

*ANNUAL
FINANCIAL REPORT*

of the

City of Buffalo, Texas

**For the Year Ended
September 30, 2022**

Prepared by

Finance Department



City of Buffalo, Texas

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September 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Buffalo, Texas:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Buffalo, Texas (the "City") as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Buffalo, Texas, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 City of Buffalo, 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 audit opinions.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Matters

Required Supplementary Information

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

Other Supplementary Information

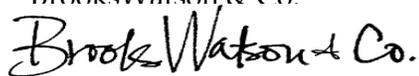
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo's basic financial statements. The accompanying supplemental information, such as the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual for the debt service fund and capital projects fund, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 accompanying supplementary information is 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 February 24, 2023 on our consideration of the City’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’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 the City’s internal control over financial reporting and compliance.

BrooksWatson & Co.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive script.

February 24, 2023

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*



City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2022

As management of the City of Buffalo, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022.

Financial Highlights

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows (net position) at September 30, 2022 by \$14,100,168. Of this amount, \$3,977,579 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$1,303,951. The majority of the City's net position are invested in capital assets and restricted for specific purposes.
- The City's governmental funds reported combined ending fund balances of \$2,812,914 at September 30, 2022, a decrease of \$404,316 from the prior fiscal year; this includes an decrease of \$5,023 in the debt service fund, an increase of \$146,709 in the hotel/motel fund, a decrease of \$554,760 in the general fund, and an increase of \$8,758 in the nonmajor governmental funds.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$2,149,509 or 76% of total general fund expenditures.
- The City's total debt showed a net decrease of \$348,456. Self-supporting debt of the proprietary fund at the close of the fiscal year was \$4,557,307.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

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

City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and cultural and recreation. The business-type activities of the City include waterworks and waterworks grants.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate Buffalo Economic Development Corporation, for which the City is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By

City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and hotel/motel fund, which are considered to be major funds. The grant fund and capital projects fund are considered nonmajor for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, grants fund, hotel/motel fund and capital projects fund. A budgetary comparison statement has been provided for each fund to demonstrate compliance with the budget.

Proprietary Funds

The City maintains one types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses two enterprise funds to account for its waterworks and waterworks grants operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for major equipment purchases and building services.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the seven major enterprise funds of the City.

City of Buffalo, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

Component Units

The Buffalo Economic Development Corporation is reported as a discretely presented component unit on the government-wide financial statements.

Notes to Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary comparison for various major governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Buffalo, assets and deferred outflows exceeded liabilities and deferred inflows by \$14,100,168 as of September 30, 2022 in the primary government.

The largest portion of the City's net position, \$8,816,140, reflects its investments in capital assets (e.g., land, buildings, automobiles, equipment, infrastructure assets, as well as the water and sewer system), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

City of Buffalo, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2022			2021		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and						
other assets	\$ 3,199,656	\$ 2,467,568	\$ 5,667,224	\$ 3,462,799	\$ 2,332,432	\$ 5,795,231
Net pension asset	142,541	127,416	269,957	84,946	70,701	155,647
Capital assets, net	5,553,341	7,864,790	13,418,131	4,718,214	7,527,056	12,245,270
Total Assets	8,895,538	10,459,774	19,355,312	8,265,959	9,930,189	18,196,148
Total Deferred						
Outflows	16,514	261,782	278,296	18,450	276,100	294,550
Other liabilities	254,688	539,982	794,670	121,060	510,545	631,605
Long-term liabilities	52,544	4,543,842	4,596,386	50,536	4,904,419	4,954,955
Total Liabilities	307,232	5,083,824	5,391,056	171,596	5,414,964	5,586,560
Total Deferred						
Inflows	75,181	67,203	142,384	58,900	49,021	107,921
Net Position:						
Net investment						
in capital assets	5,553,341	3,262,799	8,816,140	4,688,885	2,590,522	7,279,407
Restricted	743,015	563,434	1,306,449	552,871	267,963	820,834
Unrestricted	2,233,283	1,744,296	3,977,579	2,812,157	1,883,819	4,695,976
Total Net Position	\$ 8,529,639	\$ 5,570,529	\$ 14,100,168	\$ 8,053,913	\$ 4,742,304	\$ 12,796,217

Total capital assets increased primarily as a result of street and sewer infrastructures improvements in the current year. Total other liabilities increased resulting from the timing of repayments to vendors subsequent to yearend. Long-term liabilities for business-type activities decreased due to the payoff of the previously outstanding debt obligations.

City of Buffalo, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2022			For the Year Ended September 30, 2021		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 198,461	\$ 1,317,158	\$ 1,515,619	\$ 13,410	\$ 1,279,337	\$ 1,292,747
Grants & contri.	112,554	865,633	978,187	874,238	477,570	1,351,808
General revenues:						
Property taxes	539,019	-	539,019	550,003	-	550,003
Sales taxes	1,190,057	-	1,190,057	927,956	-	927,956
Franchise & local taxes	114,275	-	114,275	107,669	-	107,669
Hotel occupancy taxes	255,468	-	255,468	176,993	-	176,993
Investment income	31,095	16,384	47,479	36,262	18,914	55,176
Other revenues	113,019	-	113,019	27,433	33,518	60,951
Total Revenues	2,553,948	2,199,175	4,753,123	2,713,964	1,809,339	4,523,303
Expenses						
General government	529,556	-	529,556	409,994	-	409,994
Public safety	720,180	-	720,180	603,218	-	603,218
Public works	213,919	-	213,919	237,197	-	237,197
Cultural and recreation	172,017	-	172,017	139,886	-	139,886
Interest & fiscal chrgs.	-	138,123	138,123	-	148,474	148,474
Water & Sewer	-	1,675,377	1,675,377	-	1,579,547	1,579,547
Total Expenses	1,635,672	1,813,500	3,449,172	1,390,295	1,728,021	3,118,316
Change in Net Position						
Before Transfers	918,276	385,675	1,303,951	1,323,669	81,318	1,404,987
Transfers	(442,550)	442,550	-	(419,550)	419,550	-
Total	(442,550)	442,550	-	(419,550)	419,550	-
Change in Net Position	475,726	828,225	1,303,951	904,119	500,868	1,404,987
Beginning Net Position	8,053,913	4,742,304	12,796,217	7,149,794	4,241,436	11,391,230
Ending Net Position	\$ 8,529,639	\$ 5,570,529	\$ 14,100,168	\$ 8,053,913	\$ 4,742,304	\$ 12,796,217

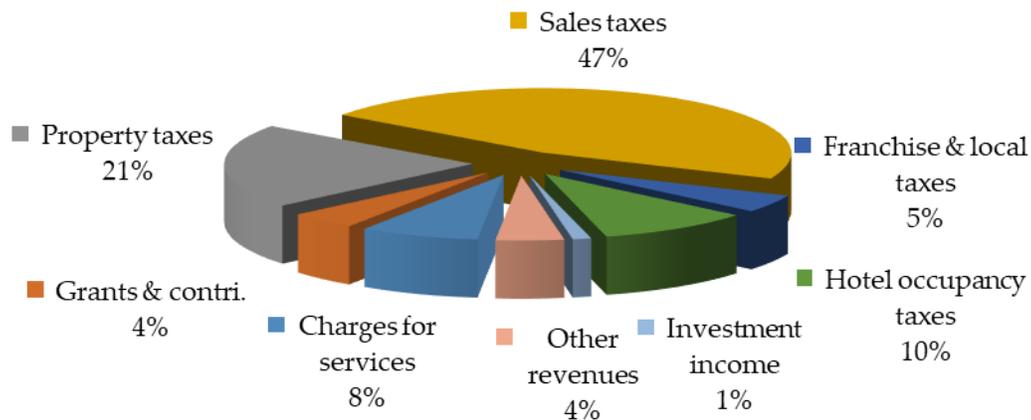
City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

Governmental Activities - Revenues

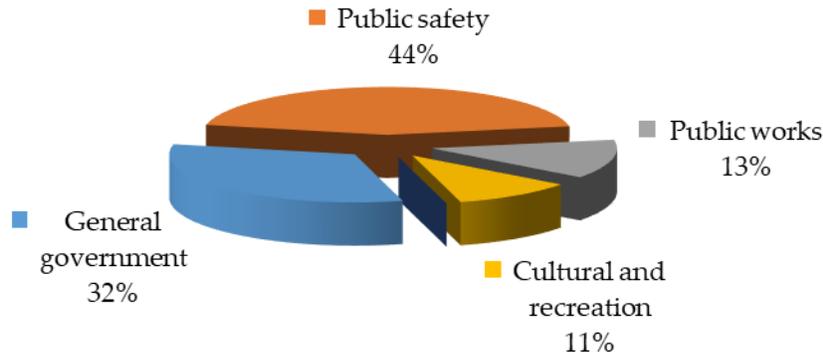


For the year ended September 30, 2022, revenues from governmental activities totaled \$2,553,948. Sales taxes and property taxes are the City's largest general revenue sources. Overall revenue decreased \$160,016 or 6% primary due to the change in grants and contributions. Charges for services increased \$185,051 or over 100% primarily due to the nonrecurring write offs and increases in the allowance of municipal court fine receivables in the prior year. Grants and contributions decreased by \$761,684 or 87% due to nonrecurring capital contributions received in the prior year. Sales taxes increased by \$262,101 and 28% due to economic growth fueled by local purchases. Hotel occupancy taxes increased by \$78,475 or 44% due to a continued increase in pass through traffic at the hotels off of interstate 45. Other revenues increased by \$85,586 or over 100% primarily as a result of nonrecurring donations and sewer project reimbursements received in the current year. All other revenues remained relatively stable when compared to the previous year.

City of Buffalo, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2022, expenses for governmental activities totaled \$1,635,672. This represents an increase of \$245,377 or 18% from the prior year. The City's largest functional expense is public safety of \$720,180, which is an increase of \$116,962 or 19% from prior year. This increase is attributed primarily to greater personnel costs and higher noncapital expenses when compared to the prior year. General government increased by \$119,562 or 29% primarily due to current year pay raises and nonrecurring grant related expenses. Public works decreased by \$23,278 or 10% primarily due to nonrecurring repair and maintenance costs in the previous year. Cultural and recreation increased by \$32,131 or 23% primarily due to greater advertising and convention center expenses, as the City held more events/activities this year. All other expenses remained relatively consistent with the previous year.

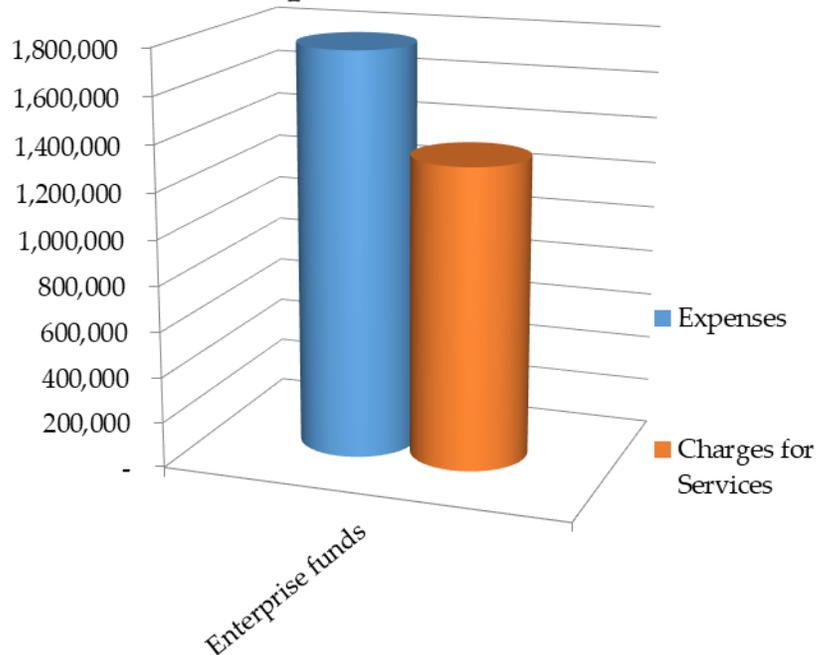
City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2022, charges for services by business-type activities totaled \$1,317,158. This represents an increase of \$37,821 or 3% from the previous year, which is considered minimal. Grants and contributions increased \$388,063 due to nonrecurring capital grants received from the Texas General Land Office for sewer infrastructure improvements in the current year.

Total expenses increased \$85,479 or 5% to a total of \$1,813,500, which is primarily due to greater personnel costs resulting from pay raises and new hires during the year. In addition, the City recognized nonrecurring equipment maintenance/pump repairs and greater asset depreciation expenses in the current year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the

City of Buffalo, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
September 30, 2022

City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

At September 30, 2022, the City's governmental funds reported combined fund balances of \$2,812,914, a decrease of \$404,316 in comparison with the prior year. Approximately 76% of this amount, \$2,149,509, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable or restricted* to indicate that it is 1) not in spendable form, or 2) restricted for particular purposes, \$663,405.

As of the end of the year the general fund reflected a total fund balance of \$2,244,676. Of this, \$2,149,509 is unassigned. The decrease in fund balance of \$554,760 is consistent with expectations and budget, as the City increased expenses for added street maintenance costs.

As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total fund balance of general fund is 99% of total general fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$2,149,509 is 95% of total general fund expenditures.

The debt service fund had an ending fund balance of \$225,505 at September 30, 2022, a decrease of \$5,023. The decrease is a primarily a result of less than expected revenues during the year.

The hotel/motel fund had an ending fund balance of \$284,411, an increase of \$146,709. The increase is a result of less than anticipated expenditures incurred during the year.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The total net position of the waterworks fund at year end was \$5,078,257. This represents an increase of \$571,597, primarily due to transfers in from the waterworks grants fund for ongoing capital projects and transfers from the debt service fund to service bonds.

The total net position of the waterworks grants fund at year end was \$492,272. This represents an increase of \$256,628, primarily due to intergovernmental revenues from grants.

City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

GENERAL FUND BUDGETARY HIGHLIGHTS

There were various budget amendments approved during the year. Final budgeted revenue was \$63,371 less than originally budgeted due to the anticipation of a reduction in sales tax revenues. Final budgeted expenditures were \$28,788 greater than originally budgeted primarily due to an increase in budgeted general government expenditures.

There was a total overall positive budget variance of \$328,909 in the general fund. Planned revenue had a positive variance of \$324,513. Actual expenditures were \$32,394 under budget. The City experienced a positive budget variance for revenues primarily due to greater than anticipated sales taxes during the year. All departmental expenditures were less than appropriations, with the exception of general government. Planned other financing sources and uses had a negative budget variance of \$27,998.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$5,553,341 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$7,864,790 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, and infrastructure. The City's total investment in capital assets increased by \$1,172,861, net of depreciation.

Major capital asset events during the current year include the following:

- Downtown revitalization project additions of \$11,180.
- Renovation of Harriman Park totaling \$30,000.
- Street improvements totaling \$941,940.
- Revitalization of the downtown sidewalk for \$29,327.
- Began the TXCDBG sidewalk and street improvements project totaling \$44,128.
- Purchased new equipment for the Streets Department for a total of \$40,829.
- Purchased new water system equipment totaling \$105,218.
- Purchased a 2021 Silverado truck for \$42,235.
- Began the GLO Mitigation Sewer Project for \$683,580.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

City of Buffalo, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

September 30, 2022

LONG-TERM DEBT

At the end of the current year, the City had total bonds and loans outstanding of \$4,557,307, excluding premiums. There were principal payments totaling \$331,798 during the year.

More detailed information about the City's long-term liabilities is presented in note IV. D and E to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Buffalo and improving services provided to their public citizens. The City is budgeting conservatively for the upcoming year and planning to maintain similar services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City Secretary: Attn: City Secretary at 812 N. Buffalo Avenue, PO Box 219, Buffalo, Texas 75831, phone: (903) 322-2142.

FINANCIAL STATEMENTS

City of Buffalo, Texas
STATEMENT OF NET POSITION
September 30, 2022

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Buffalo EDC
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 2,163,349	\$ 1,886,074	\$ 4,049,423	\$ 525,236
Investments	793,131	264,803	1,057,934	-
Receivables, net	435,224	124,643	559,867	-
Internal balances	(192,048)	192,048	-	-
Total Current Assets	3,199,656	2,467,568	5,667,224	525,236
Capital assets:				
Non-depreciable	603,511	751,117	1,354,628	30,000
Net depreciable capital assets	4,949,830	7,113,673	12,063,503	-
Net pension asset	142,541	127,416	269,957	-
Noncurrent Assets	5,695,882	7,992,206	13,688,088	30,000
Total Assets	8,895,538	10,459,774	19,355,312	555,236
<u>Deferred Outflows of Resources</u>				
Deferred outflows related to pension	10,768	9,625	20,393	-
Deferred outflows related to OPEB	5,746	5,136	10,882	-
Deferred charge on refunding	-	247,021	247,021	-
Total Deferred Outflows of Resources	\$ 16,514	\$ 261,782	\$ 278,296	\$ -

City of Buffalo, Texas
STATEMENT OF NET POSITION (Continued)
September 30, 2022

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Buffalo EDC
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 209,072	\$ 87,371	\$ 296,443	\$ 2,128
Accrued interest payable	1,824	11,848	13,672	-
Customer deposits	-	92,084	92,084	-
Compensated absences, current	43,792	802	44,594	-
Long term debt due within one year	-	347,877	347,877	-
Current Liabilities	254,688	539,982	794,670	2,128
Noncurrent liabilities:				
Compensated absences, noncurrent	4,866	89	4,955	-
Long-term debt due in more than one year	-	4,501,135	4,501,135	-
OPEB liability	47,678	42,618	90,296	-
Noncurrent Liabilities	52,544	4,543,842	4,596,386	-
Total Liabilities	307,232	5,083,824	5,391,056	2,128
Deferred Inflows of Resources				
Deferred inflows related to pension	73,699	65,879	139,578	-
Deferred inflows related to OPEB	1,482	1,324	2,806	-
Total Deferred Inflows of Resources	75,181	67,203	142,384	-
Net Position				
Net investment in capital assets	5,553,341	3,262,799	8,816,140	30,000
Restricted for:				
Debt service	225,505	-	225,505	-
Capital projects	19,856	-	19,856	-
Municipal court	95,167	-	95,167	-
Tourism	284,411	-	284,411	-
Federal and state grant programs	38,466	492,272	530,738	-
Pensions	79,610	71,162	150,772	-
Economic development	-	-	-	523,108
Unrestricted	2,233,283	1,744,296	3,977,579	-
Total Net Position	\$ 8,529,639	\$ 5,570,529	\$ 14,100,168	\$ 553,108

See Notes to Financial Statements.

City of Buffalo, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 529,556	\$ -	\$ 112,554	\$ -
Public safety	720,180	175,698	-	-
Public works	213,919	22,763	-	-
Cultural and recreation	172,017	-	-	-
Total Governmental Activities	1,635,672	198,461	112,554	-
Business-Type Activities				
Waterworks	1,810,475	1,317,158	-	-
Waterworks grants	3,025	-	-	865,633
Total Business-Type Activities	1,813,500	1,317,158	-	865,633
Total Primary Government	\$ 3,449,172	\$ 1,515,619	\$ 112,554	865,633
Component Unit				
Buffalo Economic				
Development Corporation	\$ 177,160	\$ -	\$ -	\$ -
Total Component Units	\$ 177,160	-	-	-

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
 - Hotel occupancy taxes
- Investment income
- Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Buffalo EDC
\$ (417,002)	\$ -	\$ (417,002)	\$ -
(544,482)	-	(544,482)	-
(191,156)	-	(191,156)	-
(172,017)	-	(172,017)	-
<u>(1,324,657)</u>	<u>-</u>	<u>(1,324,657)</u>	<u>-</u>
-	(493,317)	(493,317)	-
-	862,608	862,608	-
<u>-</u>	<u>369,291</u>	<u>369,291</u>	<u>-</u>
<u>(1,324,657)</u>	<u>369,291</u>	<u>(955,366)</u>	<u>-</u>
			(177,160)
			<u>(177,160)</u>
539,019	-	539,019	-
1,190,057	-	1,190,057	233,371
114,275	-	114,275	-
255,468	-	255,468	-
31,095	16,384	47,479	2,293
113,019	-	113,019	1,077
(442,550)	442,550	-	-
<u>1,800,383</u>	<u>458,934</u>	<u>2,259,317</u>	<u>236,741</u>
475,726	828,225	1,303,951	59,581
8,053,913	4,742,304	12,796,217	493,527
<u>\$ 8,529,639</u>	<u>\$ 5,570,529</u>	<u>\$ 14,100,168</u>	<u>\$ 553,108</u>

City of Buffalo, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2022

	General	Debt Service	Hotel/Motel	Nonmajor Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 1,662,566	\$ 222,930	\$ 219,531	\$ 58,322
Investments	793,131	-	-	-
Receivables, net	287,263	83,316	64,645	-
Due from other funds	-	2,575	235	-
Total Assets	\$ 2,742,960	\$ 308,821	\$ 284,411	\$ 58,322
 <u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 209,072	\$ -	\$ -	\$ -
Due to other funds	194,858	-	-	-
Total Liabilities	403,930	-	-	-
 <u>Deferred Inflows of Resources</u>				
Unavailable revenue -				
Property taxes	24,931	83,316	-	-
Court fines	69,423	-	-	-
Total Deferred Inflows	94,354	83,316	-	-
 <u>Fund Balances</u>				
Restricted for:				
Debt service	-	225,505	-	-
Capital projects	-	-	-	19,856
Municipal court	95,167	-	-	-
Tourism	-	-	284,411	-
Federal and state grant programs	-	-	-	38,466
Unassigned	2,149,509	-	-	-
Total Fund Balances	2,244,676	225,505	284,411	58,322
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,742,960	\$ 308,821	\$ 284,411	\$ 58,322

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 2,163,349
793,131
435,224
2,810
\$ 3,394,514

\$ 209,072
194,858
403,930

108,247
69,423
177,670

225,505
19,856
95,167
284,411
38,466
2,149,509
2,812,914

\$ 3,394,514



City of Buffalo, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2022

Fund Balances - Total Governmental Funds \$ 2,812,914

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	603,511
Capital assets - net depreciable	4,949,830

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property tax receivable	108,247
Fines receivable	69,423
Net pension asset	142,541

Deferred outflows (inflows) of resources represent a consumption (acquisition) of net position that applies to a future period(s) and is not recognized as an outflow (inflows) of resources (expense/expenditure)/(revenue) until then.

Pension outflows	10,768
Pension inflows	(73,699)
OPEB outflows	5,746
OPEB inflows	(1,482)

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

Accrued interest	(1,824)
Compensated absences	(48,658)
OPEB liability	(47,678)

Net Position of Governmental Activities \$ 8,529,639

See Notes to Financial Statements.

City of Buffalo, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

	General	Debt Service	Hotel/Motel	Nonmajor Governmental Funds
Revenues				
Property tax	\$ 115,617	\$ 406,373	\$ -	\$ -
Sales tax	1,190,057	-	-	-
Franchise and local taxes	114,275	-	-	-
Hotel occupancy taxes	-	-	255,468	-
License, permits and fees	22,763	-	-	-
Intergovernmental	-	-	-	112,554
Fines and forfeitures	182,656	-	-	-
Credit card convenience fees	43	-	77	-
Investment income	26,974	2,454	1,499	168
Other revenue	83,057	-	13,910	14,830
Total Revenues	1,735,442	408,827	270,954	127,552
Expenditures				
Current:				
General government	474,876	400	26,034	46,942
Streets	1,111,214	-	-	71,852
Parks - animal control	56,929	-	-	-
Library	10,454	-	-	-
Municipal court	201,358	-	-	-
Police	328,556	-	-	-
Fire	78,817	-	-	-
Culture and recreation	-	-	98,211	-
Total Expenditures	2,262,204	400	124,245	118,794
Excess (Deficiency) of Revenues Over (Under) Expenditures	(526,762)	408,427	146,709	8,758
Other Financing Sources (Uses)				
Transfers (out)	(29,100)	(413,450)	-	-
Insurance recoveries	102	-	-	-
Proceeds from capital assets	1,000	-	-	-
Total Other Sources (Uses)	(27,998)	(413,450)	-	-
Net Change in Fund Balances	(554,760)	(5,023)	146,709	8,758
Beginning fund balances	2,799,436	230,528	137,702	49,564
Ending Fund Balances	\$ 2,244,676	\$ 225,505	\$ 284,411	\$ 58,322

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 521,990
1,190,057
114,275
255,468
22,763
112,554
182,656
120
31,095
111,797

2,542,775

548,252
1,183,066
56,929
10,454
201,358
328,556
78,817
98,211

2,505,643

37,132

(442,550)
102
1,000

(441,448)

(404,316)

3,217,230

\$ 2,812,914



City of Buffalo, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

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

Net changes in fund balances - total governmental funds	\$ (404,316)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	1,097,404
Depreciation expense	(262,277)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	10,071
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(2,807)
Pension expense	40,781
OPEB expense	(3,130)
	<hr/>
Change in Net Position of Governmental Activities	\$ 475,726
	<hr/> <hr/>

See Notes to Financial Statements.

City of Buffalo, Texas
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2022

<u>Assets</u>	<u>Water Works</u>	<u>Nonmajor Water Works Grants</u>	<u>Total Proprietary Funds</u>
<u>Current Assets</u>			
Cash and cash equivalents	\$ 1,393,802	\$ 492,272	\$ 1,886,074
Investments	264,803	-	264,803
Receivables, net	124,643	-	124,643
Due from other funds	192,048	-	192,048
Total Current Assets	1,975,296	492,272	2,467,568
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	751,117	-	751,117
Net depreciable capital assets	7,113,673	-	7,113,673
Net pension asset	127,416	-	127,416
Total Noncurrent Assets	7,992,206	-	7,992,206
Total Assets	9,967,502	492,272	10,459,774
<u>Deferred Outflows of Resources</u>			
Deferred outflows related to pension	9,625	-	9,625
Deferred outflows related to OPEB	5,136	-	5,136
Deferred charge on refunding	247,021	-	247,021
Total Deferred Outflows	\$ 261,782	\$ -	\$ 261,782

City of Buffalo, Texas
STATEMENT OF NET POSITION (Continued)
PROPRIETARY FUNDS
September 30, 2022

	<u>Water Works</u>	<u>Nonmajor Water Works Grants</u>	<u>Total Proprietary Funds</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts payable and accrued liabilities	\$ 87,371	\$ -	\$ 87,371
Accrued interest	11,848	-	11,848
Customer deposits	92,084	-	92,084
Compensated absences - current	802	-	802
Long-term debt - current	347,877	-	347,877
Total Current Liabilities	539,982	-	539,982
<u>Noncurrent Liabilities</u>			
Compensated absences, noncurrent	89	-	89
Long-term debt - noncurrent	4,501,135	-	4,501,135
OPEB liability	42,618	-	42,618
Total Liabilities	5,083,824	-	5,083,824
<u>Deferred Inflows of Resources</u>			
Deferred inflows related to pension	65,879	-	65,879
Deferred inflows related to OPEB	1,324	-	1,324
Total Deferred Inflows	67,203	-	67,203
<u>Net Position</u>			
Net investment in capital assets	3,262,799	-	3,262,799
Restricted for:			
Grants	-	492,272	492,272
Pensions	71,162	-	71,162
Unrestricted	1,744,296	-	1,744,296
Total Net Position	\$ 5,078,257	\$ 492,272	\$ 5,570,529

See Notes to Financial Statements.



City of Buffalo, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2022

	Water Works	Nonmajor Water Works Grants	Total Proprietary Funds
<u>Operating Revenues</u>			
Charges for services	\$ 1,282,613	\$ -	\$ 1,282,613
Penalties and fees	18,033	-	18,033
Other revenue	16,512	-	16,512
Total Operating Revenues	1,317,158	-	1,317,158
<u>Operating Expenses</u>			
Salaries and benefitis	413,211	-	413,211
Supplies and materials	76,626	-	76,626
Maintenance and operations	295,706	-	295,706
Professional services	350,027	-	350,027
Insurance	40,025	-	40,025
Other expenses	3,458	3,025	6,483
Depreciation	493,299	-	493,299
Total Operating Expenses	1,672,352	3,025	1,675,377
Operating Income (Loss)	(355,194)	(3,025)	(358,219)
<u>Nonoperating Revenues (Expenses)</u>			
Investment income	16,384	-	16,384
Interest expense	(138,123)	-	(138,123)
Total Nonoperating Revenues (Expenses)	(121,739)	-	(121,739)
Income (Loss) Before Capital Contributions and Transfers	(476,933)	(3,025)	(479,958)
<u>Capital Contributions and Transfers</u>			
Capital grants	-	865,633	865,633
Transfers in	1,048,530	29,100	1,077,630
Transfers (out)	-	(635,080)	(635,080)
Change in Net Position	571,597	256,628	828,225
Beginning net position	4,506,660	235,644	4,742,304
Ending Net Position	\$ 5,078,257	\$ 492,272	\$ 5,570,529

See Notes to Financial Statements.

City of Buffalo, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 1 of 2)
For the Year Ended September 30, 2022

	Water Works	Water Works Grant Fund	Total Proprietary Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers	\$ 1,321,483	\$ -	\$ 1,321,483
Payments to suppliers	(749,021)	(3,025)	(752,046)
Payments to employees	(449,023)	-	(449,023)
Net Cash Provided (Used) by Operating Activities	123,439	(3,025)	120,414
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers in	1,048,530	29,100	1,077,630
Transfers (out)	-	(635,080)	(635,080)
Net Cash Provided (Used) by Noncapital Financing Activities	1,048,530	(605,980)	442,550
<u>Cash Flows from Capital and Related Financing Activities</u>			
Capital purchases	(831,033)	-	(831,033)
Capital grants	-	865,633	865,633
Principal paid on debt	(331,798)	-	(331,798)
Interest paid on debt	(141,058)	-	(141,058)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,303,889)	865,633	(438,256)
<u>Cash Flows from Investing Activities</u>			
Purchase of investments	(3,290)	-	(3,290)
Interest on investments	16,384	-	16,384
Net Cash Provided (Used) by Investing Activities	13,094	-	13,094
Net Increase (Decrease) in Cash and Cash Equivalents	(118,826)	256,628	137,802
Beginning cash and cash equivalents	1,512,628	235,644	1,748,272
Ending Cash and Cash Equivalents	\$ 1,393,802	\$ 492,272	\$ 1,886,074

See Notes to Financial Statements.

City of Buffalo, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (Page 2 of 2)
For the Year Ended September 30, 2022

	<u>Water Works</u>	<u>Water Works Grant Fund</u>	<u>Total Proprietary Funds</u>
<u>Reconciliation of Operating Income (Loss)</u>			
<u>to Net Cash Provided (Used) by Operating Activities</u>			
Operating (loss)	\$ (355,194)	\$ (3,025)	\$ (358,219)
Adjustments to reconcile operating income to net cash provided:			
Depreciation	493,299	-	493,299
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	4,539	-	4,539
Due from other funds	1,417	-	1,417
Net pension asset	(56,715)	-	(56,715)
Increase (Decrease) in:			
Accounts payable and accrued liabilities	15,404	-	15,404
Compensated absences	(2,247)	-	(2,247)
Customer deposits	(214)	-	(214)
Deferred inflows/outflows - Pension	17,872	-	17,872
Deferred inflows/outflows - OPEB	905	-	905
OPEB liability	4,373	-	4,373
Net Cash Provided (Used) by Operating Activities	\$ 123,439	\$ (3,025)	\$ 120,414

See Notes to Financial Statements.



City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Buffalo, Texas (the "City") was incorporated under the laws of the State of Texas in 1939. The City operates under a "General Law" City which provides for a "Mayor-Council" form of government. All powers of the City shall be vested in an elective council, hereinafter referred to as the "Council," which shall enact local legislation, adopt budgets, determine policies, and appoint the City Attorney and the Judge of the Municipal Court. The City provides the following services: public safety (police and fire), animal control, culture and recreation, public works, municipal court, general administration, and water and sewer.

A. Description of Government-Wide Financial Statements

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

B. Financial Reporting Entity

The City of Buffalo is a municipal corporation governed by an elected mayor and a five-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered financially accountable. Discretely presented component units are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the government.

As required by accounting principles generally accepted in the United States of America, these financial statements include the primary government and organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government.

Discretely Presented Component Unit

Buffalo Economic Development Corporation

The Buffalo Economic Development Corporation (the "EDC") was formed to promote the public welfare and economic development for the areas within the City of Buffalo as authorized by the State under the Texas Development Corporation Act of 1979 and is governed by Section 4B of the act. The 4B Corporation receives funding from a one-half cent sales tax. The EDC serves all citizens of the City and is governed by a board appointed by the City's elected council. The City can impose its will on the EDC and affect the day-to-day operations of the EDC by removing appointed board members at will. The scope of public service of the EDC benefits the City and its citizens and is operated within the geographic boundaries of the City. Since the EDC's governing body is not substantively the same as the governing body of the primary government, does not provide services entirely, or almost entirely to the primary government, nor does it maintain debt of any type that are repaid using City resources, it has been reported as a discretely presented component unit. The nature and significance of the relationship between the primary government and the EDC is such that exclusion would cause the City's financial statements to be misleading or incomplete. Separately issued audited financial statements are available from the EDC, P.O. Box 1196, Buffalo, Texas 76567.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

C. Basis of Presentation - Government-Wide and Fund Financial Statements

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

As discussed earlier, the government has one discretely presented component unit and is shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category; governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following governmental funds:

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, hotel occupancy taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, streets, public safety, culture and recreation, municipal court, and animal control. This fund is considered to be a major fund.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all certificates of obligation, general obligation bonds, and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes. This fund is considered to be a major fund.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Hotel/Motel Fund

This fund accounts for funds derived from hotel and motel occupancy taxes and is legally restricted to promote tourism within the City. The fund is considered a major fund for reporting purposes.

Grants Fund

The Grants Fund is used to account for grant funds awarded to and received by the City for governmental activity projects. The fund is considered a nonmajor fund for reporting purposes.

Capital Projects Fund

The Capital Projects Fund is used to account for funds received and expended for acquisition and construction of governmental infrastructure and other capital assets. The fund is considered a nonmajor fund.

The government reports the following enterprise funds:

Water Works Fund

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

Water Works Grants Fund

The Water Works Grants Fund is used to account for grant funds awarded to and received by the City for business-type activity projects. The fund is considered a non-major fund for reporting purposes.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

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

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

D. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary, pension and other postemployment benefit trust, and private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

E. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as “due to/from component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a nonspendable fund balance account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories of supplies are reported at cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized (the consumption method).

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	2 -15 years
Office equipment	3 - 15 years
Computer equipment	3 - 15 years
Infrastructure	30 years
Buildings and improvements	20 - 50 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

7. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in the fund.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

Amounts of vested or accumulated sick leave and compensatory time that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, loans payable, and unamortized premiums.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Assets acquired under the terms of leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

12. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

13. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

14. Other Postemployment Benefits (“OPEB”)

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn’t meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. 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 on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position.

F. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, grants, hotel/motel, debt service, and capital projects funds. The original budget is adopted by the City Council prior to the beginning of the year.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Given the City does not employ department heads, the legal level of control is defined as the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Supplemental budget appropriations were made during the year.

During the year ended September 30, 2022, expenditures exceeded appropriations at the legal level of control in the debt service fund by \$2,100.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2022, the primary government had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Yrs)</u>
Certificates of deposits	\$ 1,057,934	0.23
Total fair value	<u>\$ 1,057,934</u>	

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity to an average of 90 days or less; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2022, the market values of pledged securities and FDIC exceeded bank balances.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	<u>General</u>	<u>Debt Service</u>	<u>Hotel Motel</u>	<u>Water Works</u>	<u>Total</u>
Property taxes	\$ 64,150	\$ 83,316	\$ -	\$ -	\$ 147,466
Sales tax	228,816	-	-	-	228,816
Occupancy taxes	-	-	64,645	-	64,645
Court fines	138,846	-	-	-	138,846
Accounts	-	-	-	153,326	153,326
Allowance	(144,549)	-	-	(28,683)	(173,232)
	<u>\$ 287,263</u>	<u>\$ 83,316</u>	<u>\$ 64,645</u>	<u>\$ 124,643</u>	<u>\$ 559,867</u>

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 229,258	\$ -	\$ -	\$ 229,258
Construction in progress	363,073	11,180	-	374,253
Total capital assets not being depreciated	<u>592,331</u>	<u>11,180</u>	<u>-</u>	<u>603,511</u>
Capital assets, being depreciated:				
Road network	1,568,108	1,015,394	-	2,583,502
Buildings and improvements	3,835,526	30,000	-	3,865,526
Equipment	523,250	40,830	-	564,080
Vehicles	1,484,601	-	(66,015)	1,418,586
Total capital assets being depreciated	<u>7,411,485</u>	<u>1,086,224</u>	<u>(66,015)</u>	<u>8,431,694</u>
Less accumulated depreciation				
Road network	(773,072)	(81,354)	-	(854,426)
Buildings and improvements	(1,335,681)	(96,572)	-	(1,432,253)
Equipment	(477,185)	(12,655)	-	(489,840)
Vehicles	(699,664)	(71,696)	66,015	(705,345)
Total accumulated depreciation	<u>(3,285,602)</u>	<u>(262,277)</u>	<u>66,015</u>	<u>(3,481,864)</u>
Net capital assets being depreciated	<u>4,125,883</u>	<u>823,947</u>	<u>-</u>	<u>4,949,830</u>
Total Capital Assets	<u><u>\$ 4,718,214</u></u>	<u><u>\$ 835,127</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,553,341</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 34,472
Public safety	77,376
Public works	87,077
Cultural and recreation	63,352
Total Governmental Activities Depreciation Expense	<u><u>\$ 262,277</u></u>

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

A summary of changes in business-type activities capital assets for the year end was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 67,537	\$ -	\$ -	\$ 67,537
Construction in progress	-	683,580	-	683,580
Total capital assets not being depreciated	<u>67,537</u>	<u>683,580</u>	<u>-</u>	<u>751,117</u>
Capital assets, being depreciated:				
Equipment	119,821	-	-	119,821
Vehicles	146,257	42,235	-	188,492
Water system	6,515,524	105,218	-	6,620,742
Sewer system	7,170,950	-	-	7,170,950
Office furniture and equipment	3,510	-	-	3,510
Total capital assets being depreciated	<u>13,956,062</u>	<u>147,453</u>	<u>-</u>	<u>14,103,515</u>
Less accumulated depreciation				
Equipment	(100,878)	(5,884)	-	(106,762)
Vehicles	(93,168)	(18,745)	-	(111,913)
Water system	(2,491,939)	(242,415)	-	(2,734,354)
Sewer system	(3,807,048)	(226,255)	-	(4,033,303)
Office furniture and equipment	(3,510)	-	-	(3,510)
Total accumulated depreciation	<u>(6,496,543)</u>	<u>(493,299)</u>	<u>-</u>	<u>(6,989,842)</u>
Net capital assets being depreciated	<u>7,459,519</u>	<u>(345,846)</u>	<u>-</u>	<u>7,113,673</u>
Total Capital Assets	<u>\$ 7,527,056</u>	<u>\$ 337,734</u>	<u>\$ -</u>	<u>\$ 7,864,790</u>

Depreciation was charged to business-type activities as follows:

Water works	\$ 493,299
Total Business-Type Activities Depreciation Expense	<u>\$ 493,299</u>

As of September 30, 2022, the City's component unit held land assets totaling \$30,000.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

D. Other Long-term Liabilities

The following summarizes the changes in other long-term liabilities of the primary government during the year. In general, the City uses the general and enterprise funds to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 45,851	\$ 2,807	\$ -	\$ 48,658	\$ 43,792
Total Governmental Activities	\$ 45,851	\$ 2,807	\$ -	\$ 48,658	\$ 43,792
Other Long-term Liabilities Due in More than One Year				\$ 4,866	
Business-Type Activities:					
Compensated Absences	\$ 3,138	\$ -	\$ (2,247)	\$ 891	\$ 802
Total Business-Type Activities	\$ 3,138	\$ -	\$ (2,247)	\$ 891	\$ 802
Other Long-term Liabilities Due in More than One Year				\$ 89	

E. Long-term Debt

In general, the City uses the special revenue fund and water works fund to liquidate long-term liabilities. The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2022.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Business-Type Activities:					
General Obligation Bonds	\$ 4,545,000	\$ -	\$ (280,000)	\$ 4,265,000	\$ 295,000
Premium	308,363	-	(16,658)	291,705	-
Meter loan	344,105	-	(51,798)	292,307	52,877
Total Business-Type Activities	\$ 5,197,468	\$ -	\$ (348,456)	\$ 4,849,012	\$ 347,877
Long-term liabilities due in more than one year				\$ 4,501,135	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The proprietary fund type long-term debt will be repaid, plus accrued interest, from operating revenues of the respective fund.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
General Obligation Bonds:			
\$5,535,000 General Obligation Refunding, Series 2016,			
due in annual installments through 2040, interest at 2.75% to 4.00%	\$ -	\$ 4,265,000	\$ 4,265,000
Total General Obligation Bonds	\$ -	\$ 4,265,000	\$ 4,265,000
 Loan			
\$381,990 loan from Citizens St. Bank,			
due in annual installments through 2027, interest at 2.43%	\$ -	\$ 292,307	\$ 292,307
Total Loans	\$ -	\$ 292,307	\$ 292,307
 Less deferred amounts:			
Issuance premium	\$ -	\$ 291,705	\$ 291,705
Total deferred amounts	\$ -	\$ 291,705	\$ 291,705
Total Long-Term Debt	\$ -	\$ 4,849,012	\$ 4,849,012

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	General Obligation Bond	
	Principal	Interest
2023	\$ 295,000	\$ 121,950
2024	305,000	109,950
2025	320,000	97,450
2026	330,000	87,750
2027	335,000	80,681
2028 - 2032	1805000	265044
2033 - 2037	525,000	92,775
2038 - 2040	350,000	15,900
Total	\$ 4,265,000	\$ 871,500

Year ending September 30,	Meter Loan	
	Principal	Interest
2023	\$ 52,877	\$ 6,528
2024	54,164	5,241
2025	55,511	3,894
2026	56,877	2,528
2027	58,277	1,129
2028	14,601	60
Total	\$ 292,307	\$ 19,380

F. Deferred Loss on Refunding

A deferred loss resulting from the issuance of the 2016 general obligation refunding bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for business-type activities totaled \$247,021. Current year amortization expense for business-type activities totaled \$13,723.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

G. Interfund Transactions

Transfers between the primary government funds during the 2022 year were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>Water Works</u>	<u>Water Works Grant</u>	
General Fund	\$ -	\$ 29,100	\$ 29,100
Debt service	413,450	-	413,450
Water Works - Grants	635,080	-	635,080
Total	<u>\$ 1,048,530</u>	<u>\$ 29,100</u>	<u>\$ 1,077,630</u>

The compositions of interfund balances as of year end were as follows:

<u>Due from: (Receiving Fund):</u>	<u>Due to (Payable fund):</u>	
	<u>General</u>	<u>Total</u>
Debt service	\$ 2,575	2,575
Hotel/motel	235	235
Water works	192,048	192,048
Total	<u>\$ 194,858</u>	<u>\$ 194,858</u>

The purpose of interfund receivables and payables is to loan cash between funds. All balances are expected to be settled with issuance of new debt or the collection of property taxes.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

H. Restricted Net Position

The City records restricted net position to indicate that a portion is legally restricted for a specific future use.

The following is a list of restricted net position of the City:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Buffalo EDC</u>
Restricted for:			
Debt service	\$ 225,505	\$ -	\$ -
Capital projects	19,856	-	-
* Municipal court	95,167		
Tourism	284,411	-	-
* Grant programs	38,466	492,272	-
Economic development	-	-	523,108
Pensions	79,610	71,162	-
Total	<u>\$ 743,015</u>	<u>\$ 563,434</u>	<u>\$ 523,108</u>

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

GASB 62 defines probability of loss contingencies as the following:

Probable. The future event or events are likely to occur.

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

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

C. Pension Plans

1. Texas Municipal Retirement Systems

Plan Description

The City of Buffalo participates as one of 920 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmrs.com.

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

2. 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.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

Plan provisions for the City were as follows:

	<u>Plan Year 2021</u>	<u>Plan Year 2020</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2021 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	11
Active employees	16
Total	38

3. Contributions

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

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Employees for the City of Buffalo were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Buffalo were 4.23% and 4.11% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were \$25,900, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2021, 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:

The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75 per year, including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are 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 16 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 Rates (APRs) is 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.

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public/Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate:

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

Sensitivity of the Net Pension Liability (Asset) to Changes in the 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 (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease	Current Single Rate	1% Increase
5.75%	Assumption 6.75%	7.75%
\$ (113,004)	\$ (269,957)	\$ (404,697)

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) – (b)
Balance at 12/31/20	\$ 1,569,918	\$ 1,725,565	\$ (155,647)
Changes for the year:			
Service Cost	53,081	-	53,081
Interest	104,013	-	104,013
Difference between expected and actual experience	3,375	-	3,375
Changes of assumptions	-	-	-
Contributions – employer	-	23,294	(23,294)
Contributions – employee	-	27,503	(27,503)
Net investment income	-	225,016	(225,016)
Benefit payments, including refunds of emp. contributions	(111,059)	(111,059)	-
Administrative expense	-	(1,041)	1,041
Other changes	-	7	(7)
Net changes	49,410	163,720	(114,310)
Balance at 12/31/21	\$ 1,619,328	\$ 1,889,285	\$ (269,957)

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2022, the City recognized pension income of \$53,698.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

At September 30, 2022, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual economic experience	\$ -	\$ (23,147)
Changes in actuarial assumptions	709	-
Difference between projected and investment earnings	-	(116,431)
Contributions subsequent to the measurement date	19,684	-
Total	\$ 20,393	\$ (139,578)

The City reported \$19,684 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
December 31:	
2022	\$ (40,893)
2023	(51,878)
2024	(24,393)
2025	(21,705)
Thereafter	-
Total	\$ (138,869)

Other Postemployment Benefits

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

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB. The SDBF covers both active and retiree benefits with no segregation of assets and, therefore, doesn’t meet the definition of a trust under GASB No. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). As such, the SDBF is considered to be a single-employer unfunded OPEB plan (and not a cost sharing plan) with benefit payments treated as being equal to the employer’s yearly contributions for retirees.

The City offers supplemental death to:	Plan Year 2020	Plan Year 2021
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

The City’s contributions to the TMRS SDBF for the years ended 2022 and 2021 were \$1,679 and \$1,046, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2020	0.07%	0.07%	100.0%
2021	0.23%	0.23%	100.0%
2022	0.28%	0.28%	100.0%

City of Buffalo, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	2
Active employees	16
Total	28

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2021, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5%, including inflation per year
Discount rate	1.84%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 1.84%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

Sensitivity of the Total OPEB Liability to Changes in the 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 (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

1% Decrease (0.84%)	Current Single Rate Assumption 1.84%	1% Increase (2.84%)
\$ 106,898	\$ 90,296	\$ 77,017

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/20	\$ 84,196
Changes for the year:	
Service Cost	4,290
Interest	1,714
Difference between expected and actual experience	(892)
Changes of assumptions	2,253
Benefit payments	(1,265)
Net changes	6,100
Balance at 12/31/21	\$ 90,296

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$10,087.

City of Buffalo, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2022

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to the OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes in actuarial assumption changes	\$ 9,541	-
Difference between expected and actual experience	-	(2,806)
Contributions subsequent to measurement date	1,341	-
Total	\$ 10,882	\$ (2,806)

The City reported \$1,341 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the OPEB liability for the year ending September 30, 2023.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year ended December 31:	
2022	\$ 3,598
2023	2,715
2024	422
2025	-
2026	-
Thereafter	-
	\$ 6,735

D. Subsequent Events

On October 12, 2022, the City issued \$1,305,000 Tax Notes, Series 2022, at a 3.37% interest rate and a maturity date of March 1, 2029.

There were no other material subsequent events through February 24, 2023, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Buffalo, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2022

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>Revenues</u>				
Property tax	\$ 140,500	\$ 140,500	\$ 115,617	\$ (24,883)
Sales tax	908,200	844,829	1,190,057	345,228
Franchise and local taxes	118,000	118,000	114,275	(3,725)
License, permits and fees	22,100	22,100	22,763	663
Intergovernmental	3,500	3,500	-	(3,500)
Fines and forfeitures	226,000	226,000	182,656	(43,344)
Credit card convenience fees	100	100	43	(57)
Investment income	31,500	31,500	26,974	(4,526)
Other revenue	24,400	24,400	83,057	58,657
Total Revenues	<u>1,474,300</u>	<u>1,410,929</u>	<u>1,735,442</u>	<u>324,513</u>
<u>Expenditures</u>				
Current:				
General government	334,350	354,600	474,876	(120,276)
Streets	1,158,750	1,158,750	1,111,214	47,536
Parks - animal control	125,400	125,400	56,929	68,471
Library	15,630	15,630	10,454	5,176
Municipal court	224,910	224,910	201,358	23,552
Police	321,620	330,158	328,556	1,602
Fire	85,150	85,150	78,817	6,333
Total Expenditures	<u>2,265,810</u>	<u>2,294,598</u>	<u>2,262,204</u>	<u>32,394</u>
Revenues Over (Under) Expenditures	<u>(791,510)</u>	<u>(883,669)</u>	<u>(526,762)</u>	<u>356,907</u>
<u>Other Financing Sources (Uses)</u>				
Transfers out	-	-	(29,100)	(29,100)
Proceeds from sale of assets	-	-	1,000	1,000
Insurance recoveries	-	-	102	102
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(27,998)</u>	<u>(27,998)</u>
Net Change in Fund Balance	<u>\$ (791,510)</u>	<u>\$ (883,669)</u>	<u>(554,760)</u>	<u>\$ 328,909</u>
Beginning fund balance			2,799,436	
Ending Fund Balance			<u>\$ 2,244,676</u>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Buffalo, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL HOTEL/MOTEL FUND

For the Year Ended September 30, 2022

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Hotel occupancy taxes	\$ 150,000	\$ 150,000	\$ 255,468	\$ 105,468
Investment income	1,200	1,200	1,499	299
Other revenue	6,450	6,450	13,987	7,537
Total Revenues	157,650	157,650	270,954	113,304
Expenditures				
General government	56,200	69,105	26,034	43,071
Culture and recreation	89,700	120,000	98,211	21,789
Total Expenditures	145,900	189,105	124,245	64,860
Net Change in Fund Balance	\$ 11,750	\$ (31,455)	146,709	\$ 178,164
Beginning fund balance			137,702	
Ending Fund Balance			\$ 284,411	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of Buffalo, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
Total pension liability			
Service cost	\$ 53,081	\$ 65,146	\$ 65,821
Interest	104,013	103,478	100,549
Changes in benefit terms	-	-	-
Differences between expected and actual experience	3,375	(57,815)	(39,848)
Changes of assumptions	-	-	7,573
Benefit payments, including refunds of participant contributions	(111,059)	(82,637)	(98,101)
Net change in total pension liability	<u>49,410</u>	<u>28,172</u>	<u>35,994</u>
Total pension liability - beginning	<u>\$ 1,569,918</u>	<u>\$ 1,541,746</u>	<u>\$ 1,505,752</u>
Total pension liability - ending (a)	<u>\$ 1,619,328</u>	<u>\$ 1,569,918</u>	<u>\$ 1,541,746</u>
Plan fiduciary net position			
Contributions - employer	\$ 23,294	\$ 33,372	\$ 32,465
Contributions - members	27,503	34,615	33,685
Net investment income	225,016	122,861	221,240
Benefit payments, including refunds of participant contributions	(111,059)	(82,637)	(98,101)
Administrative expenses	(1,041)	(795)	(1,249)
Other	7	(31)	(38)
Net change in plan fiduciary net position	<u>163,720</u>	<u>107,385</u>	<u>188,002</u>
Plan fiduciary net position - beginning	<u>1,725,565</u>	<u>1,618,180</u>	<u>1,430,178</u>
Plan fiduciary net position - ending (b)	<u>\$ 1,889,285</u>	<u>\$ 1,725,565</u>	<u>\$ 1,618,180</u>
Fund's net pension (asset) liability - ending (a) - (b)	<u>\$ (269,957)</u>	<u>\$ (155,647)</u>	<u>\$ (76,434)</u>
Plan fiduciary net position as a percentage of the total pension liability	116.67%	109.91%	104.96%
Covered payroll	\$ 550,060	\$ 692,303	\$ 673,708
Fund's net position as a percentage of covered payroll	-49.08%	-22.48%	-11.35%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	¹
\$	56,806	\$ 51,838	\$ 54,141	\$ 48,490	\$ 47,302	
	95,600	88,589	81,977	76,195	71,246	
	-	-	-	-	-	
	(13,252)	2,360	701	(1,562)	(13,088)	
	-	-	-	33,003	-	
	(42,582)	(40,226)	(35,207)	(30,755)	(39,944)	
	<u>96,572</u>	<u>102,561</u>	<u>101,612</u>	<u>125,371</u>	<u>65,516</u>	
\$	<u>1,409,180</u>	<u>\$ 1,306,619</u>	<u>\$ 1,205,007</u>	<u>\$ 1,079,636</u>	<u>\$ 1,014,120</u>	
\$	<u>1,505,752</u>	<u>\$ 1,409,180</u>	<u>\$ 1,306,619</u>	<u>\$ 1,205,007</u>	<u>\$ 1,079,636</u>	
\$	28,063	\$ 25,117	\$ 22,686	\$ 22,734	\$ 25,281	
	29,221	26,721	27,936	25,602	25,325	
	(43,756)	176,484	79,684	1,713	62,274	
	(42,582)	(40,226)	(35,207)	(30,755)	(39,944)	
	(845)	(914)	(900)	(1,043)	(650)	
	(45)	(46)	(48)	(52)	(53)	
	<u>(29,944)</u>	<u>187,136</u>	<u>94,151</u>	<u>18,199</u>	<u>72,233</u>	
	<u>1,460,122</u>	<u>1,272,986</u>	<u>1,178,835</u>	<u>1,160,636</u>	<u>1,088,403</u>	
\$	<u>1,430,178</u>	<u>\$ 1,460,122</u>	<u>\$ 1,272,986</u>	<u>\$ 1,178,835</u>	<u>\$ 1,160,636</u>	
\$	<u>75,574</u>	<u>\$ (50,942)</u>	<u>\$ 33,633</u>	<u>\$ 26,172</u>	<u>\$ (81,000)</u>	
	94.98%	103.62%	97.43%	97.83%	107.50%	
\$	584,424	\$ 534,410	\$ 558,730	\$ 512,034	\$ 506,505	
	12.93%	-9.53%	6.02%	5.11%	-15.99%	

City of Buffalo, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN TEXAS MUNICIPAL RETIREMENT SYSTEM

Years Ended:

	9/30/2022	9/30/2021	9/30/2020	9/30/2019
Actuarially determined employer contributions	\$ 25,900	\$ 25,240	\$ 35,934	\$ 31,467
Contributions in relation to the actuarially determined contribution	\$ 25,900	\$ 25,240	\$ 35,934	\$ 31,467
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Annual covered payroll	\$ 625,882	\$ 572,990	\$ 689,510	\$ 655,566
Employer contributions as a percentage of covered payroll	4.14%	4.40%	5.21%	4.80%

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. 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:

Notes

There were no benefit changes during the year.

<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	¹
\$ 24,333	\$ 25,990	\$ 22,913	\$ 23,015	
\$ 24,333	\$ 25,990	\$ 22,913	\$ 23,015	
\$ -	\$ -	\$ -	\$ -	
\$ 576,929	\$ 534,329	\$ 551,767	\$ 502,832	
4.22%	4.86%	4.15%	4.58%	

City of Buffalo, Texas

SCHEDULE OF CHANGES IN POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) LIABILITY AND RELATED RATIOS TEXAS MUNICIPAL RETIREMENT SYSTEM SUPPLEMENTAL DEATH BENEFITS PLAN

Years Ended December 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability				
Service cost	\$ 4,290	\$ 4,362	\$ 3,571	\$ 2,922
Interest	1,714	2,031	2,142	1,897
Differences between expected and actual experience	(892)	(3,324)	(965)	(922)
Changes of assumptions	2,253	9,695	11,454	(3,404)
Benefit payments, including refunds of participant contributions	(1,265)	(485)	(472)	(292)
Net change in total OPEB liability	<u>6,100</u>	<u>12,279</u>	<u>15,730</u>	<u>201</u>
Total OPEB liability - beginning	<u>\$ 84,196</u>	<u>\$ 71,917</u>	<u>\$ 56,187</u>	<u>\$ 55,986</u>
Total OPEB liability - ending	<u><u>\$ 90,296</u></u>	<u><u>\$ 84,196</u></u>	<u><u>\$ 71,917</u></u>	<u><u>\$ 56,187</u></u>
Covered payroll	\$ 550,060	\$ 692,303	\$ 673,708	\$ 584,424
Fund's net position as a percentage of covered payroll	16.42%	12.16%	10.67%	9.61%

Notes to schedule:

¹ This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

² No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB statement No. 75 to pay related benefits.

	2017	¹
	<hr/>	
\$	2,351	
	1,863	
	-	
	3,788	
	(267)	
	<hr/>	
	7,735	
	<hr/>	
\$	48,251	
\$	55,986	²
	<hr/> <hr/>	
\$	534,410	
	10.48%	



OTHER SUPPLEMENTARY INFORMATION

City of Buffalo, Texas
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2022

	Capital Projects	Grant Fund	Total Nonmajor Governmental
<u>Assets</u>			
Cash and cash equivalents	\$ 19,856	\$ 38,466	\$ 58,322
Total Assets	\$ 19,856	\$ 38,466	\$ 58,322
 <u>Fund Balances</u>			
Restricted for:			
Capital projects	19,856	-	19,856
Federal and state programs	-	38,466	38,466
Total Fund Balances	19,856	38,466	58,322
Total Liabilities, Deferred Inflows and Fund Balances	\$ 19,856	\$ 38,466	\$ 58,322

City of Buffalo, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

	Capital Projects	Grant Fund	Total Nonmajor Governmental
<u>Revenues</u>			
Intergovernmental	\$ -	\$ 112,554	\$ 112,554
Investment income	168	-	168
Other revenue	-	14,830	14,830
Total Revenues	168	127,384	127,552
 <u>Expenditures</u>			
General government	-	46,942	46,942
Streets	-	71,852	71,852
Total Expenditures	-	118,794	118,794
 Net Change in Fund Balances	 168	 8,590	 8,758
Beginning fund balances	19,688	29,876	49,564
Ending Fund Balances	\$ 19,856	\$ 38,466	\$ 58,322

City of Buffalo, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2022

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 411,750	\$ 406,373	\$ (5,377)
Investment income	-	2,454	2,454
Total Revenues	411,750	408,827	(2,923)
<u>Expenditures</u>			
General government	400	400	-
Total Expenditures	400	400	-
Revenues Over (Under) Expenditures	411,350	408,427	(2,923)
<u>Other Financing Sources (Uses)</u>			
Transfers (out)	(411,350)	(413,450)	(2,100) *
Total Other Financing Sources (Uses)	(411,350)	(413,450)	(2,100)
Net Change in Fund Balance	\$ -	(5,023)	\$ (5,023)
Beginning fund balance		230,528	
Ending Fund Balance		\$ 225,505	

Notes to Other Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP)
- * 2. Expenditures exceeded appropriations at the legal level of control.

City of Buffalo, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended September 30, 2022

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Investment income	\$ 200	\$ 168	\$ (32)
Total Revenues	200	168	(32)
 <u>Expenditures</u>			
Capital outlay	19,688	-	19,688
Revenues Over (Under) Expenditures	(19,488)	168	19,656
Net Change in Fund Balance	\$ (19,488)	168	\$ 19,656
Beginning fund balance		19,688	
Ending Fund Balance		\$ 19,856	

Notes to Other Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting





BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Buffalo, Texas:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Buffalo, Texas as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise City of Buffalo, Texas's basic financial statements, and have issued our report thereon dated February 24, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Buffalo's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Buffalo's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Buffalo'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Buffalo's 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully,

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive script.

Brooks Watson & Co., PLLC
14950 Heathrow Forest Pkwy | Ste 530
Houston, TX 77032
February 24, 2023

City of Buffalo, Texas
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2022

I. SUMMARY OF PRIOR YEAR AUDIT FINDINGS:

Audit Finding Reference: 2021-001

Status of Prior Finding: Planned corrective action completed this year.

City of Buffalo, Texas
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2022

I. SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

Type of auditor's report issued:

The auditor's report on the basic financial statements of the City expresses an unmodified opinion.

Internal control over financial reporting:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

II. FINANCIAL STATEMENT FINDINGS:

None.