



Annual
Financial
REPORT

CITY OF SOUR LAKE, TEXAS

for
Fiscal Year Ending
DECEMBER 31 **2023**

CITY OF SOUR LAKE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2023

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FOR THE YEAR ENDED DECEMBER 31, 2023

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	12
B-1 Statement of Activities	13
Governmental Fund Financial Statements:	
C-1 Balance Sheet	15
C-2 Reconciliation for C-1	16
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	17
C-4 Reconciliation for C-3	18
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	19
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	20
D-3 Statement of Cash Flows	21
Notes to the Financial Statements	22
 <u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	41
G-2 Schedule of Changes in Net Pension Liability and Related Ratios for TMRS	42
G-3 Schedule of Contributions TMRS Pension Plan	44
G-4 Schedule of Changes in the Total OPEP Liability and Related Ratios for TMRS	46
 <u>Federal Section</u>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48
Report on Compliance for Each Major Program and Internal Control over Compliance Required by the Uniform Guidance	50
Schedule of Findings and Questioned Costs	52
Schedule of Status of Prior Findings	53
Corrective Action Plan	54
K-1 Schedule of Expenditures of Federal Awards	55
Notes to Schedule of Expenditures of Federal Awards	56



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, 2023 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, 2023 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 1 to the financial statements, during the year ended December 31, 2023, the City adopted new accounting guidance, GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA's). 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 41, and the TMRS required pension and OPEB schedules on pages 42 to 47 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 July 1, 2024 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 be 'V. [unclear]', written in a cursive style.

Bridge City, Texas
July 1, 2024

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, 2023. 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 2023 by \$16,049,495. Of this amount, \$4,777,228 is considered unrestricted. The unrestricted net position of the City's governmental activities is \$4,287,663. The unrestricted net position of the City's business-type activities is \$489,565 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 \$1,510,626 in the fiscal year 2023.
- ❑ As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$5,330,632, an increase of \$346,378. Approximately 66% or \$3,535,560 of this total amount is considered unassigned at December 31, 2023 and is available for spending.
- ❑ The general fund reported fund balance of \$3,613,551 at the end of the current fiscal year. The unassigned fund balance for the general fund was \$3,535,560 or 210% 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 40 of this report.

THE CITY AS A WHOLE – GOVERNMENT WIDE FINANCIAL ANALYSIS

The City's combined net position was \$16,049,495 as of December 31, 2023. 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 \$8,939,267 and the business-type activities net position is \$7,110,228. 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 \$4,777,228 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	
	2023	2022	2023	2022	2023	2022
Current and Other Assets	\$5,920,415	\$5,440,730	\$1,539,639	\$1,339,449	\$ 7,460,054	\$ 6,780,179
Capital Assets	2,934,523	3,068,986	6,620,663	5,726,432	9,555,186	8,795,418
Net Pension Asset	84,268	282,394	-	-	84,268	282,394
Total Assets	<u>8,939,206</u>	<u>8,792,110</u>	<u>8,160,302</u>	<u>7,065,881</u>	<u>17,099,508</u>	<u>15,857,991</u>
Deferred Outflow - Pension	170,108	40,815	-	-	170,108	40,815
Deferred Outflow - OBEB	4,084	9,540	-	-	4,084	9,540
Total Deferred Outflows	<u>174,192</u>	<u>50,355</u>	<u>-</u>	<u>-</u>	<u>174,192</u>	<u>50,355</u>
Current Liabilities	113,590	81,326	625,074	631,015	738,664	712,341
Net OPEB Liability	31,741	45,518	-	-	31,741	45,518
Long-Term Liabilities	-	-	425,000	505,000	425,000	505,000
Total Liabilities	<u>145,331</u>	<u>126,844</u>	<u>1,050,074</u>	<u>1,136,015</u>	<u>1,195,405</u>	<u>1,262,859</u>
Deferred Inflow - Pension	18,220	105,364	-	-	18,220	105,364
Deferred Inflow - OPEB	10,580	1,254	-	-	10,580	1,254
Total Deferred Inflows	<u>28,800</u>	<u>106,618</u>	<u>-</u>	<u>-</u>	<u>28,800</u>	<u>106,618</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	2,934,523	3,068,986	6,620,663	5,726,432	9,555,186	8,795,418
Restricted	1,717,081	1,424,417	-	-	1,717,081	1,424,417
Unrestricted	4,287,663	4,115,600	489,565	203,434	4,777,228	4,319,034
Total Net Position	<u>\$8,939,267</u>	<u>\$8,609,003</u>	<u>\$7,110,228</u>	<u>\$5,929,866</u>	<u>\$16,049,495</u>	<u>\$14,538,869</u>

As reflected in the following table (Table 2) the City's net position increased by \$1,510,626 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 \$330,264 and net position for the business-type activities increased \$1,180,362. This increase was primarily due to grants received during the year.

TABLE 2

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program Revenues:						
Charges for Services	\$ 89,093	\$ 113,803	\$ 1,027,381	\$ 1,449,034	\$ 1,116,474	\$ 1,562,837
Grants	-	124,222	1,194,331	2,109,876	1,194,331	2,234,098
General Revenues:						
Property Taxes	644,379	528,083	96,825	91,752	741,204	619,835
Sales Taxes	969,599	1,319,199	-	-	969,599	1,319,199
Franchise Taxes	100,777	99,605	-	-	100,777	99,605
Grants and Contributions	9,164	9,285	-	-	9,164	9,285
Other	129,784	138,502	-	-	129,784	138,502
Investment Earnings	239,836	67,361	33,332	10,611	273,168	77,972
Total Revenues	<u>2,182,632</u>	<u>2,400,060</u>	<u>2,351,869</u>	<u>3,661,273</u>	<u>4,534,501</u>	<u>6,061,333</u>
Expenses:						
Administration	424,011	383,366	-	-	424,011	383,366
Municipal Court	20,631	19,644	-	-	20,631	19,644
Police	812,941	670,015	-	-	812,941	670,015
Streets	412,178	358,236	-	-	412,178	358,236
Community Center	22,585	12,257	-	-	22,585	12,257
Library	85,315	67,498	-	-	85,315	67,498
Economic Development	71,604	66,440	-	-	71,604	66,440
Annex Building	3,103	2,105	-	-	3,103	2,105
Water & Sewer	-	-	1,171,507	1,545,855	1,171,507	1,545,855
Total Expenses	<u>1,852,368</u>	<u>1,579,561</u>	<u>1,171,507</u>	<u>1,545,855</u>	<u>3,023,875</u>	<u>3,125,416</u>
Increase (Decrease) in Net Position Before Transfer:	330,264	820,499	1,180,362	2,115,418	1,510,626	2,935,917
Gain on Disposition of Assets	-	-	-	-	-	-
Transfer In (Out)	-	(231,000)	-	231,000	-	-
Increase (Decrease) in Net Position	330,264	589,499	1,180,362	2,346,418	1,510,626	2,935,917
Beginning 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>
Ending Net Position	<u>\$ 8,939,267</u>	<u>\$ 8,609,003</u>	<u>\$ 7,110,228</u>	<u>\$ 5,929,866</u>	<u>\$ 16,049,495</u>	<u>\$ 14,538,869</u>

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$330,264.

The general revenues are as follows:

Table 3
General Revenues

	2023	2022
Property Taxes	\$ 644,379	\$ 528,083
Sales Tax	969,599	1,319,199
Franchise Taxes	100,777	99,605
Contributions	9,164	9,285
Miscellaneous Revenue	129,784	138,502
Investment Income	239,836	67,361
	<u>\$ 2,093,539</u>	<u>\$ 2,162,035</u>

The most significant governmental expense for the City was for public safety, which incurred expenses of \$812,941. These expenses were offset by revenues collected from a variety of sources, with the largest being general sales tax revenue of \$969,599 for the fiscal year ended December 31, 2023.

BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City's net position by \$1,180,362. 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 \$5,330,632, an increase of \$346,378 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 \$3,535,560 while the total fund balance was \$3,613,551. 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 210% of total general fund expenditures, while total fund balance represents 214% of total general fund expenditures.

The fund balance of the City's general fund increased by \$53,714 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 \$489,565. Net position of the water, sewer, and sanitation fund increased by \$1,180,362. 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 2023, 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 41.

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, 2023, amount to \$9,555,186 (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 2023	Business-Type Activities 2023	Total 2023
Land	\$ 170,751	\$ 61,510	\$ 232,261
Buildings	794,620	97,165	891,785
Infrastructure, net	1,619,885	2,527,639	4,147,524
Vehicles	186,779	-	186,779
Furniture and Equipment	152,488	20,758	173,246
Construction in Progress	10,000	3,913,591	3,923,591
	<u>\$ 2,934,523</u>	<u>\$ 6,620,663</u>	<u>\$ 9,555,186</u>

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

- Vehicles \$ 57,143
- Furniture and Equipment 12,150

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

- Construction in Progress \$ 1,240,160

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 \$505,000.

Table 5

Long-Term Debt Obligations Outstanding
Certificates of Obligation

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
	Tax Notes	\$ -	\$ -	\$ 505,000	\$ 580,000	\$ 505,000
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 505,000</u>	<u>\$ 580,000</u>	<u>\$ 505,000</u>	<u>\$ 580,000</u>

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 2023 the City collected \$969,599 in Sales Tax; this was a 26.5% decrease from the previous fiscal year of 2022. The sales tax revenue accounts for approximately 47% of the Government Funds revenue.
- ❑ The ad valorem taxable values for the 2023 budget increased over the prior year. The adopted tax rate of .401584 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 2024 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, 2023

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 4,995,725	\$ 1,269,926	\$ 6,265,651
Cash with Agent	52,111	7,813	59,924
Receivables, Net	723,529	261,900	985,429
Due from Other Governments	149,050	-	149,050
Capital Assets:			
Land Purchase and Improvements	170,751	61,510	232,261
Infrastructure, Net	1,619,885	2,527,639	4,147,524
Buildings, Net	794,620	97,165	891,785
Vehicles, Net	186,779	-	186,779
Furniture and Equipment, Net	152,488	20,758	173,246
Construction in Progress	10,000	3,913,591	3,923,591
Net Pension Asset	84,268	-	84,268
Total Assets	8,939,206	8,160,302	17,099,508
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	170,108	-	170,108
Deferred Outflow Related to OPEB	4,084	-	4,084
Total Deferred Outflows of Resources	174,192	-	174,192
LIABILITIES			
Accounts Payable	26,371	44,555	70,926
Wages and Salaries Payable	16,820	-	16,820
Deposits Payable	-	112,008	112,008
Intergovernmental Payable	26,837	-	26,837
Accrued Interest Payable	-	4,175	4,175
Unearned Revenues	-	384,336	384,336
Other Current Liabilities	43,562	-	43,562
Noncurrent Liabilities:			
Due Within One Year	-	80,000	80,000
Due in More Than One Year:			
Bonds Payable - Noncurrent	-	425,000	425,000
Net OPEB Liability	31,741	-	31,741
Total Liabilities	145,331	1,050,074	1,195,405
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	18,220	-	18,220
Deferred Inflow Related to OPEB	10,580	-	10,580
Total Deferred Inflows of Resources	28,800	-	28,800
NET POSITION			
Net Investment in Capital Assets & Lease Assets	2,934,523	6,620,663	9,555,186
Restricted for Economic Development	1,717,081	-	1,717,081
Unrestricted Net Position	4,287,663	489,565	4,777,228
Total Net Position	\$ 8,939,267	\$ 7,110,228	\$ 16,049,495

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, 2023

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Administration	\$ 424,011	\$ -	\$ -
Municipal Court	20,631	-	-
Police	812,941	64,778	-
Streets	412,178	-	-
Community Center	22,585	7,250	-
Library	85,315	2,365	-
Annex Building	3,103	14,700	-
Economic Development	71,604	-	-
Total Governmental Activities	1,852,368	89,093	-
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer	1,171,507	1,027,381	1,194,331
Total Business-Type Activities	1,171,507	1,027,381	1,194,331
TOTAL PRIMARY GOVERNMENT	\$ 3,023,875	\$ 1,116,474	\$ 1,194,331

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

Total General Revenues

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
\$ (424,011)	\$ -	\$ (424,011)
(20,631)	-	(20,631)
(748,163)	-	(748,163)
(412,178)	-	(412,178)
(15,335)	-	(15,335)
(82,950)	-	(82,950)
11,597	-	11,597
(71,604)	-	(71,604)
<u>(1,763,275)</u>	<u>-</u>	<u>(1,763,275)</u>
-	1,050,205	1,050,205
-	1,050,205	1,050,205
<u>(1,763,275)</u>	<u>1,050,205</u>	<u>(713,070)</u>
644,379	-	644,379
-	96,825	96,825
969,599	-	969,599
100,777	-	100,777
9,164	-	9,164
129,784	-	129,784
239,836	33,332	273,168
<u>2,093,539</u>	<u>130,157</u>	<u>2,223,696</u>
330,264	1,180,362	1,510,626
8,609,003	5,929,866	14,538,869
<u>\$ 8,939,267</u>	<u>\$ 7,110,228</u>	<u>\$ 16,049,495</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF SOUR LAKE
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023

	General Fund	Economic Development Corp	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,315,452	\$ 1,680,273	\$ 4,995,725
Cash with Agent	52,111	-	52,111
Taxes Receivable	676,193	-	676,193
Other Receivables	47,336	-	47,336
Due from Other Governments	149,050	-	149,050
Due from Other Funds	-	37,262	37,262
Total Assets	<u>\$ 4,240,142</u>	<u>\$ 1,717,535</u>	<u>\$ 5,957,677</u>
LIABILITIES			
Accounts Payable	\$ 25,917	\$ 454	\$ 26,371
Wages and Salaries Payable	16,820	-	16,820
State Fees Payable	26,837	-	26,837
Due to Other Funds	37,262	-	37,262
Other Current Liabilities	43,562	-	43,562
Total Liabilities	<u>150,398</u>	<u>454</u>	<u>150,852</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	476,193	-	476,193
Total Deferred Inflows of Resources	<u>476,193</u>	<u>-</u>	<u>476,193</u>
FUND BALANCES			
Restricted Fund Balance:			
Restricted for Economic Development	-	1,717,081	1,717,081
Committed Fund Balance:			
Security Building	49,562	-	49,562
Technology Fund	28,429	-	28,429
Unassigned Fund Balance	3,535,560	-	3,535,560
Total Fund Balances	<u>3,613,551</u>	<u>1,717,081</u>	<u>5,330,632</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,240,142</u>	<u>\$ 1,717,535</u>	<u>\$ 5,957,677</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, 2023

Total Fund Balances - Governmental Funds	\$	5,330,632
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.		3,068,986
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.		79,293
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 \$84,268, deferred resource outflow in the amount of \$170,108 and a deferred resource inflow in the amount of \$18,220. This resulted in an increase in ending net position of \$236,156.		236,156
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 \$4,084, a net OPEB liability in the amount of \$31,741 and a deferred resource inflow in the amount of \$10,580. This resulted in a decrease in ending net position of \$38,237.		(38,237)
The 2023 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(213,756)
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.		476,193
Net Position of Governmental Activities	\$	8,939,267

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, 2023

EXHIBIT C-3

	General Fund	Economic Development Corp	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 543,336	\$ -	\$ 543,336
General Sales and Use Taxes	727,199	242,400	969,599
Franchise Tax	100,777	-	100,777
Licenses and Permits	1,900	-	1,900
Charges for Services	24,315	-	24,315
Fines	64,778	-	64,778
Investment Earnings	167,771	72,065	239,836
Contributions & Donations from Private Sources	9,164	-	9,164
Other Revenue	101,084	26,800	127,884
Total Revenues	1,740,324	341,265	2,081,589
EXPENDITURES:			
Current:			
Administration	395,631	-	395,631
Municipal Court	20,631	-	20,631
Public Safety:			
Police	807,619	-	807,619
Public Works:			
Streets	351,264	-	351,264
Community Center	22,585	-	22,585
Library	85,777	-	85,777
Annex Building	3,103	-	3,103
Conservation and Development:			
Economic Development	-	48,601	48,601
Total Expenditures	1,686,610	48,601	1,735,211
Net Change in Fund Balances	53,714	292,664	346,378
Fund Balance - January 1 (Beginning)	3,559,837	1,424,417	4,984,254
Fund Balance - December 31 (Ending)	\$ 3,613,551	\$ 1,717,081	\$ 5,330,632

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, 2023

Total Net Change in Fund Balances - Governmental Funds	\$	346,378
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 2023 capital outlays is to increase the change in net position.		79,293
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.		18,311
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.		(1,005)
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.		(213,756)
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 increase the change in net position.		101,043
Change in Net Position of Governmental Activities	\$	330,264

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, 2023

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,269,926
Cash with Agent	7,813
Taxes Receivable	98,980
Accounts Receivable, Net	162,920
Total Current Assets	1,539,639
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	61,510
Construction in Progress	3,913,591
Buildings, net	97,165
Furniture and Fixtures, net	9,379
Machinery and Equipment, net	11,379
Water and Sewer System, net	2,527,639
Total Noncurrent Assets	6,620,663
Total Assets	8,160,302
LIABILITIES	
Current Liabilities:	
Accounts Payable	44,555
Deposits	112,008
Accrued Interest Payable	4,175
Unearned Revenues	384,336
Notes Payable - Current	80,000
Total Current Liabilities	625,074
Noncurrent Liabilities:	
Notes Payable - Noncurrent	425,000
Total Noncurrent Liabilities	425,000
Total Liabilities	1,050,074
NET POSITION	
Net Investment in Capital Assets & Lease Assets	6,620,663
Unrestricted Net Position	489,565
Total Net Position	\$ 7,110,228

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, 2023

	Business-Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Water Service	\$ 415,897
Charges for Sewerage Service	284,212
Charges for Sanitation Service	245,041
Other Revenue	82,231
Total Operating Revenues	1,027,381
OPERATING EXPENSES:	
Purchased Professional & Technical Services	294,899
Purchased Property Services	314,634
Other Operating Costs	133,021
Supplies	59,111
Depreciation	357,054
Total Operating Expenses	1,158,719
Operating Income (Loss)	(131,338)
NONOPERATING REVENUES (EXPENSES):	
Property Taxes	96,825
Grant Revenue	1,194,331
Investment Earnings	33,332
Interest Expense	(12,788)
Total NonOperating Revenue (Expenses)	1,311,700
Change in Net Position	1,180,362
Total Net Position - January 1 (Beginning)	5,929,866
 Total Net Position - December 31 (Ending)	 \$ 7,110,228

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, 2023

EXHIBIT D-3

	Business-Type Activities
<hr/>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 976,125
Cash Payments for Goods and Services	(831,910)
Net Cash Provided by Operating Activities	144,215
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Property Tax Revenue	96,825
Grant Revenue	1,194,331
Net Cash Provided by Non-Capital Financing Activities	1,291,156
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,251,285)
Principal Paid on Debt	(75,000)
Interest Paid on Debt	(12,788)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(1,339,073)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	33,332
Net Increase in Cash and Cash Equivalents	129,630
Cash and Cash Equivalents at Beginning of Year	1,148,109
Cash and Cash Equivalents at End of Year	\$ 1,277,739
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss)	\$ (131,338)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	357,054
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(51,256)
Increase (Decrease) in Accounts Payable	(3,421)
Increase (Decrease) in Other Payables	(26,824)
Net Cash Provided by Operating Activities	\$ 144,215

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, 2023

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, 2023, 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 1st in conformity with Subtitle E of the Texas Property Tax Code on the assessed value listed as of the prior January 1st 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 2023 levy was based, was approximately \$180,621,898. Taxes are due on receipt of the tax bill and are past due and subject to interest if not paid before February 1st of the year following the October 1st levy date.

Taxes are delinquent if not paid by February 1st 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, 2023, was .401584 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, 2023, the general fund committed fund balance was \$77,991 and unassigned was \$3,535,560. The total general fund balance was \$3,613,551.

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 31st 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, 2023.

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. 96 – Subscription-Based Information Technology Arrangements (“GASB 96”). This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. However, the City has no material arrangements that are required to be recorded as a SBITA. Prospectively, the City will be recording any material, applicable SBITA’s in accordance with GASB 96.

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, 2023, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$6,265,651. The City's cash deposits at December 31, 2023, and during the year ended December 31, 2023, 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, 2023, are shown below:

	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool Investment Pool	<u>\$ 5,575,320</u>	<u>\$ 5,575,320</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 1st of the year following the year in which imposed. On January 31st 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, 2023, consisted of the following individual amounts:

	<u>Receivables (Due from)</u>	<u>Payables (Due to)</u>
General Fund	\$	\$ 37,262
Economic Development Corp	<u>37,262</u>	<u> </u>
Total	<u>\$ 37,262</u>	<u>\$ 37,262</u>

There were no interfund transfers during the year ended December 31, 2023.

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at December 31, 2023, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$ 676,193	\$ 149,050	\$ 47,336	\$ 872,579
Total - Governmental Activities	<u>\$ 676,193</u>	<u>\$ 149,050</u>	<u>\$ 47,336</u>	<u>\$ 872,579</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 98,980	\$ -	\$ 162,920	\$ 261,900
Total - Bus.-Type Activities	<u>\$ 98,980</u>	<u>\$ -</u>	<u>\$ 162,920</u>	<u>\$ 261,900</u>

Payables at December 31, 2023, were as follows:

	Accounts Payable	Other Governments	Wages Payable	Other Current	Total Payables
Governmental Activities:					
General Fund	\$ 25,917	\$ 26,837	\$ 16,820	\$ 43,562	\$ 113,136
Economic Development Corp	454	-	-	-	454
Total - Gov. Activities	\$ 26,371	\$ 26,837	\$ 16,820	\$ 43,562	\$ 113,590
Business-Type Activities:					
Water and Sewer Fund	\$ 44,555	\$ -	\$ -	\$ -	\$ 44,555
Total - Bus.-Type Activities	\$ 44,555	\$ -	\$ -	\$ -	\$ 44,555

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended December 31, 2023, was as follows:

	Balance 1/1/23	Additions	Deletions	Balance 12/31/23
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 170,751	\$ -	\$ -	\$ 170,751
Construction in Progress	-	10,000	-	10,000
Total Capital Assets Not Being Depreciated	170,751	10,000	-	180,751
Capital Assets Being Depreciated:				
Buildings	1,198,917	-	-	1,198,917
Infrastructure	3,060,724	-	-	3,060,724
Vehicles	454,144	57,143	-	511,287
Furniture and Equipment	418,599	12,150	-	430,749
Total Capital Assets Being Depreciated	5,132,384	69,293	-	5,201,677
Less Accumulated Depreciation for:				
Buildings	(373,556)	(30,741)	-	(404,297)
Infrastructure	(1,369,604)	(71,235)	-	(1,440,839)
Vehicles	(247,606)	(76,902)	-	(324,508)
Furniture and Equipment	(243,383)	(34,878)	-	(278,261)
Total Accumulated Depreciation	(2,234,149)	(213,756)	-	(2,447,905)
Total Capital Assets Being Depreciated, Net	2,898,235	(144,463)	-	2,753,772
Governmental Activities Capital Assets, Net	\$ 3,068,986	\$ (134,463)	\$ -	\$ 2,934,523

Depreciation expense was charged to governmental functions as follows:

Administration	\$	31,680
Police		73,125
Streets		85,268
Library		680
Economic Development		<u>23,003</u>
Total Depreciation Expense	\$	<u>213,756</u>

	Balance 1/1/23	Additions	Deletions	Balance 12/31/23
Business-type Activities (Water and Sewer Fund):				
Capital Assets Not Being Depreciated:				
Land	\$ 61,510	\$	\$	\$ 61,510
Construction in Progress	<u>2,673,431</u>	<u>1,240,160</u>		<u>3,913,591</u>
Total Capital Assets Not Being Depreciated	<u>2,734,941</u>	<u>1,240,160</u>		<u>3,975,101</u>
Capital Assets Being Depreciated:				
Water and Sewer System	10,481,766	11,125		10,492,891
Buildings	123,265			123,265
Vehicles	64,772			64,772
Furniture and Fixtures	16,880			16,880
Machinery and Equipment	<u>280,509</u>			<u>280,509</u>
Total Capital Assets Being Depreciated	<u>10,967,192</u>	<u>11,125</u>		<u>10,978,317</u>
Less Accumulated Depreciation for:				
Water and Sewer System	(7,618,682)	(346,570)		(7,965,252)
Buildings	(22,941)	(3,159)		(26,100)
Vehicles	(64,772)			(64,772)
Furniture and Fixtures	(4,884)	(2,617)		(7,501)
Machinery and Equipment	<u>(264,422)</u>	<u>(4,708)</u>		<u>(269,130)</u>
Total Accumulated Depreciation	<u>(7,975,701)</u>	<u>(357,054)</u>		<u>(8,332,755)</u>
Total Capital Assets Being Depreciated, Net	<u>2,991,491</u>	<u>(345,929)</u>	-	<u>2,645,562</u>
Business-type Activities Capital Assets, Net	<u>\$ 5,726,432</u>	<u>\$ 894,231</u>	<u>\$ -</u>	<u>\$ 6,620,663</u>

F. CHANGES IN LONG-TERM DEBT

A summary of the City's long-term debt transactions for the year ended December 31, 2023, are included in the following table:

	Interest Rate	Balance 1/1/22	Issued	Retired	Balance 12/31/22	Due Within One Year
Business-type Activities (Water and Sewer Fund):						
Tax & Rev Cert of Obligation, Series 2019	2.48%	\$ 580,000	\$ -	\$ 75,000	\$ 505,000	\$ 80,000
Total Business-type Activities Long-term Liabilities		<u>\$ 580,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 505,000</u>	<u>\$ 80,000</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, 2023, is as follows:

Business-type Activities			
Tax & Revenue Certificates of Obligation			
Series 2019			
Year Ending			Annual Debt
December 31,	Principal	Interest	Service
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
2028	85,000	3,286	88,286
Thereafter	<u>90,000</u>	<u>1,116</u>	<u>91,116</u>
Total	<u>\$ 505,000</u>	<u>\$ 38,378</u>	<u>\$ 543,378</u>

Total Long-Term Debt			
Year Ending			Annual Debt
December 31,	Principal	Interest	Service
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
2028	85,000	3,286	88,286
Thereafter	<u>90,000</u>	<u>1,116</u>	<u>91,116</u>
Total	<u>\$ 505,000</u>	<u>\$ 38,378</u>	<u>\$ 543,378</u>

G. UNEARNED AND UNAVAILABLE REVENUE

Unearned and unavailable revenue at year end consisted of the following:

	General Fund	Water & Sewer Fund	Total
Unearned Revenue - Coronavirus Recovery (CLFRF)	\$ -	\$ 384,336	\$ 384,336
Unavailable Revenue - Property Taxes	<u>476,193</u>	<u>-</u>	<u>476,193</u>
Total Deferred Revenue	<u>\$ 476,193</u>	<u>\$ 384,336</u>	<u>\$ 860,529</u>

H. EMPLOYEE'S RETIREMENT PLAN

Plan Description

The City of Sour Lake participates as one of 919 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.

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, 2022 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>14</u>
	47

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 5.25% in calendar year 2023. The City's contributions to TMRS for the year ended December 31, 2023, were \$57,953, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, 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, 2022 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.70%
Core Fixed Income	6.0%	4.90%
Non-Core Fixed Income	20.0%	8.70%
Other Public & Private Markets	12.0%	8.10%
Real Estate	12.0%	5.80%
Hedge Funds	5.0%	6.90%
Private Equity	10.0%	11.80%
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 12/31/2021	\$ 1,421,639	\$ 1,704,033	\$ (282,394)
Changes for the Year:			
Service Cost	98,172	-	98,172
Interest	97,334	-	97,334
Change of benefit terms	-	-	-
Difference between expected and actual experience	(28,442)	-	(28,442)
Changes of assumptions	-	-	-
Contributions - employer	-	40,799	(40,799)
Contributions - employee	-	52,498	(52,498)
Net investment income	-	(124,568)	124,568
Benefit payments, including refunds of employee contributor	(57,484)	(57,484)	-
Administrative expense	-	(1,076)	1,076
Other changes	-	1,284	(1,284)
Net changes	109,580	(88,546)	198,126
Balance at 12/31/2022	\$ 1,531,219	\$ 1,615,487	\$ (84,268)

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	\$ 101,134	\$ (84,268)	\$ (239,133)

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.

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

For the year ended December 31, 2023 the City recognized pension expense of \$39,627.

At December 31, 2023, 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	\$ -	\$ 18,220
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	112,155	-
Contributions subsequent to the measurement date	<u>57,953</u>	<u>-</u>
Total	\$ 170,108	\$ 18,220

\$57,953 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, 2023. 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:	
2023	\$ (4,556)
2024	21,168
2025	29,405
2026	47,918
2027	-
Thereafter	-
	<u>\$ 93,935</u>

I. 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, 2022 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	0
Active employees	<u>14</u>
	19

Actuarial Assumptions The total OPEB liability in the December 31, 2022 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*	4.05%
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, 2022.

Note: The actuarial assumptions used in the December 31, 2022 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 4.05% was used to measure the total OPEB liability. There was a change of 2.21 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 12/31/2021	\$	45,518
Changes for the Year:		
Service cost		4,275
Interest on total OPEB liability		871
Changes of benefit terms		-
Difference between expected and actual experience		(4,704)
Changes in assumptions or other inputs		(13,544)
Benefit payments		(675)
Net changes		(13,777)
Balance at 12/31/2022	\$	<u>31,741</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 (4.05%) in measuring the Total OPEB Liability.

	1% Decrease in Discount Rate (3.05%)	Current Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
Total OPEB Liability	\$ 37,076	\$ 31,741	\$ 27,368

For the year ended December 31, 2023, the City recognized OPEB expense of \$4,038.

At December 31, 2023, 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	\$ 4,899	\$ -
Changes in assumptions and other inputs	5,681	-
Contributions made subsequent to measurement date	-	4,084
Total as of fiscal year-end	\$ 10,580	\$ 4,084

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
2023	\$ (1,108)
2024	(1,135)
2025	(2,518)
2026	(3,336)
2027	(2,483)
Thereafter	-
Total	\$ (10,580)

J. GARBAGE DISPOSAL CONTRACT

The City contracts for garbage disposal with an outside party. Garbage disposal expense was \$194,601 for the year ended December 31, 2023.

K. 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.

L. SUBSEQUENT EVENT

Subsequent events have been evaluated by management through July 1, 2024, 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, 2023

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 517,316	\$ 517,316	\$ 543,336	\$ 26,020
General Sales and Use Taxes	822,934	822,934	727,199	(95,735)
Franchise Tax	39,000	39,000	100,777	61,777
Licenses and Permits	6,000	6,000	1,900	(4,100)
Charges for Services	22,600	22,600	24,315	1,715
Fines	80,000	80,000	64,778	(15,222)
Investment Earnings	2,000	2,000	167,771	165,771
Contributions & Donations from Private Sources	9,700	9,700	9,164	(536)
Other Revenue	76,600	76,600	101,084	24,484
Total Revenues	<u>1,576,150</u>	<u>1,576,150</u>	<u>1,740,324</u>	<u>164,174</u>
EXPENDITURES:				
Current:				
Administration	382,588	392,378	395,631	(3,253)
Municipal Court	21,310	21,310	20,631	679
Public Safety:				
Police	727,487	781,656	807,619	(25,963)
Public Works:				
Streets	359,186	360,112	351,264	8,848
Community Center	12,671	16,571	22,585	(6,014)
Library	74,608	89,400	85,777	3,623
Annex Building	8,300	8,300	3,103	5,197
Total Expenditures	<u>1,586,150</u>	<u>1,669,727</u>	<u>1,686,610</u>	<u>(16,883)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(10,000)</u>	<u>(93,577)</u>	<u>53,714</u>	<u>147,291</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	10,000	10,000	-	(10,000)
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Net Change	-	(83,577)	53,714	137,291
Fund Balance - January 1 (Beginning)	<u>3,559,837</u>	<u>3,559,837</u>	<u>3,559,837</u>	<u>-</u>
Fund Balance - December 31 (Ending)	<u>\$ 3,559,837</u>	<u>\$ 3,476,260</u>	<u>\$ 3,613,551</u>	<u>\$ 137,291</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, 2023

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
A. Total Pension Liability			
Service Cost	\$ 98,172	\$ 89,825	\$ 86,969
Interest (on the Total Pension Liability)	97,334	88,955	81,967
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(28,442)	(8,876)	(18,401)
Changes of Assumptions	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	(57,484)	(42,401)	(54,479)
Net Change in Total Pension Liability	\$ 109,580	\$ 127,503	\$ 96,056
Total Pension Liability - Beginning	1,421,639	1,294,136	1,198,080
Total Pension Liability - Ending	\$ 1,531,219	\$ 1,421,639	\$ 1,294,136
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 40,799	\$ 38,984	\$ 34,173
Contributions - Employee	52,498	47,707	45,739
Net Investment Income	(124,568)	191,728	101,984
Benefit Payments, Including Refunds of Employee Contributions	(57,484)	(42,401)	(54,479)
Administrative Expense	(1,076)	(886)	(659)
Other	1,285	5	(26)
Net Change in Plan Fiduciary Net Position	\$ (88,546)	\$ 235,137	\$ 126,732
Plan Fiduciary Net Position - Beginning	1,704,033	1,468,896	1,342,164
Plan Fiduciary Net Position - Ending	\$ 1,615,487	\$ 1,704,033	\$ 1,468,896
C. Net Pension Liability (Asset)	\$ (84,268)	\$ (282,394)	\$ (174,760)
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	105.50%	119.86%	113.50%
E. Covered Payroll	\$ 749,976	\$ 681,526	\$ 653,409
F. Net Pension Liability (Asset) as a Percentage of Covered Payroll	(11.24%)	(41.44%)	(26.75%)

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 2020 Plan Year 2019		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	
\$	87,387	\$	81,771	\$	85,789	\$	81,889	\$	33,800	\$	24,270
	73,975		68,136		59,893		51,309		45,534		37,690
	-		-		-		-		43,663		-
	(4,025)		(34,565)		5,029		(699)		(4,833)		3,645
	736		-		-		-		13,182		-
	(24,445)		(38,854)		(14,321)		(224)		(3,946)		-
\$	133,628	\$	76,488	\$	136,390	\$	132,275	\$	127,400	\$	65,605
	1,064,452		987,964		851,574		719,299		591,899		526,294
\$	1,198,080	\$	1,064,452	\$	987,964	\$	851,574	\$	719,299	\$	591,899
\$	37,598	\$	35,340	\$	36,245	\$	22,436	\$	(7)	\$	-
	46,271		42,653		44,123		41,659		27,615		24,499
	172,131		(33,185)		126,789		53,886		1,141		40,521
	(24,445)		(38,854)		(14,321)		(224)		(3,946)		-
	(971)		(640)		(657)		(608)		(695)		(423)
	(28)		(34)		(33)		(33)		(34)		(35)
\$	230,556	\$	5,280	\$	192,146	\$	117,116	\$	24,074	\$	64,562
	1,111,608		1,106,328		914,182		797,066		772,993		708,431
\$	1,342,164	\$	1,111,608	\$	1,106,328	\$	914,182	\$	797,067	\$	772,993
\$	(144,084)	\$	(47,156)	\$	(118,364)	\$	(62,608)	\$	(77,768)	\$	(181,094)
	112.03%		104.43%		111.98%		107.35%		110.81%		130.60%
\$	661,020	\$	609,324	\$	630,335	\$	595,122	\$	552,290	\$	489,980
	(21.80%)		(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 2023

	2023	2022	2021
Actuarially Determined Contribution	\$ 57,953	\$ 40,815	\$ 38,881
Contributions in Relation to the Actuarially Determined Contributions	57,953	40,815	38,881
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,103,867	\$ 749,982	\$ 681,527
Contributions as a Percentage of Covered Payroll	5.25%	5.44%	5.70%

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.

	2020	2019	2018	2017	2016
\$	34,189	\$ 37,612	\$ 35,340	\$ 36,245	21,286
	34,189	37,612	35,340	36,245	21,286
\$	-	\$ -	\$ -	\$ -	-
\$	661,020	\$ 609,324	\$ 630,335	\$ 595,122	552,290
	5.17%	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, 2023

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
Total OPEB Liability			
Service Cost	\$ 4,275	\$ 4,021	\$ 3,332
Interest on the Total OPEB Liability	871	895	993
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(4,704)	(3,277)	(1,443)
Changes of Assumptions	(13,544)	1,354	5,715
Benefit Payments*	(675)	(409)	(196)
Net Change in Total OPEB Liability	(13,777)	2,584	8,401
Total OPEB Liability - Beginning	45,518	42,934	34,533
Total OPEB Liability - Ending	\$ 31,741	\$ 45,518	\$ 42,934
Covered Payroll	\$ 749,976	\$ 681,526	\$ 653,409
Total OPEB Liability as a Percentage of Covered Payroll	4.23%	6.68%	6.57%

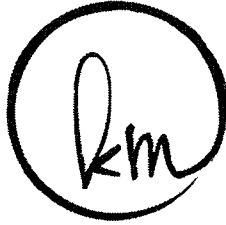
*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

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 2020</u> <u>Plan Year 2019</u>	<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>
\$	2,247	\$ 2,133	\$ 1,954
	956	670	605
	-	-	-
	277	4,472	-
	6,429	(1,769)	1,597
	(66)	-	-
	<u>9,843</u>	<u>5,506</u>	<u>4,156</u>
	24,690	19,184	15,028
\$	<u>34,533</u>	<u>\$ 24,690</u>	<u>\$ 23,340</u>
\$	661,020	\$ 609,324	\$ 630,335
	5.22%	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, 2023, 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 July 1, 2024.

Report on 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.

Report on Compliance and Other Matters

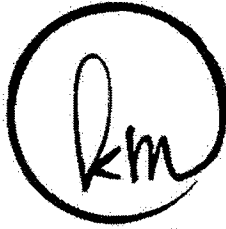
As part of obtaining reasonable assurance about whether the City of Sour Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and 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 be 'K. A.', written in a cursive style.

Bridge City, Texas
July 1, 2024



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

Opinion on Each Major Federal Program

We have audited City of Sour Lake's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Sour Lake's major federal programs for the year ended December 31, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City of Sour Lake and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Sour Lake's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Sour Lake's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Sour Lake's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Sour Lake's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Sour Lake's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Sour Lake's internal control over compliance. Accordingly, no such opinion is expressed.

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

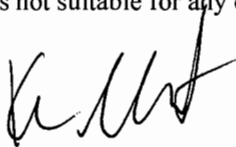
Report on Internal Control over Compliance

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

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

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

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



Bridge City, Texas
July 1, 2024

CITY OF SOUR LAKE
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2023

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
Water Improvement Grant
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, 2023

No prior findings.

CITY OF SOUR LAKE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2023

No corrective action is necessary for the City during the year ended December 31, 2023.

CITY OF SOUR LAKE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Grantor/Pass-Through:	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			
<u>Passed through Texas General Land Office</u>			
CDBG – Disaster Recovery Hurricane Harvey - Sewer Improvements	14.228	20-065-088-C249	\$ 368,961
CDBG – Disaster Recovery Hurricane Harvey - Water Improvements	14.228	22-085-037-D281	<u>497,970</u>
Total Passed through Texas General Land Office			<u>866,931</u>
<u>Passed through Texas Department of Agriculture</u>			
CDBG – Disaster Recovery Hurricane Harvey - Sewer Improvements	14.228	CDV21-0383	<u>319,480</u>
Total Passed through Texas Department of Agriculture			<u>319,480</u>
Subtotal FAL 14.228			<u>1,186,411</u>
TOTAL U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>1,186,411</u>
U.S. DEPARTMENT OF THE TREASURY			
<u>Passed through Texas Division of Emergency Management</u>			
Covid-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	2021CLFRF	<u>7,920</u>
Total Passed through Texas Division of Emergency Management			<u>7,920</u>
TOTAL U.S. DEPARTMENT OF THE TREASURY			<u>7,920</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,194,331</u>

CITY OF SOUR LAKE
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2023

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.