

*Annual*  
**Financial**  
**REPORT**

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CITY OF SOUR LAKE, TEXAS

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*for*  
Fiscal Year Ending  
DECEMBER 31 **2022**

**CITY OF SOUR LAKE**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2022**

CITY OF SOUR LAKE  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2022

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**keri michutka**  
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Sour Lake, Texas

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sour Lake as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sour Lake as of December 31, 2022 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.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Sour Lake and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Change in Accounting Principle***

As discussed in Note I to the financial statements, during the year ended December 31, 2022, the City adopted new accounting guidance, GASB Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

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

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards 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 Sour Lake'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 Sour Lake'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 (MD&A) on pages 4 to 11, the budgetary comparison information on page 42, and the TMRS required pension and OPEB schedules on pages 43 to 48 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 Sour Lake's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Information***

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

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2023 on our consideration of the City of Sour Lake's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Sour Lake's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sour Lake's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read 'K. L. ...', is positioned above the typed text.

Bridge City, Texas  
August 15, 2023

## CITY OF SOUR LAKE, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Sour Lake (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2022. The purpose of financial reporting is to provide external parties that read financial statements with information that will help them to make decisions or draw conclusions about an entity. There are many external parties that read the City's financial statements; however these parties do not always have the same specific objectives.

#### FINANCIAL HIGHLIGHTS

These financial highlights summarize the City's financial position and operations as presented in more detail in the Financial Statements, as listed in the accompanying Table of Contents.

- ❑ The assets of the City exceeded its liabilities at the close of 2022 by \$14,538,869. Of this amount, \$4,319,034 is considered unrestricted. The unrestricted net position of the City's governmental activities is \$4,115,600. The unrestricted net position of the City's business-type activities is \$203,434 and may be used to meet the ongoing obligations of the City's water, sewer, and solid waste business-type activities.
- ❑ The City's total net position increased by \$2,935,917 in the fiscal year 2022.
- ❑ As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,984,254, an increase of \$381,924. Approximately 70% or \$3,477,487 of this total amount is considered unassigned at December 31, 2022 and is available for spending.
- ❑ The general fund reported fund balance of \$3,559,837 at the end of the current fiscal year. The unassigned fund balance for the general fund was \$3,477,487 or 202% of total general fund expenditures.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This management discussion and analysis (MD&A) is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The statement of net position presents information on all of the City's assets and liabilities (including capital assets and short-and-long-term liabilities), with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 12 to 14 of this report.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Establishment of some funds is required by state law and bond covenants. However, the City Council establishes other funds to help control and manage particular purposes or as evidence of meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into two categories: governmental funds, and proprietary funds.

## **GOVERNMENTAL FUNDS**

The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the available balances at year-end. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there has been an increase or decrease in financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue, and the disaster recovery fund, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 15 to 18 of this report.

## **PROPRIETARY FUNDS**

The City charges customers for the services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Position and the Statement of Activities. In the City maintains an enterprise fund (a component of proprietary funds) to account for its water, sewer, and sanitation operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, improvements, billing, and collection. The City's intent is that costs of providing these services to the general public on a continuing basis are financed through charges in a manner similar to a private enterprise. Enterprise funds are used to report the same functions presented as business-type



activities in the government-wide financial statements, but provide more detail and additional information, such as cash flows.

The basic proprietary fund financial statements can be found on pages 19 to 21 of this report.

## **FIDUCIARY FUNDS**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has no fiduciary funds.

## **NOTES TO THE FINANCIAL STATEMENTS**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 to 41 of this report.

## **THE CITY AS A WHOLE – GOVERNMENT WIDE FINANCIAL ANALYSIS**

The City's combined net position was \$14,538,869 as of December 31, 2022. As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. Analyzing the net position and net expenses of governmental and business activities separately, the governmental activities net position is \$8,609,003 and the business-type activities net position is \$5,929,866. This analysis focuses on the net position (Table 1) and changes in general revenues (Table 2) of the City's governmental and business-type activities.

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

The unrestricted net position of \$4,319,034 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the City as whole as well as for its separate governmental activities, and business-type activities.

TABLE 1

## NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and Other Assets	\$5,440,730	\$5,053,498	\$1,339,449	\$ 978,231	\$ 6,780,179	\$ 6,031,729
Capital Assets	3,068,986	2,898,389	5,726,432	3,642,119	8,795,418	6,540,508
Net Pension Asset	282,394	174,760	-	-	282,394	174,760
Total Assets	<u>8,792,110</u>	<u>8,126,647</u>	<u>7,065,881</u>	<u>4,620,350</u>	<u>15,857,991</u>	<u>12,746,997</u>
Deferred Outflow - Pension	40,815	38,881	-	-	40,815	38,881
Deferred Outflow - OPEB	9,540	11,887	-	-	9,540	11,887
Total Deferred Outflows	<u>50,355</u>	<u>50,768</u>	<u>-</u>	<u>-</u>	<u>50,355</u>	<u>50,768</u>
Current Liabilities	81,326	67,108	631,015	456,902	712,341	524,010
Net OPEB Liability	45,518	42,934	-	-	45,518	42,934
Long-Term Liabilities	-	-	505,000	580,000	505,000	580,000
Total Liabilities	<u>126,844</u>	<u>110,042</u>	<u>1,136,015</u>	<u>1,036,902</u>	<u>1,262,859</u>	<u>1,146,944</u>
Deferred Inflow - Pension	105,364	-	-	-	105,364	-
Deferred Inflow - OPEB	1,254	47,869	-	-	1,254	47,869
Total Deferred Inflows	<u>106,618</u>	<u>47,869</u>	<u>-</u>	<u>-</u>	<u>106,618</u>	<u>47,869</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	3,068,986	2,898,389	5,726,432	2,987,119	8,795,418	5,885,508
Restricted	1,424,417	1,391,681	-	-	1,424,417	1,391,681
Unrestricted	4,115,600	3,729,434	203,434	59,629	4,319,034	3,789,063
Total Net Position	<u>\$8,609,003</u>	<u>\$8,019,504</u>	<u>\$5,929,866</u>	<u>\$3,583,448</u>	<u>\$14,538,869</u>	<u>\$11,602,952</u>

As reflected in the following table (Table 2) the City's net position increased by \$2,935,917 during the current fiscal year. The increase is split between both the governmental activities and the business-type activities. Net position for the governmental activities increased \$589,499 and net position for the business-type activities increased \$2,346,418. This increase was primarily due to grants received during the year.

TABLE 2

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 113,803	\$ 111,296	\$ 1,449,034	\$ 1,030,439	\$ 1,562,837	\$ 1,141,735
Grants	124,222	156,067	2,109,876	110,521	2,234,098	266,588
<b>General Revenues:</b>						
Property Taxes	528,083	509,121	91,752	87,112	619,835	596,233
Sales Taxes	1,319,199	911,071	-	-	1,319,199	911,071
Franchise Taxes	99,605	88,070	-	-	99,605	88,070
Grants and Contributions	9,285	9,553	-	-	9,285	9,553
Other	138,502	198,015	-	-	138,502	198,015
Investment Earnings	67,361	1,351	10,611	190	77,972	1,541
Total Revenues	<u>2,400,060</u>	<u>1,984,544</u>	<u>3,661,273</u>	<u>1,228,262</u>	<u>6,061,333</u>	<u>3,212,806</u>
<b>Expenses:</b>						
Administration	383,366	337,622	-	-	383,366	337,622
Municipal Court	19,644	19,240	-	-	19,644	19,240
Police	670,015	693,237	-	-	670,015	693,237
Streets	358,236	406,211	-	-	358,236	406,211
Community Center	12,257	10,705	-	-	12,257	10,705
Library	67,498	75,734	-	-	67,498	75,734
Economic Development	66,440	68,927	-	-	66,440	68,927
Annex Building	2,105	7,551	-	-	2,105	7,551
Water & Sewer	-	-	1,545,855	1,237,028	1,545,855	1,237,028
Total Expenses	<u>1,579,561</u>	<u>1,619,227</u>	<u>1,545,855</u>	<u>1,237,028</u>	<u>3,125,416</u>	<u>2,856,255</u>
Increase (Decrease) in Net Position Before Transfer	820,499	365,317	2,115,418	(8,766)	2,935,917	356,551
Gain on Disposition of Assets	-	22,663	-	-	-	22,663
Transfer In (Out)	(231,000)	-	231,000	-	-	-
Increase (Decrease) in Net Position	589,499	387,980	2,346,418	(8,766)	2,935,917	379,214
Beginning Net Position	8,019,504	7,631,524	3,583,448	3,592,214	11,602,952	11,223,738
Ending Net Position	<u>\$ 8,609,003</u>	<u>\$ 8,019,504</u>	<u>\$ 5,929,866</u>	<u>\$ 3,583,448</u>	<u>\$ 14,538,869</u>	<u>\$ 11,602,952</u>

## GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$589,499.

The general revenues are as follows:

Table 3  
General Revenues

	2022	2021
Property Taxes	\$ 528,083	\$ 509,121
Sales Tax	1,319,199	911,071
Franchise Taxes	99,605	88,070
Contributions	9,285	9,553
Miscellaneous Revenue	138,502	198,015
Investment Income	67,361	1,351
Gain on Disposal of Assets	-	22,663
	<u>\$ 2,162,035</u>	<u>\$ 1,739,844</u>

The most significant governmental expense for the City was for public safety, which incurred expenses of \$670,015. These expenses were offset by revenues collected from a variety of sources, with the largest being general sales tax revenue of \$1,319,199 for the fiscal year ended December 31, 2022.

## BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by \$2,346,418. This increase was primarily due to grants received during the year.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

## GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,984,254, an increase of \$381,924 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,477,487 while the total fund balance was \$3,559,837. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 202% of total general fund expenditures, while total fund balance represents 207% of total general fund expenditures.

The fund balance of the City's general fund increased by \$349,188 during the current fiscal year.

**PROPRIETARY FUNDS**

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

Unrestricted net position of the Revenue Fund (water, sewer, wastewater, and sanitation) at the end of the fiscal year amounted to \$203,434. Net position of the water, sewer, and sanitation fund increased by \$2,346,418. Other factors concerning the finances of these funds have already been addressed in the discussion of the City’s business-type activities.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During fiscal year 2022, the City Council did amend the original budget for the general fund.

A comparison of final budgetary resources and appropriations can be found on page 42.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**CAPITAL ASSETS** - The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2022, amount to \$8,795,419 (net of accumulated depreciation). This investment in capital assets includes land, buildings, plants, water and sewer lines, streets, vehicles, machinery, equipment, and furniture and fixtures. Capital assets held by the City at the end of the current year are summarized as follows:

Table 4  
Capital Assets at Year-End  
(Net of Depreciation)

	Governmental Activities 2022	Business-Type Activities 2022	Total 2022
Land	\$ 170,751	\$ 61,510	\$ 232,261
Buildings	825,361	100,324	925,685
Infrastructure, net	1,691,120	2,863,084	4,554,204
Vehicles	206,538	-	206,538
Furniture and Equipment	175,216	28,083	203,299
Construction in Progress	-	2,673,431	2,673,431
	<u>\$ 3,068,986</u>	<u>\$ 5,726,432</u>	<u>\$ 8,795,418</u>

During the current year, major capital additions for governmental activities were as follows:

- Infrastructure \$ 297,707
- Vehicles 158,298
- Furniture and Equipment 89,878

In addition, the following major acquisitions were made for the business-type activities:

- Construction in Progress \$ 2,395,470

Additional information about the City’s capital assets is presented in Note E of the financial statements.

**LONG-TERM DEBT** – At the end of the current fiscal, the City had total debt outstanding of \$580,000.

Table 5

Long-Term Debt Obligations Outstanding  
Certificates of Obligation

	Governmental Activities		Business-Type Activities		Totals	
	2022	2021	2022	2021	2022	2021
	Tax Notes	\$ -	\$ -	\$ 580,000	\$ 655,000	\$ 580,000
Total Long-Term Debt	\$ -	\$ -	\$ 580,000	\$ 655,000	\$ 580,000	\$ 655,000

The City’s total debt decreased by \$75,000 during the current fiscal year, which represents the debt principal payment.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES**

- ❑ During the one-year period ending December 2022 the City collected \$1,319,199 in Sales Tax; this was a 45% increase from the previous fiscal year of 2021. The sales tax revenue accounts for approximately 55% of the Government Funds revenue.
- ❑ The ad valorem taxable values for the 2022 budget increased over the prior year. The adopted tax rate of .408272 per \$100 of assessed property evaluation decreased from the prior year.
- ❑ The City of Sour Lake has three industrial (in lieu of taxes) contracts.
- ❑ The budget for 2023 contains a 3% cost of living increase for all employees and an additional 5% for Administration, Streets and Library.

**REQUEST FOR INFORMATION**

The financial report is designed to provide a general overview of the City of Sour Lake’s finances for all of those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Sour Lake, Finance Department, 625 Hwy 105 West, Sour Lake, TX 77659.

## BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE STATEMENTS



CITY OF SOUR LAKE  
STATEMENT OF NET POSITION  
DECEMBER 31, 2022

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 4,531,221	\$ 1,113,055	\$ 5,644,276
Cash with Agent	203,231	35,054	238,285
Receivables, Net of Allowance for Uncollectibles	403,292	210,644	613,936
Due from Other Governments	283,682	-	283,682
Due from Other Funds	19,304	(19,304)	-
Capital Assets:			
Land Purchase and Improvements	170,751	61,510	232,261
Infrastructure, Net	1,691,120	2,863,084	4,554,204
Buildings, Net	825,361	100,324	925,685
Vehicles, Net	206,538	-	206,538
Furniture and Equipment, Net	175,216	28,083	203,299
Construction in Progress	-	2,673,431	2,673,431
Net Pension Asset	282,394	-	282,394
Total Assets	<u>8,792,110</u>	<u>7,065,881</u>	<u>15,857,991</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to Pension Plan	40,815	-	40,815
Deferred Outflow Related to OPEB	9,540	-	9,540
Total Deferred Outflows of Resources	<u>50,355</u>	<u>-</u>	<u>50,355</u>
<b>LIABILITIES</b>			
Accounts Payable	15,243	47,976	63,219
Wages and Salaries Payable	12,879	-	12,879
Accrued Expense	21,826	109,677	131,503
Accrued Interest Payable	-	4,795	4,795
Unearned Revenues	-	392,256	392,256
Other Current Liabilities	31,378	1,311	32,689
Noncurrent Liabilities:			
Due Within One Year	-	75,000	75,000
Due in More Than One Year:			
Bonds Payable - Noncurrent	-	505,000	505,000
Net OPEB Liability	45,518	-	45,518
Total Liabilities	<u>126,844</u>	<u>1,136,015</u>	<u>1,262,859</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow Related to Pension Plan	105,364	-	105,364
Deferred Inflow Related to OPEB	1,254	-	1,254
Total Deferred Inflows of Resources	<u>106,618</u>	<u>-</u>	<u>106,618</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets & Lease Assets	3,068,986	5,726,432	8,795,418
Restricted for Economic Development	1,424,417	-	1,424,417
Unrestricted	4,115,600	203,434	4,319,034
Total Net Position	<u>\$ 8,609,003</u>	<u>\$ 5,929,866</u>	<u>\$ 14,538,869</u>

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

CITY OF SOUR LAKE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 383,366	\$ -	\$ -
Municipal Court	19,644	-	-
Police	670,015	89,516	15,052
Streets	358,236	-	109,170
Community Center	12,257	4,525	-
Library	67,498	2,862	-
Economic Development	66,440	-	-
Annex Building	2,105	16,900	-
Total Governmental Activities	1,579,561	113,803	124,222
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer	1,545,855	1,449,034	2,109,876
Total Business-Type Activities	1,545,855	1,449,034	2,109,876
TOTAL PRIMARY GOVERNMENT	\$ 3,125,416	\$ 1,562,837	\$ 2,234,098

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
\$ (383,366)	\$ -	\$ (383,366)
(19,644)	-	(19,644)
(565,447)	-	(565,447)
(249,066)	-	(249,066)
(7,732)	-	(7,732)
(64,636)	-	(64,636)
(66,440)	-	(66,440)
14,795	-	14,795
<u>(1,341,536)</u>	<u>-</u>	<u>(1,341,536)</u>
-	2,013,055	2,013,055
-	2,013,055	2,013,055
<u>(1,341,536)</u>	<u>2,013,055</u>	<u>671,519</u>
528,083	-	528,083
-	91,752	91,752
1,319,199	-	1,319,199
99,605	-	99,605
9,285	-	9,285
138,502	-	138,502
67,361	10,611	77,972
(231,000)	231,000	-
<u>1,931,035</u>	<u>333,363</u>	<u>2,264,398</u>
589,499	2,346,418	2,935,917
8,019,504	3,583,448	11,602,952
<u>\$ 8,609,003</u>	<u>\$ 5,929,866</u>	<u>\$ 14,538,869</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF SOUR LAKE  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2022

	General Fund	Economic Development Corp	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 3,195,885	\$ 1,335,336	\$ 4,531,221
Cash with Agent	203,231	-	203,231
Taxes Receivable	375,150	-	375,150
Other Receivables	28,142	-	28,142
Due from Other Governments	283,682	-	283,682
Due from Other Funds	-	90,224	90,224
Total Assets	<u>\$ 4,086,090</u>	<u>\$ 1,425,560</u>	<u>\$ 5,511,650</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 14,100	\$ 1,143	\$ 15,243
Wages and Salaries Payable	12,879	-	12,879
State Fees Payable	21,826	-	21,826
Due to Other Funds	70,920	-	70,920
Other Current Liabilities	31,378	-	31,378
Total Liabilities	<u>151,103</u>	<u>1,143</u>	<u>152,246</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	375,150	-	375,150
Total Deferred Inflows of Resources	<u>375,150</u>	<u>-</u>	<u>375,150</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
Restricted for Economic Development	-	1,424,417	1,424,417
Committed Fund Balance:			
Security Building	53,920	-	53,920
Technology Fund	28,430	-	28,430
Unassigned Fund Balance	3,477,487	-	3,477,487
Total Fund Balances	<u>3,559,837</u>	<u>1,424,417</u>	<u>4,984,254</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,086,090</u>	<u>\$ 1,425,560</u>	<u>\$ 5,511,650</u>

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

CITY OF SOUR LAKE  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2022

<b>Total Fund Balances - Governmental Funds</b>	\$	4,984,254
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		2,898,389
Current year capital outlays expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2022 capital outlays is to increase net position.		361,030
Included in the items related to assets is the recognition of the City's net pension asset required by GASB 68. The net position related to TMRS included a net pension asset in the amount of \$282,394, deferred resource outflow in the amount of \$40,815 and a deferred resource inflow in the amount of \$105,364. This resulted in an increase in ending net position of \$217,845.		217,845
Included in the items related to assets is the recognition of the City's net OPEB liability required by GASB 75. The net position related to TMRS included deferred resource outflow in the amount of \$9,540, a net OPEB liability in the amount of \$45,518 and a deferred resource inflow in the amount of \$1,254. This resulted in a decrease in ending net position of \$37,232.		(37,232)
The 2022 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(190,433)
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 and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net position.		375,150
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>8,609,003</b>

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

CITY OF SOUR LAKE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

	General Fund	Economic Development Corp	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 536,993	\$ -	\$ 536,993
General Sales and Use Taxes	989,399	329,800	1,319,199
Franchise Tax	99,605	-	99,605
Licenses and Permits	9,325	-	9,325
Intergovernmental Revenue and Grants	109,170	-	109,170
Charges for Services	24,287	-	24,287
Fines	89,516	-	89,516
Investment Earnings	48,754	18,607	67,361
Contributions & Donations from Private Sources	9,285	-	9,285
Other Revenue	109,004	35,225	144,229
Total Revenues	2,025,338	383,632	2,408,970
<b>EXPENDITURES:</b>			
Current			
Administration	398,967	-	398,967
Municipal Court	19,644	-	19,644
Public Safety:			
Police	812,715	-	812,715
Public Works:			
Streets	407,828	-	407,828
Community Center	12,257	-	12,257
Library	68,234	-	68,234
Conservation and Development:			
Economic Development	-	119,896	119,896
Annex Building	2,105	-	2,105
Total Expenditures	1,721,750	119,896	1,841,646
Excess of Revenues Over Expenditures	303,588	263,736	567,324
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of Real and Personal Property	45,600	-	45,600
Transfers Out	-	(231,000)	(231,000)
Total Other Financing Sources (Uses)	45,600	(231,000)	(185,400)
Net Change in Fund Balances	349,188	32,736	381,924
Fund Balance - January 1 (Beginning)	3,210,649	1,391,681	4,602,330
Fund Balance - December 31 (Ending)	\$ 3,559,837	\$ 1,424,417	\$ 4,984,254

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

CITY OF SOUR LAKE  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2022

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	381,924
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2022 capital outlays is to increase the change in net position.		361,030
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase. The City's proportionate share of the TMRS pension expense on the plan as a whole has to be recorded. The net pension expense decreased the change in net position. The net result is an increase in the change in net position.		52,073
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase. The proportionate share of the TMRS OPEB expense on the plan as a whole has to be recorded. The net OPEB expense decreased the change in net position. The net result is a decrease in the change in net position.		(6,185)
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.		(190,433)
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 and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(8,910)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>589,499</b>

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



PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF SOUR LAKE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2022

	Business Type Activities
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,113,055
Cash with Agent	35,054
Taxes Receivable	59,896
Accounts Receivable, Net	150,748
Total Current Assets	1,358,753
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	61,510
Buildings	123,265
Vehicles	64,772
Furniture and Fixtures	16,880
Machinery and Equipment	280,509
Water and Sewer System	10,481,766
Accumulated Depreciation	(7,975,701)
Construction in Progress	2,673,431
Total Noncurrent Assets	5,726,432
Total Assets	7,085,185
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	47,976
Deposits	109,677
Due to Other Funds	19,304
Accrued Interest Payable	4,795
Unearned Revenues	392,256
Notes Payable - Current	75,000
Other Current Liabilities	1,311
Total Current Liabilities	650,319
Noncurrent Liabilities:	
Notes Payable - Noncurrent	505,000
Total Noncurrent Liabilities	505,000
Total Liabilities	1,155,319
<b>NET POSITION</b>	
Net Investment in Capital Assets & Lease Assets	5,726,432
Unrestricted Net Position	203,434
Total Net Position	\$ 5,929,866

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

CITY OF SOUR LAKE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

	Business-Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Water Service	\$ 381,525
Charges for Sewerage Service	267,295
Charges for Sanitation Service	211,220
Other Revenue	588,994
Total Operating Revenues	1,449,034
OPERATING EXPENSES:	
Purchased Professional & Technical Services	266,689
Purchased Property Services	325,478
Other Operating Costs	565,413
Supplies	49,383
Depreciation	324,244
Total Operating Expenses	1,531,207
Operating Income (Loss)	(82,173)
NONOPERATING REVENUES (EXPENSES):	
Property Taxes	91,752
Grant Revenue	2,109,876
Investment Earnings	10,611
Interest Expense	(14,648)
Total NonOperating Revenue (Expenses)	2,197,591
Income Before Transfers	2,115,418
Transfers In	231,000
Change in Net Position	2,346,418
Total Net Position - January 1 (Beginning)	3,583,448
Total Net Position - December 31 (Ending)	\$ 5,929,866

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

CITY OF SOUR LAKE  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

EXHIBIT D-3

	Business-Type Activities
<hr/>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,441,971
Cash Payments for Goods and Services	(1,189,603)
Net Cash Provided by Operating Activities	252,368
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Property Tax Revenues	91,752
Grant Revenues	2,285,932
Transfers In	231,000
Net Cash Provided by Non-Capital Financing Activities	2,608,684
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(2,408,556)
Principal Paid on Debt	(75,000)
Interest Paid on Debt	(14,648)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(2,498,204)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	10,611
Net Increase in Cash and Cash Equivalents	373,459
Cash and Cash Equivalents at Beginning of Year	774,650
Cash and Cash Equivalents at End of Year	\$ 1,148,109
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss)	\$ (82,173)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	324,244
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(7,063)
Increase (Decrease) in Accounts Payable	(20,497)
Increase (Decrease) in Other Payables	37,857
Net Cash Provided by Operating Activities	\$ 252,368

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF SOUR LAKE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City's major operations include the following services: public safety (police), highways and streets, sanitation, health and social services, culture – recreation, public improvements, planning and zoning and general administrative services. In addition, the City owns and operates a water and wastewater system, and operates a community center and library.

The City prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in Statement of Auditing Standards No. 69 of the American Institute of Certified Public Accountants. Additionally, the City complies with the requirements of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

The City of Sour Lake, Texas was incorporated for municipal purposes under and by virtue of the Laws of the State of Texas under Title 28, Vernon Sayles' Civil Statutes of 1925, adopted by the voters at an election held on November 7, 1939. The City operates under a Council-Manager form of government, with the mayor and City council members elected by the registered voters of the City. As required by accounting principles generally accepted in the United States of America, the basic financial statements present the City (primary government) and its component units.

The City of Sour Lake City Council is elected by the public and is the basic level of government, which has oversight responsibility and control over all activities related to governmental activities in the City of Sour Lake. The City Council has authority to make decisions, appoint administrators and managers, significantly influence operations and has the primary accountability for fiscal matters. Therefore the City is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14 The Reporting Entity.

Included in the reporting entity:

The City of Sour Lake Economic Development Corporation was incorporated on August 10, 1994. This Corporation was organized to promote and provide for the economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City by developing, implementing, providing, and financing projects under the Act and as defined in Section 4-B of the Act. Although it is legally separate from the City, the 4-B Corporation is reported as a blended component unit because it has a separate appointed board and provides economic development services to the community, generally within geographic boundaries of the government.

The City government appoints its Board of Directors, has the ability to exercise influence or control over daily operations, approve budgets and is the primary beneficiary of the services it provides. Separate financial statements for the 4-B Corporation are not available.

## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Sour Lake's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, federal and state grants, charges for services, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The "grants and contributions" columns include amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City has no fiduciary funds. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

## **C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Council pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

#### **D. FUND ACCOUNTING**

The City reports the following major governmental funds:

1. **General Fund** – The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund.
2. **Economic Development Corp** - The 4-B Corporation Special Revenue Fund is used to account for the half-cent of the two cents of sales tax collected to fund the activities of the Sour Lake Economic Development Corporation.

The City reports the following major enterprise fund:

1. **Water and Sewer Fund** - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residences of the City and certain nonresidents. All activities necessary to provide such services are accounting for in this fund, including, but not limited to administration, operations, maintenance, financing and related debt service, and billing and collection.

The City maintains no internal service funds.



## E. OTHER ACCOUNTING POLICIES

1. **Deposits and Investments** The City's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, money market accounts and short-term investments with original maturities of three months or less from the date of acquisition. Substantially all investments are maintained in TexPool – Texas Local Government Investment Pool. TexPool operates in accordance with appropriate State laws and regulations. The reported value of the Pool is the same as the fair value of the Pool shares.

The City's funds must be deposited and invested under the terms of a depository contact, the contents of which are set out in the Depository Contract Law. The depository bank may either place approved pledged securities for safekeeping and trust with the City's agent bank or file a corporate surety bond 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 depository bank's dollar amount of FDIC insurance.

Legal provisions generally permit the City to invest in direct obligations of the Federal government, municipal investment pools and interest-bearing deposit accounts. During the year ended December 31, 2022, the City did not own any types of securities other than those permitted by state law.

2. **Receivables and Payables** Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/due from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

3. **Property Taxes** Property taxes are considered available when collected within the current period or if they are expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The property tax receivable is comprised of the property tax revenues collected within 60 days after year-end. The City levies its taxes on October 1<sup>st</sup> in conformity with Subtitle E of the Texas Property Tax Code on the assessed value listed as of the prior January 1<sup>st</sup> for all real and business personal property located in the City. Assessed values are established at 100% of the estimated market value. The assessed value, net of exemption, upon which the year 2022 levy was based, was approximately \$131,258,470. Taxes are due on receipt of the tax bill and are past due and subject to interest if not paid before February 1<sup>st</sup> of the year following the October 1<sup>st</sup> levy date.

Taxes are delinquent if not paid by February 1<sup>st</sup> of the year following the year in which imposed. Delinquent taxes are subject to both penalty and interest charges, plus 15% delinquent collection fees for attorney costs.

Taxes collected are deposited to the General Fund based on the rate adopted for the year of the levy. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. General property taxes are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The City's combined tax rate for the year ended December 31, 2022 was .408272 per \$100 of assessed valuation.

4. **Inventories** The consumption method is used to account for inventories of supplies. Under this method, supplies are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed.
5. **Capital Assets** Capital assets, which include land, buildings, furniture and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) purchased or constructed are carried at historical cost or estimated historical cost if historical cost is not available. Contributed assets are recorded at their estimated fair market value on the date of acceptance. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. A capitalization threshold of \$5,000 is used for all capital assets to determine capitalization or expensing of new assets acquired.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Land improvements	30
Buildings	50
Building improvements	Remaining life or building, or 20 years, whichever is less
Furniture and fixtures	5-15
Equipment	3-15
Vehicles	3

Interest cost related to acquisition of fixed assets is not capitalized.

6. **Compensated Absences** Vacation and sick leave are granted to City employees in varying amounts. The City accrues vacation benefits as they are earned. In the event of termination, an employee is reimbursed for accumulated unused vacation days if the employee has at least six months services. Long-term accumulated vacation pay is estimated to be immaterial.
7. **Fund Balance** The Governmental Accounting Standard Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following five fund balance categories:

*Nonspendable* – To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

*Restricted* – To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

*Committed* – To indicate fund balance that can be used only for the specific purposes determined by a formal action of the City Council (the City’s highest level of decision-making authority). City Council must place an item on the Council’s agenda, followed by a formal action to approve such, in order to establish, modify or rescind a fund balance commitment.

*Assigned* – To indicate fund balance to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. Currently, only City Council has the authority to assign fund balances.

*Unassigned* – To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classifications.

In circumstances where an expenditure is made for the purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned and unassigned.

The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify or rescind a fund balance commitment is a resolution approved by the Council. When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds. As of December 31, 2022, the general fund committed fund balance was \$82,350 and unassigned was \$3,477,487. The total general fund balance was \$3,559,837.

8. ***Encumbrance Accounting*** The City employs encumbrance accounting, whereby encumbrances for goods or purchased service are documented by purchase orders and contracts. An encumbrance represents a commitment of Council appropriation related to unperformed contracts for goods or services. The issuance of a purchase order or signing of a contract creates an encumbrance but does not represent expenditure for the period, only a commitment to expend resources.

Appropriations lapse at December 31<sup>st</sup> and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances as of December 31, 2022.

9. ***Pensions*** For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis 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.
10. ***Other Postemployment 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 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.
11. ***Deferred Outflows/Inflows of Resources*** – Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources consist of the effect of changes in pension actuarial assumptions, differences between projected and actual investment earnings and pension contributions made subsequent to the actuarial measurement date.

Deferred inflows of resources represent 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. Deferred inflows of resources for the general fund consist of unavailable property taxes and, in the statement of net position, differences between expected and actual economic experiences in the pension and OPEB plans.

## **F. BUDGETARY INFORMATION**

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On an annual basis, the City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. The budget is legally enacted through passage of an ordinance.
4. Appropriations lapse at the end of each fiscal year.
5. The City Council may authorize supplemental appropriations during the year.

Budget amounts presented in Exhibit G-1 reflect the original budget and the amended budget (which has been adjusted for legally authorized revisions to the annual budget during the year). Appropriations, except for remaining project appropriations and encumbrances, lapse at the end of each year.

## **G. IMPLEMENTATION OF NEW ACCOUNTING STANDARD**

During the year the City implemented Governmental Accounting Standards Board Statement No. 87 - Leases ("GASB 87"). The objective of GASB 87 is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions in the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

In the year of implementation, GASB 87 requires a retroactive restatement of prior periods to reflect the effect on net position as if the standard had been in effect in prior years. However, the City has no material leased assets that are required to be recorded as a right to use leased asset. Therefore, a restatement was not required, but for the year ended December 31, 2022, and prospectively, the City will be recording any material, applicable lease in accordance with GASB 87.

## **II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

### **A. DEPOSITS AND INVESTMENTS**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank 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 depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash balances for most individual funds are maintained in a pooled cash account, except where the City is legally required to maintain separate bank cash accounts. The earnings on the pooled cash account are prorated to the individual funds. For accounting purposes, the cash balances for each fund related to the pooled cash account are maintained as if they were separate cash accounts and displayed on the combined balance sheet within the financial statement caption Cash. Any overdraft balances for pooled cash, if any, for an individual fund is reported as "Due to" for the fund providing the money and as "Due from" for the fund that provided the money.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk.

These three levels of risk are:

Category 1 - Cash or Investments that are insured, registered or held by the City or by its agent in the City's name.

Category 2 - Cash or Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the City's name.

Based on these three levels of risk, all of the City's investments are classified as Category 1.

At December 31, 2022, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,644,276. The City's cash deposits at December 31, 2022, and during the year ended December 31, 2022, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Temporary Investment:

The City is authorized to invest in those securities and obligations authorized by the Public Funds Investment Act-Chapter 2256 of the Government Code.

The City's temporary investments at December 31, 2022, are shown below:

	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool Investment Pool	<u>\$ 4,853,274</u>	<u>\$ 4,853,274</u>

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments which have a remaining term of one year or less at time of changes. Nonnegotiable certificates of deposit and money market bank accounts are examples of nonparticipating

interest-earning investment contracts. Certificates of Deposit and money market bank accounts are recorded as cash in these financial statements.

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

**B. 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 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1<sup>st</sup> of the year following the year in which imposed. On January 31<sup>st</sup> 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**C. INTERFUND BALANCES AND TRANSFERS**

Interfund transfers are reported in the governmental activities and business-type activities fund financial statements. In the government-wide statements, interfund transfers are eliminated within the governmental activities column, as appropriate.

Interfund balances for the year ended December 31, 2022, consisted of the following individual amounts:

	Receivables (Due from)	Payables (Due to)
General Fund	\$	\$ 70,920
Economic Development Corp	90,224	
Water and Sewer Fund		19,304
Total	\$ 90,224	\$ 90,224

Interfund transfers for the year ended December 31, 2022, consisted of the following individual amounts:

Transfers In	Transfers Out	Totals
Water and Sewer Fund	Economic Development Corp	\$ 231,000
Totals		\$ 231,000

**D. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at December 31, 2022, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$ 375,150	\$ 283,682	\$ 28,142	\$ 686,974
Total - Governmental Activities	<u>\$ 375,150</u>	<u>\$ 283,682</u>	<u>\$ 28,142</u>	<u>\$ 686,974</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 59,896	\$ -	\$ 150,748	\$ 210,644
Total - Bus.-Type Activities	<u>\$ 59,896</u>	<u>\$ -</u>	<u>\$ 150,748</u>	<u>\$ 210,644</u>

Payables at December 31, 2022, were as follows:

	<u>Accounts Payable</u>	<u>Other Governments</u>	<u>Wages Payable</u>	<u>Other Current</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$ 14,100	\$ 21,826	\$ 12,879	\$ 31,378	\$ 80,183
Economic Development Corp	1,143	-	-	-	1,143
Total - Gov. Activities	<u>\$ 15,243</u>	<u>\$ 21,826</u>	<u>\$ 12,879</u>	<u>\$ 31,378</u>	<u>\$ 81,326</u>
Business-Type Activities:					
Water and Sewer Fund	\$ 47,976	\$ -	\$ -	\$ 1,311	\$ 49,287
Total - Bus.-Type Activities	<u>\$ 47,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,311</u>	<u>\$ 49,287</u>

**E. CAPITAL ASSET ACTIVITY**

Capital asset activity for the City for the year ended December 31, 2022, was as follows:

	Balance 1/1/22	Additions	Deletions	Balance 12/31/22
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 170,751	\$	\$	\$ 170,751
Construction in Progress	167,817	129,890	(297,707)	-
Total Capital Assets Not Being Depreciated	<u>338,568</u>	<u>129,890</u>	<u>(297,707)</u>	<u>170,751</u>
Capital Assets Being Depreciated:				
Buildings	1,198,917			1,198,917
Infrastructure	2,763,017	297,707		3,060,724
Vehicles	384,249	158,298	(88,403)	454,144
Furniture and Equipment	328,721	89,878		418,599
Total Capital Assets Being Depreciated	<u>4,674,904</u>	<u>545,883</u>	<u>(88,403)</u>	<u>5,132,384</u>
Less Accumulated Depreciation for:				
Buildings	(342,815)	(30,741)		(373,556)
Infrastructure	(1,292,763)	(76,841)		(1,369,604)
Vehicles	(266,691)	(52,282)	71,367	(247,606)
Furniture and Equipment	(212,814)	(30,569)		(243,383)
Total Accumulated Depreciation	<u>(2,115,083)</u>	<u>(190,433)</u>	<u>71,367</u>	<u>(2,234,149)</u>
Total Capital Assets Being Depreciated, Net	<u>2,559,821</u>	<u>355,450</u>	<u>(17,036)</u>	<u>2,898,235</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,898,389</u>	<u>\$ 485,340</u>	<u>\$ (314,743)</u>	<u>\$ 3,068,986</u>

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 27,402
Police	52,783
Streets	88,346
Library	680
Economic Development	<u>21,222</u>
Total Depreciation Expense	<u>\$ 190,433</u>



	Balance 1/1/22	Additions	Deletions	Balance 12/31/22
<b>Business-type Activities (Water and Sewer Fund):</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 61,510	\$	\$	\$ 61,510
Construction in Progress	277,961	2,395,470		2,673,431
Total Capital Assets Not Being Depreciated	<u>339,471</u>	<u>2,395,470</u>		<u>2,734,941</u>
Capital Assets Being Depreciated:				
Water and Sewer System	10,481,766			10,481,766
Buildings	123,265			123,265
Vehicles	64,772			64,772
Furniture and Fixtures	3,794	13,086		16,880
Machinery and Equipment	280,509			280,509
Total Capital Assets Being Depreciated	<u>10,954,106</u>	<u>13,086</u>		<u>10,967,192</u>
Less Accumulated Depreciation for:				
Water and Sewer System	(7,303,396)	(315,286)		(7,618,682)
Buildings	(19,780)	(3,161)		(22,941)
Vehicles	(64,772)			(64,772)
Furniture and Fixtures	(3,794)	(1,090)		(4,884)
Machinery and Equipment	(259,716)	(4,706)		(264,422)
Total Accumulated Depreciation	<u>(7,651,458)</u>	<u>(324,243)</u>		<u>(7,975,701)</u>
Total Capital Assets Being Depreciated, Net	<u>3,302,648</u>	<u>(311,157)</u>	-	<u>2,991,491</u>
Business-type Activities Capital Assets, Net	<u>\$ 3,642,119</u>	<u>\$ 2,084,313</u>	-	<u>\$ 5,726,432</u>

#### F. CHANGES IN LONG-TERM DEBT

A summary of the City's long-term debt transactions for the year ended December 31, 2022, are included in the following table:

	Interest Rate	Balance 1/1/22	Issued	Retired	Balance 12/31/22	Due Within One Year
<b>Business-type Activities (Water and Sewer Fund):</b>						
Tax & Rev Cert of Obligation, Series 2019	2.48%	\$ 655,000	\$ -	\$ 75,000	\$ 580,000	\$ 75,000
Total Business-type Activities Long-term Liabilities		<u>\$ 655,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 580,000</u>	<u>\$ 75,000</u>

On June 20, 2019, the City issued \$800,000 in Tax and Revenue Certificates of Obligation, Series 2019. The proceeds from the 2019 certificates are being used for improvements to the City's wastewater system.

Annual debt service requirement to maturity, including principal and interest, for all long-term debt at December 31, 2022, is as follows:

Business-type Activities			
Tax & Revenue Certificates of Obligation			
Series 2019			
Year Ending			Annual Debt
<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Service</u>
2023	\$ 75,000	\$ 13,454	\$ 88,454
2024	80,000	11,532	91,532
2025	80,000	9,548	89,548
2026	85,000	7,502	92,502
2027	85,000	5,394	90,394
Thereafter	<u>175,000</u>	<u>4,402</u>	<u>179,402</u>
Total	<u>\$ 580,000</u>	<u>\$ 51,832</u>	<u>\$ 631,832</u>

Total Long-Term Debt			
Year Ending			Annual Debt
<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Service</u>
2023	\$ 75,000	\$ 13,454	\$ 88,454
2024	80,000	11,532	91,532
2025	80,000	9,548	89,548
2026	85,000	7,502	92,502
2027	85,000	5,394	90,394
Thereafter	<u>175,000</u>	<u>4,402</u>	<u>179,402</u>
Total	<u>\$ 580,000</u>	<u>\$ 51,832</u>	<u>\$ 631,832</u>

**G. EMPLOYEE'S RETIREMENT PLAN**

**Plan Description**

The City of Sour Lake participates as one of 901 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 Texas participating cities. The TMRS Act places the general administration and management 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 comprehensive annual financial report (Annual Report) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

**Benefits Provided**

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

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

***Employees covered by benefit terms.***

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

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	26
Active employees	<u>15</u>
	48

**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 Sour Lake were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rate for the City was 5.44% in calendar year 2022. The City’s contributions to TMRS for the year ended December 31, 2022, were \$40,815, and were equal to the required contributions.

**Net Pension Liability**

The City’s Net Pension Liability (NPL) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

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

Inflation	2.5% per year
Overall payroll growth	2.75% per year, 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 the Public Safety tables used for males and the General Employee table used for females. Mortality rates for health retirees and beneficiaries were based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for health retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of experience of TMRS over the four period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and

Annuity Purchase Rates (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

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

#### ***Discount Rate***

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2020	\$ 1,294,136	\$ 1,468,896	\$ (174,760)
Changes for the Year:			
Service Cost	89,825	-	89,825
Interest	88,955	-	88,955
Change of benefit terms	-	-	-
Difference between expected and actual experience	(8,876)	-	(8,876)
Changes of assumptions	-	-	-
Contributions - employer	-	38,984	(38,984)
Contributions - employee	-	47,707	(47,707)
Net investment income	-	191,728	(191,728)
Benefit payments, including refunds of employee contributor	(42,401)	(42,401)	-
Administrative expense	-	(886)	886
Other changes	-	5	(5)
Net changes	<u>127,503</u>	<u>235,137</u>	<u>(107,634)</u>
Balance at 12/31/2021	<u>\$ 1,421,639</u>	<u>\$ 1,704,033</u>	<u>\$ (282,394)</u>

**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	\$ (100,236)	\$ (282,394)	\$ (432,613)

**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](http://tmrs.com).

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

For the year ended December 31, 2022 the City recognized pension expense (income) of (\$11,155).

At December 31, 2022, 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	\$ -	\$ 7,207
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	98,157
Contributions subsequent to the measurement date	<u>40,815</u>	<u>-</u>
Total	\$ 40,815	\$ 105,364

\$40,815 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 ending December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:		
2022	\$	(24,827)
2023		(41,232)
2024		(20,792)
2025		(18,513)
2026		-
Thereafter		-
		<u>\$ (105,364)</u>

## H. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

**Plan Description** Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”) (a single-employer plan). 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 with optional coverage for their retirees. The death benefit for active members provides a lump-sum payment approximately equal to the member’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 postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. 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. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

**Employees covered by benefit terms.**

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

Inactive employees currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>15</u>
	21

**Actuarial Assumptions** The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Summary of Actuarial Assumptions:

Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate*	1.84%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and female, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

Note: The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

**Discount Rate** A discount rate of 1.84% was used to measure the total OPEB liability. There was a change of .16 percent in the discount rate since the previous year. In accordance with paragraph 155, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated as AA or higher.

**Changes in Total OPEB Liability**

Balance at 12/31/2020	\$	42,934
Changes for the Year:		
Service cost		4,021
Interest on total OPEB liability		895
Changes of benefit terms		-
Difference between expected and actual experience		(3,277)
Changes in assumptions or other inputs		1,354
Benefit payments		(409)
Net changes		<u>2,584</u>
Balance at 12/31/2021	\$	<u>45,518</u>

**Discount Rate Sensitivity Analysis** The following schedule shows the impact of the Total OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (1.84%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (0.84%)	Current Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
Total OPEB Liability	\$ 55,560	\$ 45,518	\$ 37,790

For the year ended December 31, 2022, the City recognized OPEB expense of \$6,961.

At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 1,254	\$ -
Changes in assumptions and other inputs	-	7,814
Contributions made subsequent to measurement date	-	1,726
Total as of fiscal year-end	\$ 1,254	\$ 9,540

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEB's will be recognized in OPEB expense as follows:

	Net deferred outflows (inflows) of resources
2022	\$ 2,045
2023	2,045
2024	2,018
2025	635
2026	(183)
Thereafter	-
Total	\$ 6,560



**I. GARBAGE DISPOSAL CONTRACT**

The City contracts for garbage disposal with an outside party. Garbage disposal expense was \$202,989 for the year ended December 31, 2022.

**J. COMMITMENTS & CONTINGENCIES**

Certain claims, suits and complaints arising in the ordinary course of operations have been filed or are pending against the City. In the opinion of legal counsel, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the City if disposed of unfavorably.

The City has participated in a number of state and federally assisted grant programs in prior years. These programs are subject to financial and compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as a result of these potential audits, is not believed to be material.

**K. COVID-19**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the City's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the City is not able to estimate the effects of the COVID-19 outbreak on its results of operations or financial condition for fiscal year 2022.

On September 29, 2022, the City received additional Coronavirus Local Fiscal Recovery Funds (CLFRF) in the amount of \$216,000. These funds will be spent in the next fiscal year and any unspent funds must be returned to TDEM. Unearned Revenue at December 31, 2022, was \$392,256.

**L. SUBSEQUENT EVENT**

Subsequent events have been evaluated by management through August 15, 2023, which is the date these financial statements were accepted by management.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SOUR LAKE  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 425,000	\$ 425,000	\$ 536,993	\$ 111,993
General Sales and Use Taxes	805,000	805,000	989,399	184,399
Franchise Tax	99,000	99,000	99,605	605
Licenses and Permits	5,000	5,000	9,325	4,325
Intergovernmental Revenue and Grants	-	-	109,170	109,170
Charges for Services	17,100	17,100	24,287	7,187
Fines	75,000	75,000	89,516	14,516
Investment Earnings	4,000	4,000	48,754	44,754
Contributions & Donations from Private Sources	8,900	8,900	9,285	385
Other Revenue	105,700	105,700	109,004	3,304
Total Revenues	<u>1,544,700</u>	<u>1,544,700</u>	<u>2,025,338</u>	<u>480,638</u>
<b>EXPENDITURES:</b>				
Current:				
Administration	394,824	394,824	398,967	(4,143)
Municipal Court	20,501	20,501	19,644	857
Public Safety:				
Police	667,510	727,568	812,715	(85,147)
Public Works:				
Streets	369,418	369,418	407,828	(38,410)
Community Center	12,250	12,250	12,257	(7)
Library	86,897	86,897	68,234	18,663
Conservation and Development:				
Annex Building	8,300	8,300	2,105	6,195
Total Expenditures	<u>1,559,700</u>	<u>1,619,758</u>	<u>1,721,750</u>	<u>(101,992)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(15,000)</u>	<u>(75,058)</u>	<u>303,588</u>	<u>378,646</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	15,000	15,000	45,600	30,600
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>15,000</u>	<u>45,600</u>	<u>30,600</u>
Net Change	-	(60,058)	349,188	409,246
Fund Balance - January 1 (Beginning)	<u>3,210,649</u>	<u>3,210,649</u>	<u>3,210,649</u>	<u>-</u>
Fund Balance - December 31 (Ending)	<u>\$ 3,210,649</u>	<u>\$ 3,150,591</u>	<u>\$ 3,559,837</u>	<u>\$ 409,246</u>

CITY OF SOUR LAKE  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED DECEMBER 31, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
<b>A. Total Pension Liability</b>			
Service Cost	\$ 89,825	\$ 86,969	\$ 87,387
Interest (on the Total Pension Liability)	88,955	81,967	73,975
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(8,876)	(18,401)	(4,025)
Changes of Assumptions	-	-	736
Benefit Payments, Including Refunds of Employee Contributions	(42,401)	(54,479)	(24,445)
Net Change in Total Pension Liability	<u>\$ 127,503</u>	<u>\$ 96,056</u>	<u>\$ 133,628</u>
Total Pension Liability - Beginning	1,294,136	1,198,080	1,064,452
Total Pension Liability - Ending	<u>\$ 1,421,639</u>	<u>\$ 1,294,136</u>	<u>\$ 1,198,080</u>
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 38,984	\$ 34,173	\$ 37,598
Contributions - Employee	47,707	45,739	46,271
Net Investment Income	191,728	101,984	172,131
Benefit Payments, Including Refunds of Employee Contributions	(42,401)	(54,479)	(24,445)
Administrative Expense	(886)	(659)	(971)
Other	5	(26)	(28)
Net Change in Plan Fiduciary Net Position	<u>\$ 235,137</u>	<u>\$ 126,732</u>	<u>\$ 230,556</u>
Plan Fiduciary Net Position - Beginning	1,468,896	1,342,164	1,111,608
Plan Fiduciary Net Position - Ending	<u>\$ 1,704,033</u>	<u>\$ 1,468,896</u>	<u>\$ 1,342,164</u>
<b>C. Net Pension Liability (Asset)</b>	<u>\$ (282,394)</u>	<u>\$ (174,760)</u>	<u>\$ (144,084)</u>
<b>D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	119.86%	113.50%	112.03%
<b>E. Covered Payroll</b>	\$ 681,526	\$ 653,409	\$ 661,020
<b>F. Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	(41.44%)	(26.75%)	(21.80%)

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.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$ 81,771	\$ 85,789	\$ 81,889	\$ 33,800	\$ 24,270
68,136	59,893	51,309	45,534	37,690
-	-	-	43,663	-
(34,565)	5,029	(699)	(4,833)	3,645
-	-	-	13,182	-
(38,854)	(14,321)	(224)	(3,946)	-
\$ 76,488	\$ 136,390	\$ 132,275	\$ 127,400	\$ 65,605
987,964	851,574	719,299	591,899	526,294
\$ 1,064,452	\$ 987,964	\$ 851,574	\$ 719,299	\$ 591,899
\$ 35,340	\$ 36,245	\$ 22,436	\$ (7)	\$ -
42,653	44,123	41,659	27,615	24,499
(33,185)	126,789	53,886	1,141	40,521
(38,854)	(14,321)	(224)	(3,946)	-
(640)	(657)	(608)	(695)	(423)
(34)	(33)	(33)	(34)	(35)
\$ 5,280	\$ 192,146	\$ 117,116	\$ 24,074	\$ 64,562
1,106,328	914,182	797,066	772,993	708,431
\$ 1,111,608	\$ 1,106,328	\$ 914,182	\$ 797,067	\$ 772,993
\$ (47,156)	\$ (118,364)	\$ (62,608)	\$ (77,768)	\$ (181,094)
104.43%	111.98%	107.35%	110.81%	130.60%
\$ 609,324	\$ 630,335	\$ 595,122	\$ 552,290	\$ 489,980
(7.74%)	(18.78%)	(10.52%)	(14.08%)	(36.96%)

CITY OF SOUR LAKE  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE FISCAL YEAR 2022

	2022	2021	2020
Actuarially Determined Contribution	\$ 40,815	\$ 38,881	\$ 34,189
Contributions in Relation to the Actuarially Determined Contributions	40,815	38,881	34,189
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 749,982	\$ 681,527	\$ 661,020
Contributions as a Percentage of Covered Payroll	5.44%	5.70%	5.17%

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.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

	2019	2018	2017	2016
\$	37,612	\$ 35,340	\$ 36,245	\$ 21,286
	37,612	35,340	36,245	21,286
\$	-	\$ -	\$ -	\$ -
\$	609,324	\$ 630,335	\$ 595,122	\$ 552,290
	6.17%	5.60%	6.09%	3.85%

CITY OF SOUR LAKE  
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED DECEMBER 31, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
<b>Total OPEB Liability</b>			
Service Cost	\$ 4,021	\$ 3,332	\$ 2,247
Interest on the Total OPEB Liability	895	993	956
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(3,277)	(1,443)	277
Changes of Assumptions	1,354	5,715	6,429
Benefit Payments*	(409)	(196)	(66)
Net Change in Total OPEB Liability	2,584	8,401	9,843
Total OPEB Liability - Beginning	42,934	34,533	24,690
Total OPEB Liability - Ending	\$ 45,518	\$ 42,934	\$ 34,533
<b>Covered Payroll</b>	\$ 681,526	\$ 653,409	\$ 661,020
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	6.68%	6.57%	5.22%

\*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.

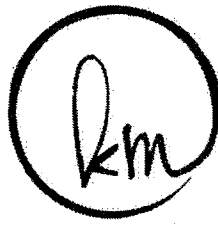
Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

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



<u>FY 2019</u>		<u>FY 2018</u>	
<u>Plan Year 2018</u>		<u>Plan Year 2017</u>	
\$	2,133	\$	1,954
	670		605
	-		-
	4,472		-
	(1,769)		1,597
	-		-
	<u>5,506</u>		<u>4,156</u>
	19,184		15,028
\$	<u>24,690</u>	\$	<u>19,184</u>
\$	609,324	\$	630,335
	4.05%		3.04%

FEDERAL SECTION



**keri michutka**  
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S 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*

Mayor and City Council  
City of Sour Lake, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sour Lake, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Sour Lake's basic financial statements and have issued our report thereon dated August 15, 2023.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink, appearing to read 'Ve lert'.

Bridge City, Texas  
August 15, 2023



**keri michutka**  
CERTIFIED PUBLIC ACCOUNTANT

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

Mayor and City Council  
City of Sour Lake, Texas

**Report on Compliance for Each Major Federal Program**

We have audited the City of Sour Lake's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Sour Lake's major federal programs for the year ended December 31, 2022. The City of Sour Lake's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Sour Lake's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Sour Lake 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 December 31, 2022.

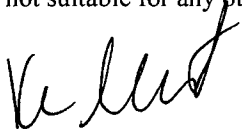
## Report on Internal Control Over Compliance

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

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

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

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.

A handwritten signature in black ink, appearing to be 'K. H. H.', is written over the printed text of the signature line.

Bridge City, Texas  
August 15, 2023

CITY OF SOUR LAKE  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2022

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

**Financial Statements**

- 1. Type of auditor’s report issued Unmodified
- 2. Internal control over financial reporting:
  - a. Material weakness(es) identified? No
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
- 3. Noncompliance material to the financial statements noted? No

**Federal Awards**

- 4. Internal control over major programs:
  - a. Material weakness(es) identified? No
  - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
- 5. Type of auditor’s report issued on compliance with major programs Unmodified
- 6. 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
- 7. Identification of major programs CDBG – Disaster Recovery Hurricane Harvey  
FAL 14.228
- 8. Dollar threshold used to distinguish between Type A and Type B programs \$750,000
- 9. Auditee qualified as low-risk auditee? No

**II. Findings Related to the Financial Statements**

None reported

**III. Findings and Questioned Costs Related to Federal Awards**

None reported

CITY OF SOUR LAKE  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2022

No prior findings.



CITY OF SOUR LAKE  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED DECEMBER 31, 2022

No corrective action is necessary for the City during the year ended December 31, 2022.

CITY OF SOUR LAKE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through:	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			
<u>Passed through Texas General Land Office</u>			
CDBG – Disaster Recovery Hurricane Harvey	14.228	20-065-088-C249	\$ 1,682,752
CDBG – Disaster Recovery Hurricane Harvey	14.228	22-085-037-D281	<u>362,180</u>
Total Passed through Texas General Land Office			<u>2,044,932</u>
<u>Passed through Texas Department of Agriculture</u>			
CDBG – Disaster Recovery Hurricane Harvey	14.228	7220440	109,170
CDBG – Disaster Recovery Hurricane Harvey	14.228	CDV21-0383	<u>25,000</u>
Total Passed through Texas Department of Agriculture			<u>134,170</u>
Subtotal FAL 14.228			<u>2,179,102</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			<u>2,179,102</u>
<b>U.S. DEPARTMENT OF THE TREASURY</b>			
<u>Passed through Texas Division of Emergency Management</u>			
Covid-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	2021CLFRF	<u>39,944</u>
Total Passed through Texas Division of Emergency Management			<u>39,944</u>
<b>TOTAL U.S. DEPARTMENT OF THE TREASURY</b>			<u>39,944</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 2,219,046</u>

CITY OF SOUR LAKE  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2022

1. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities and fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Usually, Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When Federal grant funds are received before related expenditures are made, they are recorded as deferred revenues.

2. The City has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.