



CITY OF PENITAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2025

Raul Hernandez & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

5402 Holly Road, Suite 102 Corpus Christi, TX 78411 Office: (361) 980-0428 Fax: (361) 980-1002

CITY OF PENITAS, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2025

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TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	4
<u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	10
B-1 Statement of Activities	11
Governmental Fund Financial Statements:	
C-1 Balance Sheet	13
C-2 Reconciliation for C-1	15
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	16
C-4 Reconciliation for C-3	18
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	19
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	20
D-3 Statement of Cash Flows	21
Notes to the Financial Statements	22
<u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	57
G-2 Schedule of Changes in Net Pension Liability and Related Ratios for TMRS	58
G-3 Schedule of Contributions TMRS Pension Plan	60
Notes to Schedule of Pension Contributions	62
G-4 Schedule of Changes in the Total OPEB Liability and Related Ratios for TMRS	63
Notes to Schedule of OPEB Contributions	65
<u>Combining and Individual Fund Statements</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	66
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	68
<u>Report on Internal Control and Compliance</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	70
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	72
Schedule of Findings and Questioned Costs	75
Schedule of Status of Prior Findings	79
Corrective Action Plan	80
Schedule of Expenditures of Federal Awards	81
Notes to Schedule of Expenditures of Federal Awards	82

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Raul Hernandez & Company, P.C.
Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Penitas, Texas
Penitas, Texas 78576

Qualified and Unmodified Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Penitas, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Penitas, Texas's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-type Activities	Qualified
General Fund	Unmodified
Enterprise Fund	Qualified
Aggregate Remaining Fund Information	Unmodified

Qualified Opinion on the Governmental Activities, Business-type Activities, and Enterprise Fund

In our opinion, except for effects of the matter described in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, Business-type Activities and the Enterprise Fund of the City of Penitas, Texas, as of September 30, 2025, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the General Fund and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, and the aggregate remaining fund information of the City of Penitas, Texas, as of September 30, 2025, and the respective changes in financial position and, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified Opinions

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

Matter Giving Rise to the Qualified Opinions on the Governmental Activities, Business-type Activities and the Enterprise Fund.

The City of Penitas, Texas did not perform a comprehensive physical inventory of capital assets and did not maintain sufficient supporting documentation for the historical cost of capital assets acquired in prior years. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the valuation of capital assets in the governmental activities, business-type activities, and enterprise fund. Because historical cost information was not available, depreciation expense was based on estimates, and we were unable to determine whether adjustments were necessary to capital assets, accumulated depreciation, expenses, or net position. Except for the possible effects of the matter described above, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Emphasis of Matter – Change in Accounting Principle

As discussed in the notes to the financial statements, during the year ended September 30, 2025, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, and GASB Statement No. 102, *Certain Risk Disclosures*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, 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 of Penitas, Texas’s ability to continue as a going concern for twelve months beyond the financial statement due date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Penitas, Texas's basic financial statements. The combining and individual nonmajor fund statements, and the Schedule of Expenditures of Federal Awards, as required by audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026, on our consideration of the City of Penitas, Texas'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Penitas, Texas's internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas
March 27, 2026

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2025

Overview of the Financial Statements

This Management’s Discussion and Analysis (MD&A) provides an overview of the City’s financial activities for the fiscal year ended September 30, 2025. It should be read in conjunction with the accompanying financial statements and notes.

The City’s financial statements include:

- Government-Wide financial statements
- Fund financial statements
- Notes to the financial statements

Financial Highlights

- The City’s governmental activities reported net position of \$5,798,866 while the business-type activities reported net position of \$12,260,237.
- Total long-term debt at year-end was \$15,655,200 for governmental activities and \$4,517,868 for business-type activities.
- The City reported total capital assets of approximately \$28.8 million, with \$11,741,998 in governmental activities and \$17,021,754 in business-type activities.

Government-wide financial statements

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

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

Most of the City’s basic services are reported as governmental activities. Business-type activities are those activities which are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities. The City includes certain blended component units within its governmental activities, which are presented as part of the primary government. These component units are legally separate organizations for which the City is financially accountable; however, because they are blended, their financial activity is included within the City’s governmental activities rather than presented separately.

The accrual basis of accounting used for the government-wide financial statements recognizes revenues when earned and expenses when incurred regardless of when cash is received or paid.

CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2025

Fund financial statements

Fund financial statements are used to present more detailed information about the City’s most significant funds. Separate fund financial statements are prepared for the City’s governmental funds and proprietary funds, as opposed to the government-wide statements which reflect the City as a whole. Fund financial statements are prepared using the measurement focus and basis of accounting applicable to each broad fund category. Governmental fund financial statements are presented on a spending or “financial flow” measurement focus using the modified accrual basis of accounting. Proprietary fund financial statements are presented on a cost of services or “capital maintenance” measurement focus using the accrual basis of accounting. Because the proprietary fund financial statements are presented using the same measurement focus and basis of accounting as the government-wide financial statements, the totals from the proprietary fund financial statements flow directly into the business-type activities column of the government-wide financial statements. For the governmental funds, reconciliation is presented to describe the differences between the net position, and change in net position reported in the governmental fund financial statements and the net position, and change in net position reported in the governmental activities column of the government-wide financial statements.

Notes to the financial statements

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

Capital Assets and Audit Considerations

The City reported total capital assets of approximately \$28.8 million at year-end. During the fiscal year, the City identified that certain historical capital asset records were not available. As a result, some capital assets were recorded using estimated historical cost. This limitation resulted in a qualified opinion from the independent auditor. Management is actively working to improve capital asset documentation, strengthen internal controls and ensure complete and accurate reporting in future periods.

Proprietary Fund (Utility Fund)

The Utility Fund reported a decrease in net position of approximately \$1.2 million and continued to invest in infrastructure and operations. While the fund maintains a positive overall net position, current results indicate that revenues are not fully covering operating and capital costs and transfers and debt obligations are placing pressure on financial performance. Management is evaluating rate structures, operating efficiencies and long-term capital planning.

Condensed Financial Information

Condensed financial information is presented in the following tables.

CITY OF PENITAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2025

Government-wide net position

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 10,569,238	\$ 1,383,411	\$ (57,344)	\$ 501,105	\$ 10,511,894	\$ 1,884,516
Capital assets	11,741,998	8,168,833	17,021,754	17,797,557	28,763,752	25,966,390
Total assets	22,311,236	9,552,244	16,964,410	18,298,662	39,275,646	27,850,906
Deferred Outflows of Resources	35,184	47,077	30,183	42,076	65,367	89,153
Long-term liabilities	15,655,200	4,977,805	4,517,868	4,620,868	20,173,068	9,598,673
Other liabilities	824,173	605,108	148,302	180,931	972,475	786,039
Total liabilities	16,479,373	5,582,913	4,666,170	4,801,799	21,145,543	10,384,712
Deferred Inflows of Resources	68,181	62,237	68,185	62,240	136,366	124,477
Net position:						
Invested in capital assets, net of debt	(3,913,202)	3,191,028	12,503,886	13,176,689	8,590,684	16,367,717
Restricted	9,329,462	868,522	-	-	9,329,462	868,522
Unrestricted	382,606	(105,379)	(243,649)	300,010	138,957	194,631
Total net position	\$ 5,798,866	\$ 3,954,171	\$ 12,260,237	\$ 13,476,699	\$ 18,059,103	\$ 17,430,870

The City's governmental activities showed a net position of \$5,798,866 while the business-type activities showed a net position of \$12,260,237. Capital assets for governmental activities was \$11,741,998 and the business-type activities was \$17,021,754.

Government-wide changes in net position

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2025	2024	2025	2024	2025	2024
Change in net assets						
Total revenues	\$ 7,756,480	\$ 5,761,559	\$ 614,516	\$ 585,413	\$ 8,370,996	\$ 6,346,972
Total expenses	(6,477,917)	(5,931,374)	(1,264,845)	(1,256,078)	(7,742,762)	(7,187,452)
Change before transfers	1,278,563	(169,815)	(650,329)	(670,665)	628,234	(840,480)
Transfers	566,132	63,272	(566,132)	(63,272)	-	-
Change in net position	1,844,695	(106,543)	(1,216,461)	(733,937)	628,234	(840,480)
Net position - beginning	3,954,171	4,004,042	13,476,698	14,210,635	17,430,869	18,214,677
Adjustments and Restatements	-	56,672	-	-	-	56,672
Net position - ending	\$ 5,798,866	\$ 3,954,171	\$ 12,260,237	\$ 13,476,698	\$ 18,059,103	\$ 17,430,869

CITY OF PENITAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2025

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2025	2024	2025	2024	2025	2024
Revenues						
Program revenues:						
Charges for services	\$ 468,882	\$ 599,854	\$ 614,394	\$ 584,930	\$ 1,083,276	\$ 1,184,784
Operating Grants and Contributions	2,625,086	546,611	-	-	2,625,086	546,611
General revenues:						
Maintenance and Operations Taxes	1,552,621	1,682,993	-	-	1,552,621	1,682,993
Debt Service Taxes	306,413	402,736	-	-	306,413	402,736
Grants	7,472	2,005	-	-	7,472	2,005
Sales tax	2,127,320	2,234,066	-	-	2,127,320	2,234,066
Franchise taxes	195,768	211,246	-	-	195,768	211,246
Investment Earnings	137,081	4,272	122	483	137,203	4,755
Miscellaneous	335,837	77,776	-	-	335,837	77,776
Transfers In	566,132	63,272	-	-	566,132	63,272
Total revenues	<u>\$ 8,322,612</u>	<u>\$ 5,824,831</u>	<u>\$ 614,516</u>	<u>\$ 585,413</u>	<u>\$ 8,937,128</u>	<u>\$ 6,346,972</u>

General Fund revenues were \$8,322,612 and expenditures were \$6,477,917 at September 30, 2025.

Utility Fund had \$614,516 in revenues and \$1,830,977 in expenditures at September 30, 2025.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2025	2024	2025	2024	2025	2024
Expenses						
General Government	\$ 2,796,360	\$ 3,003,389	\$ -	\$ -	\$ 2,796,360	\$ 3,003,389
Public safety	1,739,100	1,782,729	-	-	1,739,100	1,782,729
Highways and Streets	634,425	531,383	-	-	634,425	531,383
Culture and Recreation	117,638	150,237	-	-	117,638	150,237
Economic Development	2,344	78,085	-	-	2,344	78,085
Bond Interest	608,725	21,951	-	-	608,725	21,951
Other Debt Service	579,325	363,600	-	-	579,325	363,600
Transfers Out	-	-	566,132	63,272	566,132	63,272
Utility Fund	-	-	1,264,845	1,256,078	1,264,845	1,256,078
Total expenses	<u>\$ 6,477,917</u>	<u>\$ 5,931,374</u>	<u>\$ 1,830,977</u>	<u>\$ 1,319,350</u>	<u>\$ 8,308,894</u>	<u>\$ 7,250,724</u>

CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2025

Financial Analysis of the City’s Funds

The City has experienced an increase in sales tax revenue due to current economic conditions. We attribute some of this increase due to the stability of the current economic climate.

The city adopted a conservative budget for 2024-2025.

Regarding the other governmental funds, the debt service fund levied taxes sufficient to cover the governmental debt service requirements as well as a portion of the utility fund debt service (which was transferred to the utility fund) and ended the year with a \$0 fund balance.

As discussed above, the utility fund's operations ended the year with a (\$1,216,461) decrease in net position. The utility fund has net position of \$12,260,237 at the end of the year. However, \$12,503,886 is restricted for investment in capital assets, net of related debt. Unrestricted net position of (\$243,649) represents less than 3 months in terms of the utility system’s annual expenses including net transfers out.

General Fund Budgetary Highlights

Over the course of the year, the City’s revenues had a positive variance of \$194,118. Expenditures had an overall increase of \$469,732.

Capital Asset and Debt Administration

Capital assets

The following capital asset information is presented net of depreciation. More detailed information can be found on page 38 of the notes to the financial statements.

	Governmental		Business-type		Total Primary	
	Activities		Activities		Government	
	2025	2024	2025	2024	2025	2024
Land	\$ 3,764,791	3,764,791	130,000	130,000	3,894,791	3,894,791
Infrastructure	3,279,679	3,279,679	19,587,087	19,587,087	22,866,766	22,866,766
Buildings	1,899,670	1,899,670	4,063,475	4,063,475	5,963,145	5,963,145
Machinery and Equipment	2,306,840	2,051,661	-	-	2,306,840	2,051,661
Construction in Progress	4,330,499	755,188	-	-	4,330,499	755,188
Right-to-use Lease Assets	100,742	100,742	-	-	100,742	100,742
Depreciation	(3,940,221)	(3,682,898)	(6,755,808)	(5,980,005)	(10,696,029)	(9,662,903)
Total assets	\$ 11,741,998	8,168,833	17,024,754	17,800,557	28,766,752	25,969,390

The City added approximately \$3,830,490 to capital assets during the year. Capital additions include purchase of new equipment, remodeling, infrastructure improvements, water and sewer system upgrades and improvements and construction in progress of street improvements and sewer line upgrades among others. Depreciation expense of \$1,033,127 was also recorded for the year.

CITY OF PENITAS, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS
September 30, 2025

Debt

The City continues to utilize long-term debt to finance infrastructure and capital improvements.

Debt is structured with scheduled repayments extending through future periods and is supported primarily by dedicated revenue sources, including property taxes, sales taxes and utility system revenues, as further described in the notes to the financial statements.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2025	2024	2025	2024	2025	2024
General Obligation Debt	\$ 14,625,000	\$ 4,680,000	\$ 4,517,868	\$ 4,620,868	\$ 19,142,868	\$ 9,300,868
Tax Notes Payable	790,775	-	-	-	790,775	-
Notes Payable	75,000	75,000	-	-	75,000	75,000
Financing Arrangements	126,868	177,740	-	-	126,868	177,740
Right-to-use Lease Payable	24,675	45,064	-	-	24,675	45,064
Total debt	<u>\$ 15,642,318</u>	<u>\$ 4,977,804</u>	<u>\$ 4,517,868</u>	<u>\$ 4,620,868</u>	<u>\$ 20,160,186</u>	<u>\$ 9,598,672</u>

Additional detail regarding the City’s long-term debt can be found on page 40 in the notes to the financial statements.

Economic Factors

The City of Penitas continues to experience strong economic activity and development.

Key projects include:

- **Home Depot Expansion:** The city will welcome Home Depot’s fourth store in Hidalgo County, with a 136,000 square foot store and a 28,000 square foot garden center. The project is expected to bring retail growth to the area.
- **New Retail Developments:** A commercial plan proposes 58 acres of new development, including stores like Five Below, Kohl’s, PetSmart, Burlington, Ulta Beauty , Rack Room Shoes, and DD’S Discount. Restaurants such as Olive Garden and Longhorn Steakhouse are also part of the plan.
- **Liberty Road Project:** This infrastructure initiative enhances connectivity and supports economic growth, with a \$4.9 million funding for a four-lane urban roadway project.
- **Buxton Partnership:** The City of Penitas has partnered with Buxton to utilize advanced customer analytics for retail development, aiming to identify the most suitable retailers for the community.

These developments are expected to strengthen the City’s tax base, support long-term economic growth, and enhance service capacity and infrastructure.

Contacting the City’s Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, please direct your requests to the City’s administration office, at City of Penitas, 1111 Main Street 78576, Penitas, Texas.

BASIC FINANCIAL STATEMENTS

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CITY OF PENITAS, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Penitas Redevelopment Authority
ASSETS			
Cash and Cash Equivalents	\$ 22,048	\$ 205	\$ 22,253
Taxes Receivable, Net	195,194	-	195,194
Accounts Receivable, Net	781,650	41,070	822,720
Due from Other Funds	98,619	(98,619)	-
Due from Others	862,350	-	862,350
Permanently Restricted:			
Restricted Cash and Cash Equivalents	8,609,377	-	8,609,377
Capital Assets:			
Land	3,764,791	130,000	3,894,791
Infrastructure, Net	3,279,679	-	3,279,679
Buildings & Improvements, Net	1,899,670	4,063,475	5,963,145
Infrastructure, Net	-	19,584,087	19,584,087
Furniture and Equipment, Net	2,306,840	-	2,306,840
Accumulated Depreciation	(3,861,308)	(677,808)	(4,539,116)
Right-to-Use Lease Assets, Net	21,827	-	21,827
Construction in Progress	4,330,499	-	4,330,499
Total Assets	<u>22,311,236</u>	<u>23,042,410</u>	<u>45,353,646</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	27,143	22,143	49,286
Deferred Outflow Related to OPEB	8,041	8,040	16,081
Total Deferred Outflows of Resources	<u>35,184</u>	<u>30,183</u>	<u>65,367</u>
LIABILITIES			
Accounts Payable	530,601	840	531,441
Wages and Salaries Payable	69,352	10,810	80,162
Due to Others	150,988	-	150,988
Accrued Interest Payable	48,304	111,725	160,029
Noncurrent Liabilities:			
Due Within One Year:			
Due Within One Year	373,764	106,000	479,764
Due in More Than One Year:			
Due In More Than One Year	15,281,436	4,411,868	19,693,304
Net Pension Liability	3,785	3,785	7,570
Net OPEB Liability	21,143	21,142	42,285
Total Liabilities	<u>16,479,373</u>	<u>4,666,170</u>	<u>21,145,543</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	56,296	56,298	112,594
Deferred Inflow Related to OPEB	11,885	11,887	23,772
Total Deferred Inflows of Resources	<u>68,181</u>	<u>68,185</u>	<u>136,366</u>
NET POSITION			
Net Investment in Capital Assets and Lease Assets	(3,913,202)	12,503,886	8,590,684
Restricted:			
Restricted for Federal or State Grant	438	-	438
Restricted for Capital Projects	8,702,058	-	8,702,058
Restricted for Other Purposes	626,966	-	626,966
Unrestricted	382,606	(243,649)	138,957
Total Net Position	<u>\$ 5,798,866</u>	<u>\$ 12,260,237</u>	<u>\$ 18,059,103</u>

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

CITY OF PENITAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 2,796,360	\$ 468,882	\$ 1,755,172
Public Safety	1,739,100	-	869,914
Highways and Streets	634,425	-	-
Culture and Recreation	117,638	-	-
Economic Development and Assistance	2,344	-	-
Interest on Debt	608,725	-	-
Other Debt Service	579,325	-	-
Total Governmental Activities	6,477,917	468,882	2,625,086
BUSINESS-TYPE ACTIVITIES:			
Utility Fund	1,264,845	614,394	-
Total Business-Type Activities	1,264,845	614,394	-
TOTAL PRIMARY GOVERNMENT	\$ 7,742,762	\$ 1,083,276	\$ 2,625,086

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

General Sales and Use Taxes

Franchise Tax

Grants and Contributions

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (572,306)	\$ -	\$ (572,306)
(869,186)	-	(869,186)
(634,425)	-	(634,425)
(117,638)	-	(117,638)
(2,344)	-	(2,344)
(608,725)	-	(608,725)
(579,325)	-	(579,325)
<u>(3,383,949)</u>	<u>-</u>	<u>(3,383,949)</u>
-	(650,451)	(650,451)
-	(650,451)	(650,451)
<u>(3,383,949)</u>	<u>(650,451)</u>	<u>(4,034,400)</u>
1,552,621	-	1,552,621
306,413	-	306,413
2,127,320	-	2,127,320
195,768	-	195,768
7,472	-	7,472
335,837	-	335,837
137,081	122	137,203
566,132	(566,132)	-
<u>5,228,644</u>	<u>(566,010)</u>	<u>4,662,634</u>
1,844,695	(1,216,461)	628,234
3,954,171	13,476,698	17,430,869
<u>\$ 5,798,866</u>	<u>\$ 12,260,237</u>	<u>\$ 18,059,103</u>

CITY OF PENITAS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

	General Fund	Penitas Redevelopment Authority	GLO-CDR Grant Fund
ASSETS			
Cash and Cash Equivalents	\$ 21,141	\$ 6	\$ 256
Taxes Receivable	196,244	-	-
Allowance for Uncollectible Taxes (credit)	(9,710)	-	-
Accounts Receivable, Net	283,472	-	322,161
Due from Other Funds	517,698	1,114,959	-
Due from Others	862,350	-	-
Restricted Cash and Cash Equivalents	-	-	-
Total Assets	\$ 1,871,195	\$ 1,114,965	\$ 322,417
LIABILITIES			
Accounts Payable	\$ 206,709	\$ 1,913	\$ 321,979
Wages and Salaries Payable	69,352	-	-
Due to Other Funds	1,114,959	419,079	-
Due to Others	-	150,988	-
Total Liabilities	1,391,020	571,980	321,979
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	186,534	-	-
Total Deferred Inflows of Resources	186,534	-	-
FUND BALANCES			
Restricted Fund Balance:			
Federal or State Funds Grant Restriction	-	-	438
Capital Projects	-	542,985	-
Other Restricted Fund Balance	-	-	-
Unassigned Fund Balance	293,641	-	-
Total Fund Balances	293,641	542,985	438
Total Liabilities, Deferred Inflows & Fund Balances	\$ 1,871,195	\$ 1,114,965	\$ 322,417

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

Capital Projects Fund	Other Funds	Total Governmental Funds
\$ -	\$ 645	\$ 22,048
-	9,272	205,516
-	(612)	(10,322)
-	176,017	781,650
-	-	1,632,657
-	-	862,350
8,159,073	450,304	8,609,377
<u>\$ 8,159,073</u>	<u>\$ 635,626</u>	<u>\$ 12,103,276</u>
\$ -	\$ -	\$ 530,601
-	-	69,352
-	-	1,534,038
-	-	150,988
-	-	2,284,979
-	8,660	195,194
-	8,660	195,194
-	-	438
8,159,073	-	8,702,058
-	626,966	626,966
-	-	293,641
8,159,073	626,966	9,623,103
<u>\$ 8,159,073</u>	<u>\$ 635,626</u>	<u>\$ 12,103,276</u>

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CITY OF PENITAS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

Total Fund Balances - Governmental Funds	\$	9,623,103
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		3,191,028
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2025 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		(725,699)
<p>Included in the assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of (\$3,785), a deferred resource inflow in the amount of (\$56,296), and a deferred resource outflow in the amount of \$27,143. This resulted in an increase/(decrease) in the net position by (\$32,938).</p>		
		(32,938)
<p>Included in the assets/(liabilities) is the recognition of the City's net OPEB asset/(liability) required by GASB 75 in the amount of (\$21,143), a deferred resource inflow in the amount of (\$11,885), and a deferred resource outflow in the amount of \$8,041. This resulted in an increase/(decrease) in the net position by (\$24,987).</p>		
		(24,987)
<p>The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(257,324)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		(5,974,317)
Net Position of Governmental Activities	\$	5,798,866

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

CITY OF PENITAS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund	Penitas Redevelopment Authority	GLO-CDR Grant Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 1,552,621	\$ 306,448	\$ -
General Sales and Use Taxes	1,172,296	-	-
Franchise Tax	195,768	-	-
Licenses and Permits	181,505	-	-
Intergovernmental Revenue and Grants	869,915	-	1,755,173
Charges for Services	338,757	-	-
Fines	4,199	-	-
Investment Earnings	2,811	-	151
Contributions & Donations from Private Sources	7,470	-	-
Other Revenue	-	-	-
Total Revenues	<u>4,325,342</u>	<u>306,448</u>	<u>1,755,324</u>
EXPENDITURES:			
Current:			
General Government	3,383,053	-	1,742,506
Public Safety	1,566,869	-	-
Public Works:			
Highways and Streets	579,939	-	-
Culture and Recreation	168,504	-	-
Debt Service:			
Principal on Debt	188,500	-	-
Interest on Debt	36,551	-	-
Other Debt Service	-	-	-
Total Expenditures	<u>5,923,416</u>	<u>-</u>	<u>1,742,506</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,598,074)</u>	<u>306,448</u>	<u>12,818</u>
OTHER FINANCING SOURCES (USES):			
Issuance of Bonds	790,775	-	-
Transfers In	1,413,947	-	200
Transfers Out	(200)	-	(12,617)
Total Other Financing Sources (Uses)	<u>2,204,522</u>	<u>-</u>	<u>(12,417)</u>
Net Change in Fund Balances	<u>606,448</u>	<u>306,448</u>	<u>401</u>
Fund Balance - October 1 (Beginning)	(312,807)	236,537	-
Adjustments and Restatements	-	-	37
Restated and/or Adjusted Beginning Fund Balance	<u>(312,807)</u>	<u>236,537</u>	<u>37</u>
Fund Balance - September 30 (Ending)	<u>\$ 293,641</u>	<u>\$ 542,985</u>	<u>\$ 438</u>

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

Prior Year Major Fund EDC-4A	Prior Year Major Fund EDC-4B	Capital Projects Fund	Other Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,859,069
-	-	-	955,024	2,127,320
-	-	-	-	195,768
-	-	-	-	181,505
-	-	-	-	2,625,088
-	-	-	-	338,757
-	-	-	-	4,199
-	-	126,203	7,916	137,081
-	-	-	-	7,470
-	-	-	280,224	280,224
-	-	126,203	1,243,164	7,756,481
-	-	1,217,130	-	6,342,689
-	-	-	-	1,566,869
-	-	-	-	579,939
-	-	-	-	168,504
-	-	-	55,001	243,501
-	-	170,675	353,194	560,420
-	-	579,325	-	579,325
-	-	1,967,130	408,195	10,041,247
-	-	(1,840,927)	834,969	(2,284,766)
-	-	10,000,000	-	10,790,775
-	-	-	-	1,414,147
-	-	-	(835,199)	(848,016)
-	-	10,000,000	(835,199)	11,356,906
-	-	8,159,073	(230)	9,072,140
272,129	264,446	-	90,658	550,963
(272,129)	(264,446)	-	536,538	-
-	-	-	627,196	550,963
\$ -	\$ -	\$ 8,159,073	\$ 626,966	\$ 9,623,103

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CITY OF PENITAS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

Total Net Change in Fund Balances - Governmental Funds	\$	9,072,140
<p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.</p>		
		-0-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2025 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>		
		(725,699)
<p>The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/24 caused the change in the ending net position to increase in the amount of \$24,536. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$26,136). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by \$19,720. The result of these changes is to increase/(decrease) the change in net position by \$18,120.</p>		
		18,120
<p>The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/24 caused the change in the ending net position to increase in the amount of \$904. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling (\$1,154). The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense increased/(decreased) the change in net position by (\$2,397). The result of these changes is to increase/(decrease) the change in net position by (\$2,647).</p>		
		(2,647)
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.</p>		
		(257,324)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.</p>		
		(6,259,895)
Change in Net Position of Governmental Activities	\$	1,844,695

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

CITY OF PENITAS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2025

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 205
Accounts Receivable, Net	41,070
Total Current Assets	<u>41,275</u>
Noncurrent Assets:	
Capital Assets:	
Land	130,000
Buildings & Improvements	4,063,475
Infrastructure	19,584,087
Accumulated Depreciation	(6,755,808)
Total Noncurrent Assets	<u>17,021,754</u>
Total Assets	<u>17,063,029</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	22,143
Deferred Outflow Related to OPEB	8,040
Total Deferred Outflows of Resources	<u>30,183</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	840
Wages and Salaries Payable	10,810
Due to Other Funds	98,619
Accrued Interest Payable	111,725
Bonds Payable - Current	106,000
Total Current Liabilities	<u>327,994</u>
Noncurrent Liabilities:	
Due In More Than One Year	4,411,868
Net Pension Liability	3,785
Net OPEB Liability	21,142
Total Noncurrent Liabilities	<u>4,436,795</u>
Total Liabilities	<u>4,764,789</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	56,298
Deferred Inflow Related to OPEB	11,887
Total Deferred Inflows of Resources	<u>68,185</u>
NET POSITION	
Net Investment in Capital Assets and Lease Assets	12,503,886
Unrestricted	(243,649)
Total Net Position	<u>\$ 12,260,237</u>

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

CITY OF PENITAS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

EXHIBIT D-2

	Business-Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Services	\$ 614,394
Total Operating Revenues	614,394
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	159,120
Personnel Services - Employee Benefits	66,833
Depreciation	775,803
Total Operating Expenses	1,001,756
Operating Income (Loss)	(387,362)
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	122
Interest Expense - Nonoperating	(263,089)
Total NonOperating Revenue (Expenses)	(262,967)
Income (Loss) Before Transfers	(650,329)
Transfers Out	(566,132)
Change in Net Position	(1,216,461)
Total Net Position - October 1 (Beginning)	13,476,698
Total Net Position - September 30 (Ending)	\$ 12,260,237

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

CITY OF PENITAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

EXHIBIT D-3

	Business-Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 614,394
Cash Payments to Employees for Services	(241,424)
Cash Payments for Other Operating Expenses	559,320
Net Cash Provided by Operating Activities	932,290
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(566,132)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Principal Paid on Long-Term Debt	(103,000)
Interest Paid on Long-Term Debt	(263,089)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(366,089)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	122
Net Increase in Cash and Cash Equivalents	191
Cash and Cash Equivalents at Beginning of Year	14
Cash and Cash Equivalents at End of Year	\$ 205
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss)	\$ (387,362)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	775,803
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	533,174
Increase (Decrease) in Accounts Payable	26,146
Increase (Decrease) in Payroll Deductions	(15,471)
Net Cash Provided by Operating Activities	\$ 932,290

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

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CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The citizens of the City voted on May 12, 2012 to incorporate the City of Penitas, Texas. The City operates under a Home Rule Charter with a Mayor – City Council form of government.

The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Enterprise funds are used to account for the operations of its utility operations.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units by the Financial Accounting Standards Board (FASB), when applicable.

B. Financial Reporting Entity

The City's Financial reporting entity comprises the following: Primary

Government: City of Penitas

The City's basic financial statements include the accounts of all City Operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The City holds the corporate powers of the organization.
- The City appoints a voting majority of the organization's board.
- The City is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the City.
- There is a fiscal dependency by the organization on the City.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City's blended component units are the Penitas Corporation, a 4A corporation, and the Development Corporation of Penitas, a 4B corporation and Penitas Redevelopment Authority. Both Corporations promote the economic interest and developments of the City and collect sales taxes under section 4B of the Development Corporation Act of 1979 for these purposes. The Redevelopment Authority is organized to promote the common good and general welfare of Reinvestment Zone Number One and neighboring areas on behalf of the City.

The reason they are classified as blended component units is because the City appoints all board members and can remove them at will. Some of the city officials serve in the governing bodies.

C. Government – Wide and Fund Financial Statements

The government-wide financial statements include the statement of the net position and the statement of activities. These statements report information on all of the non- fiduciary financial information for the City and its component units. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Eliminations have been made to minimize the double-counting of internal activities. Individual funds are not displayed, but the statements distinguish governmental activities (generally supported by taxes and the city general revenue) from business-type activities (generally financed in whole or in part with fees charged to external customers). The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues includes

1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues. The fund financial statements provide reports on the financial condition and results of operations about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increase(revenues) and decrease(expenses) in net total assets.

Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. The City considers property recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are sales taxes, franchise taxes, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

E. Fund Accounting

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

The City has reported the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Penitas Redevelopment Authority Fund – The fund is a special revenue fund to account for the property taxes levied and collected on property taxable in the Reinvestment Zone. Since the tax increments are approved specifically for such expenditures, the Redevelopment Authority is considered a Special Revenue Fund.

GLO-CDR Grant Fund – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods

Capital Projects Fund – This fund is a capital projects fund. It is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

The City has reported the following major proprietary funds:

Utility Fund - The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and 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 finance through charges to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the funds.

Additionally, the City reports the following fund type(s):

Special Revenue Funds – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Debt Service Fund – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

F. Assets, Liabilities and Net Position or Equity

b. Cash and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash are available upon demand and are considered to be "cash equivalents" when preparing financial statements. All investments are recorded at fair value based on quoted market prices. Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

c. 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 located in the City 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. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Taxable property includes real property and certain personal property situated in the City. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to county-wide revaluation every five years. The effective rate is based upon the previous year's total assessed valuation.

Allowances for uncollectible tax receivables within the General and Debt Service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and included as part of the allowance for uncollectible; except for tax receivables over 20 years the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The City does not write off tax receivables greater than 20 years.

d. Inventories

The inventories are recorded at cost and are accounted for by the consumption period.

e. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds".

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectible.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

f. Transactions between Funds

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

g. Capital Assets

Capital assets, which include land, buildings, improvements, infrastructure, machinery and equipment, and right-to-use lease assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation.

The City has determined that certain historical cost records for capital assets are not available. Accordingly, management has recorded these assets using estimated historical cost based on available information. The estimation methods include the use of current replacement cost deflated to estimated acquisition dates and other reasonable methodologies. Because of the lack of sufficient supporting documentation for certain capital asset balances, the auditor was unable to obtain sufficient appropriate audit evidence to support the recorded amounts of those assets, related accumulated depreciation, and depreciation expense.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Infrastructure	30 Years
Improvements	20 Years
Water and Sewer System	30-50
Years Machinery and Equipment	3-15 Years

Right-to-use lease assets and SBITA assets are depreciated/amortized using the straight line method over the term of the respective agreements.

h. Compensated Absences

The City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences, during the fiscal year ended September 30, 2025. This statement requires that liabilities for compensated absences be recognized for leave that has been earned but not used, as well as leave that has been used but not yet paid, based on employees' current pay rates. The City has a policy that permits employees to accumulate earned but unused vacation and certain sick leave benefits. These benefits are generally payable upon separation from service, subject to applicable limitations. A liability for compensated absences is recorded in the government-wide financial statements for the amount of leave that has been earned but not used. The liability is measured using employees' current rates of pay and includes applicable salary-related payments. In the governmental fund financial statements, expenditures for compensated absences are recognized only to the extent that they are expected to be liquidated with expendable available financial resources.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

i. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term obligations are reported as liabilities. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

j. Restricted Assets

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service and/or capital projects, payments and/or purchases.

k. Net Position/ Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outsource parties for use for a specific purpose.

l. Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

m. Net Pension Liability

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 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.

n. Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONT'D

o. GASB Statement No. 100

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, was adopted effective July 1, 2023. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information form making decisions or assessing accountability.

p. Implementation of New Standards

GASB Statement No. 101, *Compensated Absences*

In the current fiscal year, the City implemented GASB Statement No. 101, *Compensated Absences*. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not paid in cash or settled through noncash means. A liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – should not be recognized until the leave commences. A liability for specific types of compensated absences should not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and for all reporting periods thereafter.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

GASB Statement No. 102, *Certain Risk Disclosure*

In the current fiscal year, the City implemented GASB Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date of the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to the financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements.
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

a. Budgetary Data

The City Council adopts an "appropriated budget" for the General Fund. In accordance with Government Accounting Board (GASB) Statement #34, a City is required to present the adopted and final amended budgeted revenues and expenditures.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

a. Budgetary Data (Continued)

4. Budgeted amounts are amended by the Council. All budget appropriations lapse at year end.

b. Budget Basis of Accounting

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the City’s method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are stated in the statement and schedules associated with the analysis of actual results to the budgeted expectations.

Excess of Expenditures over Appropriations

General Fund expenditures exceeded appropriations by the amounts noted below:

Department	Expenditures Over Appropriations
General Government	\$ (2,254,426)
Culture and Recreation	(24,791)

c. Deficit Fund Balance

None noted at fiscal year end September 30, 2025.

d. General Fund’s Fund Balance Policy

The City has adopted GASB 54 as part of its fiscal ending September 30, 2011. Implementation of GASB 54 is required of all cities for the fiscal year ending in 2011. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City’s financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances with are non-spendable and spendable.

Non-spendable fund balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, noncurrent advances to other funds that are not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. The City does not have any non-spendable fund balances. In addition to non-spendable fund balance, GASB has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

-Restricted: Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation. All of the City's restricted funds are from Special Revenue Funds, whose funds are revenues legally restricted to expenditures for a particular purpose.

-Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority. The responsibility to commit funds rests with the elected City Commissioners and Mayor. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. The City had no such fund.

-Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Manager. The only funds assigned relate to the accumulation of funds for future capital projects.

-Unassigned: Fund balance of the general fund that is not constrained for any particular purpose. This is also where negative amounts from the other categories of fund balance are recognized. When an expense is incurred for purposes which both restricted and unrestricted net position are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of assigned, then unassigned, and finally committed funds.

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS

- a. City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2025, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings account included in temporary investments) was \$8,631,630 and the bank balance was \$9,666,299.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

III. DETAILED NOTES ON FUNDS AND COMPONENT UNITS (Continued)

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk. As of September 30, 2025, the City's bank balance was not exposed to custodial credit risk and was over-insured and over-collateralized, by FDIC insurance and pledged securities held by financial institutions.

a. Investments

The City is required by Government Code Chapter 2256, the public Funds Investment Act ("Act"), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management and include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establish appropriate policies. The City adheres to the requirements of the Act. Additionally, investment practices of the City are in accordance with local policies and are followed when investments are present.

The City was in compliance with the Investment Act.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

i. Interest Rate Risk

This is the risk that changes in interest will adversely affect the fair value of an Investment. At year end, the City was not exposed to interest rate risk. The City's investment policy states that no investment shall exceed 24 months in maturity. By limiting the exposure of its investments, the City reduces its risks to the rising or decreasing interest rates.

ii. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

iii. Custodial Credit Risk

Deposits and investments are exposed to custodial credit risk if they are not covered by the depository insurance and the deposits and investments are uncollateralized, collateralized with securities held by the pledging financial institution, trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

iv. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was exposed to concentration of credit risk, but highly collateralized. With the City's investment policy, diversification is stressed. The City was in compliance with its diversification investment guidelines.

v. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the city was not exposed to foreign currency risk.

b. Disaggregation of Receivables and Payables

Receivables for the City at September 30, 2025, were as follows:

	<u>Property Taxes</u>	<u>Sales and Franchise Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 186,534	\$ 283,472	\$ 862,350	\$ 517,698	\$ -	\$ 1,850,054
Special Revenue Fund	-	176,017	322,161	1,114,959	-	1,613,137
Debt Service Fund	8,660	-	-	-	-	8,660
Enterprise Fund	-	-	-	-	41,070	41,070
Total Receivables	<u>\$ 195,194</u>	<u>\$ 459,489</u>	<u>\$ 1,184,511</u>	<u>\$ 1,632,657</u>	<u>\$ 41,070</u>	<u>\$ 3,512,921</u>

Payables for the City at September 30, 2025, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 206,709	\$ 69,352	\$ 1,114,959	\$ -	\$ 1,391,020
Special Revenue Fund	323,892	-	419,079	150,988	893,959
Enterprise Fund	840	10,810	98,619	-	110,269
Total Payable	<u>\$ 531,441</u>	<u>\$ 80,162</u>	<u>\$ 1,632,657</u>	<u>\$ 150,988</u>	<u>\$ 2,395,248</u>

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

c. Deferred Outflows and 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 (expenses/expenditures) until then. The City has two items that qualify for reporting in this category, one is related to the City's net pension liability and the other is related to the City's net OPEB liability and both are reported on the government-wide statements of net position. This deferred outflow includes City contributions to the retirement systems contributed subsequent to the measurement date of the net pension liability and net OPEB liability, as of September 30, 2025, the City's deferred outflows totaled \$35,184.

In addition to liabilities, the statement of financial 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 period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has two items that qualify for reporting in this category, one of which are reported on the government wide statements of net position and the other reported on the balance sheet at the governmental fund level.

Government-wide statements

One is the deferred inflow related to the net position liability and net OPEB liability and is the difference between expected and actual economic experiences and changes in actual earnings. This is amortized over subsequent accounting periods as determined by the actuary. As of September 30, 2025, the City's deferred inflow totaled \$68,181.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of September 30, 2025, the City's deferred inflowed totaled \$195,194.

Business-Type Activities

Deferred Outflows for Business-Type Activities was \$30,183 and Deferred Inflows for Business-Type Activities was \$68,185 as of September 30, 2025.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

d. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

	Special Revenue Funds	Total
Governmental		
Urban County	\$ -	\$ -
Total Deferred Revenue	\$ -	\$ -

e. Due from Other Funds

The City reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net position / balance sheets for governmental and proprietary funds. The interfund balances are operational and short-term in nature. Interfund balances represent short-term lending/borrowing arrangements between funds and are expected to be repaid within one year.

These balances primarily result from the timing of revenue receipts and expenditures and are not indicative of long-term financing arrangements.

Management intends to settle these balances through future budgeted transfers or reimbursements.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

f. Capital Assets

Governmental Activities

	Beginning Balance October 1, 2024	Additions	Adjustments/ Deletions	Ending Balance September 30, 2025
Governmental Activities:				
Capital Assets, not being depreciated or amortized:				
Land	\$ 3,764,791	\$ -	\$ -	\$ 3,764,791
Construction in Progress	755,188	3,575,311	-	4,330,499
Total Capital assets, not being depreciated amortized	<u>4,519,979</u>	<u>3,575,311</u>	<u>-</u>	<u>8,095,290</u>
Capital Asset being depreciated or amortized:				
Buildings	1,899,670	-	-	1,899,670
Infrastructure	3,279,679	-	-	3,279,679
Machinery and Equipment	2,051,661	255,179	-	2,306,840
Right-to-use lease asset	100,742	-	-	100,742
Total capital assets, being depreciated or amortized	<u>7,331,751</u>	<u>255,179</u>	<u>-</u>	<u>7,586,930</u>
Less accumulated depreciation and amortization for:				
Buildings	(1,117,642)	(73,582)	-	(1,191,224)
Infrastructure	(1,320,526)	(117,357)	-	(1,437,883)
Machinery and Equipment	(1,185,964)	(46,237)	-	(1,232,201)
Right-to-use lease asset	(58,766)	(20,148)	-	(78,914)
Total accumulated depreciation and amortization	<u>(3,682,898)</u>	<u>(257,324)</u>	<u>-</u>	<u>(3,940,221)</u>
Total capital assets being depreciated and amortized, net	3,648,853	(2,145)	-	3,646,708
Governmental activities capital assets, net	<u>\$ 8,168,832</u>	<u>\$ 3,573,166</u>	<u>\$ -</u>	<u>\$ 11,741,998</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 128,790
Public Safety	100,093
Highways and Streets	20,263
Economic Development and Assistance	2,344
Culture, Recreation and Parks	5,834
Total Depreciation Expense - Governmental Activities	<u>\$ 257,324</u>

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Capital Assets(continued)

Business-type Activities

	<u>Beginning Balance October 1, 2024</u>	<u>Additions</u>	<u>Adjsutments/ Deletions</u>	<u>Ending Balance September 30, 2025</u>
Business-type Activities				
Capital Assets, not being depreciated:				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Total Capital assets, not being depreciated	<u>130,000</u>	<u>-</u>	<u>-</u>	<u>130,000</u>
Capital Asset being depreciated:				
Buildings	4,063,475	-	-	4,063,475
Infrastructure	19,584,087	-	-	19,584,087
Total capital assets, being depreciated	<u>23,647,562</u>	<u>-</u>	<u>-</u>	<u>23,647,562</u>
Less accumulated depreciation for:				
Buildings	(1,410,384)	(123,000)	-	(1,533,384)
Infrastructure	(4,569,621)	(652,803)	-	(5,222,424)
Total accumulated depreciation	<u>(5,980,005)</u>	<u>(775,803)</u>	<u>-</u>	<u>(6,755,808)</u>
Total capital assets being depreciated, net	17,667,557	(775,803)	-	16,891,754
Business-type activities capital assets, net	<u>\$ 17,797,557</u>	<u>\$ (775,803)</u>	<u>\$ -</u>	<u>\$ 17,021,754</u>

Depreciation expense was charged to business-type activities as follows:

Business-Type Activities:

 Utility Fund

 Total Depreciation Expense - Business-Type Activities

\$ 775,803

\$ 775,803

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

i. Long Terms Obligations

A. Changes in Long-Term Liabilities

Long-Term liability activity for the year ended September 30, 2025, was as follows:

	Beginning Balance October 1, 2024	Additions	Adjustments/ Reductions	Ending Balance September 30, 2025	Due Within One Year
Governmental Activities:					
Bonds Payable	\$ 4,680,000	\$ 10,000,000	\$ 55,000	\$ 14,625,000	\$ 45,000
Tax Notes Payable	-	790,775	117,239	673,536	\$ 147,210
Notes Payable	75,000	-	-	75,000	75,000
Financing Arrangements	177,740	-	50,873	126,868	52,934
Right-to-use lease payable	45,064	-	20,389	24,675	21,090
Compensated Absences	-	130,121	-	130,121	32,530
Total Long-Term Debt payable	<u>4,977,805</u>	<u>10,920,896</u>	<u>243,501</u>	<u>15,655,200</u>	<u>373,764</u>
Other long-term liabilities					
Net pension liability	40,628	-	36,843	3,785	-
Net OPEB liability	17,610	3,533	-	21,143	-
Total other long-term liabilities	<u>58,238</u>	<u>3,533</u>	<u>36,843</u>	<u>24,928</u>	<u>-</u>
Total Governmental Activities	<u>\$ 5,036,043</u>	<u>\$ 10,924,429</u>	<u>\$ 280,344</u>	<u>\$ 15,680,128</u>	<u>\$ 373,764</u>
	Beginning Balance October 1, 2024	Additions	Reductions	Ending Balance September 30, 2025	Due Within One Year
Business-Type Activities					
Bonds Payable	\$ 4,620,868	\$ -	\$ 103,000	\$ 4,517,868	\$ 106,000
Total bonds and leases payable	<u>4,620,868</u>	<u>-</u>	<u>103,000</u>	<u>4,517,868</u>	<u>106,000</u>
Other long-term liabilities					
Net pension liability	40,627	-	36,842	3,785	-
Net OPEB liability	17,609	3,533	-	21,142	-
Total other long-term liabilities	<u>58,236</u>	<u>3,533</u>	<u>36,842</u>	<u>24,927</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 4,679,104</u>	<u>\$ 3,533</u>	<u>\$ 139,842</u>	<u>\$ 4,542,795</u>	<u>\$ 106,000</u>

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

i. Long Terms Obligations (Continued)

B. Governmental Activities Debt

Notes and Financing Arrangements

The City has various note payable and financing arrangements related to equipment and capital acquisitions:

- Note Payable to Mil Encinos bearing an interest at 3.5%
- Financing arrangement payable in monthly installments of approximately \$4,752, including interest at 3.971%.

Debt Service Requirements – Notes and Financing Arrangements

Year Ending September 30	Governmental Activities	
	Prinicpal	Interest
2026	\$ 127,935	\$ 4,089
2027	55,080	1,944
2028	18,853	157
2029	-	-
2030	-	-
Thereafter	-	-
Total	\$ 201,868	\$ 6,190

Bonds Payable

Governmental bond obligations consist of the following:

- \$2,380,000 Sales Tax Revenue and Refunding Bonds, Series 2024
- \$2,300,000 Sales Tax Revenue Bonds, Series 2024
- \$10,000,000 Certificates of Obligation, Series 2025
- \$790,775 Limited Tax Notes, Series 2024

Collateral and Pledged Revenues (GASB 88)

Certain long-term obligations of the City are secured by and payable from specific collateral and pledged revenue sources as follows:

- **Limited Tax Notes**

The Limited Tax Notes are secured by and payable from a continuing direct annual ad valorem tax levy on all taxable property within the City, which is levied in amounts sufficient to provide for the payment of principal and interest as they become due.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

B. Governmental Activities Debt (Continued)

Collateral and Pledged Revenues (GASB 88) (Continued)

- **Sales Tax Revenue Bonds (4A and 4B Corporations)**

The Sales Tax Revenue Bonds are secured by and payable solely from pledged sales and use tax revenues derived from authorized local sales taxes. These revenues are legally restricted and dedicated for repayment of the bonds.

The 4A and 4B Corporation debt is reported as part of the City’s governmental activities as blended component units; however, such debt is payable solely from pledged sales and use tax revenues and does not constitute a general obligation of the City or a pledge of the City’s full faith and credit. In fiscal year 2024, the City issued Sales Tax Revenue Bonds (4A), a portion of which was used to refund prior obligations, including a Texas Leverage Fund loan. As a result, the refunded debt is no longer outstanding as of September 30, 2025.

- **Certificates of Obligation**

The Certificates of Obligation are secured by and payable from a combination of ad valorem taxes and general revenues of the City, within the limits prescribed by law.

Debt Service Requirements – Governmental Bonds

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 192,210	\$ 943,869
2027	205,948	940,325
2028	220,205	936,388
2029	250,011	932,056
2030	270,162	926,581
2031	260,000	912,856
2032	270,000	897,844
Thereafter	13,630,000	12,839,846
Total	\$ 15,298,536	\$ 19,329,765

C. Business-Type Activities Debt

Certificates of Obligation (USDA Loans)

The City has entered into direct borrowing arrangements with the United States Department of Agriculture (USDA) to finance utility system improvements.

Outstanding obligations include:

- \$1,364,000 loan, interest rate 3.75%, maturity 2050
- \$460,000 loan, interest rate 4.50%, maturity 2050
- \$1,605,000 loan, interest rate 3.00%, maturity 2050
- \$2,250,000 loan, interest rate 3.00%, maturity 2053

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Collateral and Pledged Revenues (GASB 88)

- **USDA Certificates of Obligation (Direct Borrowings)**

The USDA loans are secured by and payable from the net revenues of the City’s water and sewer utility system. In addition, certain agreements provide for a statutory lien on system revenues and, where applicable, utility system assets.

The City is required under these agreements to:

- Establish and maintain rates and charges sufficient to produce adequate revenues to meet debt service requirements.
- Maintain the utility system in good repair and operating condition
- Comply with restrictions on the issuance of additional parity debt.

Debt Service Requirements – Business-Type Activities

<u>Year Ending September 30</u>	Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>
2026	\$ 106,000	\$ 160,935
2027	590,000	747,094
2028	708,000	639,093
2029	851,000	508,208
2030	1,027,000	349,425
2031	1,129,868	156,394
2032	106,000	6,975
Thereafter	-	-
Total	<u>\$ 4,517,868</u>	<u>\$ 2,568,124</u>

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

D. Direct Borrowings and Placements (GASB 88)

The City’s USDA loans are considered direct borrowings. These agreements contain provisions that:

- Require maintenance of adequate utility revenues and rate structures
- Restrict issuance of additional debt without lender approval
- Allow the lender to accelerate repayment upon default
- Require continued operation and maintenance of the system

Upon the occurrence of an event of default, the lender may declare the outstanding balance immediately due and payable and pursue remedies as permitted under the agreements.

As of September 30, 2025:

- The City was in compliance with all debt covenants
- No events of default or acceleration occurred.

E. Right-to-Use Lease Liabilities

The City leases land for police substation under agreements with a 5-year term. Monthly payments average approximately \$1,800, including interest at approximately 3.39%.

No assets are pledged as collateral for these lease liabilities.

Future Lease Payments

Year Ending September 30	Governmental Activities	
	Principial	Interest
2026	\$ 21,090	\$ 510
2027	3,585	15
2028	-	-
2029	-	-
2030	-	-
Thereafter	-	-
Total	\$ 24,675	\$ 525

F. Risk and Other Disclosures

- All outstanding debt is fixed-rate, and the City is not exposed to interest rate risk
- The City has no unused lines of credit or standby liquidity arrangements
- Debt is structured with scheduled repayments through 2055
- No defaults or covenant violations occurred during the fiscal year.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

j. Tax Increment Reinvestment Zone

The City of Penitas, on December 26, 2006 executed a Tri-Party agreement between the City of Penitas and the Penitas Redevelopment authority. This hereby created and established in the depository bank, a fund to call the “REINVESTMENT ZONE NUMBER ONE, CITY OF PENITAS, TEXAS, TEXAS TAX INCREMENT FUND” (HEREIN CALLED THE “Tax Increment Fund”). Money in the Tax Increment Fund, from whatever source, may be disbursed from the Tax Increment Fund, invested and paid as permitted by the Act or by any agreements entered into pursuant to the Act, or as otherwise authorized by law.

k. Litigation

From time to time, the City is involved in routine litigation that arises in the ordinary course of operations. There are no pending significant legal proceedings to which the City is a party for which management believes the ultimate outcome would have a material adverse effect on the City’s financial position.

Arbitrage

The City has issued long-term debt for capital construction projects. These bonds are subject to the arbitrage regulations. Arbitrage regulations call for the return call for the return of the difference in interest revenue against interest expense. At September 30, 2025, there was no liability of arbitrage that would have been owed to the federal government.

l. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and commissions, injuries to employees (workman’s compensation), and natural disasters. During the fiscal year, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in exceeded coverage in any of the past three fiscal years. A copy of TML’s comprehensive annual report may be obtained by request at the following address:

Texas Municipal League
1821 Rutherford Lane, Suite 400
Austin, TX 78754-5128

m. Urban Country

The City of Penitas, Texas and other municipalities in Hidalgo Country participate in the Hidalgo Country’s “Urban Country” program. By being designed ad an “Urban Country”, Hidalgo Country and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from the U.S Department of Housing and Urban Development (HUD).

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the Urban County Program in its audit report as per CDBG guidelines. All monies received from HUD on this program are handled by county. The County pays the vendors or contractors directly for goods or services which benefit the difference cities. The County also reimburses the Cities for general administration cost incurred by those cities.

n. Affiliated Party Transactions

The Penitas Redevelopment Authority currently has a board member who is employed by Mil Encinos Development Ltd., who is in agreement with the Authority to undertake certain improvements within the Zone, and who currently has outstanding claims deemed eligible by Development Agreements with the Authority. The same board member also is employed by D&S Enterprise, G.E. Bell Properties and Gerald E. Bell Trust; all of which are current landowners with properties located inside the Authority, but currently have no claims associated with the Development Agreements.

p. Pension Plan

A. Plan Description

The City of Penitas participates as one of 938 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

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

B. Benefits Provided

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

At retirement, the member's benefit is calculated based on the sum of the Member's contributions with interest, the city-financed monetary credits with interest. The retiring member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total member's contributions and interest.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Plan Provisions:

The plan provisions are adopted by the governing body of the City of Penitas, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2024	Plan Year 2025
Employee Deposit Rate	6.00%	6.00%
Matching Ratio (City to Employee)	1.5 to 1	1.5 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20	60/5,0/20
Updated Service Credit	0% Repeating, Transfers	0% Repeating, Transfers
Annuity Increase (to Retirees)	0% of CPI Repeating	0% of CPI Repeating

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	47
Active employees	46
Total	96

C. Contributions

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

Employees for the City of Penitas were required to contribute 6.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Penitas were 3.85% and 3.80% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were \$66,335 and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Actuarial assumptions:

The Total Pension Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall Payroll Growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with 110% of the Public Safety table used for males and 100% of 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by the most recent Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018, to December 31, 2022. The assumptions were adopted 2023 and first used in the December 31, 2023, actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Private Debt	13.0%	8.20%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other Private Markets	4.0%	7.30%
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 Member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2023	\$ 1,426,927	\$ 1,345,672	\$ 81,255
Changes for the year:			
Service cost	172,483	-	172,483
Interest	100,055	-	100,055
Change of benefit terms	-	-	-
Difference between expected and actual experience	(27,980)	-	(27,980)
Changes of assumptions	-	-	-
Contributions - employer	-	69,535	(69,535)
Contributions - employee	-	108,366	(108,366)
Net investment income	-	141,260	(141,260)
Benefit payments, including refunds of employee contributions	(61,730)	(61,730)	-
Administrative expense	-	(897)	897
Other changes	-	(21)	21
Net changes	182,828	256,513	(73,685)
Balance at 12/31/2024	\$ 1,609,755	\$ 1,602,185	\$ 7,570

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 289,034	\$ 7,570	\$ (517,788)

Pension Plan Fiduciary Net Position:

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

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

For the year ended September 30, 2025, the City recognized pension expense of \$30,089.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 215	\$ 85,092
Changes in actuarial assumptions	-	1,892
Difference between projected and actual investment earnings (net of current year amortization)	-	25,610
Contributions subsequent to the measurement date	49,071	-
Total	\$ 49,286	\$ 112,594

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

\$49,071 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2026	\$ (43,230)
2027	(23,556)
2028	(32,734)
2029	(12,859)
2030	-
Thereafter	-

q. Other Post Employment Benefits (OPEB)

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

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

Employees covered by benefit terms

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4	
Inactive employees entitled to but not yet receiving benefits	4	
Active employees	46	
Total	54	

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Contributions

Employees for the City of Penitas were required to contribute 0.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.17% and 0.14% in calendar year 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were \$2,570 and were equal to the required contributions.

Net Pension Liability

The City's Net OPEB Liability was measured as of December 31, 2023, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall Payroll Growth	3.60% to 11.85% per year - including inflation
Discount rate*	4.08%
Retiree's share of benefit related costs	\$0

**The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2024.*

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

Mortality rates – service retirees – 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Mortality rates – disabled retirees – 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.77%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

Total OPEB Liability:

	Increase (Decrease) Total OPEB Liability
Balance at 12/31/2023	\$ 35,219
Changes for the year:	
Service cost	4,696
Interest	1,413
Change of benefit terms	-
Difference between expected and actual experience	3,965
Changes of assumptions	(2,828)
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	(181)
Administrative expense	-
Other changes	-
Net changes	7,065
Balance at 12/31/2024	\$ 42,284

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 3.77%, 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 (2.77%) or 1 percentage point higher (4.77%) than the current rate:

	1% Decrease in Discount Rate (2.77%)	Discount Rate (3.77%)	1% Increase in Discount Rate (4.77%)
City's total OPEB liability	\$ 52,543	\$ 42,284	\$ 34,535

**CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

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

For the year ended September 30, 2025, the City recognized OPEB expense in the amount of \$4,976.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 3,937	\$ 6,136
Changes in actuarial assumptions	10,336	17,636
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	1,808	-
Total	\$ 16,081	\$ 23,772

\$1,808 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended September 30:	
2026	\$ (1,133)
2027	(1,133)
2028	(1,133)
2029	(1,141)
2030	(1,491)
Thereafter	(3,468)

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

IV. DETAILED NOTES ON FUNDS AND COMPONENT UNITS CONT'D

r. GASB 87

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, the City recognizes a lease liability and an intangible right-to-use lease asset for leases with a term greater than twelve months.

The lease liability is initially measured at the present value of payments expected to be made during the lease term. The lease liability is measured using the interest rate charged by the lessor, if known, or the City's incremental borrowing rate. The right-to-use lease asset is measured at the amount of the initial lease liability, plus any lease payments made at or before the commencement of the lease term and certain direct costs. The right-to-use lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset. Interest included in lease payments is recognized as an expense over the life of the lease using the effective interest method. For government-wide financial statements, the lease liability and related right-to-use lease asset are reported in the Statement of Net Position.

For governmental fund financial statements, the initial recognition of a lease results in an other financing source equal to the present value of the lease liability at the commencement of the lease term. Lease payments are reported as principal and interest expenditures during the reporting period. The lease term includes the noncancelable period during which the City has the right to use the underlying asset, together with any periods covered by options to extend the lease if it is reasonably certain those options will be exercised, as well as periods covered by options to terminate the lease if it is reasonably certain those options will not be exercised.

Leases that meet the definition of short-term leases under GASB Statement No. 87 are not recorded as lease liabilities or right-to-use lease assets. Additional information regarding the City's lease assets, accumulated amortization, lease liabilities, and future payment requirements is presented in Note J.

s. GASB 96

Subscription-based information technology arrangements (SBITAs) are contracts that convey control of the right to use another party's information technology software for a period of time in an exchange or exchange-like transaction. In accordance with GASB Statement No. 96, the City recognizes a subscription liability and an intangible right-to-use subscription asset for long-term SBITAs. The subscription liability is measured at the present value of expected subscription payments over the term of the arrangement, and interest included in the payments is recognized as interest expense over the life of the agreement. Short-term SBITAs are recognized as expenditures or expenses when incurred.

CITY OF PENITAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

s. GASB 96 (Continued)

The City has evaluated its subscription-based information technology arrangements (SBITAs) under GASB Statement No. 96, Subscription-Based Information Technology Arrangements. The City has determined that it does not have any material SBITAs requiring recognition as of September 30, 2025.

t. Changes Within the Financial Reporting Entity

The Penitas EDC-4A Fund and Penitas EDC-4B Fund were reported as major governmental funds in the prior year, while the GLO-CDR Grant Fund was reported as a nonmajor governmental fund. In the current year, the GLO-CDR Grant Fund met the quantitative criteria for major fund reporting and is therefore presented as a major governmental fund. As a result, the Penitas EDC-4A Fund and Penitas EDC-4B Fund are presented as nonmajor governmental funds.

	9/30/2024 As Previously Reported	Change Within Financial Reporting Entity	9/30/2024 As Restated
Fund Balances: Governmental Funds			
Major Funds			
General Fund	\$ (312,807)	-	(312,807)
Penitas EDC-4A Fund	272,129	(272,129)	-
Penitas EDC-4B Fund	264,446	(264,446)	-
Penitas Redevelopment Authority	236,537	-	236,537
GLO-CDR Grant Fund	-	37	37
Nonmajor Funds	90,658	536,538	627,196
Total Governmental Funds	<u>\$ 550,963</u>	<u>\$ -</u>	<u>\$ 550,963</u>

u. Evaluation of Subsequent Events

The Council has evaluated subsequent events through March 27, 2026, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PENITAS, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 1,771,316	\$ 1,771,316	\$ 1,552,621	\$ (218,695)
General Sales and Use Taxes	1,137,840	1,137,840	1,172,296	34,456
Franchise Tax	158,500	158,500	195,768	37,268
Licenses and Permits	58,000	58,000	181,505	123,505
Intergovernmental Revenue and Grants	682,074	682,074	869,915	187,841
Charges for Services	-	-	338,757	338,757
Fines	250,500	250,500	4,199	(246,301)
Investment Earnings	-	-	2,811	2,811
Contributions & Donations from Private Sources	22,400	22,400	7,470	(14,930)
Other Revenue	50,594	50,594	-	(50,594)
Total Revenues	<u>4,131,224</u>	<u>4,131,224</u>	<u>4,325,342</u>	<u>194,118</u>
EXPENDITURES:				
Current:				
General Government	1,128,627	1,128,627	3,383,053	(2,254,426)
Public Safety	1,922,066	1,922,066	1,566,869	355,197
Public Works:				
Highways and Streets	694,985	694,985	579,939	115,046
Culture and Recreation	143,713	143,713	168,504	(24,791)
Debt Service:				
Principal on Debt	188,500	188,500	188,500	-
Interest on Debt	36,551	36,551	36,551	-
Other Debt Service	475,317	475,317	-	475,317
Total Expenditures	<u>4,589,759</u>	<u>4,589,759</u>	<u>5,923,416</u>	<u>(1,333,657)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(458,535)</u>	<u>(458,535)</u>	<u>(1,598,074)</u>	<u>(1,139,539)</u>
OTHER FINANCING SOURCES (USES):				
Issuance of Bonds	-	-	790,775	790,775
Transfers In	710,000	710,000	1,413,947	703,947
Transfers Out	(178,315)	(178,315)	(200)	178,115
Total Other Financing Sources (Uses)	<u>531,685</u>	<u>531,685</u>	<u>2,204,522</u>	<u>1,672,837</u>
Net Change	73,150	73,150	606,448	533,298
Fund Balance - October 1 (Beginning)	<u>(312,807)</u>	<u>(312,807)</u>	<u>(312,807)</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ (239,657)</u>	<u>\$ (239,657)</u>	<u>\$ 293,641</u>	<u>\$ 533,298</u>

CITY OF PENITAS, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
A. Total Pension Liability			
Service Cost	\$ 172,483	\$ 171,264	\$ 170,034
Interest (on the Total Pension Liability)	100,055	88,177	75,429
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(27,980)	(35,332)	(21,470)
Changes of Assumptions	-	(3,438)	-
Benefit Payments, Including Refunds of Employee Contributions	(61,730)	(28,864)	(42,651)
Net Change in Total Pension Liability	\$ 182,828	\$ 191,807	\$ 181,342
Total Pension Liability - Beginning	1,426,927	1,235,120	1,053,778
Total Pension Liability - Ending	\$ 1,609,755	\$ 1,426,927	\$ 1,235,120
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 69,535	\$ 69,882	\$ 72,545
Contributions - Employee	108,366	108,624	108,880
Net Investment Income	141,260	125,480	(74,191)
Benefit Payments, Including Refunds of Employee Contributions	(61,730)	(28,864)	(42,651)
Administrative Expense	(897)	(789)	(636)
Other	(21)	(6)	759
Net Change in Plan Fiduciary Net Position	\$ 256,513	\$ 274,327	\$ 64,706
Plan Fiduciary Net Position - Beginning	1,345,672	1,071,345	1,006,639
Plan Fiduciary Net Position - Ending	\$ 1,602,185	\$ 1,345,672	\$ 1,071,345
C. Net Pension Liability	\$ 7,570	\$ 81,255	\$ 163,775
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.53%	94.31%	86.74%
E. Covered Payroll	\$ 1,806,105	\$ 1,810,403	\$ 1,814,665
F. Net Pension Liability as a Percentage of Covered Payroll	0.42%	4.49%	9.03%

Note: GASB Codification, Vol. 2, P20.146 requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

FY 2022 Plan Year 2021		FY 2021 Plan Year 2020		FY 2020 Plan Year 2019		FY 2019 Plan Year 2018		FY 2018 Plan Year 2017		FY 2017 Plan Year 2016	
\$	155,933	\$	144,093	\$	140,351	\$	126,587	\$	133,868	\$	-
	67,852		57,636		45,755		38,702		28,807		-
	-		-		-		-		-		-
	(64,708)		(19,091)		2,615		(55,292)		(9,547)		-
	-		-		(434)		-		-		-
	(65,100)		(9,306)		(19,000)		(5,773)		-		-
\$	93,977	\$	173,332	\$	169,287	\$	104,224	\$	153,128	\$	-
	959,801		786,469		617,182		512,958		359,830		-
\$	1,053,778	\$	959,801	\$	786,469	\$	617,182	\$	512,958	\$	0
\$	66,505	\$	68,575	\$	65,765	\$	64,047	\$	76,517	\$	-
	102,363		95,321		91,833		82,377		86,274		-
	105,009		45,827		62,128		(8,022)		12,550		-
	(65,100)		(9,306)		(19,000)		(5,773)		-		-
	(482)		(294)		(348)		(154)		(65)		-
	3		(11)		(10)		(7)		(3)		-
\$	208,298	\$	200,112	\$	200,368	\$	132,468	\$	175,273	\$	-
	798,341		598,230		397,863		265,395		90,122		-
\$	1,006,639	\$	798,342	\$	598,231	\$	397,863	\$	265,395	\$	0
\$	47,139	\$	161,459	\$	188,238	\$	219,319	\$	247,563	\$	-
	95.53%		83.18%		76.07%		64.46%		51.74%		-
\$	1,706,051	\$	1,588,676	\$	1,530,542	\$	1,372,956	\$	1,437,895	\$	-
	2.76%		10.16%		12.30%		15.97%		17.22%		-

CITY OF PENITAS, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2025

	2025	2024	2023
Actuarially Determined Contribution	\$ 66,335	\$ 73,396	\$ 68,897
Contributions in Relation to the Actuarially Determined Contributions	(66,335)	(73,396)	(68,897)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,739,770	\$ 1,904,980	\$ 1,774,300
Contributions as a Percentage of Covered Payroll	3.81%	3.85%	3.88%

Note: GASB Codification, Vol. 2, P20.146 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

	2022	2021	2020	2019	2018	2017	2016
\$	70,424	\$ 67,841	\$ 61,776	\$ 65,765	\$ 64,047	\$ 76,517	42,559
	(70,424)	(67,841)	(61,776)	(65,765)	(64,047)	(76,517)	(42,559)
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	-
\$	1,783,749	\$ 1,692,393	\$ 1,503,056	\$ 1,530,542	\$ 1,372,956	\$ 1,437,895	792,715
	3.95%	4.01%	4.11%	4.30%	4.66%	5.32%	5.37%

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CITY OF PENITAS, TEXAS
 NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.6% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10 mortality tables, with 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

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

CITY OF PENITAS, TEXAS
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
Total OPEB Liability			
Service Cost	\$ 4,696	\$ 4,164	\$ 8,166
Interest on the Total OPEB Liability	1,413	1,227	839
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	3,965	(639)	(1,436)
Changes of Assumptions	(2,828)	2,354	(20,703)
Benefit Payments*	(181)	(181)	(181)
Net Change in Total OPEB Liability	7,065	6,925	(13,315)
Total OPEB Liability - Beginning	35,219	28,294	41,609
Total OPEB Liability - Ending	<u>\$ 42,284</u>	<u>\$ 35,219</u>	<u>\$ 28,294</u>
Covered Payroll	\$ 1,806,105	\$ 1,810,403	\$ 1,814,665
Total OPEB Liability as a Percentage of Covered Payroll	2.34%	1.95%	1.56%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
\$	6,312	\$ 4,607	\$ 3,673	\$ 3,432	\$ 3,163
	821	829	633	522	399
	-	-	-	-	-
	(4,972)	(2,189)	1,001	(871)	-
	1,640	6,976	7,384	(1,928)	1,540
	(171)	(159)	-	-	-
	3,630	10,064	12,691	1,155	5,102
	37,979	27,915	15,224	14,069	8,967
\$	<u>41,609</u>	<u>\$ 37,979</u>	<u>\$ 27,915</u>	<u>\$ 15,224</u>	<u>\$ 14,069</u>
\$	1,706,051	\$ 1,588,676	\$ 1,530,542	\$ 1,372,956	\$ 1,437,895
	2.44%	2.39%	1.82%	1.11%	0.98%

CITY OF PENITAS, TEXAS
 NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

Valuation Date: Actuarially determined contribution rates are calculated as of December

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	N/A
Amortization Method	N/A
Remaining Amortization Period	N/A
Asset Valuation Method	N/A
Inflation	2.50%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	4.08%
Retirement Age	N/A
Mortality	<p>Mortality rates - service retirees: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).</p> <p>Mortality rates - disabled retirees: 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.</p>

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

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

CITY OF PENITAS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2025

	Crime Control & Prevention Fund	Penitas EDC-4A Fund	Penitas EDC-4B Fund	Police Dept Asset Forf Fund
ASSETS				
Cash and Cash Equivalents	\$ 6	\$ 633	\$ 6	\$ -
Taxes Receivable	-	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Accounts Receivable, Net	100,457	37,780	37,780	-
Restricted Cash and Cash Equivalents	-	229,372	220,932	-
Total Assets	<u>\$ 100,463</u>	<u>\$ 267,785</u>	<u>\$ 258,718</u>	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
Other Restricted Fund Balance	100,463	267,785	258,718	-
Total Fund Balances	<u>100,463</u>	<u>267,785</u>	<u>258,718</u>	<u>-</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 100,463</u>	<u>\$ 267,785</u>	<u>\$ 258,718</u>	<u>\$ -</u>

Prior Year Non-Major GLO Grant Fd	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 645	\$ -	\$ 645
-	-	9,272	9,272
-	-	(612)	(612)
-	176,017	-	176,017
-	450,304	-	450,304
\$ -	\$ 626,966	\$ 8,660	\$ 635,626
-	-	8,660	8,660
-	-	8,660	8,660
-	626,966	-	626,966
-	626,966	-	626,966
\$ -	\$ 626,966	\$ 8,660	\$ 635,626

CITY OF PENITAS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Crime Control & Prevention Fund	Penitas EDC-4A Fund	Penitas EDC-4B Fund	Police Dept Asset Forf Fund
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$ 564,258	\$ 195,383	\$ 195,383	\$ -
Investment Earnings	94	4,889	2,468	-
Other Revenue	-	-	-	-
Total Revenues	<u>564,352</u>	<u>200,272</u>	<u>197,851</u>	<u>-</u>
EXPENDITURES:				
Debt Service:				
Principal on Debt	-	25,000	30,001	-
Interest on Debt	-	179,616	173,578	-
Total Expenditures	<u>-</u>	<u>204,616</u>	<u>203,579</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>564,352</u>	<u>(4,344)</u>	<u>(5,728)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out	<u>(552,816)</u>	<u>-</u>	<u>-</u>	<u>(1,684)</u>
Total Other Financing Sources (Uses)	<u>(552,816)</u>	<u>-</u>	<u>-</u>	<u>(1,684)</u>
Net Change in Fund Balance	11,536	(4,344)	(5,728)	(1,684)
Fund Balance - October 1 (Beginning)	88,927	-	-	1,684
Adjustments and Restatements	<u>-</u>	<u>272,129</u>	<u>264,446</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 100,463</u>	<u>\$ 267,785</u>	<u>\$ 258,718</u>	<u>\$ -</u>

Prior Year Non-Major GLO Grant Fd	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 955,024	\$ -	\$ 955,024
-	7,451	465	7,916
-	-	280,224	280,224
-	<u>962,475</u>	<u>280,689</u>	<u>1,243,164</u>
-	55,001	-	55,001
-	<u>353,194</u>	-	<u>353,194</u>
-	<u>408,195</u>	-	<u>408,195</u>
-	<u>554,280</u>	<u>280,689</u>	<u>834,969</u>
-	<u>(554,500)</u>	<u>(280,699)</u>	<u>(835,199)</u>
-	<u>(554,500)</u>	<u>(280,699)</u>	<u>(835,199)</u>
-	(220)	(10)	(230)
37	90,648	10	90,658
<u>(37)</u>	<u>536,538</u>	<u>-</u>	<u>536,538</u>
<u>\$ -</u>	<u>\$ 626,966</u>	<u>\$ -</u>	<u>\$ 626,966</u>

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REPORT ON INTERNAL CONTROL

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Raul Hernandez & Company, P.C.

Certified Public Accountants
5402 Holly Rd. Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

**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 Auditors' Report

City of Penitas, Texas
Penitas, Texas 78576

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Penitas, Texas as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Penitas, Texas basic financial statements, and have issued our report thereon dated March 27, 2026.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Penitas 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*.

City of Penitas, Texas Response to Findings

City of Penitas, Texas response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Penitas, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Raul Hernandez + Company, P.C.

Corpus Christi, Texas

March 27, 2026

Raul Hernandez & Company, P.C.

Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

City of Penitas, Texas
Penitas, Texas 78576

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Penitas, Texas’ compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of City of Penitas, Texas’ major federal programs for the year ended September 30, 2025. City of Penitas, Texas’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, City of Penitas, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Penitas Texas and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance with each major federal program. Our audit does not provide a legal determination of City of Penitas, Texas’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to City of Penitas, Texas’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Penitas, Texas's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Penitas, Texas's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Penitas, Texas's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of City of Penitas, Texas's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Penitas, Texas's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

March 27, 2026

**CITY OF PENITAS, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2025**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that were not considered material weakness?	No
Material noncompliance to financial statements noted?	No

2. Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that were not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200.516(a)?	No

Identification of major programs:

<u>ALN Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.225	Community Development Block Grant - Mitigation

Dollar threshold used to distinguish between Type A and Type B programs:	\$1,000,000
Auditee qualified as low-risk auditee?	No

CITY OF PENITAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

SECTION I – FINANCIAL STATEMENT FINDINGS

Reference Number: 2025-001

Financial Reporting, Fund Accounting, and Internal Controls (Repeat Finding)

Criteria

Management is responsible for establishing and maintaining effective internal control over financial reporting, including proper fund accounting in accordance with U.S. GAAP, accurate classification and recording of transactions, adequate segregation of duties, and the preparation of complete and reliable financial records. Capital assets must be properly recorded, supported, and depreciated, and interfund balances must be reconciled.

Condition

The City's accounting records and internal control structure are inadequate.

- Transactions were not recorded in the appropriate funds, resulting in significant commingling of General Fund, enterprise, and special revenue activity.
- Prior year audit adjustments were not recorded, resulting in incorrect beginning balances.
- Interfund balances, transfers, and accruals were not properly recorded or reconciled.
- Bank reconciliations were inaccurate and unsupported.
- Payroll transactions were improperly recorded in a single account, resulting in misclassification of expenditures.
- Numerous posting errors and abnormal account balances were identified.
- Capital asset records remain incomplete and unsupported, and depreciation is not reliably determined.
- Segregation of duties and supervisory review controls were not adequately implemented.
- The prior year's finding related to budget overruns and inadequate financial monitoring has not been corrected, as the City continues to exceed approved budget levels and lacks timely and reliable financial reporting, impairing effective budget-to-actual monitoring and contributing to ongoing financial instability and operational inefficiencies

As a result of these conditions, the City was unable to maintain auditable accounting records. The City was required to engage a qualified external CPA/fee accountant to reconstruct accounting records, correct balances, and assist with financial statement preparation.

CITY OF PENITAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

SECTION I – FINANCIAL STATEMENT FINDINGS (Continued)

Reference Number: 2025-001

Financial Reporting, Fund Accounting, and Internal Controls (Repeat Finding)

Cause

The condition resulted from failure to implement prior year audit recommendations, failure to record prior year audit adjustments, lack of qualified accounting oversight, and weak internal control processes, including inadequate supervision and segregation of duties.

Effect

The financial records were not maintained in a condition sufficient to support accurate financial reporting and were fundamentally unreliable, requiring extensive reconstruction, significant audit adjustments, and substantial reliance on external CPA/fee accountant services to achieve fair presentation.

Recommendation

The City must implement immediate corrective action, including:

- Recording all prior year audit adjustments and validating beginning balances
- Implementing proper fund accounting and routine interfund reconciliations
- Performing timely and supported monthly bank reconciliations
- Reconstructing and maintaining complete capital asset records and depreciation schedules
- Strengthening internal controls, including segregation of duties and supervisory review
- Preparing monthly financial statements by fund and monitoring budget-to-actual activity
- Assigning responsibility to qualified accounting personnel

Additionally, the City should consider continuing to engage a qualified external CPA firm or fee accountant on a temporary basis to assist with reconstructing accounting records, implementing proper accounting procedures, and producing accurate, GAAP-compliant financial statements. This engagement should continue for a sufficient period to ensure that the City's accounting records are complete, accurate, and audit-ready for the next audit cycle, with the objective of transitioning these responsibilities to internal personnel once controls and processes are fully established.

CITY OF PENITAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

SECTION I – FINANCIAL STATEMENT FINDINGS (Continued)

Reference Number: 2025-001

Financial Reporting, Fund Accounting, and Internal Controls (Repeat Finding)

Managements Response

Management acknowledges the condition and will implement corrective actions, including posting prior year adjustments, improving fund accounting, strengthening reconciliations, and enhancing internal controls.

SECTION II – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NONE

**CITY OF PENITAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

The following findings were reported in the prior year and were evaluated as part of the current year audit. These findings have not been fully corrected and are repeated in the current year:

Finding No. 2024-001 – Financial Statement Close-Out and Reconciliation

Status: Repeated

The prior year finding related to delays in the timely close-out of financial statements and the lack of reconciliation of key accounts, including interfund balances, accounts payable, operating transfers, bank reconciliations, and fund equity balances, has not been fully corrected. During the current year, similar conditions were noted, including delays in the preparation of financial statements and continued deficiencies in year-end reconciliation processes. As a result, timely and reliable financial information was not consistently available to management for decision-making purposes.

Finding No. 2024-002 – Capital Assets

Status: Repeated

The prior year finding related to the City's inability to substantiate and confirm the value of capital assets acquired in prior years has not been fully corrected. During the current year, deficiencies in capital asset records and supporting documentation persisted, resulting in an increased risk of material misstatement in capital assets, accumulated depreciation, and related expense.

Finding No. 2024-003 – Budgetary Compliance and Financial Oversight

Status: Repeated

The prior year finding related to budget overruns and inadequate financial monitoring has not been fully corrected. The City continued to experience issues with maintaining expenditures within approved budget levels, as well as deficiencies in timely and accurate financial reporting. These conditions limited management's ability to effectively monitor budget-to-actual activity and contributed to continued financial instability and operational inefficiencies.

Summary

These findings indicate that corrective actions from the prior year have not been effectively implemented. The continued existence of these deficiencies reflects ongoing weaknesses in internal controls, financial reporting, and oversight processes.

**CITY OF PENITAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Finding 2025-001 – Financial Reporting, Fund Accounting, and Internal Controls (Repeat Finding)

Management’s Response

Management acknowledges the deficiencies identified in Finding 2025-001 and is committed to implementing corrective actions to address the City’s financial reporting and internal control weaknesses.

The City will take the following actions:

- Post all prior year audit adjustments and validate beginning balances
- Implement proper fund accounting to ensure transactions are recorded in the appropriate funds
- Perform timely monthly bank reconciliations and interfund reconciliations
- Reconstruct and maintain complete and accurate capital asset records, including depreciation schedules
- Strengthen internal controls by improving segregation of duties, implementing supervisory review procedures, and restricting system access to qualified personnel
- Prepare monthly financial statements by fund and monitor budget-to-actual activity

The City will consider continuing to engage a qualified external CPA firm (fee accountant) on a temporary basis to assist with reconstructing accounting records, implementing proper accounting procedures, and preparing GAAP-compliant financial statements. This engagement will continue for a sufficient period to ensure that the City’s financial records are complete, accurate, and audit-ready for the next audit cycle. The City’s objective is to transition these responsibilities to internal personnel once appropriate controls, processes, and oversight are established.

Management will work with the City Council to ensure adequate oversight and timely implementation of these corrective actions.

Contact Person Responsible for Corrective Action

Martha V. Munoz
Finance Director
City of Peñitas
Phone: (956) 999-8304
Fax: (956) 581-3346
Website: www.cityofpenitas.com

CITY OF PENITAS, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal ALN Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S DEPARTMENT OF JUSTICE			
<i>Passed through the Office of the Governor - Criminal Justice Division</i>			
Crime Victim Assistance	16.575	VA 3056907	\$ 34,112
<i>Total Passed through the Office of the Governor - Criminal Justice Division</i>			<u>34,112</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>34,112</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through the Office of the Governor-Homeland Security Grants Division</i>			
Operation Stonegarden Grant Program	97.067	HS 3173010	104,665
<i>Total Passed through the Office of the Governor-Homeland Security Grants Division</i>			<u>104,665</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>104,665</u>
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Texas General Land Office</i>			
Community Development Block Grant - Mitigation	14.225	22-083-002-D202	1,755,123
<i>Total Passed through the Texas Genreal Land Office</i>			<u>1,755,123</u>
TOTAL U.S. DEPARTMENT OF HOUSINIG AND URBAN DEVELOPMENT			<u>1,755,123</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,893,900</u>

CITY OF PENITAS, TEXAS
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Penitas, Texas. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Compliance Supplement, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate:

The Uniform Guidance allows an organization to elect a 10% de minimis indirect cost rate. For the year ended September 30, 2025, the City did not elect to use this rate.

Sub-recipients:

During the year ended September 30, 2025, the City had no sub-recipients.

Federal Loans and Loan Guarantees:

During the year ended September 30, 2025, the City had no outstanding federal loans payable or loan guarantees.

Federally Funded Insurance:

During the year ended September 30, 2025, the City had no federally funded insurance.

Noncash awards:

During the year ended September 30, 2025, the City did not have any federal awards in the form of noncash assistance.

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