21,763	-
2140 Accrued Interest Payable	947	917	1,864	-
Total Current Liabilities	295,168	101,694	396,862	-
Noncurrent Liabilities:				
2501 Debt Service - Due Within One Year	67,681	155,510	223,191	-
2502 Debt Service - Due in More Than One Year	193,358	230,897	424,255	-
2580 Net Pension Liability	125,155	162,595	287,750	-
2585 Net OPEB Liability	66,480	6,080	72,560	-
Total Noncurrent Liabilities	452,674	555,082	1,007,756	-
TOTAL LIABILITIES	747,842	656,776	1,404,618	-
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
2601 Deferred Resource Inflow - Property Taxes	191,659	-	191,659	-
2602 Deferred Inflow Related to Pension	14,754	19,168	33,922	-
2603 Deferred Inflow Related to OPEB	610	792	1,402	-
TOTAL DEFERRED INFLOWS OF RESOURCES	207,023	19,960	226,983	-
<b>NET POSITION</b>				
4001 Net Investment in Capital Assets	1,157,761	6,146,368	7,304,130	-
3890 Unrestricted	890,724	389,380	1,280,104	536,278
TOTAL NET POSITION	2,048,486	6,535,748	8,584,234	536,278
<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b>\$ 3,003,351</b>	<b>\$ 7,212,484</b>	<b>\$ 10,215,835</b>	<b>\$ 536,278</b>

**City of Odem**  
**Statement of Activities**  
**For The Year Ended September 30, 2021**

EXHIBIT B-1

	Net (Expense) Revenue and Changes in Net Position						Component Unit Odem Development Corporation
	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary Government:</b>							
<b>GOVERNMENTAL ACTIVITIES:</b>							
100 General Government	\$ 813,420	\$ 464,278	\$ 292,387	\$ (56,754)	\$ -	\$ (56,754)	\$ -
200 Public Safety	1,093,534	40,745	-	(1,052,789)	-	(1,052,789)	-
300 Highways and Streets	215,555	-	-	(215,555)	-	(215,555)	-
400 Health and Welfare	-	10,490	-	10,490	-	10,490	-
600 Culture and Recreation	58,992	7,443	-	(51,549)	-	(51,549)	-
720 Interest on Debt	7,918	-	-	(7,918)	-	(7,918)	-
Total Governmental Activities	<u>2,189,419</u>	<u>522,955</u>	<u>292,387</u>	<u>(1,374,076)</u>	<u>-</u>	<u>(1,374,076)</u>	<u>-</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>							
701 Water & Sewer	1,380,130	1,281,660	-	-	(98,470)	(98,470)	-
702 Garbage	414,144	469,014	-	-	54,870	54,870	-
Total Business-Type Activities	<u>1,794,274</u>	<u>1,750,674</u>	<u>-</u>	<u>-</u>	<u>(43,600)</u>	<u>(43,600)</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><u>3,983,693</u></u>	<u><u>2,273,629</u></u>	<u><u>292,387</u></u>	<u><u>(1,374,076)</u></u>	<u><u>(43,600)</u></u>	<u><u>(1,417,676)</u></u>	<u><u>-</u></u>
Component Unit:							
650 Economic Development and Assistance	-	-	-	-	-	-	262,523
Total Component Unit	-	-	-	-	-	-	<u>262,523</u>
General Revenues							
Taxes:							
Property Taxes, Levied for General Purposes			835,481	-	835,481	-	-
Property Taxes, Levied for Debt Service			172,840	-	172,840	-	-
General Sales and Use Taxes			117,644	-	117,644	117,644	-
Franchise Tax			74,576	-	74,576	-	-
Penalties and Interest			20,318	-	20,318	-	-
Licenses and Permits			73,703	-	73,703	-	-
Other Revenue			212,601	39,621	252,222	2,559	-
Proceeds from Capital Leases			253,096	-	253,096	-	-
Investment Earnings			1,810	1,609	3,419	431	-
Transfers In (Out)			(146,346)	146,346	-	-	-
Total General Revenues and Transfers			<u>1,615,722</u>	<u>187,576</u>	<u>1,803,298</u>	<u>120,633</u>	<u>-</u>
Change in Net Position			241,646	143,976	385,622	-	-
Net Position - Beginning			\$ 1,806,840	\$ 6,379,043	\$ 8,185,883	\$ 678,169	-
Prior Period Adjustment			-	12,728	12,728	-	-
Net Position - Ending			<u>\$ 2,048,486</u>	<u>\$ 6,535,748</u>	<u>\$ 8,584,234</u>	<u>\$ 536,278</u>	<u>-</u>

**City of Odem**  
**Balance Sheet - Governmental Funds**  
**As of September 30, 2021**

**EXHIBIT C-1**

	<u>Major Governmental Funds</u>			
	General Fund	Municipal Court Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
1010 Cash and Cash Equivalents	\$ 373,769	\$ 248,883	\$ 247,696	\$ 870,348
1030 Investments - Current	481,599	-	-	481,599
1050 Taxes Receivable	98,355	-	20,372	118,727
1150 Accounts Receivable, Net	159,986	-	-	159,986
1300 Due from Other Funds	-	-	154,272	154,272
1611 Restricted Cash	-	24,889	-	24,889
TOTAL ASSETS	<u>1,113,710</u>	<u>273,772</u>	<u>422,340</u>	<u>1,809,821</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,113,710</u>	<u>\$ 273,772</u>	<u>\$ 422,340</u>	<u>\$ 1,809,821</u>
<b>LIABILITIES:</b>				
2010 Accounts Payable	36,929	-	-	36,929
2020 Payroll Liabilities	12,840	-	-	12,840
2080 Due to Other Funds	154,272	-	-	154,272
2090 Due to Others	-	36,929	-	36,929
2100 Due to Component Unit	21,763	-	-	21,763
TOTAL LIABILITIES	<u>225,804</u>	<u>36,929</u>	<u>-</u>	<u>262,732</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
2601 Deferred Resource Inflow - Property Taxes	171,287	-	20,372	191,659
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>171,287</u>	<u>-</u>	<u>20,372</u>	<u>191,659</u>
<b>FUND BALANCES:</b>				
3480 Restricted for Debt Service	-	-	132,508	132,508
3490 Restricted for Special Purposes	-	236,844	269,459	506,303
3600 Unassigned	716,619	-	-	716,619
TOTAL FUND BALANCES	<u>716,619</u>	<u>236,844</u>	<u>401,968</u>	<u>1,355,430</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS &amp; FUND BALANCES</b>	<u>\$ 1,113,710</u>	<u>\$ 273,772</u>	<u>\$ 422,340</u>	<u>\$ 1,809,821</u>

**City of Odem**  
**Reconciliation of the Balance Sheet - Governmental to the Governmental Activities -**  
**Statement of Net Position**  
**As of September 30, 2021**

**EXHIBIT C-2**

<b>Total Fund Balances - Governmental Funds</b>	\$	1,355,430
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Amounts Reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in governmental funds:

Capital Assets Not Being Depreciated	196,875	
Capital Assets Being Depreciated	8,711,557	
Accumulated Depreciation	<u>(7,750,670)</u>	
Total Capital Assets, Net		1,157,762

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities at the fund level.

Compensated Absences Payable	(31,489)	
Debt Service - Due Within One Year	(67,681)	
Debt Service - Due in More Than One Year	<u>(193,358)</u>	
Total Long-Term Liabilities		(292,528)

Some receivables are reported as deferred inflows of resources at the governmental level, and therefore are not reported in governmental funds.

Deferred Resource Inflow - Property Taxes	<u>-</u>	
Total Deferred Inflows of Resources		-

Interest on long-term debt is not accrued in the governmental funds, but is recognized as an expenditure in the funds.

Accrued Interest Payable	<u>(947)</u>	
Total Accrued Interest		(947)

Included in the noncurrent liabilities is the recognition of the City's net pension liability required by GASB Statement No. 68, a deferred resource outflow and a deferred resource inflow. This resulted in a decrease in net position.

Net Pension Liability	(125,155)	
Deferred Outflow related to Pension Plan	29,298	
Deferred Inflow related to Pension Plan	(14,754)	
		(110,611)

Included in the noncurrent liabilities is the recognition of the City's net OPEB liability required by GASB Statement No. 75, a deferred resource outflow and a deferred resource inflow. This resulted in a decrease in net position.

Net OPEB Liability	(66,480)	
Deferred Outflow related to OPEB	6,470	
Deferred Inflow related to OPEB	<u>(610)</u>	
		(60,620)

<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>2,048,486</u></b>
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**City of Odem**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds**  
**For The Year Ended September 30, 2021**

EXHIBIT C-3

		<u>Major Governmental Funds</u>		Nonmajor	Total Governmental
		General Fund	Municipal Court Fund	Governmental Funds	Funds
<b>REVENUES:</b>					
5110	Property Taxes	\$ 634,469	\$ -	\$ 132,508	\$ 766,977
5120	General Sales and Use Taxes	235,288	-	117,644	352,931
5170	Franchise Tax	74,576	-	-	74,576
5190	Penalty and Interest on Taxes	20,318	-	-	20,318
5200	Licenses and Permits	73,703	-	-	73,703
5300	Intergovernmental Revenue and Grants	292,387	-	-	292,387
5400	Charges for Services	39,984	-	-	39,984
5510	Fines	3,110	479,861	-	482,971
5610	Investment Earnings	1,656	-	154	1,810
5700	Other Revenue	38,591	-	174,010	212,601
	<b>TOTAL REVENUES</b>	<b>1,414,081</b>	<b>479,861</b>	<b>424,316</b>	<b>2,318,258</b>
<b>EXPENDITURES:</b>					
100	General Government	800,518	12,902	-	813,420
120	Judicial	-	-	-	-
200	Public Safety	1,087,334	-	6,200	1,093,534
310	Highway and Streets	215,555	-	-	215,555
500	Culture and Recreation	58,992	-	-	58,992
710	Principal on Debt	84,776	-	-	84,776
720	Interest on Debt	7,918	-	-	7,918
	<b>TOTAL EXPENDITURES</b>	<b>2,255,093</b>	<b>12,902</b>	<b>6,200</b>	<b>2,274,194</b>
	Excess(Deficiency) of Revenues Over(Under) Expenditures	(841,012)	466,959	418,116	44,064
<b>OTHER FINANCING SOURCES (USES)</b>					
7913	Proceeds from Right-to-Use Leases	253,096	-	-	253,096
7915	Transfers In	563,261	-	-	563,261
8911	Transfers Out	(151,907)	(308,045)	(249,655)	(709,607)
	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>664,450</b>	<b>(308,045)</b>	<b>(249,655)</b>	<b>106,750</b>
	Net Change in Fund Balances	(176,562)	158,915	168,461	150,813
3600	Fund Balance - Beginning	893,181	77,929	233,507	1,204,617
3900	Fund Balance - Ending	<b>\$ 716,619</b>	<b>\$ 236,844</b>	<b>\$ 401,968</b>	<b>\$ 1,355,430</b>

City of Odem

EXHIBIT C-4

Reconciliation of the Balance Sheet - Governmental to the Governmental Activities - Statement of Net Position

For the Year Ended September 30, 2021

<b>Total Net Change in Fund Balances - Governmental Funds</b>		\$	150,813
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>			
	Additions to Capital Assets	612,313	
	Depreciation of Capital Assets	<u>(325,670)</u>	286,643
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>			
	Principal Repayment	84,776	
	Acquisition of Debt	(253,096)	
	Compensated Absences	<u>(31,489)</u>	(199,809)
<p>Interest on long-term debt is not accrued in the governmental funds, but it is recognized as an expenditure at the fund level.</p>			
	Accrued Interest Payable	<u>947</u>	947
<p>GASB 68 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expensed and recorded as a reduction in net pension liability. Finally, the proportionate share of pension expense on the plan as a whole has to be recorded.</p>			
	Net Pension Liability	(6,593)	
	Deferred Outflow related to Pension Plan	29,298	
	Deferred Inflow related to Pension Plan	<u>(14,754)</u>	7,951
<p>GASB 75 requires certain plan expenditures to be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position. Contributions made before the measurement date and during the previous fiscal year were expensed and recorded as a reduction in net OPEB liability. Finally, the proportionate share of OPEB expense on the plan as a whole has to be recorded.</p>			
	Net OPEB Liability	(10,760)	
	Deferred Outflow related to OPEB	6,470	
	Deferred Inflow related to OPEB	<u>(610)</u>	(4,900)
Change in Net Position of Governmental Activities		<u>\$</u>	241,646

City of Odem  
Statement of Net Position - Proprietary Funds  
As of September 30, 2021

	Water & Sewer	Garbage	Total
<b>ASSETS:</b>			
1010 Cash and Cash Equivalents	\$ -	\$ -	-
1030 Investments - Current	337,120	144,480	481,600
1150 Accounts Receivable, Net	104,438	44,487	148,925
1300 Due from Other Funds	-	-	-
1791 Capital Assets Not Being Depreciated	854,650	68,806	923,456
1792 Capital Assets Being Depreciated	11,653,579	26,517	11,680,096
1780 Accumulated Depreciation	(5,999,484)	(71,293)	(6,070,778)
<b>TOTAL ASSETS</b>	<b>\$ 6,950,303</b>	<b>\$ 212,996</b>	<b>7,163,300</b>
1992 Deferred Outflow Related to Pension Plan	40,779	-	40,779
1993 Deferred Outflow Related to OPEB	8,405	-	8,405
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>49,184</b>	<b>-</b>	<b>49,184</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>6,999,487</b>	<b>212,996</b>	<b>\$ 7,212,484</b>
<b>LIABILITIES:</b>			
2010 Accounts Payable	14,045	-	14,045
2020 Payroll Liabilities	4,062	-	4,062
2040 Claims and Judgments Payable	82,670	-	82,670
2140 Accrued Interest Payable	917	-	917
2501 Debt Service - Due Within One Year	155,510	-	155,510
2502 Debt Service - Due in More Than One Year	230,897	-	230,897
2580 Net Pension Liability	162,595	-	162,595
2585 Net OPEB Liability	6,080	-	6,080
<b>TOTAL LIABILITIES</b>	<b>656,776</b>	<b>-</b>	<b>656,776</b>
2602 Deferred Inflow Related to Pension Plan	19,168	-	19,168
2603 Deferred Inflow Related to OPEB	792	-	792
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 19,960</b>	<b>\$ -</b>	<b>\$ 19,960</b>
<b>FUND BALANCES:</b>			
4001 Net Investment in Capital Assets	6,122,338	24,030	6,146,368
3890 Unrestricted	200,413	188,966	389,380
<b>TOTAL FUND BALANCES</b>	<b>6,322,751</b>	<b>212,996</b>	<b>6,535,748</b>
<b>TOTAL LIABILITIES, DEFERRED LIABILITIES &amp; FUND BALANCES</b>	<b>\$ 6,999,487</b>	<b>\$ 212,996</b>	<b>\$ 7,212,484</b>

City of Odem  
Statement of Revenues, Expenditures, and Changes in Net Position - Proprietary Funds  
As of September 30, 2021

	Water & Sewer	Garbage	TOTAL ALL FUNDS
<b>REVENUES:</b>			
5400 Charges for Services	1,281,660	469,014	1,750,673
5610 Investment Earnings	1,127	483	1,609
5700 Other Revenue	1,422	48,969	50,391
TOTAL REVENUES	\$ 1,284,209	\$ 518,465	1,802,674
<b>EXPENDITURES:</b>			
6100 Personnel Services - Salaries and Wages	204,308	-	204,308
6200 Personnel Services - Employee Benefits	29,678	-	29,678
6300 Purchased Professional & Technical Services	43,491	373,351	416,842
6500 Other Operating Costs	821,961	38,591	860,552
6800 Depreciation	280,693	2,202	282,895
TOTAL EXPENDITURES	\$ 1,380,130	\$ 414,144	1,794,274
Excess(Deficiency) of Revenues Over(Under)			-
Expenditures	\$ (95,922)	\$ 104,321	8,400
7958 Nonoperating Transfers In(Out)	158,900	-	158,900
8911 Transfers Out	(12,554)	-	(12,554)
8952 Interest Expense - Nonoperating	(10,170)	-	(10,170)
8953 Bond Issuance Cost	(599)	-	(599)
TOTAL OTHER FINANCING SOURCES (USES)	135,577	-	135,577
Change in Net Position	\$ 39,655	\$ 104,321	\$ 143,976
3900 Net Position - Beginning	6,270,368	108,675	\$ 6,379,043
3700 Prior Period Adjustment	12,728	-	12,728
3900 Net Position - Ending	\$ 6,322,751	\$ 212,996	6,535,748

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## **NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies**

The financial statements of the City of Odem (the City) have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted body for establishing governmental accounting and financial reporting standards. The following is a summary of significant accounting policies of the City.

**1. Reporting Entity**

The City of Odem, Texas was incorporated in 1933 and operates under a Council – Secretary form of government. The City provides the following services under its charter: Public Safety – Police and Fire, Highways and Streets, Sanitation, Recreation and Parks, Water and Sewer, Health and Welfare and General Administrative Services. The accounting policies of the City of Odem, Texas (the City) conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant policies.

In the evaluation of how to define the City for financial reporting purposes, management 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 No. 14, The Financial Reporting Entity, as amended. The underlying concept of the Statement is improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

The financial reporting entity consists of: (a) the primary government (in these financial statements the primary government is the City), (b) component units, which are legally separate organizations for which the City is financially accountable or the services rendered by the component unit are provided entirely or almost entirely to the City (blended), (c) component units, which are fiduciary in nature such as certain public employee retirement systems or pension trust funds with the City (fiduciary), and (d) component units, for which the City is financially accountable or the nature and significance of their relationship with the City is such that exclusion from the reporting entity's financial statements would be misleading or incomplete (discretely presented).

Using the criteria of GASB Statement No. 14, as amended and outlined below, potential component units were evaluated for inclusion in or exclusion from the reporting entity, whether the organizations were financially accountable or not, and were further evaluated for financial statement presentation. Based on their individual relationships with the City, one component unit financial statements were blended as though they are part of the City and one was discretely presented.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* – an amendment of GASB Statement No. 14 was issued in January 2016, and it established an additional criterion for determining whether or not a potential component unit should be blended. If a component unit is a not-for-profit corporation in which the primary government is the sole corporate member as identified in the corporation's articles of incorporation or bylaws, the component unit's financial statements are to be blended.

The following criteria (as set forth in GASB Statement No. 14, as amended) were used in the evaluation of potential component units of the City:

- i. Legally separate
- ii. Financial accountability
  - a. Appointment of a voting majority.
  - b. Imposition of will.
  - c. Financial benefit to or burden on the City.
  - d. Fiscal dependency with financial benefit to or burden on the City.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

- iii. The relationship with the City is such that exclusion would cause these financial statements to be misleading or incomplete.
- iv. Service rendered by the potential component unit is provided entirely or almost entirely to the City.
- v. The City or its component units are entitled to or have the ability to access the majority of the resources received or held by the separate organization.

The criteria outlined above page were excerpted from GASB Statement No. 14, as amended. Predicated upon the application of the criteria outlined above, the following is a brief overview of component units included in the reporting entity.

**2. Blended Component Units**

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, as amended, for inclusion in the reporting entity and are such that the financial statements are blended with those of the City.

Following is a brief description of the City's blended component units:

Odem Public Library Board

The Odem Public Library Board assists in selecting books and materials for the community, remains sensitive to and continues to work for a positive environment and atmosphere for the interior and exterior of the library, explores possibilities for grants, and keeps the public informed of library holdings. The Odem Public Library Board is presented as a special revenue fund.

**3. Discretely Presented Component Units**

The relationships among the following component units and the City meet the criteria, as set forth in GASB Statement No. 14, as amended, for inclusion in the reporting entity as discretely presented component units.

Odem Development Corporation

This Corporation, established in February 2003, is operating to assist in projects for the City of Odem, Texas. Amounts collected in sales tax under Section 4B of the Development Corporation Act of 1979 are used exclusively for legally approved projects.

**4. Basic Financial Statements – GASB Statement No. 34**

*a. Government-Wide and Fund Financial Statements*

The basic financial statements include three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements report information on all non-fiduciary activities of the primary government and its component units. MD&A introduces the basic financial statements and provides an analytical overview of the City's financial activities. Additionally, the effect of interfund activity has been removed from the statements.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

***b. Statement of Net Position***

Reflects both short-term and long-term assets and liabilities as well as deferred inflows and outflows of resources. In the government-wide Statement of Net Position, governmental activities are reported separately from business-type activities. Governmental activities are supported by taxes and intergovernmental revenues, whereas business-type activities are normally supported by user fees and charges for services. Long-term assets, such as capital assets, long-term obligations, such as debt, and any deferred inflows and outflows of resources are now reported in the governmental activities. The components of Net Position are presented in three separate categories: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Interfund receivables and payables within governmental and business-type activities have been eliminated in the government-wide Statement of Net Position, which minimizes the duplication within the governmental and business-type activities. Discretely presented component units are also reported in the Statement of Net Position.

***c. Statement of Activities***

Reflects both the gross and net expense format. The net expense (by function or business-type activity) is usually covered by general revenues (property tax, sales and use tax, revenues from utilities, etc.). Direct (gross) expenses of a given function or segment are offset by charges for services, operating and capital grants and contributions. Program revenues must be directly associated with the function of program activity. The presentation allows users to determine which functions are self-supporting and which rely on the tax base in order to complete their mission. Internal Service Fund balances, whether positive or negative, have been eliminated against the expenses and program revenues shown in the governmental and business-type activities of the Statement of Activities. The net amount of interfund transfers between governmental and proprietary funds is the balance reported in the Statement of Activities.

**5. Fund Accounting**

A reconciliation detailing the change in net position between the government-wide financial statements and the fund financial statements is presented separately for governmental funds. In order to achieve a break-even result in the Internal Service Fund activity, differences in the basis of accounting and reclassifications are allocated back to user departments. These allocations are reflected in the government-wide statements. Any residual amounts of the Internal Service Funds are reported in the governmental activity column. The proprietary funds have a reconciliation presented in the proprietary funds' Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position related to the Internal Service Fund allocation.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets and other debits, liabilities, fund balances and other credits, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the proceeds of revenue sources, those proceeds' restrictions or commitments for which they are to be spent and the means by which spending activities are controlled.

The City has three types of funds: governmental, proprietary, and fiduciary. The fund financial statements provide more detailed information about the City's most significant funds but not about the City as a whole. Major governmental and enterprise funds are reported separately in the fund financial statements. Nonmajor funds are aggregated in the fund financial statements and independently presented in the combining statements.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

The criteria used to determine if a governmental or enterprise fund should be reported as a major fund are as follows: the total assets and deferred outflows of resources, the total liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10.0% of the corresponding element total for all funds of that category or type (that is, total governmental or total enterprise funds), and the same element that met the 10.0% criterion above in the governmental or enterprise fund is at least 5.0% of the corresponding element total for all governmental and enterprise funds combined.

The following is a brief description of the major governmental funds that are separately presented in the fund financial statements:

- General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.
- Municipal Court Fund – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

The following is a brief description of the major enterprise funds that are separately presented in the fund financial statements:

- Proprietary Fund - The fund accounts for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are a determination of net income, financial position and cash flow. All assets and liabilities are included in the Statement of Net Position.

**a. Governmental Funds**

**i. General Fund**

The primary operating fund for the City, which accounts for and reports all financial resources of the general government not accounted for and reported in another fund.

**ii. Special Revenue Funds**

Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service and capital projects. The specific revenue sources are the foundation for the fund's designation and are expected to continue to comprise a substantial portion of the inflows reported in the fund. If the fund no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources, the fund's remaining resources and activities are reported in the General Fund.

**iii. Debt Service Fund**

Used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest as well as financial resources that are being accumulated for principal and interest maturing in future years.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

*iv. Capital Projects Fund*

Used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets, except those financed by enterprise funds.

*b. Proprietary Funds*

*i. Enterprise Funds*

Used to account for and report operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the expenses (including depreciation) of providing goods or services to the general public on a continuing basis should be financed or recovered primarily through user charges.

**6. Measurement Focus and Basis of Accounting**

The government-wide financial statements present information about the City as a whole. Government-wide financial statements exclude both fiduciary funds and fiduciary component units. The Statement of Net Position and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City recognizes revenue from property taxes in the period for which they were levied. Other taxes and fees are recognized as revenue in the year they are earned. Revenues from grants and similar items are recognized in the fiscal year the qualifying expenditures are made and all other eligibility requirements have been satisfied.

Program revenues are presented in the government-wide Statement of Activities. The City reports program revenues in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. They are presented separately as a reduction of the total expense to arrive at the net expense of each functional activity. Program revenues are revenues generated by charges to those who purchase, use, or directly benefit from a program. They also include amounts such as grants and contributions received from outside parties that restrict the use of those resources to specific programs.

- a. Charges for services are revenues generated by those who purchase goods or services from the City.
- b. Operating grants and contributions are those revenues that are restricted in the way they may be spent for operations of a particular program.
- c. Capital grants and contributions are also restricted revenues whose resources may only be spent to purchase, build, or use capital assets for specified programs.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that principally only current assets and current liabilities are included in their balance sheets, and revenues are recognized in the accounting period in which they become available and measurable. Available means collectible within the current period, or soon enough thereafter, to be used to pay liabilities of the current period.

Revenues from property taxes, sales and use taxes, occupancy taxes, gross receipts taxes, municipal court fines and fees, licenses, revenues from utilities, and investment earnings are susceptible to accrual. The City's availability period is no more than 60 days beyond the end of the fiscal year. Grant revenues are recognized when reimbursable expenditures are made, all other eligibility requirements imposed by the provider have been met, and the City receives reimbursement within 60 days of the fiscal year-end. Grant funds received in advance are recorded as unearned revenue until earned and available.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

Gross receipts and sales and use taxes are considered available when received by intermediary collecting governments and are recognized at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable, and their validity seems certain.

Expenditures are recognized in the accounting period in which the fund liability is incurred; however, accrued leave, debt service expenditures, claims and judgments, pension, and postemployment obligations, are recorded only when the liability is matured.

The reported fund balance for each fund is considered a measure of current financial resources. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of current financial resources during the period.

Special reporting treatments are applied to governmental fund materials and supplies, prepaid expenditures, and deposits to indicate that they do not represent current financial resources, since they do not represent spendable assets. Such amounts are generally offset by fund balance nonspendable accounts.

Proprietary, and governmental and business-type activities are accounted for using the accrual basis of accounting. Their revenues/additions are recognized when they are earned, and their expenses/deductions and related liabilities, including claims, judgments, and accrued leave, are recognized when they are incurred. These funds are accounted for on a cost of services or economic resources measurement focus. Consequently, all assets and all liabilities (whether current or noncurrent), as well as deferred inflows and outflows of resources associated with its activity, are included in their Statement of Net Position. The reported proprietary fund net position is segregated into three components: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Proprietary funds report both operating and nonoperating revenues and expenses in the Statement of Revenues, Expenses, and Changes in Net Position. The City defines operating revenues as those receipts generated by a specified program offering either goods or services. For example, parking garage and surface lot charges are operating revenues of the Parking System. This definition is consistent with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include personal services, contractual services, commodities, other expenses (such as insurance), and depreciation on capital assets. Revenues and expenses not fitting the above definitions are considered nonoperating.

**7. GASB Statement Implementations**

***a. Current Year Statements***

- i. GASB Statement No. 84, *Fiduciary Activities*, establishes a criterion for identifying activities of all state and local governments. The focus of the of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangement that are fiduciary activities. 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. This statement was adopted in the current year. The implementation of this Statement did not affect the City's financial statements.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

- ii. GASB Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61, improves the consistency and comparability of reporting a government’s majority equity interests in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interests and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interests meets the definition of an investment. A majority equity interest meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The implementation of this Statement did not affect the City’s financial statements.
- iii. GASB Statement No. 87, Leases – The Objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The implementation of this Statement has been reflected in the City’s financial statements.
- iv. GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The City evaluated all SBITAs and has made the necessary adjustments to the financial statements. The implementation of this Statement has been reflected in the City’s financial statements.

***b. Future Year Statements***

- i. Applicable provisions of GASB Statement No. 99, *Omnibus 2022*, the primary objective of this Statement is to enhance comparability in accounting and financial reporting and improve consistency of authoritative literature by addressing (1) practice issues from implementation and application of certain other GASB statements and (2) accounting and financial reporting for financial guarantees. Amongst other things, this Statement clarifies GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to determining public-private and public- public

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

partnership terms and the recognition and measurement of installment payments and transfer of the underlying asset. This Statement also provides clarification on GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the term, term classification, and the recognition and measurement of the liability. Refer below to GASB Statement No. 99, *Omnibus 2022* for the remaining provisions of this statement.

- ii. GASB Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement 62, the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for decision making and assessing accountability. Accounting changes in this Statement are defined as, changes in accounting principles, estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature and quantitative effects. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023. The City will assess and implement this Statement where applicable in fiscal year 2024.
- iii. GASB Statement No. 101, *Compensated Absences*, the primary objective of this Statement is to meet the information needs of financial statement users by updating recognition and measurement guidance for compensated absences. That is achieved by aligning the recognition and measurement guidance under a unified model and amending certain previous required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave that is accumulated is carried forward from the reporting period to a future reporting period in which it may be used, paid, or settled. Leave that is likely to be settled through conversion to defined benefit postemployment benefits should not be included in liability for compensated absences. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. The Statement establishes guidance for liability measurement, generally this is the pay rate of the employee as of date of the financial statements. This Statement amends the existing requirement to disclose the gross increases and decreases in liability for compensated absences to allow governments to disclose only the net change in the liability. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. The City will assess and implement this Statement where applicable in the fiscal year 2025.

The City has not fully determined the effects that implementation of these statements will have on its financial statements.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**8. Cash and Cash Equivalents and Investments**

The City's investment practices are governed by state statutes and by the City's own Investment Policy. City cash is required to be deposited in Federal Deposit Insurance Corporation (FDIC) insured banks located within the State of Texas. A pooled cash and investment strategy is utilized, which enables the City to have one central depository. Investments are pooled into two primary categories: operating funds and debt service funds. The balances in these funds are invested in an aggregate or pooled amount, with principal and interest income distributed to each respective fund on a prorated basis. In addition, the City may purchase certain investments with the available balance of a specific fund for the sole benefit of such a fund. The fair value of the City's investments is determined by quoted market prices and valuations using interest rate curves and credit spreads applied to the terms of the debt instrument, while also considering the counterparty rating. The City's policy with respect to money market investments, which have a remaining maturity of one year or less at the time of purchase, is to report those investments at amortized cost, which approximates fair value. Amortization of premium or accretion of discount is recorded over the term of the investments. As of September 30, 2021, the City's investment portfolio did not contain any derivative instruments or alternative investment products, nor was it leveraged in any way.

**9. Materials, Supplies, and Prepaid Items**

Materials and supplies consist principally of expendable items held for consumption and are stated at cost, based on first-in, first-out and lower of average cost or market methods. For governmental and proprietary fund types, the "consumption" method is used to account for certain materials and supplies. Under the consumption method, these acquisitions are recorded in materials and supplies accounts and charged as expenditures for governmental funds and as expenses for proprietary funds when used.

Prepaid items are goods and services that are paid in advance. These payments reflect costs applicable to future accounting periods and are recorded in both government-wide and fund financial statements. Using the consumption method, prepaid items are charged as expenditures for governmental funds and as expenses for proprietary funds as the goods or services are used.

**10. Capital Assets and Depreciation**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, works of art, historical treasures, or capital assets received in a service concession agreement are valued at acquisition value. Capital assets recorded under financed purchases are recorded at the present value of future minimum payments. Depreciation on all exhaustible capital assets of the City is charged as an expense with accumulated depreciation being reported in the Statement of Net Position. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The City has established capitalization thresholds for automotive equipment, computer software, computer equipment, machinery and equipment, buildings, improvements, infrastructure, and depreciable intangible (e.g., right of ways, easements, internally generated software). Some intangible assets may have an indefinite life. For those assets, depreciation is not calculated. Capital assets are tested for impairment when a significant unexpected decline in its service utility occurs. Losses are recorded net of any insurance recovery when the recovery is realizable in the respective fiscal year.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

The estimated useful lives and capitalization thresholds applied are as follows:

<u>Asset Description</u>	<u>Useful Life</u>
Buildings & Improvements	30 Years
Infrastructure	20 Years
System Infrastructure	25 Years
Machinery & Equipment	5 Years

The City's lease and SBITA asset threshold is \$5 and are amortized over the lesser of the life of the associated contract or the useful life of the asset.

**11. Accrued Leave**

The City allows employee vacation time at a rate of 80 hours each year after the individual has been employed for one year as of the City's fiscal year end. Additional time is earned for subsequent years of employment. Earned vacation time is required to be used within one year of accrual and cannot be carried over to future periods. Upon termination the City pays employees any accrued vacation time outstanding. As of September 30, 2021, the City has accrued vacation time of \$31,489.

**12. Insurance**

During the year employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$679 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Plan was authorized by Article 3.51-5, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable, and terms of coverage and premium costs are included in the contractual provisions.

The latest financial statements for the insurer are available for the year and have been filed with the Texas State Board of Insurance, Austin, Texas and are public record.

**13. Pensions and Postemployment Benefits (OPEB)**

For purposes of measuring the net pension liability and total and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information (where applicable) about the fiduciary net position of the plans (where applicable) and additions to/deductions from the Plan's fiduciary net position (where applicable) have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**14. Fund Balances**

Fund balances are classified as nonspendable, restricted, committed, assigned, and unassigned based on the extent to which the City is bound to observe constraints imposed on the use of the resources in the governmental funds. The classifications are as follows:

- Nonspendable – The nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaids.
- Restricted – The fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through enabling legislation.
- Committed – The committed fund balance includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council. Those committed amounts cannot be used for other purposes unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Assigned – Amounts in the assigned fund balance are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council, City Manager, Executive Leadership Team, and Department Directors.
- Unassigned – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and does not have a specific purpose. In the governmental funds other than the General Fund, if expenditures incurred exceed the amounts restricted, committed or assigned, the fund may report a negative unassigned fund balance.

Generally, the City would apply restricted, committed, or assigned resources prior to unassigned resources when an expenditure is incurred for purposes for which more than one of the classifications of fund balance is available.

Assets associated with cash and receivables received from restricted sources (grants, bond issuances, legislative items, or other third-party restrictions) as well as associated obligations are categorized as restricted.

**15. Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are amortized over the life of the debt. For current refunding and advance refunding of debt resulting in defeasance of debt, the difference between the reacquisition price and the carrying amount of the old debt are deferred as a deferred outflow of resources or deferred inflow of resources and amortized over the shorter of the life of the old debt or the life of the new debt. The reacquisition price differentiates between current and advance refunding. Per GASB Statement 65, Items Previously Reported as Assets and Liabilities, in a current refunding, this includes principal of the old debt and any call premium. In an advance refunding, it is the amount placed in escrow that, together with interest earnings, is necessary to pay interest and principal on the old debt and any call premium.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the period of issuance. 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 are reported as other financing uses.

**16. Elimination of Internal Activity**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” within the fund financial statements. Long-term borrowings between funds are classified as “advances to other funds” or “advances from other funds” in the fund financial statements. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any residual balance outstanding between the governmental and business-type activities at the end of the fiscal year, which are reported in the government-wide financial statements as internal balances.

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other as transfers. Transfers between governmental or business-type funds are netted as part of the reconciliation to the government-wide presentation.

**17. Use of Estimates**

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

**18. Application of Restricted and Unrestricted Net Position**

The City may receive funding from an organization whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted net position are expended to cover allowable expenses, the City will first expend the restricted net position and cover additional costs with unrestricted net position. The City reserves the right to selectively defer the use of restricted assets or reimburse unrestricted net position with allowable restricted assets.

**A. Property Taxes**

Property taxes are levied and due upon receipt on October 1, based on the assessed value of the previous January 1. The taxes are attached as an enforceable lien on property as of January 1 of the subsequent year and become delinquent the following February 1. Property tax billing and collections are performed via an interlocal agreement with the San Patricio County Tax Assessor/Collector's Office. The City recognizes assets for property taxes when an enforceable legal claim to the assets arises (lien date) and recognizes revenues in the period for which the taxes are levied.

The City is permitted by the Municipal Finance Law of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable valuation. The tax rate approved by City ordinance for the fiscal year-ended September 30, 2021, was \$0.74984 per \$100 taxable valuation.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**B. Cash and Cash Equivalents**

As of September 30, 2021, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,858,437 and the bank balance was \$920,192. The City's cash deposits as of September 30, 2021, and during the period ended September 30, 2021, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined on the date of highest deposit:

1. Name of Bank: First State Bank of Odem
2. The amount of FDIC coverage at the time of the largest combined balance was \$500,000.

Totals from Statement of Net Position

A summary of cash and cash equivalents and investments is presented below as of each entity's respective fiscal year-end. This information is provided in order to facilitate reconciliation between the Statement of Net Position and the following note disclosures:

Summary of Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows represent demand accounts and petty cash. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools with three months maturity or less are recorded as investments and are not treated as cash or cash equivalents.

**C. Investments**

Summary of Investments

The City's investment portfolio is managed in accordance with the Texas Public Funds Investment Act, as amended, and its own Investment Policy. Authorized investments include demand accounts, certificates of deposit, obligations of the U.S. Treasury and U.S. government agencies, commercial paper, repurchase agreements, money market mutual funds and government investment pools.

As of September 30, 2021, the City had the following investments:

Custodial Credit Risk (Deposits) – Collateral pledged for demand accounts and certificates of deposit is required to be held in the City's name in the custody of a third-party institution that customarily provides such custodial services at 102.0% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the U.S. government and its agencies and obligations of the State and its municipalities, school districts, and district corporations.

Custodial Credit Risk (Investments) – The City's investment securities are held at the City's depository bank's third-party custodian in the depository bank's name as a custodian for the City. Assets pledged as collateral must generally be a type of security specifically authorized to be held as a direct investment; must be held by an independent third party; and must be pledged in the name of the City.

Interest Rate Risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments; the City requires that the investments be monitored by using specific identification.

Foreign Currency Risk for Investments - To limit the risk that changes in interest rates will adversely affect the fair value of investments; the City requires that the investments be monitored by using specific identification.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Investments (Continued)**

Fair Value Measurement – The City records assets and liabilities in accordance with GASB Statement No. 72, Fair Value Measurement and Application, which determines fair value and establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined by GASB Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value into three broad levels:

Level 1 - inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities are examples of Level 1 inputs.

Level 2 - inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and U.S. Government Treasury securities are examples of Level 2 inputs.

Level 3 - inputs are unobservable inputs that reflect the entity's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

**D. Capital Assets**

Capital asset activity for governmental activities for the year-ended September 30, 2021, is as follows:

Governmental Activities	Balance 9/30/2020	Additions	Retirements/ Reclassifications	Balance 9/30/2021
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 196,875	\$ -	\$ -	\$ 196,875
Total Capital Assets Not Being Depreciated	196,875	-	-	196,875
<b>Capital Assets Being Depreciated</b>				
Buildings & Improvements	1,486,889	15,118	-	1,502,007
Machinery & Equipment	1,972,009	462,840	-	2,434,849
Infrastructure	4,453,145	-	-	4,453,145
Right of Use Assets	-	321,557	-	321,557
Total Capital Assets Being Depreciated	7,912,043	799,514	-	8,711,557
Less: Accumulated Depreciation	(7,425,000)	(325,670)		(7,750,670)
Total Capital Assets Being Depreciated, Net	487,043	473,843	-	960,886
Total Capital Assets, Net	\$ 683,918	\$ 473,843	\$ -	\$ 1,157,761

As of September 30, 2021, the City's depreciation expense was charged to the functions listed below as follows:

<u>Governmental Activities</u>	
General Administration	\$ 121,433
Public Safety	163,251
Highways and Streets	32,180
Culture and Recreation	8,807
Total depreciation - governmental activities	\$ 325,670

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Capital Assets (Continued)**

Capital asset activity for business-type activities for the year-ended September 30, 2021, is as follows:

<u>Business-Type Activities</u>	Balance 9/30/2020	Additions	Retirements/ Reclassifications	Balance 9/30/2021
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 863,917	\$ -	\$ -	\$ 863,917
Total Capital Assets Not Being Depreciated	863,917	-	-	863,917
<b>Capital Assets Being Depreciated</b>				
Buildings & Improvements	241,174	-	-	241,174
Sewer System	7,542,761	33,290	-	7,576,051
Water System	3,115,087	25,520	-	3,140,607
Furniture & Equipment	763,263	-	-	763,263
Right of Use Assets	-	18,540	-	18,540
Total Capital Assets Being Depreciated	11,662,285	77,350	-	11,739,636
Less: Accumulated Depreciation	(5,752,201)	(318,577)	-	(6,070,778)
Total Capital Assets Being Depreciated, Net	5,910,085	(241,227)	-	5,668,858
 Total Capital Assets, Net	 \$ 6,774,002	 \$ (241,227)	 \$ -	 \$ 6,532,775

As of September 30, 2021, the City's depreciation expense was charged to the functions listed below as follows:

<u>Business-Type Activities</u>	
Water System	\$ 57,085
Sewer System	206,411
Building & Improvements	7,303
Machinery & Equipment	47,778
Total depreciation - business-type activities	\$ 318,577

**E. Receivables and Payables**

Net receivables as of September 30, 2021, are as follows:

<u>Description</u>	<u>Primary Government</u>			
	<u>Governmental Activities</u>			<u>Business-Type</u>
	General Fund	Debt Service Fund	Total	Enterprise Fund
Property taxes	\$ 103,532	\$ 21,444	\$ 124,976	\$ -
Sales taxes	87,054	-	87,054	-
Trade	-	-	-	245,748
Other receivables	72,932	-	72,932	-
Gross receivables	263,518	21,444	284,962	245,748
Less: Allowance for Uncollectibles	(5,177)	(1,072)	(6,249)	(96,823)
Receivables, Net	\$ 258,341	\$ 20,372	\$ 278,713	\$ 148,925

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Receivables and Payables (Continued)**

Net payables as of September 30, 2021, are as follows:

Description	Primary Government			
	Governmental Activities			Business-Type
	General Fund	Municipal Court Fund	Total	Enterprise Fund
Accounts Payable	\$ 36,929	\$ -	\$ 36,929	\$ 14,045
Payroll Liabilities	12,840	-	12,840	4,062
Due to Others	-	36,929	36,929	-
Other Payables	-	-	-	82,670
<b>Total Payables</b>	<b>\$ 49,768</b>	<b>\$ 36,929</b>	<b>\$ 86,697</b>	<b>\$ 100,777</b>

**F. Interfund Receivable and Payable Balances**

The following is a summary of interfund receivables and payables for the City as of September 30, 2021:

Description	Due From Other Funds	Due To Other Funds
<b>General Fund:</b>		
Street Maintenance Fund	\$ -	\$ 21,764
Debt Service	-	132,508
Component Unit	-	21,763
<b>Total General Fund</b>	<b>-</b>	<b>176,035</b>
<b>Street Maintenance Fund:</b>		
General Fund	21,764	-
<b>Total Street Maintenance Fund</b>	<b>21,764</b>	<b>-</b>
<b>Debt Service Fund:</b>		
General Fund	132,508	-
<b>Total Debt Service Fund</b>	<b>132,508</b>	<b>-</b>
<b>Total Governmental Activities</b>	<b>154,272</b>	<b>176,035</b>
<b>Component Unit:</b>		
General Fund	21,763	-
<b>Total Component Unit</b>	<b>21,763</b>	<b>-</b>
<b>Total Interfund Receivables and Payables</b>	<b>\$ 176,035</b>	<b>\$ 176,035</b>

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**G. Deferred Outflows and Inflows of Resources**

The deferred outflows of resources related to pension expense include: differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) in the measurement of total pension liability; differences between projected and actual earnings on pension plan investments; changes in assumptions and contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period.

The differences between expected and actual experience are recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period. The portion not recognized in pension expense is reported as deferred outflows of resources.

The differences between projected and actual earnings on pension plan investments are recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in pension expense is reported as deferred outflows of resources.

The deferred outflows of resources related to OPEB expense are contributions to the OPEB plan from the employer subsequent to the measurement date of the net OPEB liability and before the end of the reporting period. The deferred inflows of resources related to OPEB include differences between expected and actual experiences and certain changes in assumptions. Amounts reported as deferred outflows of resources and deferred inflow of resources will be recognized in OPEB expense beginning in the current period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active and inactive employees) as of the beginning of the measurement period.

**H. Long-Term Obligations**

As of September 30, 2021, the City's governmental long-term debt obligations currently outstanding are summarized by the following table:

<b>Governmental Activities</b>	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance 10/1/2020	Increase	Decrease	Balance 9/30/2021	Due in One Year
<i>Leases Payable</i>								
Toshiba Financial Services - Printer	3.00%	\$ 17,469	12/18/2023	\$ 11,132	\$ -	\$ (3,312)	\$ 7,820	\$ 3,411
First Capital Equipment - Police Vehicles	4.53%	114,427	10/16/2023	73,532	-	(22,757)	50,775	23,788
First Capital Equipment - Street Sweeper	4.53%	154,131	10/19/2026	147,163	-	(21,553)	125,610	22,529
First Capital Equipment - Equipment	4.53%	94,009	9/21/2025	-	94,009	(17,174)	76,834	17,952
<i>Total Leases Payable</i>		380,036		231,827	94,009	(64,796)	261,039	67,681
<i>Other Debt Obligations</i>								
Net Pension Liability				122,287	2,868	-	125,155	-
Net OPEB Liability				56,622	9,858	-	66,480	-
Compensated Absences				-	31,489	-	31,489	-
<i>Total Other Debt Obligations</i>				178,909	44,215	-	223,124	-
<b>Total Governmental Activities</b>				<b>\$ 410,736</b>	<b>\$ 138,223</b>	<b>\$ (64,796)</b>	<b>\$ 484,163</b>	<b>\$ 67,681</b>

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Long-Term Obligations (Continued)**

The annual debt service requirements to maturity for governmental activities long-term debt obligations are as follows:

Year Ending September 30,	Governmental Activities		
	Total Leases Payable		Total
	Principal	Interest	Requirements
2022	\$ 67,681	\$ 11,362	\$ 79,043
2023	70,694	5,315	76,009
2024	47,237	4,253	51,490
2025	46,235	2,235	48,471
2026	26,897	651	27,548
2027-2031	2,296	-	2,296
	<u>\$ 261,039</u>	<u>\$ 23,817</u>	<u>\$ 284,856</u>

As of September 30, 2021, the City's business-type long-term debt obligations currently outstanding are summarized by the following table:

<b>Business-Type Activities</b>	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance 10/1/2020	Increase	Decrease	Balance 9/30/2021	Due in One Year
<i>Bonds Payable</i>								
Series 2007, Tax and Lien Revenue	4.69-5.74%	\$ 225,000	2/1/2027	130,000	-	(15,000)	115,000	15,000
Series 2013, Refunding Bond	1.80%	1,245,000	8/1/2023	390,000	-	(130,000)	260,000	130,000
<i>Total Bonds Payable</i>		<u>1,470,000</u>		<u>520,000</u>	-	<u>(145,000)</u>	<u>375,000</u>	<u>145,000</u>
<i>Leases Payable</i>								
Ditch Witch Financial Services	3%	48,365	10/27/2022	21,461	-	(10,054)	11,407	10,510
<i>Total Leases Payable</i>		<u>48,365</u>		<u>21,461</u>	-	<u>(10,054)</u>	<u>11,407</u>	<u>10,510</u>
<i>Other Debt Obligations</i>								
Net Pension Liability				158,870	3,725	-	162,595	-
Net OPEB Liability				5,178	902	-	6,080	-
<i>Total Other Debt Obligations</i>				<u>164,048</u>	<u>4,627</u>	<u>-</u>	<u>168,675</u>	<u>-</u>
<b>Total Business-Type Activities</b>				<b>\$ 705,509</b>	<b>\$ 4,627</b>	<b>\$ (155,054)</b>	<b>\$ 555,082</b>	<b>\$ 155,510</b>

The annual debt service requirements to maturity for business-type activities long-term debt obligations are as follows:

Year Ending September 30,	Business-Type Activities					
	Total Bonds Payable		Total Leases Payable		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 145,000	\$ 10,748	\$ 10,510	\$ 254	\$ 155,510	\$ 11,002
2023	150,000	7,446	897	-	150,897	7,446
2024	20,000	3,993	-	-	20,000	3,993
2025	20,000	2,865	-	-	20,000	2,865
2026	20,000	1,722	-	-	20,000	1,722
2027-2031	20,000	574	-	-	20,000	574
	<u>\$ 375,000</u>	<u>\$ 27,348</u>	<u>\$ 11,407</u>	<u>\$ 254</u>	<u>\$ 386,407</u>	<u>\$ 27,602</u>

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**A. Pension and Retirement Plans**

**Plan Description**

The City of Odem participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at [tmrs.com](http://tmrs.com).

**Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as the sum of the Member's contributions, with interest, and the City-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member's contributions and interest.

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

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	10
Active employees	21
Total participants	42

**Contributions**

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

Employees for the City of Odem were required to contribute 6.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Odem were 9.70% and 8.17% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021, were \$63,364 and were equal to the required contributions.

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Pension and Retirement Plans (Continued)**

**Actuarial Assumptions**

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014, to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing 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).

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member 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 Members. 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.

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Pension and Retirement Plans (Continued)**

**Change in Net Pension Liability**

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/19	\$ 1,248,390	\$ 967,233	\$ 281,157
Changes for the year:			
Service cost	75,757		75,757
Interest	83,201		83,201
Change in benefit terms	-		-
Difference between expected/actual experience	30,978		30,978
Changes of assumptions	-		-
Contributions - employer		68,294	(68,294)
Contributions - employee		42,244	(42,244)
Net investment income		73,299	(73,299)
Benefit payments, including refund of employee contributions	(107,326)	(107,326)	-
Administrative expenses		(475)	475
Other changes		(19)	19
Net change	82,610	76,017	6,593
Balance at 12/31/20	\$ 1,331,000	\$ 1,043,250	\$ 287,750

**Sensitivity of Discount Rate**

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

Current Single Discount		
1% Decrease	Rate Assumption	1% Increase
5.75%	6.75%	7.75%
\$418,582	\$287,750	\$176,833

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (net of current year amortization)	\$ 26,423	\$ 4,306
Change in assumptions	-	2,013
Difference in projected and actual earnings	-	27,603
Contributions subsequent to the measurement date	43,654	-
Total Deferred Resources	\$ 70,077	\$ 33,922

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Pension and Retirement Plans (Continued)**

**Pension Expense**

For the year ended September 30, 2021, the City recognized pension expense of \$54,330.

\$43,654 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	Net Deferred Outflows/ (Inflows) of Resources
2021	\$ (3,440)
2022	5,999
2023	(9,137)
2024	(921)
2025	-
Thereafter	-
Total	\$ (7,499)

**B. Other Post Employment Benefits**

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

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

**Employees covered by benefit terms**

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

Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>21</u>
Total participants	31

**Contributions**

Employees for the City of Odem were not required to contribute a percentage of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.36% and 0.46% in the calendar year 2020 and 2021, respectively. The City’s contributions to TMRS for the year ended September 30, 2021, were \$3,189 and were equal to the required contributions.

**CITY OF ODEM  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Other Post Employment Benefits (Continued)**

**Net OPEB Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

Administrative Expenses - All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates – service retirees – 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.

**Discount Rate**

The discount rate used to measure the Total OPEB Liability was 2.00%. 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 OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

**Total OPEB Liability**

	Total OPEB Liability
Balance at 12/31/19	\$ 61,800
Changes for the year:	
Service cost	2,394
Interest	1,721
Change in benefit terms	-
Difference between expected/actual experience	(326)
Changes of assumptions	7,816
Benefit payments	(845)
Net change	10,760
Balance at 12/31/20	\$ 72,560

**Sensitivity of Discount Rate**

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

Current Single Discount		
1% Decrease	Rate Assumption	1% Increase
1.00%	2.00%	3.00%
\$85,435	\$72,560	\$62,394

**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**Other Post Employment Benefits (Continued)**

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience (net of current year amortization)	\$ 718	\$ 488
Change in assumptions	11,699	914
Difference in projected and actual earnings	-	-
Contributions subsequent to the measurement date	2,458	-
Total Deferred Resources	\$ 14,875	\$ 1,402

**OPEB Expense**

For the year ended September 30, 2021, the City recognized OPEB expense in the amount of \$6,945.

\$2,458 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Fiscal Year Ending September 30,	Net Deferred Outflows/ (Inflows) of Resources
2021	\$ 2,830
2022	2,938
2023	2,982
2024	1,910
2025	355
Thereafter	-
Total	\$ 11,015

**C. Commitments and Contingencies**

**Grants**

The City participates in several grant programs funded by State and Federal Agencies. These programs are subject to compliance by the grantor agencies or their representatives. Accordingly, the City's compliance with applicable grant requirements will be established at a future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the city expects such amounts, if any, to be immaterial.

**Litigation**

The City is involved in litigation claims against it from time to time that are generally incidental to its operations. However, it is the opinion of the City's management that the City's liability in those cases that are not covered by liability insurance will not be material to the financial statements for these contingent liabilities. As of September 30, 2021, the City was a defendant in various lawsuits as to which the ultimate resolution and possibility of any unfavorable outcome is not yet determinable. At the present time, the City does not anticipate any material losses as a result of these lawsuits.

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**CITY OF ODEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**D. Risk Management**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2021, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims from these risks have not exceeded coverage in any of the past three fiscal years.

**E. Interfund Transfers**

The following is a summary of interfund transfers in and out for the City as of September 30, 2021:

<b>Governmental Activities:</b>	Transfers In	Transfers Out
General Fund	\$ 563,261	\$ 151,907
Municipal Court Fund	-	308,045
Odem Police Dept Impound Fund	-	227,775
Debt Service Fund	-	21,880
Total Governmental Activities	563,261	709,607
<b>Business-type Activities:</b>		
Water & Sewer Fund	158,900	12,554
Total Business-Type Activities	158,900	12,554
<b>Total Interfund Transfers</b>	<b>\$ 722,161</b>	<b>\$ 722,161</b>

**F. Fund Balance Classifications**

Some fund balance restrictions and commitments have been grouped together under the heading of other or various purposes. The classifications as of September 30, 2021, are summarized as follows:

Restricted:		
Retirement of Long-Term Debt	\$	132,508
Other Restricted		506,303
Unassigned Fund Balance		716,619
Total Fund Balance	\$	1,355,430

**G. Deficits in Fund Balances/Net Position**

As of September 30, 2021, the City did not have any fund balance deficits.

**H. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 6, 2024, and has determined there were no events that would require disclosure.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards, but not considered a part of the basic financial statements.

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**CITY OF ODEM**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL**  
**For the Year Ended September 30, 2021**

	<b>Original Budget</b>	<b>Final Appropriated Budget</b>	<b>Budgetary Basis Actual</b>	<b>Variances Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Property Taxes	\$ 698,000	\$ 698,000	\$ 634,469	(63,531)
General Sales and Use Taxes	391,200	391,200	235,288	(155,912)
Franchise Tax	35,000	35,000	74,576	39,576
Penalty and Interest on Taxes	17,000	17,000	20,318	3,318
Licenses and Permits	12,000	12,000	73,703	61,703
Intergovernmental Revenue and Grants	-	-	292,387	292,387
Charges for Services	70,600	70,600	39,984	(30,616)
Other Revenue	3,400	3,400	43,357	39,957
<b>TOTAL REVENUES</b>	<b>1,227,200</b>	<b>1,227,200</b>	<b>1,414,082</b>	<b>186,882</b>
<b>EXPENDITURES</b>				
General Government	548,766	548,766	800,518	(251,752)
Public Safety	644,380	644,380	1,087,334	(442,954)
Highways and Streets	87,074	87,074	215,555	(128,481)
Culture and Recreation	120,057	120,057	58,992	61,065
Principal on Debt	-	-	84,776	(84,776)
Interest on Debt	-	-	7,918	(7,918)
<b>TOTAL EXPENDITURES</b>	<b>1,400,277</b>	<b>1,400,277</b>	<b>2,255,093</b>	<b>(854,816)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(173,077)</b>	<b>(173,077)</b>	<b>(841,011)</b>	<b>(667,934)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from Right to Use Assets	-	-	253,096	253,096
Transfers In/Out	-	-	411,354	411,354
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>664,450</b>	<b>664,450</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(173,077)</b>	<b>(173,077)</b>	<b>(176,561)</b>	<b>(3,484)</b>
Fund Balance at Beginning of Period	\$ 893,181	\$ 893,181	\$ 893,181	\$ 893,181
Fund Balance at End of Period	<u>\$ 720,104</u>	<u>\$ 720,104</u>	<u>\$ 716,620</u>	<u>\$ (3,484)</u>

CITY OF ODEM  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Plan Year Ended December 31,							
	2020	2019	2018	2017	2016	2015	2014	2013
<b>Total Pension Liability</b>								
Service cost	\$ 75,757	\$ 68,819	\$ 49,947	\$ 47,706	\$ 51,893	\$ 46,604	\$ -	\$ -
Interest (on the total pension liability)	83,201	81,616	78,145	76,798	77,709	73,777	-	-
Changes of benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	30,978	(8,632)	30,457	4,667	(28,249)	40,349	-	-
Change of assumptions	-	(4,037)	-	-	-	32,605	-	-
Benefit payments, including refunds of employee contributions	(107,326)	(128,185)	(104,936)	(115,742)	(109,772)	(87,610)	-	-
<b>Net Change in Total Pension Liability</b>	82,610	9,581	53,613	13,429	(8,419)	105,725	-	-
<b>Total Pension Liability - Beginning</b>	1,248,390	1,238,809	1,185,196	1,171,767	1,180,186	1,074,461	-	-
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,331,000</u>	<u>\$ 1,248,390</u>	<u>\$ 1,238,809</u>	<u>\$ 1,185,196</u>	<u>\$ 1,171,767</u>	<u>\$ 1,180,186</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position</b>								
Contributions - employer	\$ 68,294	\$ 55,740	\$ 37,976	\$ 33,293	\$ 34,163	\$ 32,096	\$ -	\$ -
Contributions - employee	42,244	36,671	26,901	25,810	29,967	27,796	-	-
Net investment income	73,299	134,243	(28,080)	121,162	58,283	1,313	-	-
Benefit payments, including refunds of employee contributions	(107,326)	(128,185)	(104,936)	(115,742)	(109,772)	(87,610)	-	-
Administrative expense	(475)	(760)	(543)	(628)	(658)	(800)	-	-
Other	(19)	(23)	(28)	(32)	(35)	(39)	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	76,017	97,686	(68,710)	63,863	11,948	(27,244)	-	-
<b>Plan Fiduciary Net Position - Beginning</b>	967,234	869,548	938,258	874,395	862,447	889,691	-	-
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 1,043,251</u>	<u>\$ 967,234</u>	<u>\$ 869,548</u>	<u>\$ 938,258</u>	<u>\$ 874,395</u>	<u>\$ 862,447</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 287,749</u>	<u>\$ 281,156</u>	<u>\$ 369,261</u>	<u>\$ 246,938</u>	<u>\$ 297,372</u>	<u>\$ 317,739</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	78.38%	77.48%	70.19%	79.16%	74.62%	73.08%		
<b>Covered Payroll</b>	\$ 704,061	\$ 611,185	\$ 448,355	\$ 430,171	\$ 499,453	\$ 463,259	\$ -	\$ -
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	40.87%	46.00%	82.36%	57.40%	59.54%	68.59%		

CITY OF ODEM  
 SCHEDULE OF PENSION CONTRIBUTIONS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Fiscal Year Ended September 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 63,364	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to actuarially determined contribution	(63,364)	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 737,519	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered payroll	8.59%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

\*Pension Contribution Reports not provided for prior years.

CITY OF ODEM  
NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on 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. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:** There were no benefit changes during the year.

CITY OF ODEM  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Plan Year Ended December 31,				
	2020	2019	2018	2017	2016
<b>Total OPEB Liability</b>					
Service cost	\$ 2,394	\$ 1,834	\$ 3,094	\$ -	\$ -
Interest (on the total OPEB liability)	1,721	1,899	1,604	-	-
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(326)	(360)	2,392	-	-
Change of assumptions	7,816	8,618	(3,044)	-	-
Benefit payments, including refunds of employee contributions	(845)	(917)	(493)	-	-
<b>Net Change in Total OPEB Liability</b>	<u>10,760</u>	<u>11,074</u>	<u>3,553</u>	<u>-</u>	<u>-</u>
<b>Total OPEB Liability - Beginning</b>	<u>61,800</u>	<u>50,726</u>	<u>47,173</u>	<u>-</u>	<u>-</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 72,560</u>	<u>\$ 61,800</u>	<u>\$ 50,726</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Covered Payroll</b>	\$ 704,061	\$ 611,185	\$ 448,355	\$ -	\$ -
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	10.31%	10.11%	11.31%		

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CITY OF ODEM  
NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**Valuation Date:** Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	N/A
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	2.00%
Retirement Age	N/A
Mortality	Service retirees: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. 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.

**Other Information:** There were no benefit changes during the year.

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## **OTHER INFORMATION**

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

Data Control Codes	200 Odem Public Library Fund	202 Odem Jubilee Fund	203 Narcotics Fund	204 Odem Housing Project Fund
<b>ASSETS</b>				
1010 Cash and Cash Equivalents	\$ 12,079	\$ 3,841	\$ 3	\$ 8,169
1050 Taxes Receivable	-	-	-	-
1300 Due from Other Funds	-	-	-	-
1000 Total Assets	<u>\$ 12,079</u>	<u>\$ 3,841</u>	<u>\$ 3</u>	<u>\$ 8,169</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	-	-	-
3490 Other Restricted Fund Balance	12,079	3,841	3	8,169
3000 Total Fund Balances	<u>12,079</u>	<u>3,841</u>	<u>3</u>	<u>8,169</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 12,079</u>	<u>\$ 3,841</u>	<u>\$ 3</u>	<u>\$ 8,169</u>

205 Street Maintenance Account	206 Police Impound Fund	Total Nonmajor Special Revenue Funds	500 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 208,271	\$ 15,332	\$ 247,695	\$ -	\$ 247,695
-	-	-	20,372	20,372
21,764	-	21,764	132,508	154,272
<u>\$ 230,035</u>	<u>\$ 15,332</u>	<u>\$ 269,459</u>	<u>\$ 152,880</u>	<u>\$ 422,339</u>
-	-	-	20,372	20,372
-	-	-	20,372	20,372
-	-	-	132,508	132,508
230,035	15,332	269,459	-	269,459
<u>230,035</u>	<u>15,332</u>	<u>269,459</u>	<u>132,508</u>	<u>401,967</u>
<u>\$ 230,035</u>	<u>\$ 15,332</u>	<u>\$ 269,459</u>	<u>\$ 152,880</u>	<u>\$ 422,339</u>

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

Data Control Codes	200 Odem Public Library Fund	202 Odem Jubilee Fund	203 Narcotics Fund	204 Odem Housing Project Fund
<b>REVENUES:</b>				
Taxes:				
5110 Property Taxes	\$ -	\$ -	\$ -	\$ -
5120 General Sales and Use Taxes	-	-	-	-
5610 Investment Earnings	-	-	-	-
5700 Other Revenue	-	-	-	-
5020 Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>				
0200 Public Safety	-	-	-	-
6030 Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - October 1 (Beginning)	<u>12,079</u>	<u>3,841</u>	<u>3</u>	<u>8,169</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 12,079</u>	<u>\$ 3,841</u>	<u>\$ 3</u>	<u>\$ 8,169</u>

205 Street Maintenance Account	206 Police Impound Fund	Total Nonmajor Special Revenue Funds	500 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 132,508	\$ 132,508
117,644	-	117,644	-	117,644
154	-	154	-	154
<u>1,258</u>	<u>172,752</u>	<u>174,010</u>	<u>-</u>	<u>174,010</u>
<u>119,056</u>	<u>172,752</u>	<u>291,808</u>	<u>132,508</u>	<u>424,316</u>
-	6,200	6,200	-	6,200
-	6,200	6,200	-	6,200
<u>119,056</u>	<u>166,552</u>	<u>285,608</u>	<u>132,508</u>	<u>418,116</u>
-	(227,775)	(227,775)	(21,880)	(249,655)
-	(227,775)	(227,775)	(21,880)	(249,655)
119,056	(61,223)	57,833	110,628	168,461
<u>110,979</u>	<u>76,555</u>	<u>211,626</u>	<u>21,880</u>	<u>233,506</u>
<u>\$ 230,035</u>	<u>\$ 15,332</u>	<u>\$ 269,459</u>	<u>\$ 132,508</u>	<u>\$ 401,967</u>

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# **INTERNAL CONTROL/COMPLIANCE SECTION**

# ADRIAN WEBB, CPA

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**Certified Public Accountant  
Edinburg, Texas**

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

To the City Commission of  
City of Odem, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Odem, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Odem, Texas' basic financial statements and have issued our report thereon dated September 6, 2024.

## **Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items, 2021-001, 2021-002, and 2021-003 to be significant deficiencies.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Odem' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. 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*.

## **City of Odem' Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Odem, Texas' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Odem, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

*Adrian Webb, CPA*

ADRIAN WEBB, CPA  
Certified Public Accountant  
Edinburg, Texas  
September 6, 2024

**CITY OF ODEM, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**I. Summary of the Auditor’s Results:**

- |                                                                                                               |                  |
|---------------------------------------------------------------------------------------------------------------|------------------|
| A. The type of report issued:                                                                                 | Modified opinion |
| B. Internal control over financial statements:<br>Material Weakness(es) identified?                           | Yes              |
| Significant Deficiency(ies) identified which<br>were not considered material weaknesses?                      | No               |
| C. Noncompliance material to the financial statements noted?                                                  | Yes              |
| D. The City did not qualify for a Single Audit as defined by the Uniform Guidance (2 CFR section 200.516(a)). |                  |

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

**2021-01 Controls over Reporting of Financial Information (Material Weakness)**

Criteria:

Texas Local Government Code 103.003 require that the City completes the annual audit within 180 days of the close of the fiscal year.

Condition:

A copy of the annual audit report was not approved by the Board of Commissioners and was not filed by the City with the State before the 180th day after fiscal year-end for which the audit was conducted.

Cause:

The City has experienced significant turnover in key personnel in the City’s finance department in past years. Absent robust accounting policies and procedures, when vacancies occur information can be lost and as individuals are getting up to speed, processes may not be fully executed and/or embedded. Staff had to take on additional resources to review and did not have sufficient training or resources to review and reconcile the subledger to the general ledger in a timely manner.

Effect:

Delays in processing year-end closing procedures caused the financial statements release to be delayed.

Recommendation:

The Finance Department should look at increasing the amount of experienced finance staff to help facilitate year-end closing processes and the preparation of its basic financial statements. Because the basic financial statement is the responsibility of the City, it is in its own best interest to closely monitor the accounting process to ensure that financial position and operating results are accurately and timely reported. The following steps could be used to avoid future delays:

- Assign additional qualified accounting personnel to help process complex transactions.
- Identify critical due dates and develop listing of assignment, including department coordinated items, based on available resources to meet those due dates.
- Hold periodic meetings to monitor the progress of assignments and responsibilities.
- Conduct management review of financial statements and audit schedules prior to presenting them to the auditors.

Auditee’s Response:

City management concurs with the auditor’s comments and recommendations. The City Manager will continue exploring options for adding additional staffing or consulting services and resources for training.

**CITY OF ODEM, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**2021-002 Improve Internal Controls Over Financial Reporting(Material Weakness)**

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As part of satisfying that responsibility, staff should possess that skills, knowledge, and experience necessary to complete year-end close and diligently employ that knowledge, skill, and experience to produce reliable and accurate financial information.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission(“COSO”) established the following framework that stress the need for policies and procedures to promote effective internal control for an entity:

*Control Environment* – Establish structures, reporting lines, authorities and responsibilities.

*Risk Assessment* – Select and develop control activities that mitigate risks.

*Control Activities* – Deploy control activities through policies and procedures.

*Information and Communication* – Communicate internal control information internally.

*Monitoring* – Evaluations are used to determine if controls are present and functioning.

Condition:

*Bank Reconciliation*

The City’s monthly bank reconciliation process was not properly completed during the fiscal period covered by the audit.

*Capital Assets*

The City utilized Excel spreadsheets to account for capital asset project activity. The City has not performed inventory and consistent monitoring on this Excel spreadsheet. Internal controls would dictate that due to the amount of project activity by the City, the current method of maintaining capital asset listing by the City is inadequate to detect potential errors. Due to this, an opportunity exists for a material misstatement to go undetected and uncorrected.

*Charges for Services*

The City’s operations in user charges in the amount of approximately \$600,000. Accordingly, the City should have various safeguards, protocols, and other internal controls to ensure a full accountability of the financial activities.

The City is incorporating such controls, however there is a need for additional segregation of duties and other similar controls in order to ensure that the operations of all funds satisfy expectations for governmental entities. Additionally, these controls need to be monitored and followed consistently.

**CITY OF ODEM, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**2021-002 Improve Internal Controls Over Financial Reporting (Material Weakness) - Continued**

Cause:

The City has experienced significant turnover in key personnel in the City's finance department in past years. Absent robust accounting policies and procedures, when vacancies occur information can be lost and as individuals are getting up to speed, processes may not be fully executed and/or embedded. Staff had to take on additional resources to review and did not have sufficient training or resources to review and reconcile the subledger to the general ledger in a timely manner.

Effect:

Due to limited staffing levels faced by the City during the period ended September 30, 2021, internal controls were either lacking, were not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due from error.

Recommendation:

The City should contemplate if there are sufficient resources available to prepare a complete set of financial statements. Additional personnel should be considered to enhance the City's internal control over the financial reporting and within each transaction cycle to ensure transactions are thoroughly evaluated, reviewed and recorded to facilitate accurate and complete year-end closing of the general ledger.

Auditee's Response:

City management concur with the audit findings. The City has began implementing new policies and procedures related to internal controls during the 2024 year.

**2021-003 – Payroll(Material Weakness)**

Criteria:

Personnel costs must be based on records that accurately reflect the work performed (grant and non-grant), actual cost paid out (wages, bonuses, overtime, as well as employer paid taxes and fringe benefits), and comply with the established policies and practices of the organization. Segregation of duties and Authorization and approval procedures, should provide additional layer of oversight and reduce the potential for errors of fraudulent activities in:

- Employees were paid in accordance with payroll policies and procedures.
- The hours worked and the leave taken on the timesheet agreed to the pay statement.
- Employee's supervisors properly approved the timesheet.
- The payrate reported on the pay statement agreed with signed documents approving the rate in the employee's personnel file.

Condition:

During the payroll audit testing performed by the auditor, as well as, the Office of Compliance and Monitoring's desk monitoring review of the Operation Lone Star, Grant Number 4387501, the following instances were noted:

- Not all the provided timesheets were signed by the employee and supervisor.
- Several employees had incorrect paystubs that did not correspond to the timesheet.
- Overtime pay was incorrectly calculated as several employees added sick pay/holiday/vacation pay to regular hours worked.

**CITY OF ODEM, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

**2021-003 – Payroll - Continued**

Cause:

The City did not adhere to authorization and approval procedures regarding payroll.

Effect:

The City had to pay back \$768.55 in disallowed costs for the Operation Lone Star, Grant Number 4387501. Additionally, the City incorrectly paid overtime to several employees. Internal controls were either lacking, were not designed properly, and mitigating controls were not sufficient to effectively identify misstatements due from error.

Recommendation:

As also recommended by the monitoring report, the City needs to do the following:

- Adhere to timekeeping policies and procedures that include requirements for maintaining timesheets that include overtime requirements by exempt and non-exempt officer status and that meets grants requirements and explain how employees and supervisors review/sign off of timekeeping records.
- Adhere to policies and procedures for calculating and claiming overtime, the verification process, and who is responsible for verifying. Ensure the procedures include details on what hours are included/excluded as regular hours worked before overtime can be earned.

Auditee's Response:

City management concurs with the auditor's comments and recommendations. The City has created and implemented payroll policies and procedures, as well as, monitoring procedures during 2024.