

CITY OF SUDAN, TEXAS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2021

CITY OF SUDAN, TEXAS
 SEPTEMBER 30, 2021
TABLE OF CONTENTS

	<u>Page No.</u>
 <u>FINANCIAL SECTION</u>	
<u>Independent Auditor’s Report</u>	2
<u>Management Discussion & Analysis</u>	4
 <u>Basic Financial Statements</u>	
Statement of Net Position.....	10
Statement of Activities	11
Balance Sheet – Governmental Funds.....	13
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds	19
Notes to the Financial Statements	20
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	36
Schedule of Changes in Net Position Liability and Related Ratios GASB 68	38
Schedule of Contributions – GASB 68	39
Notes to Schedule of Contributions GASB 68	40

CITY OF SUDAN, TEXAS
SEPTEMBER 30, 2021
TABLE OF CONTENTS (Cont.)

	<u>Page No.</u>
<u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Delinquent Taxes Receivable	42
<u>INTERNAL CONTROL AND COMPLIANCE</u>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Sudan, Texas
111 East First Street
Sudan, TX 79371

Report on the Financial Statements

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

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, the discretely presented component unit, each major fund and the remaining aggregate fund information of the City of Sudan, Texas as of September 30, 2021, 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.



Other Matters

Required Supplementary Information

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

Other Information

The schedules contained in the supplementary information section are the responsibility of management and are 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 schedules contained in the supplementary information section are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2022, on our consideration of the City of Sudan, Texas' 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 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 Sudan, TX 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 Sudan, Texas' internal control over financial reporting and compliance.

EMMS CPAs and Advisors, PLLC

Levelland, TX
April 14, 2022

CITY OF SUDAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2021

In this section of the Annual Financial and Compliance Report, we, the managers of the City of Sudan, Texas, will discuss and analyze the City's financial performance for the fiscal year ended September 30, 2021. Please read it in conjunction with the independent auditor's report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The City's net position increased by \$475,908 as a result of this year's operations. The net position of the business-type activities increased by \$34,824 (2.5%), while the net position of the governmental activities increased by \$441,084 (49.4%).
- During the year, the City's General Fund (governmental activities) had expenses of \$742,914 and revenue (excluding transfers) of \$1,183,998. The amount generated by property taxes for the City was \$295,525 and the amount generated by sales tax was \$113,165. Last year the General Fund had expenses of \$670,576 and revenue of \$744,159. The prior year amount generated by property taxes was \$288,075 and the amount generated by sales tax was \$92,284.
- In the City's business-type activities, the expenses were \$407,375 and operating revenues were \$364,084. Included in this amount is \$58,849 of depreciation expense. Last fiscal year the business-type activities had operating expenses of \$359,564, of which \$51,163 was for depreciation expense, against operating revenues of \$435,353.
- The General Fund ended the year with a fund balance of \$590,879 and the enterprise funds ended the year with combined net position of \$1,416,437.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

REPORTING THE CITY AS A WHOLE

The Statement of Net Position and the Statement of Activities

The primary purpose of the analysis of the City's overall financial condition and operations is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year, while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting, which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as Federal and State grants, and revenues provided by the taxpayers or fees for services, such as charges for water usage. All the City's assets are reported, whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

These two statements report the City's net position and the net change in position. The City's net position (the difference between assets plus deferred inflows and liabilities plus deferred outflows) provides one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

CITY OF SUDAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2021

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including maintenance, community services, and general administration. Property taxes, sales taxes, fees, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to “customers” to help cover all or most of the cost of services it provides.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish some funds. The City's administration establishes many other funds to help control and manage money for particular purposes (like capital projects). The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

- Governmental funds – Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds – The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting method employed in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. Internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the City's other programs and activities.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

On occasion, the City is the trustee, or fiduciary, for money held in agency fund accounts. We exclude these resources from the City's other financial statements because the City cannot use these assets to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes. As of September 30, 2021 the City had no assets in agency fund accounts.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities increased from \$892,507 to \$1,333,591. Unrestricted net position for the City's governmental activities – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$514,726 at September 30, 2021. This increase in governmental net position was the result of an increase in transfers from the enterprise fund.

For the fiscal year ended September 30, 2021, net position of our business-type activities increased by \$34,824, or approximately 2.5%. This increase is after \$58,849 of depreciation expense on the fixed position of these funds.

CITY OF SUDAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2021

Table I
City of Sudan, Texas
NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets:						
Current and Other Assets	\$ 642,370	\$ 473,417	\$ 138,861	\$ 112,362	\$ 781,231	\$ 585,779
Capital Assets	<u>966,726</u>	<u>784,190</u>	<u>1,711,336</u>	<u>1,766,235</u>	<u>2,678,062</u>	<u>2,550,425</u>
Total Assets	<u>\$ 1,609,096</u>	<u>\$ 1,257,607</u>	<u>\$ 1,850,197</u>	<u>\$ 1,878,597</u>	<u>\$ 3,459,293</u>	<u>\$ 3,136,204</u>
Deferred Outflow of Resources	\$ 12,652	\$ 35,059	\$ 10,072	\$ 27,907	\$ 22,724	\$ 62,966
Liabilities:						
Short-Term Liabilities	\$ 56,431	\$ 261,138	\$ 115,149	\$ 131,233	\$ 171,580	\$ 392,371
Long-Term Liabilities	<u>187,657</u>	<u>57,542</u>	<u>293,606</u>	<u>328,803</u>	<u>\$ 481,263</u>	<u>\$ 386,345</u>
Total Liabilities	<u>\$ 244,088</u>	<u>\$ 318,680</u>	<u>\$ 408,755</u>	<u>\$ 460,036</u>	<u>\$ 652,843</u>	<u>\$ 778,716</u>
Deferred Inflow of Resources	\$ 44,069	\$ 81,479	\$ 35,077	\$ 64,855	\$ 70,548	\$ 146,344
Net Position:						
Net Investment in Capital Assets	\$ 818,865	\$ 562,190	\$ 1,428,336	\$ 1,442,234	\$ 2,247,201	\$ 2,004,424
Unrestricted	<u>514,726</u>	<u>330,317</u>	<u>(11,899)</u>	<u>(60,621)</u>	<u>502,827</u>	<u>269,696</u>
Total Net Position	<u>\$ 1,333,591</u>	<u>\$ 892,507</u>	<u>\$ 1,416,437</u>	<u>\$ 1,381,613</u>	<u>\$ 2,750,028</u>	<u>\$ 2,274,120</u>

Table II
City of Sudan, Texas
CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program Revenues:						
Charges for Services	\$ 217,773	\$ 204,193	\$ 364,084	\$ 356,692	\$ 581,857	\$ 560,885
Operating Grants and Contributions	159,530	9,834	-	-	159,530	9,834
Capital Grants and Contributions	222,000	-	-	-	222,000	-
General Revenues:						
Property Taxes	295,525	288,075	-	-	295,525	288,075
Sales Taxes	113,165	92,284	-	-	113,165	92,284
Franchise Taxes	59,856	56,432	-	-	59,856	56,432
Penalty & Interest on Taxes	5,366	5,070	-	-	5,366	5,070
Grants & Donation not Restricted	607	-	-	-	607	-
Sale of Asset	5,660	-	-	-	5,660	-
Investment Earnings	1,387	3,190	26	112	1,413	3,302
Miscellaneous	<u>103,129</u>	<u>85,081</u>	<u>78,089</u>	<u>78,549</u>	<u>181,218</u>	<u>163,630</u>
Total Revenues	<u>\$ 1,183,998</u>	<u>\$ 744,159</u>	<u>\$ 442,199</u>	<u>\$ 435,353</u>	<u>\$ 1,626,197</u>	<u>\$ 1,179,512</u>

CITY OF SUDAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2021

Table II
City of Sudan, Texas
CHANGES IN NET POSITION (Cont.)

	Governmental Activities		Business-type Activities		Total	
	2021	2020	2021	2020	2021	2020
Expenses:						
City Hall	\$ 157,716	\$ 163,510	\$ -	\$ -	\$ 157,716	\$ 163,510
Judicial	17,214	20,927	-	-	17,214	20,927
Police	150,804	139,064	-	-	150,804	139,064
Fire Protection	47,331	80,572	-	-	47,331	80,572
Animal Control	8,790	8,022	-	-	8,790	8,022
EMS	65,607	1,981	-	-	65,607	1,981
Highways & Streets	101,077	94,186	-	-	101,077	94,186
Sanitation	193,512	162,314	-	-	193,512	162,314
Interest on Debt	863	-	-	-	863	-
Water/Wastewater Services	-	-	407,375	359,564	407,375	359,564
Total Expenses	<u>742,914</u>	<u>670,576</u>	<u>407,375</u>	<u>359,564</u>	<u>1,150,289</u>	<u>1,030,140</u>
Changes in Net Position	441,084	73,583	34,824	75,789	475,908	149,372
Beginning Net Position	<u>892,507</u>	<u>818,924</u>	<u>1,381,613</u>	<u>1,305,824</u>	<u>2,274,120</u>	<u>2,124,748</u>
Ending Net Position	<u>\$ 1,333,591</u>	<u>\$ 892,507</u>	<u>\$ 1,416,437</u>	<u>\$ 1,381,613</u>	<u>\$ 2,750,028</u>	<u>\$ 2,274,120</u>

The cost of all governmental activities this year, including depreciation, was \$742,914. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through City property, sales and franchise taxes was \$473,912; grants was \$381,530, charges for services of \$217,773, interest on investments of \$1,387, and other revenues of \$103,129.

THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$592,993, which is an increase of \$181,512 from last year's total of \$411,481. All of this increase was in the General Fund. The primary reason for the General Fund's increase was higher other income and lower expenditures.

There was a \$75,960 variance between the actual Fire Protection expense and \$50,587 in the Street expense from the original budget.

The City's General fund balance of \$590,879 differs from the General Fund's projected budgetary fund balance of \$518,069 reported in the budgetary comparison schedule. This is mostly due to the difference in the above paragraph.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2021, the City had \$2,678,061 (net of depreciation) invested in a broad range of capital assets, including buildings, equipment, and infrastructure for the City's utility systems.

This year major additions included:

Trailer	\$ 9,310
Seal Coating	51,027
New Server	13,909
Emergency Equipment	11,776
2020 Ram 5500 4x4 AEX X Series Type 1 Ambulance	<u>229,986</u>
Total Capital Additions	<u>\$ 316,008</u>

CITY OF SUDAN, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2021

Debt

On August 26, 2020 the City borrowed \$222,000 from First United Bank for the purchase of a 2021 Freightliner Fire Truck. This direct borrowing note is a short-term loan – with a 3.50% variable interest rate – and is accounted for it in the General Fund. The balance of this loan plus interest was due on December 5, 2020. This notes was paid in full during the fiscal year end September 30, 2021.

The city agreed to a \$147,861 loan with First United Bank on December 16, 2020 to purchase a new 2020 Dodge 5500 ambulance. Principal on the note was \$147,861 and will paid in five yearly installments of \$32,795. Interest on the note is 3.5%. The balance as September 30, 2021, is \$147,861.

The City agreed to a long-term debt for water & sewer Fund on December 21, 2011. The City of Sudan \$600,000 combination Tax and Revenue Certificates of obligations, Series 2011. The certificates are issued as serial certificates maturing on February 15 in the years 2013 through 2027. Interest is payable each August 15th and February 15th thereafter until maturity or prior redemption with an effective interest rate of 3.90%The balance as of September 30, 2021, is \$283,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2022 budget and tax rates.

Overall property values stayed similar to previous year in fiscal year 2022.

City management projects a balanced budget, with plans to add a small amount to reserves, barring any unforeseen expenses due to new regulations or a major mechanical problem with equipment.

We anticipate an increase in water utility revenues based on more water usage, due to decreased rainfall in the last year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office at 111 East First Street, Sudan, Texas, 79371.

This financial report also includes financial reporting for the Sudan Economic Development Corporation (the Corporation), a component unit of the City. Its financial information is in a separate column on each of the government-wide statements. For questions concerning the Corporation, please contact Sudan Economic Development Corporation, 111 East First Street, Sudan, Texas, 79371.

BASIC FINANCIAL STATEMENTS

CITY OF SUDAN, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Sudan EDC
ASSETS				
Cash and Cash Equivalents	\$ 616,949	\$ 71,350	\$ 688,299	\$ 60,923
Taxes Receivable, Net	20,494	-	20,494	-
Accounts Receivable, Net	32,231	40,207	72,438	-
Internal Balances	(27,304)	27,304	-	-
Capital Assets:				
Land	10,953	476,893	487,846	32,613
Buildings & Improvements, Net	230,396	32,700	263,096	-
Improvements other than Buildings, Net	-	1,172,484	1,172,484	-
Furniture & Equipment, Net	725,377	29,259	754,636	-
Total Assets	<u>1,609,096</u>	<u>1,850,197</u>	<u>3,459,293</u>	<u>93,536</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pension Plan	12,652	10,072	22,724	-
Total Deferred Outflows of Resources	<u>12,652</u>	<u>10,072</u>	<u>22,724</u>	<u>-</u>
LIABILITIES				
Accounts Payable	12,425	23,762	36,187	-
Payroll Liabilities	8,645	5,187	13,832	-
Compensated Absences Payable	3,188	1,650	4,838	-
Intergovernmental Payable	4,274	-	4,274	-
Accrued Interest Payable	-	1,402	1,402	-
Customer Deposits	-	40,148	40,148	-
Other Current Liabilities	351	-	351	-
Noncurrent Liabilities:				
Debt Due Within One Year	27,548	43,000	70,548	-
Due in More Than One Year:				
Bonds Payable, Less Current Portion	120,313	240,000	360,313	-
Net Pension Liability	67,344	53,606	120,950	-
Total Liabilities	<u>244,088</u>	<u>408,755</u>	<u>652,843</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan	44,069	35,077	79,146	-
Total Deferred Inflows of Resources	<u>44,069</u>	<u>35,077</u>	<u>79,146</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	818,865	1,428,336	2,247,201	32,613
Unrestricted Net Position	514,726	(11,899)	502,827	60,923
Total Net Position	<u>\$ 1,333,591</u>	<u>\$ 1,416,437</u>	<u>\$ 2,750,028</u>	<u>\$ 93,536</u>

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government		Component Unit	
Governmental Activities	Business-Type Activities	Total	Sudan EDC
\$ (7,496)	\$ -	\$ (7,496)	\$ -
(17,214)	-	(17,214)	-
(114,469)	-	(114,469)	-
(42,531)	-	(42,531)	-
(8,790)	-	(8,790)	-
156,393	-	156,393	-
(81,830)	-	(81,830)	-
(26,811)	-	(26,811)	-
(863)	-	(863)	-
<u>(143,611)</u>	<u>-</u>	<u>(143,611)</u>	<u>-</u>
-	(43,291)	(43,291)	-
-	(43,291)	(43,291)	-
<u>(143,611)</u>	<u>(43,291)</u>	<u>(186,902)</u>	<u>-</u>
-	-	-	(33,078)
-	-	-	(33,078)
295,525	-	295,525	-
113,165	-	113,165	37,721
59,856	-	59,856	-
5,366	-	5,366	-
607	-	607	-
5,660	-	5,660	-
103,129	78,089	181,218	5,000
1,387	26	1,413	-
<u>584,695</u>	<u>78,115</u>	<u>662,810</u>	<u>42,721</u>
441,084	34,824	475,908	9,643
892,507	1,381,613	2,274,120	83,893
<u>\$ 1,333,591</u>	<u>\$ 1,416,437</u>	<u>\$ 2,750,028</u>	<u>\$ 93,536</u>

CITY OF SUDAN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021

	General Fund	Other Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 614,835	\$ 2,114	\$ 616,949
Taxes Receivable, Net	489	-	489
Accounts Receivable, Net	32,231	-	32,231
Total Assets	\$ 647,555	\$ 2,114	\$ 649,669
LIABILITIES			
Accounts Payable	\$ 12,425	\$ -	\$ 12,425
Payroll Liabilities	8,645	-	8,645
Compensated Absences Payable	3,188	-	3,188
Intergovernmental Payable	4,274	-	4,274
Due to Other Funds	27,304	-	27,304
Other Current Liabilities	351	-	351
Total Liabilities	56,187	-	56,187
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	489	-	489
Total Deferred Inflows of Resources	489	-	489
FUND BALANCES			
Other Assigned Fund Balance	-	2,114	2,114
Unassigned Fund Balance	590,879	-	590,879
Total Fund Balances	590,879	2,114	592,993
Total Liabilities, Deferred Inflows & Fund Balances	\$ 647,555	\$ 2,114	\$ 649,669

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

CITY OF SUDAN, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2021

Total Fund Balances - Governmental Funds	\$	592,993
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		562,190
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2021 capital outlays and debt principal payments is to increase (decrease) net position.		386,197
This is the second year of the implementation of GASB 68 for the TMRS Pension plan. This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of (\$67,344), a deferred resource inflow in the amount of (\$44,069) and a Deferred Resource Outflow of \$12,652. The net effect of these was to decrease the ending net position by (\$98,761)		(98,761)
The 2021 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(129,522)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		20,494
Net Position of Governmental Activities	\$	1,333,591

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

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

	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 297,829	\$ -	\$ 297,829
General Sales and Use Taxes	113,165	-	113,165
Franchise Tax	59,856	-	59,856
Penalty and Interest on Taxes	5,366	-	5,366
Intergovernmental Revenue and Grants	381,530	-	381,530
Charges for Services	185,948	-	185,948
Fines	27,025	-	27,025
Investment Earnings	1,386	1	1,387
Contributions & Donations from Private Sources	607	-	607
Other Revenue	107,929	-	107,929
Total Revenues	1,180,641	1	1,180,642
EXPENDITURES:			
Current:			
General Government:			
City Hall	146,584	-	146,584
Judicial	16,805	-	16,805
Public Safety:			
Police	129,313	-	129,313
Fire Protection	1,901	-	1,901
Animal Control	8,790	-	8,790
EMS	29,843	-	29,843
Public Works:			
Highways and Streets	94,067	-	94,067
Sanitation	190,427	-	190,427
Debt Service:			
Principal on Debt	222,863	-	222,863
Capital Outlay:			
Capital Outlay	312,058	-	312,058
Total Expenditures	1,152,651	-	1,152,651
Excess of Revenues Over Expenditures	27,990	1	27,991
OTHER FINANCING SOURCES:			
Sale of Real and Personal Property	5,660	-	5,660
Proceeds from Notes Payable	147,861	-	147,861
Total Other Financing Sources	153,521	-	153,521
Net Change in Fund Balances	181,511	1	181,512
Fund Balance - September 30, 2020	409,368	2,113	411,481
Fund Balance - September 30, 2021	\$ 590,879	\$ 2,114	\$ 592,993

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

CITY OF SUDAN, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

Total Net Change in Fund Balances - Governmental Funds	\$	181,512
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase the change in net position.		386,197
The implementation of GASB 68 required that certain expenditures to be de-expended and record as deferred resource outflows. These contributions made after the measurement date of 12/31/20 caused the change in the ending net position in the amount of \$2,349. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflow and recorded as current year expense. This caused a decreased in the change in net position totaling (\$2,984). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$5,836. The result of these changes is to decrease the change in net position by \$5,201.		5,201
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.		(129,522)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.		(2,304)
Change in Net Position of Governmental Activities	\$	441,084

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

CITY OF SUDAN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2021

	Business Type Activities
	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 71,350
Accounts Receivable, Net	40,207
Due from Other Funds	27,304
Total Current Assets	<u>138,861</u>
Noncurrent Assets:	
Capital Assets:	
Land	476,893
Buildings & Improvements, Net	32,700
Improvements other than Buildings, Net	1,172,484
Furniture & Equipment, Net	29,259
Total Noncurrent Assets	<u>1,711,336</u>
Total Assets	<u>1,850,197</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	10,072
Total Deferred Outflows of Resources	<u>10,072</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	23,762
Payroll Liabilities	5,187
Compensated Absences Payable	1,650
Bonds Payable Current Portion	43,000
Accrued Interest Payable	1,402
Customer Deposits	40,148
Total Current Liabilities	<u>115,149</u>
Noncurrent Liabilities:	
Bonds Payable, less Current Portion	240,000
Net Pension Liability	53,606
Total Noncurrent Liabilities	<u>293,606</u>
Total Liabilities	<u>408,755</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	35,077
Total Deferred Inflows of Resources	<u>35,077</u>
NET POSITION	
Net Investment in Capital Assets	1,428,336
Unrestricted Net Position	(11,899)
Total Net Position	<u>\$ 1,416,437</u>

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

CITY OF SUDAN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Business-Type Activities
	Water & Sewer Fund
OPERATING REVENUES:	
Charge for Services - Water	\$ 273,480
Charge for Services - Sewer	90,604
Rents and Royalties	26,308
Other Revenue	51,781
Total Operating Revenues	<u>442,173</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	159,889
Personnel Services - Employee Benefits	27,538
Purchased Professional & Technical Services	13,465
Purchased Property Services	45,070
Other Operating Costs	27,480
Supplies	63,234
Depreciation	58,849
Total Operating Expenses	<u>395,525</u>
Operating Income	<u>46,648</u>
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	26
Interest Expense - Non-Operating	(11,850)
Total NonOperating (Expenses)	<u>(11,824)</u>
Change in Net Position	34,824
Total Net Position - September 30, 2020	<u>1,381,613</u>
Total Net Position - September 30, 2021	<u>\$ 1,416,437</u>

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

CITY OF SUDAN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Business-Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 360,232
Cash Received from Other Funds	78,089
Cash Payments to Employees for Services	(189,862)
Cash Payments for Suppliers	(141,558)
Cash Payments for Other Operating Expenses	(27,480)
Net Cash Provided by Operating Activities	<u>79,421</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
(Decrease) in Loans	(41,000)
Due to/from Other Funds	(17,447)
Interest Expense	(11,850)
Net Cash (Used for) Non-Capital Financing Activities	<u>(70,297)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(3,950)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>26</u>
Net Increase in Cash and Cash Equivalents	5,200
Cash and Cash Equivalents at the Beginning of the Year	<u>66,150</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 71,350</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income	\$ 46,648
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	58,849
Effect of Increases and Decreases in Current Assets and Liabilities:	
(Increase) in Receivables	(3,852)
(Decrease) in Accounts Payable	(20,459)
(Decrease) in Payroll Deductions	(2,435)
Increase in Customer Deposits	873
(Decrease) in Accrued Interest	(203)
Net Cash Provided by Operating Activities	<u>\$ 79,421</u>

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

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sudan, Texas was incorporated in 1925. The City operates under a Council form of government and provides the following services as authorized by its charter: public safety, streets, sanitation, health and social services, recreation, public improvements and general administrative services. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board, other authoritative sources identified in the American Institute of Certified Public Accountants and the requirements of contracts and grants of agencies from which it receives funds.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

REPORTING ENTITY

The City Council (Council) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB 61 – *The Financial Reporting Entity: Omnibus* (GASB 61). Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise control. The most significant manifestation of this ability is financial interdependency. Other manifestations of this ability include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relations, regardless of whether the government is able to exercise control.

Discretely Presented Component Units

Based on the criteria noted above, the City has one component unit – Sudan Economic Development Corporation (EDC). It is discretely presented in a separate column of the City's financial statements to emphasize that it is legally separate from the City. The EDC was formed in 1998. The purpose of the EDC is to promote economic development in the City of Sudan and the State of Texas. To assist in accomplishing this objective, voters approved an additional 1/3 of sales tax revenue. The EDC does not issue a separate financial statement.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basis financial statements are prepared in conformity with GASB Statement No. 34 which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statement do not provide information by fund, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's fixed assets, including infrastructure.

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Sudan, Texas' nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants 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. Examples include water charges for water services provided to the residents 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. Examples include grants for emergency response equipment. If revenues are not program revenues, they are general revenues used to support all of the City's functions. Taxes are always general revenues.

Interfund activities within governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other sources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions within governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Net Position.

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 considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column for each major fund.

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.

FINANCIAL STATEMENT PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary 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).

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

**FINANCIAL STATEMENT PRESENTATION, BASIS OF ACCOUNTING, AND MEASUREMENT FOCUS
(Cont.)**

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 sometimes require the City to refund all or part of the unused amount.

In December 2010, the GASB issued GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for fiscal years beginning after December 15, 2011. The objective of GASB Statement No. 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

FUND ACCOUNTING

1. The City reports the following major governmental funds:

The 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.

2. The City reports the following major enterprise funds:

Water & Sewer Fund - This fund accounts for the operations of the water supply and sewer services, distribution, billing, and maintenance activities of the City. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

3. The City also reports the following Nonmajor enterprise funds:

Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

FUND ACCOUNTING (Cont.)

With the implementation of GASB 54, the City now reports fund balance of governmental funds in the following classifications depending on the relative strength of the spending constraints placed on the purpose for which resources can be used:

- a. **Nonspendable Fund Balance** – Represents the amount that cannot be spent because the assets are not in a spendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).
- b. **Restricted Fund Balance** – Represents the amounts that are constrained by external parties, constitutional provisions or enabling legislation.
- c. **Committed Fund Balance** – Represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes the restrictions by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balances amounts differ from restricted balances in that the constraints on the funds' usage is internally generated, rather than from external sources, constitutional provisions, or enabling legislation.
- d. **Assigned Fund Balance** – Represents amounts which the City intends to use for a specific purpose but does not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of the amounts is for a specific purpose that is narrower than the general purpose of the City itself. The Councilors have not yet delegated authority to assign fund balance amounts to a specific individual.
- e. **Unassigned Fund Balance** – Represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative fund balance in this classification because of overspending for specific purposes for which amounts have been restricted, committed or assigned.

DEFERRED OUTFLOWS/DEFERRED INFLOWS

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has the following items that qualify for reporting in that category:

- Deferred outflow related to pensions and OPEB, which result from pension contributions after the measurement date (deferred and recognized in the following fiscal year) and differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting on the government-wide statement of net position.

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

PENSIONS

- Deferred inflow related to pensions, which result from differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

Additionally the City has one type of this item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Any inventory or materials and supplies on hand at year-end are considered insignificant and therefore not reflected in the financial statements.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are considered expenditures in the year of the bond issuance.
4. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.
5. Capital assets, which include land, buildings, furniture, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than; \$5,000 for equipment and machinery; \$100,000 for buildings (and building improvements) and infrastructure; and an estimated useful life in excess of two years. Land is always capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

OTHER ACCOUNTING POLICIES (Cont.)

Buildings, furniture and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years	Assets	Years
Buildings	40	Building Improvements	20
Infrastructure	15	Vehicles	5
General Equipment	5-10	Proprietary Equipment	10-40

6. Since internal service funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the City as a whole.
7. The City provides allowances for doubtful accounts equal to the estimated collection losses that will be included in the collection of all receivables. These estimated losses are based on historical collection experience, coupled with a review of the current status of the existing receivables. Management and the City Council continually evaluate the receivables for collectibility.
8. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
9. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
10. FASB ASC 855-10-50-1 requires reporting entities to disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or available to be issued. Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued. The City has determined that there were no events or transactions that warrant disclosure except as noted below.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. A pandemic, epidemic or outbreak of an infectious disease could diminish the public trust in healthcare facilities and related entities and therefore could negatively impact the Company.

BUDGETARY DATA

The City Council has prepared an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

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

1. Prior to September 30 the City prepares a budget for the succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

BUDGETARY DATA (Cont.)

2. A meeting of the Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of a resolution by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end.
4. The budget is controlled by the City Secretary at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits - State statute requires that public funds in the City's depository institution be secured by eligible securities, as defined by V.T.C.A., Local Government Code, Chapter 2257, in an amount not less than the amount on deposit plus any accrued interest less any amount provided for by insurance of the United States or an instrumentality thereof.

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. The City's depository agreement provides that as security for the deposits of the City their bank will pledge to the City securities at 102% of the largest balances the City maintains in the bank. Value of the securities comprising the pledge will be set at the lower of par value or market value. The securities pledged must satisfy the requirements of Article 2560 of the Texas Revised Civil Statutes Annotated. Furthermore, the pledged securities are subject to the approval of the City Council as to type and value. Substitutions of securities or changes of total amounts of securities may be made only by and with proper written authorization by the City. A copy of the safekeeping receipts for securities pledged is issued to the City at the conclusion of each investment transaction.

Investments - The City's investment policies are governed by State statutes. 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. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act.

The City of Sudan is in substantial compliance with the requirements of the **Public Funds Investment Act** and with local policies, and does not have any funds classified as investments as of September 30, 2021.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. In accordance with the FDIC, funds owned by the City are public unit deposits. Time deposits, savings deposits and interest bearing NOW accounts of a public unit held at a financial institution will be insured up to \$250,000 in aggregate and separate from the \$250,000 coverage for public unit demand deposits held at the same financial institution.

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 2 - CASH AND CASH EQUIVALENTS (Cont.)

At September 30, 2021, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$688,299, which is comprised of approximately \$79,641 in demand deposits and \$608,658 in interest-bearing savings accounts and certificates of deposit. The City's cash deposits for the entire year were secured by FDIC insurance; the funds on deposit were not subjected to custodial credit risk.

NOTE 3 - PROPERTY TAX RECEIVABLE

In accordance with state law, appraisals of City property for tax purposes are made by the Lamb County Appraisal District. Assessed values are based upon 100 percent of appraised market value and are reviewed every three years. Taxpayers have the right to challenge the assessed value.

The City's property taxes are levied each October 1 based upon 100 percent of 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 to the Lamb County Tax Assessor/Collector upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien is attached to property by state law 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 City's fiscal year.

The tax rate for fiscal 2021 (2020 tax levy) was \$1.069000 per \$100 assessed value. The maximum allowable tax rate for the City is \$2.50 for each \$100 assessed value. The City is subject to a tax rate rollback if the total amount of property taxes imposed in any year, as defined by statute, exceeds the total amount of property taxes imposed in the preceding year, as defined by statute, by 8%.

The original appraised net taxable value upon which the 2020 tax levy was based was approximately \$28,119,306 for mineral and non-mineral real and personal property. Current tax collections (after tax office adjustments) for fiscal year 2021 were approximately 96.38% of the tax levies available to be collected.

Delinquent Taxes Receivable - Allowances for uncollectible tax receivables within the General Fund 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. The \$20,005 difference between the Governmental Activities and the General Fund is a reconciling item between the two financial statements.

	Governmental Activities	General Fund
Property Taxes Receivable	\$ 31,857	\$ 31,857
Allowance for Uncollectible Taxes	<u>(11,363)</u>	<u>(31,368)</u>
Net Property Taxes Receivable	<u>\$ 20,494</u>	<u>\$ 489</u>

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 4 - UTILITY ACCOUNTS RECEIVABLE

Accounts receivable reported in the governmental activities and business-type activities at September 30, 2021 represent net balances from customers of solid waste, water and sewer services provided by the City. The following is the detail of the receivables as of September 30, 2021.

	Water Fund & Sewer	Sanitation Fund	Total
Gross Accounts Receivable	\$ 43,599	\$ 20,799	\$ 64,398
Allowance for Uncollectibles	<u>(3,392)</u>	<u>(1,618)</u>	<u>(5,010)</u>
Net Accounts Receivable	<u>\$ 40,207</u>	<u>\$ 19,181</u>	<u>\$ 59,388</u>

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Due To Fund	Due From Fund General Fund
Water & Sewer Fund	\$ <u>27,304</u>
Total	<u>\$ 27,304</u>

Interfund balances between the general Fund and proprietary Funds and between Individual Proprietary Funds are funds borrowed for operating purposes. The balances are not expected to be repaid within the next fiscal year.

NOTE 6 - COMPONENT UNIT

The City receives the sales remittances from the State Comptroller's office electronically each month. In turn, the City remits the appropriate dedicated sales tax amounts to the Sudan Economic Development Corporation. During the fiscal year, the City received and remitted the following amounts. The remaining balance due to EDC is expected to clear out in the next fiscal year.

	Beginning Balance	Collections	Remittances	Ending Balance
Due to Component Unit	<u>\$ -</u>	<u>\$ 37,721</u>	<u>\$ (37,721)</u>	<u>\$ -</u>

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 7 - CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 10,953	\$ -	\$ -	\$ 10,953
Buildings & Improvements	354,168	51,027	-	405,195
Machinery and Equipment	<u>1,055,927</u>	<u>261,031</u>	-	<u>1,316,958</u>
Totals at Historic Cost	<u>1,421,048</u>	<u>312,058</u>	-	<u>1,733,106</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(108,841)	(14,931)	-	(123,772)
Machinery and Equipment	<u>(528,017)</u>	<u>(114,591)</u>	-	<u>(642,608)</u>
Total Accumulated Depreciation	<u>(636,858)</u>	<u>(129,522)</u>	-	<u>(766,380)</u>
Governmental Activities Capital Assets, Net	<u>\$ 784,190</u>	<u>\$ 182,536</u>	<u>\$ -</u>	<u>\$ 966,726</u>

The City reports depreciation expense as a separate expenditure line item on the statement of activities. The expense would be allocated to the functions as follows:

City Hall	\$ 12,453
Judicial	409
Police	21,491
Fire	45,430
Emergency Management	37,251
Street	7,670
Sanitation	<u>4,818</u>
Total Depreciation	<u>\$ 129,522</u>

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type Activities:				
Land	\$ 476,893	\$ -	\$ -	\$ 476,893
Buildings & Improvements	60,000	-	-	60,000
Machinery & Equipment	69,386	3,950	-	73,336
Water System	1,620,692	-	-	1,620,692
Sewer System	<u>161,729</u>	-	-	<u>161,729</u>
Totals at Historic Cost	<u>2,388,700</u>	<u>3,950</u>	-	<u>2,392,650</u>
Less Accumulated Depreciation				
Buildings and Improvements	(24,500)	(2,800)	-	(27,300)
Machinery & Equipment	(37,662)	(6,415)	-	(44,077)
Water System	(458,920)	(45,567)	-	(504,487)
Sewer System	<u>(101,384)</u>	<u>(4,067)</u>	-	<u>(105,451)</u>
Total Accumulated Depreciation	<u>(622,466)</u>	<u>(58,849)</u>	-	<u>(681,315)</u>
Business-type Activities Capital Assets, Net	<u>\$ 1,766,234</u>	<u>\$ (54,899)</u>	<u>\$ -</u>	<u>\$ 1,711,335</u>

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 8 - LONG-TERM LIABILITIES

On August 26, 2020 the City borrowed \$222,000 from First United Bank for the purchase of a 2021 Freightliner Fire Truck. This direct borrowing note is a short-term loan – with a 3.50% variable interest rate – and is accounted for it in the General Fund. The balance of this loan plus interest was due on December 5, 2020. This notes was paid in full during the fiscal year end September 30, 2021.

The city agreed to a \$147,861 loan with First United Bank on December 16, 2020 to purchase a new 2020 Dodge 5500 ambulance. Principal on the note was \$147,861 and will paid in five yearly installments of \$32,795. Interest on the note is 3.5%. The balance as September 30, 2021, is \$147,861.

The City agreed to a long-term debt for water & sewer Fund on December 21, 2011. The City of Sudan \$600,000 combination Tax and Revenue Certificates of obligations, Series 2011. The certificates are issued as serial certificates maturing on February 15 in the years 2013 through 2027. Interest is payable each August 15th and February 15th thereafter until maturity or prior redemption with an effective interest rate of 3.90%The balance as of September 30, 2021, is \$283,000.

Long-term activity for the fiscal year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
First United - Ambulance	\$ -	\$ 147,861	\$ -	\$ 147,861	\$ 32,795
Note Payable – Fire Truck	<u>222,000</u>	<u>-</u>	<u>(222,000)</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>\$ 222,000</u>	<u>\$ 147,861</u>	<u>\$ (222,000)</u>	<u>\$ 147,861</u>	<u>\$ 32,795</u>
Business-type Activities:					
Series 2011	\$ 324,000	\$ -	\$ (41,000)	\$ 283,000	\$ 43,000
Total Business-type Activities	<u>\$ 324,000</u>	<u>\$ -</u>	<u>\$ (41,000)</u>	<u>\$ 283,000</u>	<u>\$ 43,000</u>

Debt service requirements to maturity are as follows:

Year Ended September 31,	First United Bank Loan			Year Ended September 31,	Series 2011		Total Debt Service
	Principal	Interest	Total Debt Service		Principal	Interest	
2022	\$ 27,548	\$ 5,247	\$ 32,795	2022	\$ 43,000	\$ 10,199	\$ 53,199
2023	28,525	4,270	32,795	2023	44,000	8,502	52,502
2024	29,537	3,258	32,795	2024	46,000	6,747	52,747
2025	30,580	2,215	32,795	2025	48,000	4,914	52,914
2026	31,671	1,124	32,795	2026	50,000	3,003	53,003
				2027	52,000	1,014	53,014
Total	<u>\$ 147,861</u>	<u>\$ 16,114</u>	<u>\$ 163,975</u>	Total	<u>\$ 283,000</u>	<u>\$ 34,379</u>	<u>\$ 317,379</u>

CITY OF SUDAN, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

NOTE 9 - INSURANCE

The City is exposed to various risks of loss related to torts; errors and omissions; violations of civil rights; theft of, damage to, and destruction of assets; and natural disasters. These are covered by the City's participation in the Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under \$1,000,000 for workers' compensation and liability, and losses under \$500,000 for property that are incurred by TML Pool members are paid with TML Pool funds. Claims in excess of these limits are paid under terms of insurance policies obtained by the TML Pool. The City pays annual premiums for liability, property, and workers' compensation coverage.

Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML Pool has established Claims Reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contribution rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated.

The TML Pool also makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the TML Pool.

For the year ended September 30, 2021, the City of Sudan, Texas contributed approximately \$38,025 for its property, liability, and workers' compensation coverage.

The City also carries commercial insurance on other risks of loss including employee health and accident insurance. No significant reductions in insurance coverage occurred in the past fiscal year and settled claims have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 - PENSION PLAN

Plan Description: The City of Sudan participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.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, with the options available in the state statutes governing TMRS.

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

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 10- PENSION PLAN (Cont.)

The City of Sudan has adopted plan provisions that provide for retirement eligibility at age 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The plan provides supplemental death benefits for both employees and retirees, as well as disability benefits. Members are vested after 5 years and may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees Covered by Benefit Terms:

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

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>9</u>
Total	<u>13</u>

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

Employees for the City of Sudan were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Sudan were 1.79% and 1.45% in calendar years 2020 and 2021, respectively. The City's contributions to TMRS for the year ended September 30, 2021 were \$6,375 and were equal to the required contributions.

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

Actuarial Assumptions

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Discount Rate

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

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 10 - PENSION PLAN (Cont.)

Changes in the net pension liability

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at December 31, 2019	\$ 930,399	\$ 827,054	\$ 103,345
Changes for the year:			
Service cost	37,451	-	37,451
Interest	63,228	-	63,228
Difference between expected and actual experience	7,793	-	7,793
Contributions – employer	-	7,516	(7,516)
Contributions – employee	-	20,993	(20,993)
Net investment income	-	62,780	(62,780)
Benefit payments, including refunds of employee contributions	(24,816)	(24,816)	-
Administrative expense	-	(406)	406
Other changes	-	(16)	16
Net changes	<u>83,656</u>	<u>66,051</u>	<u>17,605</u>
Balance at December 31, 2020	<u>\$ 1,014,055</u>	<u>\$ 893,105</u>	<u>\$ 120,950</u>

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 264,082	\$ 120,950	\$ 2,015

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2021, the City recognized pension expense of \$(2,965).

CITY OF SUDAN, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2021

NOTE 10 - PENSION PLAN (Cont.)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,960	\$ 54,920
Changes in actuarial assumptions	545	300
Difference between projected and actual investment earnings	-	23,926
Contributions subsequent to the measurement date	<u>4,219</u>	<u>-</u>
Total	<u>\$ 22,724</u>	<u>\$ 79,146</u>

The \$4,219 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 September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,		
2022	\$	(27,220)
2023		(18,059)
2024		(18,990)
2025		(16)
2026		2,271
Thereafter		<u>1,373</u>
Total	\$	<u>(60,641)</u>

NOTE 11 - NEW GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board has issued several new pronouncements that the City has reviewed for application to their accounting and reporting.

GASB Statement No. 87, Leases, the objective of this statement is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. The City is currently evaluating the effect of this statement on their financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SUDAN, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 286,000	\$ 297,000	\$ 297,829	\$ 829
General Sales and Use Taxes	104,000	104,000	113,165	9,165
Franchise Tax	60,000	60,000	59,856	(144)
Penalty and Interest on Taxes	5,000	5,000	5,366	366
Intergovernmental Revenue and Grants	-	359,330	381,530	22,200
Charges for Services	209,850	209,850	185,948	(23,902)
Fines	61,820	61,820	27,025	(34,795)
Investment Earnings	3,010	3,010	1,386	(1,624)
Contributions & Donations from Private Sources	100	100	607	507
Other Revenue	33,175	108,715	107,929	(786)
Total Revenues	762,955	1,208,825	1,180,641	(28,184)
EXPENDITURES:				
Current:				
General Government:				
City Hall	149,597	155,597	146,584	9,013
Executive	22,816	22,816	16,805	6,011
Public Safety:				
Police	156,226	156,226	129,313	26,913
Fire Protection	77,861	77,861	1,901	75,960
Animal Control	8,384	9,884	8,790	1,094
EMS	5,000	5,000	29,843	(24,843)
Public Works:				
Highways and Streets	144,654	144,654	94,067	50,587
Sanitation	195,455	195,455	190,427	5,028
Community Development	1,292	1,292	-	1,292
Debt Service:				
Principal on Debt	-	200,663	222,863	(22,200)
Capital Outlay:				
Capital Outlay	-	130,676	312,058	(181,382)
Total Expenditures	761,285	1,100,124	1,152,651	(52,527)
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,670	108,701	27,990	(80,711)
OTHER FINANCING SOURCES:				
Sale of Real and Personal Property	-	-	5,660	5,660
Non-Current Loans	-	-	147,861	147,861
Total Other Financing Sources	-	-	153,521	153,521

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF SUDAN, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
Net Change	1,670	108,701	181,511	72,810
Fund Balance - September 30, 2020	409,368	409,368	409,368	-
Fund Balance - September 30, 2021	\$ 411,038	\$ 518,069	\$ 590,879	\$ 72,810

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF SUDAN, TEXAS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS⁽¹⁾
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	2020 ⁽²⁾	2019 ⁽²⁾	2018 ⁽²⁾	2017 ⁽²⁾	2016 ⁽²⁾	2015 ⁽²⁾	2014 ⁽²⁾
Total Pension Liability	\$ 37,451	\$ 34,947	\$ 32,955	\$ 27,410	\$ 25,652	\$ 24,272	\$ 20,269
Service cost	63,228	57,850	52,880	51,684	56,869	55,278	52,362
Interest (on the total pension liability)	-	-	-	-	-	-	-
Changes of benefit terms	7,793	9,877	6,649	(35,521)	(124,475)	4,849	(948)
Difference between expected and actual experience	-	793	-	-	-	(3,480)	-
Change of assumptions	(24,816)	(25,264)	(14,439)	(42,814)	(28,670)	(28,906)	(35,147)
Benefit payments, including refunds of employee contributions	83,656	78,203	78,045	759	(70,624)	52,013	36,536
Net Change in Total Pension Liability	930,399	852,196	774,151	773,392	844,016	792,003	755,467
Total Pension Liability - Beginning	\$ 1,014,055	\$ 930,399	\$ 852,196	\$ 774,151	\$ 773,392	\$ 844,016	\$ 792,003
Total Pension Liability - Ending (a)							

Plan Fiduciary Net Position	\$ 7,516	\$ 5,055	\$ 6,851	\$ 13,848	\$ 9,680	\$ 8,696	\$ 7,593
Contributions - employer	20,993	20,061	19,138	15,917	14,984	14,640	13,001
Contributions - employee	62,780	110,849	(21,792)	90,219	41,490	914	34,313
Net investment income	(24,816)	(25,264)	(14,439)	(42,814)	(28,670)	(28,906)	(35,147)
Benefit payments, including refunds of employee contributions	(406)	(626)	(421)	(468)	(469)	(538)	(358)
Administrative expense	(16)	(19)	(22)	(23)	(25)	(27)	(29)
Other	66,051	110,056	(10,685)	76,679	36,990	(5,241)	19,373
Net Change in Plan Fiduciary Net Position	827,054	716,998	727,683	651,004	614,014	619,255	599,882
Plan Fiduciary Net Position - Beginning	\$ 893,105	\$ 827,054	\$ 716,998	\$ 727,683	\$ 651,004	\$ 614,014	\$ 619,255
Plan Fiduciary Net Position - Ending (b)							

Net Pension Liability - Ending (a) - (b)	120,950	103,345	135,198	45,468	122,388	230,002	172,748
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Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.07%	88.89%	84.14%	94.00%	84.18%	72.75%	78.19%
Covered Employee Payroll	\$ 419,851	\$ 401,227	\$ 382,756	\$ 318,347	\$ 299,675	\$ 292,791	\$ 260,023
Net Pension Liability as a Percentage of Covered Employee Payroll	28.81%	25.76%	35.32%	14.60%	40.84%	78.56%	66.44%

⁽¹⁾ This schedule is intended to show 10 years of information. Additional information will be presented as it becomes available.

⁽²⁾ Amounts are based on the Texas Municipal Retirement System Plan year end December 31, 2021.

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF SUDAN, TEXAS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF PENSION CONTRIBUTIONS⁽¹⁾
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 6,375	\$ 6,786	\$ 5,634	\$ 8,833	\$ 12,537	\$ 9,602	\$ 8,113
Contributions in relation to actuarially determined contribution	(6,375)	(6,786)	(5,634)	(8,833)	(12,537)	(9,602)	(8,113)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 411,412	\$ 412,660	\$ 400,008	\$ 362,283	\$ 309,512	\$ 304,295	\$ 274,315
Contributions as a percentage of covered employee payroll	1.55%	1.64%	1.41%	2.44%	4.05%	3.16%	2.96%

⁽¹⁾This schedule is intended to show 10 years-additional information will be presented as it becomes available.

See independent auditors' report and accompanying notes to required supplementary information.

CITY OF SUDAN, TEXAS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 NOTES TO SCHEDULE OF CONTRIBUTIONS
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information:	Granted 100% ad hoc USC woth transfer. Granted 70% ad hoc COLA

See independent auditors' report and accompanying notes to required supplementary information.

SUPPLEMENTARY INFORMATION

<u>BEGINNING BALANCE 10/01/2020</u>	<u>CURRENT YEAR'S TOTAL LEVY</u>	<u>TOTAL COLLECTIONS</u>	<u>ADJUSTMENTS</u>	<u>ENDING BALANCE 9/30/2021</u>
\$ 4,605	\$ -	\$ -	\$ 80	\$ 4,685
174	-	-	3	177
481	-	-	7	488
998	-	114	58	942
1,478	-	6	(162)	1,310
2,374	-	286	(37)	2,051
3,065	-	268	-	2,797
5,106	-	1,744	-	3,362
10,215	-	4,993	(3)	5,219
<u>-</u>	<u>300,507</u>	<u>289,730</u>	<u>49</u>	<u>10,826</u>
<u>\$ 28,496</u>	<u>\$ 300,507</u>	<u>\$ 297,141</u>	<u>\$ (5)</u>	<u>\$ 31,857</u>

INTERNAL CONTROL AND COMPLIANCE



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*

Honorable Mayor and City Council
City of Sudan, Texas
111 East First Street
Sudan, TX 79371

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Sudan, Texas, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Sudan, Texas' basic financial statements, and have issued our report thereon dated April 14, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sudan, Texas' 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 Sudan, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sudan, Texas' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sudan, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that would be required to be reported under *Government Auditing Standards*.



City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

EMMS CPAs and Advisors, PLLC
Levelland, TX
April 14, 2022