

CITY OF HALLETTSVILLE, TEXAS

ANNUAL FINANCIAL REPORT

For the fiscal year ended December 31, 2022

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FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255
FAX: (361) 573-9531

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of changes in net pension liability and related ratios, schedules of changes in total OPEB liability and related ratios, and the schedules of employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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 August 22, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

August 22, 2023

The discussion and analysis of the City of Hallettsville's (the "City") financial performance provides an overview of the City's financial activities for the year ended December 31, 2022. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the year ended December 31, 2022, by \$28,986,908. Of this amount, \$7,698,075 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$8,153,362 for the year which is an increase of \$626,189 from the prior year.
- During the year, the City's general revenues exceeded net expenses and transfers of the governmental activities by \$1,156,691. This represents a 8% increase in net position from the previous year as a result of operations.
- At December 31, 2022, the City's governmental funds reported combined ending fund balances of \$5,228,180, an increase of \$233,512 in comparison with prior year.
- At December 31, 2022, unassigned fund balance for the General Fund was \$2,069,107 or 86% of total General Fund expenditures.
- The City's net investment in capital assets as of December 31, 2022 was \$19,161,612, which is a net increase of \$1,835,787 or 11% from prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information

<p>Independent Auditors' Report <i>Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.</i></p>	
<p>Management's Discussion and Analysis <i>This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.</i> Pages 4 to 12</p>	
<p>Government-wide Financial Statements <i>Provides information on governmental and business-type activities of the primary government.</i> Pages 13 to 16</p>	<p>Fund Financial Statements <i>Provides information on the financial position of specific funds of the primary governments.</i> Pages 17 to 28</p>
<p>Notes to Financial Statements <i>Provides a summary of significant accounting policies and related disclosures.</i> Pages 29 to 55</p>	

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

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

The *statement of net position* presents information on all of the City's assets, deferred outflows, and liabilities, with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include electric, water, sewer, and solid waste services. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Sales Tax 4A Manufacturing Development Corporation, Sales Tax 4B Business Development Corporation, and the Grant Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements following the required supplementary information.

The City adopts an annual appropriated budget for its General Fund, Sales Tax 4A Manufacturing Development Corporation, and Sales Tax 4B Business Development Corporation. Budgetary comparison schedules have been provided to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

The City maintains one type of *proprietary fund* known as an enterprise fund which is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for the fiscal activities relating to electric, water, sewer, and solid waste services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, and solid waste services, which is considered to be a major fund.

The basic proprietary fund financial statements follow the governmental fund financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 29 through 55 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General, Sales Tax 4A Manufacturing Development Corporation, and Sales Tax 4B Business Development Corporation funds. The required supplementary information also presents a schedule of changes in net pension liability and related ratios, a schedule of changes in OPEB liability and related ratios, and schedules of employer contributions. Required supplementary information can be found on pages 56 through 69 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 70 through 72 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$28,986,908 at the close of the year ended December 31,2022.

At the end of the year, the City is able to report positive balances in all three categories of net position for the government as a whole.

City of Hallettsville, Texas						
Net Position						
	Governmental Activities		Business-type Activities		Total	
	2022	2021*	2022	2021*	2022	2021*
ASSETS						
Current and other assets	\$ 8,130,568	\$ 6,075,048	\$ 5,413,026	\$ 4,919,924	\$ 13,543,594	\$ 10,994,972
Capital assets (net)	11,124,671	10,330,001	8,036,941	6,995,824	19,161,612	17,325,825
Other noncurrent assets	61,241	-	-	-	61,241	-
Total assets	19,316,480	16,405,049	13,449,967	11,915,748	32,766,447	28,320,797
DEFERRED OUTFLOWS OF RESOURCES						
	242,377	195,205	163,486	93,802	405,863	289,007
LIABILITIES						
Long-term liabilities	201,626	381,742	147,880	263,261	349,506	645,003
Other liabilities	2,282,866	580,141	403,848	573,666	2,686,714	1,153,807
Total liabilities	2,484,492	961,883	551,728	836,927	3,036,220	1,798,810
DEFERRED INFLOWS OF RESOURCES						
	922,367	643,064	226,815	90,578	1,149,182	733,642
NET POSITION						
Net investment in capital assets	10,219,805	10,330,001	8,036,941	6,995,824	18,256,746	17,325,825
Restricted	3,032,087	3,441,078	-	46,539	3,032,087	3,487,617
Unrestricted	2,900,106	1,224,228	4,797,969	4,039,682	7,698,075	5,263,910
Total net position	\$ 16,151,998	\$ 14,995,307	\$ 12,834,910	\$ 11,082,045	\$ 28,986,908	\$ 26,077,352

*2021 balances have been restated. See Note 16 for details.

The largest portion of the City's net position (63%) reflects its investment in capital assets (e.g., land, buildings, streets, equipment, and infrastructure), less any related outstanding debt used to acquire those assets that is still outstanding as well as any outstanding payables. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt and payables, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The next largest portion of the City's net position (27% or \$7,698,075) is unrestricted and may be used to meet the City's ongoing obligations to its citizens. The remaining balance of \$3,032,087 is restricted for special projects.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Hallettsville, Texas

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021*	2022	2021*	2022	2021*
REVENUES						
Program revenues:						
Charges for services	\$ 449,165	\$ 219,827	\$ 6,111,346	\$ 5,650,921	\$ 6,560,511	\$ 5,870,748
Operating grants and contributions	695,345	911,220	-	-	695,345	911,220
Capital grants and contributions	1,324,839	-	-	-	1,324,839	-
General revenues:						
Property taxes	427,465	440,582	-	-	427,465	440,582
Sales taxes	1,513,315	1,373,865	-	-	1,513,315	1,373,865
Franchise taxes	50,427	80,588	-	-	50,427	80,588
Other taxes	90,386	51,878	-	-	90,386	51,878
Unrestricted investment earnings	71,626	7,406	76,273	8,283	147,899	15,689
Miscellaneous	252,731	270,078	-	47,507	252,731	317,585
Total revenues	4,875,299	3,355,444	6,187,619	5,706,711	11,062,918	9,062,155
EXPENSES						
General government	997,311	342,508	-	-	997,311	342,508
Public safety	1,056,339	976,937	-	-	1,056,339	976,937
Public works	315,761	309,721	-	-	315,761	309,721
Culture and recreation	804,670	733,941	-	-	804,670	733,941
Utilities	-	-	4,979,281	5,164,066	4,979,281	5,164,066
Total expenses	3,174,081	2,363,107	4,979,281	5,164,066	8,153,362	7,527,173
Change in net position before transfers	1,701,218	992,337	1,208,338	542,645	2,909,556	1,534,982
Transfers	(544,527)	767,379	544,527	(767,379)	-	-
Change in net position	1,156,691	1,759,716	1,752,865	(224,734)	2,909,556	1,534,982
Net position - January 1, as restated	14,995,307	13,235,591	11,082,045	11,306,779	26,077,352	24,542,370
Net position - December 31	\$ 16,151,998	\$ 14,995,307	\$ 12,834,910	\$ 11,082,045	\$ 28,986,908	\$ 26,077,352

*2021 balances have been restated. See Note 16 for details.

Governmental activities increased the City's net position by \$1,156,691. There was a net increase of \$1,752,865 in net position reported in connection with the City's business-type activities. Therefore, there was an overall \$2,909,556 increase in the net position of the City.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Governmental Activities

Governmental activities increased the City's net position by \$1,156,691. This increase is primarily due to a \$1,324,839 increase in various capital grants and contributions, mainly the General Land Office CDBG-Mitigation Program to address the City's drainage infrastructure and the Home Program. General government expenses increased \$654,803 mainly due to spending of Home Program grant funds. In addition, net transfers out to business-type activities increased \$1,311,906 as a result of capital contributions for various utility projects, primarily for the Industrial District utility extension project funded by the Sales Tax 4A Manufacturing Development Corporation.

City of Hallettsville, Texas
Expenses and Program Revenues - Governmental Activities

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Net (Expense) Revenue</u>
General government	\$ 997,311	31.42%	\$ 1,186,828	48.06%	\$ 189,517
Public safety	1,056,339	33.28%	4,200	0.17%	(1,052,139)
Public works	315,761	9.95%	1,061,038	42.97%	745,277
Culture and recreation	804,670	25.35%	217,283	8.80%	(587,387)
Total	<u>\$ 3,174,081</u>		<u>\$ 2,469,349</u>		<u>\$ (704,732)</u>

City of Hallettsville, Texas
Revenue by Source - Governmental Activities

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 449,165	10.37%
Operating grants and contributions	695,345	16.06%
Capital grants and contributions	1,324,839	30.59%
Property taxes	427,465	9.87%
Sales taxes	1,513,315	34.94%
Franchise taxes	50,427	1.16%
Other taxes	90,386	2.09%
Unrestricted investment earnings	71,626	1.65%
Miscellaneous	252,731	5.84%
Transfers	(544,527)	-12.57%
Total	<u>\$ 4,330,772</u>	

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**Business-type Activities**

Business-type activities increased the City's net position by \$1,752,865. The main reason for the increase is due to an increase in transfers from governmental activities of \$1,311,906, resulting from capital contributions for various utility projects, primarily for the Industrial District utility extension project funded by the Sales Tax 4A Manufacturing Development Corporation. In addition, there was a \$460,425 increase in charges for services across all utility departments.

City of Hallettsville, Texas
Revenue by Source - Business-type Activities

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 6,111,346	90.78%
Unrestricted investment earnings	76,273	1.13%
Transfers	<u>544,527</u>	8.09%
Total	<u>\$ 6,732,146</u>	

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$5,228,180, a net increase of \$233,512 in comparison with the prior year. Approximately 40% of this total amount or \$2,069,107 constitutes unassigned fund balance, which is available for spending at the City's discretion.

The net increase in fund balance was made up of an increase of \$506,300 in the General Fund, a \$560,838 decrease in the Sales Tax 4A Manufacturing Development Corporation, a \$277,512 increase in the Sales Tax 4B Business Development Corporation, a \$31,529 increase in the Grant Fund, and a \$20,991 decrease in the Nonmajor Funds. The increase in fund balance for the City's General Fund is attributable to a decrease in intergovernmental revenues of \$467,817, a decrease in public safety expenditures of \$423,132 mainly due to capital outlay for a fire truck in prior year, and a decrease in public works expenditures of \$300,280 mainly due to capital outlay for a street sweeper and the S. Dowling Street drainage project in the prior year. The decrease in the Sales Tax 4A Manufacturing Development Corporation fund balance was driven by an increase in capital outlay expenditures relating to the Industrial District utility extension project. The increase in the Sales Tax 4B Business Development Corporation fund balance was driven by a decrease in transfers to the General Fund compared to prior year.

The General Fund is the chief operating fund of the City. At the end of the year, unassigned fund balance of the General Fund was \$2,069,107, while total fund balance was \$2,196,093. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 86% of the total General Fund expenditures, while total fund balance represents 92% of that same amount.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)

Proprietary Fund

The City's proprietary fund, the Utility Fund, provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at December 31,2022 was \$4,797,969, which is an increase of \$758,287 from the prior year.

Factors concerning the finances of this fund have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues earned were more than budgetary expectations by \$151,613. The positive variance in actual revenues compared to the budget is primarily due to \$75,117 more in property tax revenues and \$41,657 more in sales tax revenues than expected. Actual expenditures were \$354,687 less than budget due mainly to less capital outlay costs incurred in the police, streets, and parks departments than expected.

Differences between the General Fund's original budget and final amended budget was a net increase of \$239,275 to revenues and a net increase of \$50,935 to expenditures. A few of the changes are summarized as follows:

- \$143,553 increase in miscellaneous revenues due to additional local grant and contribution revenues, as well as additional lease and royalty revenues.
- \$106,755 decrease in public works expenditures, primarily due to decreases expected in personnel and capital outlay expenditures in the streets department.
- \$120,977 increase in culture and recreation expenditures, primarily due to an increase in airport department fuel costs and parks department capital outlay expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31,2022, amounts to \$19,161,612 (net of accumulated depreciation). This investment in capital assets includes land, machinery and equipment, buildings, and infrastructure. The total net increase in the City's investment in capital assets for the current year was 11% (an 8% increase for governmental activities and a 15% increase for business-type activities). Major capital asset events during the current year included the following:

- The City purchased and disposed of various equipment.
- The City continued drainage improvement projects.
- The City completed improvements to the Garden and Cultural Center, Industrial District driveways, and S. Dowling Street drainage.
- The City continued water and sewer line improvements, water meter upgrades, and the Industrial District utility extension project.

Additional information on the City's capital assets can be found in Note 7 of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Long-term Debt

The City had \$52,511 in compensated absences, \$86,508 in net pension liability, \$196,691 in OPEB liability, and \$13,796 in accrued closure and post-closure care costs outstanding as of December 31, 2022.

At the end of the year, the City had no bonded debt outstanding.

Additional information on the City's debt can be found in Note 11 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City's budget for 2023.

The overall ad valorem tax rate decreased from \$0.2742 to \$0.2662, reflecting the maximum allowed under the state's Voter Approved Tax threshold. This is the City's total tax rate, as we do not have an Interest & Sinking (I&S) tax rate. With the increase in property valuations for 2022, this increased the tax levy by 4.97%.

The City was awarded approximately \$10 million in funding through the General Land Office CDBG-Mitigation Program to address the City's drainage infrastructure and an additional \$1.3 million through GCRPC for new water infrastructure. These projects will span over the next two-three years.

The Hallettsville Economic Development Corporations are completing the City utility extensions to the Industrial District on the north side of the City. New commercial activity is expected on the property in the next two years.

This City is evaluating major street repairs and is potentially going to place debt services on the May 2024 ballot and institute an I&S tax rate.

Requests for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Finance Department, 101 North Main, Hallettsville, Texas 77964.

Basic Financial Statements

CITY OF HALLETTSVILLE, TEXAS
STATEMENT OF NET POSITION
December 31, 2022

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,852,731	\$ 5,211,978	\$ 11,064,709
Receivables (net)	287,334	577,808	865,142
Lease receivable - current portion	48,385	-	48,385
Due from other governments	983,792	-	983,792
Interfund balances	829,384	(829,384)	-
Inventory	19,610	430,325	449,935
Prepaid items	109,332	22,299	131,631
Total current assets	<u>8,130,568</u>	<u>5,413,026</u>	<u>13,543,594</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	3,119,210	1,532,705	4,651,915
Buildings, infrastructure, and equipment (net)	8,005,461	6,504,236	14,509,697
Net capital and assets	<u>11,124,671</u>	<u>8,036,941</u>	<u>19,161,612</u>
Lease receivable - noncurrent portion	61,241	-	61,241
Total noncurrent assets	<u>11,185,912</u>	<u>8,036,941</u>	<u>19,222,853</u>
Total assets	<u>19,316,480</u>	<u>13,449,967</u>	<u>32,766,447</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow related to pension	221,885	149,824	371,709
Deferred outflow related to OPEB	20,492	13,662	34,154
Total deferred outflows of resources	<u>242,377</u>	<u>163,486</u>	<u>405,863</u>
LIABILITIES			
Current liabilities			
Accounts payable	1,715,544	166,554	1,882,098
Accrued expenses	28,972	38,279	67,251
Deposits	-	198,681	198,681
Due to other governments	10,667	334	11,001
Unearned revenue	527,683	-	527,683
Accrued compensated absences	3,171	2,081	5,252
Total current liabilities	<u>2,286,037</u>	<u>405,929</u>	<u>2,691,966</u>
Noncurrent liabilities			
Accrued compensated absences	28,535	18,724	47,259
Net pension liability	51,905	34,603	86,508
OPEB liability	118,015	78,676	196,691
Accrued closure and post-closure care	-	13,796	13,796
Total noncurrent liabilities	<u>198,455</u>	<u>145,799</u>	<u>344,254</u>
Total liabilities	<u>2,484,492</u>	<u>551,728</u>	<u>3,036,220</u>

The accompanying notes are an integral part of this statement.

	Primary Government		
	Governmental Activities	Business-type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to property taxes	\$ 473,022	\$ -	\$ 473,022
Deferred inflow related to right-to-use lease receivable	109,123	-	109,123
Deferred inflow related to pension	336,458	224,306	560,764
Deferred inflow related to OPEB	3,764	2,509	6,273
Total deferred inflows of resources	<u>922,367</u>	<u>226,815</u>	<u>1,149,182</u>
NET POSITION			
Net investment in capital assets	10,219,805	8,036,941	18,256,746
Restricted for:			
Arts and tourism	177,328	-	177,328
Public safety	139,008	-	139,008
Municipal court	29,057	-	29,057
Development	2,611,322	-	2,611,322
Various government costs	75,372	-	75,372
Unrestricted	2,900,106	4,797,969	7,698,075
Total net position	<u>\$ 16,151,998</u>	<u>\$ 12,834,910</u>	<u>\$ 28,986,908</u>

CITY OF HALLETTSVILLE, TEXAS

STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 997,311	\$ 286,969	\$ 635,179	\$ 264,680
Public safety	1,056,339	2,500	1,700	-
Public works	315,761	-	879	1,060,159
Culture and recreation	804,670	159,696	57,587	-
Total governmental activities	<u>3,174,081</u>	<u>449,165</u>	<u>695,345</u>	<u>1,324,839</u>
Business-type activities				
Utilities	4,979,281	6,111,346	-	-
Total business-type activities	<u>4,979,281</u>	<u>6,111,346</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,153,362</u>	<u>\$ 6,560,511</u>	<u>\$ 695,345</u>	<u>\$ 1,324,839</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Sales taxes
- Franchise taxes
- Other taxes

- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business- type Activities	Total
\$ 189,517	\$ -	\$ 189,517
(1,052,139)	-	(1,052,139)
745,277	-	745,277
(587,387)	-	(587,387)
<u>(704,732)</u>	<u>-</u>	<u>(704,732)</u>
-	1,132,065	1,132,065
-	1,132,065	1,132,065
<u>(704,732)</u>	<u>1,132,065</u>	<u>427,333</u>
427,465	-	427,465
1,513,315	-	1,513,315
50,427	-	50,427
90,386	-	90,386
71,626	76,273	147,899
252,731	-	252,731
(544,527)	544,527	-
<u>1,861,423</u>	<u>620,800</u>	<u>2,482,223</u>
1,156,691	1,752,865	2,909,556
<u>14,995,307</u>	<u>11,082,045</u>	<u>26,077,352</u>
<u>\$ 16,151,998</u>	<u>\$ 12,834,910</u>	<u>\$ 28,986,908</u>

CITY OF HALLETTSVILLE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2022

	General	Sales Tax Mft. Dev. 4A	Sales Tax Bus. Dev. 4B	Grant
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,544,282	\$ 1,971,936	\$ 1,347,789	\$ 702,210
Receivables (net)	269,129	-	-	-
Lease receivable - current portion	48,385	-	-	-
Due from other governments	91,242	29,526	29,526	833,498
Due from other funds	849,325	63,841	63,841	-
Inventory	19,610	-	-	-
Prepaid items	107,376	978	978	-
Total current assets	<u>2,929,349</u>	<u>2,066,281</u>	<u>1,442,134</u>	<u>1,535,708</u>
Noncurrent assets				
Lease receivable - noncurrent portion	61,241	-	-	-
Total assets	<u>\$ 2,990,590</u>	<u>\$ 2,066,281</u>	<u>\$ 1,442,134</u>	<u>\$ 1,535,708</u>
LIABILITIES				
Accounts payable	\$ 44,889	\$ 896,028	\$ 185	\$ 772,881
Accrued expenditures	28,972	-	-	-
Due to other funds	50,205	440	440	138,772
Due to other governments	10,667	-	-	-
Unearned revenue	-	-	-	527,683
Total liabilities	<u>134,733</u>	<u>896,468</u>	<u>625</u>	<u>1,439,336</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	550,138	-	-	21,000
Deferred inflows related to right-to-use lease receivable	109,626	-	-	-
Total deferred inflows	<u>659,764</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
FUND BALANCES				
Nonspendable	126,986	978	978	-
Restricted	-	1,168,835	1,440,531	75,372
Unassigned	2,069,107	-	-	-
Total fund balances	<u>2,196,093</u>	<u>1,169,813</u>	<u>1,441,509</u>	<u>75,372</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,990,590</u>	<u>\$ 2,066,281</u>	<u>\$ 1,442,134</u>	<u>\$ 1,535,708</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 286,514	\$ 5,852,731
18,205	287,334
-	48,385
-	983,792
50,205	1,027,212
-	19,610
-	109,332
<u>354,924</u>	<u>8,328,396</u>
-	61,241
<u>\$ 354,924</u>	<u>\$ 8,389,637</u>
\$ 1,560	\$ 1,715,543
-	28,972
7,971	197,828
-	10,667
-	527,683
<u>9,531</u>	<u>2,480,693</u>
-	571,138
-	109,626
<u>-</u>	<u>680,764</u>
-	128,942
345,393	3,030,131
-	2,069,107
<u>345,393</u>	<u>5,228,180</u>
<u>\$ 354,924</u>	<u>\$ 8,389,637</u>

CITY OF HALLETTSVILLE, TEXAS**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

December 31, 2022

Total governmental fund balances		\$ 5,228,180
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.		26,490
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.		71,625
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 18,776,892	
Accumulated depreciation of governmental capital assets	<u>(7,652,221)</u>	11,124,671
Deferred outflows of resources are not reported in the governmental funds:		
Deferred amount on pension	221,885	
Deferred amount on OPEB	<u>20,492</u>	242,377
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Net pension liability	(51,905)	
OPEB liability	(118,015)	
Compensated absences	<u>(31,706)</u>	(201,626)
Deferred inflows of resources are not reported in the governmental funds:		
Deferred amount on pension	(336,458)	
Deferred amount on OPEB	<u>(3,764)</u>	(340,222)
Deferred inflows related to right-to-use lease receivable are amortized based on reduction of right-to-use lease receivable in the fund financial statements, but are amortized over the lease term in the statement of net position.		<u>503</u>
Net position of governmental activities		<u>\$ 16,151,998</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS**

For the year ended December 31, 2022

	General	Sales Tax Mft. Dev. 4A	Sales Tax Bus. Dev. 4B	Grant
REVENUES				
Taxes	\$ 1,321,884	\$ 378,329	\$ 378,329	\$ -
Licenses and permits	40,884	-	-	-
Intergovernmental	879	-	-	1,899,963
Charges for services	225,303	-	-	-
Fines and forfeitures	131,984	-	-	-
Investment income	27,214	24,448	16,409	519
Miscellaneous	302,718	1,400	-	-
Total revenues	<u>2,050,866</u>	<u>404,177</u>	<u>394,738</u>	<u>1,900,482</u>
EXPENDITURES				
Current				
General government	386,090	46,512	117,226	479,505
Public safety	1,073,027	-	-	-
Public works	243,835	-	-	-
Culture and recreation	691,576	-	-	-
Capital outlay	-	918,503	-	1,389,448
Total expenditures	<u>2,394,528</u>	<u>965,015</u>	<u>117,226</u>	<u>1,868,953</u>
Excess (deficiency) of revenues over expenditures	(343,662)	(560,838)	277,512	31,529
OTHER FINANCING SOURCES (USES)				
Transfers in	849,962	-	-	-
Total other financing sources (uses)	<u>849,962</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	506,300	(560,838)	277,512	31,529
Fund balances at beginning of year, as restated	<u>1,689,793</u>	<u>1,730,651</u>	<u>1,163,997</u>	<u>43,843</u>
Fund balances at end of year	<u>\$ 2,196,093</u>	<u>\$ 1,169,813</u>	<u>\$ 1,441,509</u>	<u>\$ 75,372</u>

The accompanying notes are an integral part of this statement.

Other Governmental Funds	Total Governmental Funds
\$ 79,231	\$ 2,157,773
-	40,884
21,000	1,921,842
-	225,303
369	132,353
3,036	71,626
2,290	306,408
<u>105,926</u>	<u>4,856,189</u>
30,000	1,059,333
200	1,073,227
-	243,835
96,717	788,293
-	2,307,951
<u>126,917</u>	<u>5,472,639</u>
(20,991)	(616,450)
-	<u>849,962</u>
-	<u>849,962</u>
(20,991)	233,512
<u>366,384</u>	<u>4,994,668</u>
<u>\$ 345,393</u>	<u>\$ 5,228,180</u>

CITY OF HALLETTSVILLE, TEXAS**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***For the year ended December 31, 2022*

Total net change in fund balances - governmental funds	\$ 233,512
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Amounts reported for governmental activities in the statement of activities are different because:

The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position. (101,549)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets	\$ 1,246,154	
Depreciation expense	<u>(349,935)</u>	896,219

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	(62,520)	
Other revenues	<u>71,625</u>	9,105

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Net pension costs	114,637	
Net OPEB costs	(5,651)	
Decrease in compensated absences	<u>9,915</u>	118,901

Some items reported in the statement of activities do not result from current financial resources and therefore are not reported as revenues in governmental funds. These activities consist of:

Decrease in deferred inflows related to right-to-use lease receivable	<u>503</u>
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Change in net position of governmental activities	<u>\$ 1,156,691</u>
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The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

December 31, 2022

	<u>Business-type Activities</u> <u>Utility Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 5,211,978
Receivables (net)	577,808
Inventory	430,325
Prepaid items	22,299
Total current assets	<u>6,242,410</u>
Noncurrent assets	
Capital assets	
Land and other assets not being depreciated	1,532,705
Buildings, improvements, and equipment (net)	6,504,236
Net capital assets	<u>8,036,941</u>
Total noncurrent assets	<u>8,036,941</u>
Total assets	<u>14,279,351</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow related to pension	149,824
Deferred outflow related to OPEB	13,662
Total deferred outflows of resources	<u>163,486</u>
LIABILITIES	
Current liabilities	
Accounts payable	166,554
Accrued expenses	38,279
Deposits	198,681
Due to other funds	829,384
Due to other governments	334
Accrued compensated absences	2,081
Total current liabilities	<u>1,235,313</u>
Noncurrent liabilities	
Accrued compensated absences	18,724
Net pension liability	34,603
OPEB liability	78,676
Accrued closure and post-closure care	13,796
Total noncurrent liabilities	<u>145,799</u>
Total liabilities	<u>1,381,112</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow related to pension	224,306
Deferred inflow related to OPEB	2,509
Total deferred inflows of resources	<u>226,815</u>
NET POSITION	
Net investment in capital assets	8,036,941
Unrestricted net position	4,797,969
Total net position	<u>\$ 12,834,910</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND**

For the year ended December 31, 2022

	<u>Business-type Activities</u> <u>Utility Fund</u>
OPERATING REVENUES	
Charges for services	\$ 6,077,872
Miscellaneous	33,474
Total operating revenues	<u>6,111,346</u>
OPERATING EXPENSES	
Administration / Directors	516,286
Electric	2,841,397
Water	248,476
Sanitary sewer	234,138
Solid waste	661,237
Depreciation	487,747
Total operating expenses	<u>4,989,281</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,122,065
NONOPERATING REVENUES (EXPENSES)	
Investment income	76,273
Total nonoperating revenues (expenses)	<u>76,273</u>
Income before contributions and transfers	1,198,338
Contributions and transfers	
Capital grants and contributions	1,404,489
Transfers out	(849,962)
Total contributions and transfers	<u>554,527</u>
Change in net position	1,752,865
Total net position at beginning of year, as restated	<u>11,082,045</u>
Total net position at end of year	<u>\$ 12,834,910</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the year ended December 31, 2022

	<u>Business-type Activities</u>
	<u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,057,436
Cash paid to suppliers for goods and services	(3,880,959)
Cash paid to employees for services	<u>(883,056)</u>
Net cash provided (used) by operating activities	<u>1,293,421</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Borrowing (repayments) to other funds	1,054,617
Transfers (to) from other funds	(849,962)
Increase (decrease) in customer deposits	<u>(7,302)</u>
Net cash provided (used) by noncapital financing activities	<u>197,353</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(124,375)</u>
Net cash provided (used) by capital and related financing activities	<u>(124,375)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>76,273</u>
Net cash provided (used) by investing activities	<u>76,273</u>
Net increase (decrease) in cash and cash equivalents	1,442,672
Cash and cash equivalents at beginning of year	<u>3,769,306</u>
Cash and cash equivalents at end of year	<u>\$ 5,211,978</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS*STATEMENT OF CASH FLOWS**PROPRIETARY FUND**For the year ended December 31, 2022*

	<u>Business-type Activities</u>
	<u>Utility Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,122,065
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	487,747
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(53,910)
(Increase) decrease in inventory	(50,026)
(Increase) decrease in prepaid expenses	(1,111)
(Increase) decrease in deferred outflow related to pension	(68,812)
(Increase) decrease in deferred outflow related to OPEB	(872)
Increase (decrease) in accounts payable	(152,183)
Increase (decrease) in accrued expenses	17,136
Increase (decrease) in due to other governments	334
Increase (decrease) in compensated absences	(6,998)
Increase (decrease) in net pension liability	(142,654)
Increase (decrease) in OPEB liability	5,565
Increase (decrease) in accrued closure and post-closure care	903
Increase (decrease) in deferred inflow related to pension	136,062
Increase (decrease) in deferred inflow related to OPEB	175
Total adjustments	<u>171,356</u>
Net cash provided (used) by operating activities	<u>\$ 1,293,421</u>
Noncash capital and related financing activities	
Assets acquired from contributions	<u>\$ 1,404,489</u>

CITY OF HALLETTSVILLE, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
December 31, 2022

	<u>Library Endowment</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 277,898
Receivables (net)	<u>18</u>
Total assets	<u>277,916</u>
LIABILITIES	
Due to others	<u>16,951</u>
Total liabilities	<u>16,951</u>
NET POSITION	
Restricted for library purposes	<u>260,965</u>
Total net position	<u>\$ 260,965</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUND

For the year ended December 31, 2022

	<u>Library Endowment</u>
ADDITIONS	
Contributions	
Private donations	\$ 1,020
Investment income	<u>3,874</u>
Total additions	<u>4,894</u>
DEDUCTIONS	
Library expenses	<u>1,207</u>
Total deductions	<u>1,207</u>
Change in net position	3,687
Net position - beginning	<u>257,278</u>
Net position - ending	<u>\$ 260,965</u>

The accompanying notes are an integral part of this statement.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hallettsville, Texas (the "City") was incorporated by an election and operates under a council-manager form of government. The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Administrator is responsible for the supervision and control of all City departments and preparation of the annual budget. The City Council is responsible for the appointment and removal of all City employees. The Mayor presides at meetings of the City Council. The City provides the following services: police, municipal court, streets, water and wastewater, electric, sanitation, recreation, library, public improvements, planning, and general administration.

A. Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including legally separate organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). In accordance with GASB Codification, the City's financial statements include the Hallettsville Economic Development Corporation as a blended component unit. The Hallettsville Economic Development Corporation is made up of two separate corporations, the 4A Manufacturing Development Corporation and the 4B Business Development Corporation. Their purpose is to promote development in the City and the City has operational responsibility for them and manages their activities. They are reported as special revenue funds in the City's financial statements for the year ended December 31, 2022.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 120 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, fines, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The 2022 tax levy is dedicated to pay for expenditures of the 2023 budget. The entire 2022 tax levy has either been recorded as unearned revenue or unavailable revenue as of December 31, 2022.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Sales Tax 4A Manufacturing Development Corporation and the Sales Tax 4B Business Development Corporation are reported as major special revenue funds as of December 31, 2022. The funds are used to collect sales taxes to help with tourism and community development. The Grant Fund is also reported as a major special revenue fund as of December 31, 2022 and is used to administer various grant funds received and expended by the City.

The City reports the following major proprietary funds:

The Utility Fund, an enterprise fund, accounts for the activities of the City related to its electric, water, sewer, and solid waste operations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

Enterprise funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the City reports the following fund types:

The Fiduciary Fund accounts for assets held by the City in a trustee capacity or as an agent on behalf of others. As such, the fiduciary fund is not reported in the government-wide statements. The City's fiduciary fund includes the Library Endowment Fund which is accounted for as a trust fund and is used to help defray the costs of the local public library.

The proprietary fund is accounted for on a flow of *economic resources measurement focus* and utilizes the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgets and Budgetary Accounting

The City Administrator has been authorized by the City Council to prepare the budget. The budget is adopted on a budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council and adjusted if desired. A final budget is then prepared by the City Administrator. A public hearing is held on the budget by the City Council and department heads may be in attendance. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. The final budget amounts may not exceed the estimate of revenues and cash available.

When the budget is adopted by the City Council, the City Administrator is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations if they do not exceed available revenues and cash balances.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within their department. Any revisions that alter the total departmental expenditures of any fund must be approved by the City Council. Therefore, the level of control (level at which expenditures may not exceed budget) is the departmental level.

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restricted fund balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at December 31, 2022.

E. Leases

City as Lessee

With the exception of short-term leases, when the City is a lessee in noncancellable lease arrangements the City recognizes a right-to-use lease liability (lease liability) and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value that would be material to the government-wide financial statements. The City does not recognize any such leases as of December 31, 2022. For leases not meeting these criteria, lease payments are recognized as outflows of resources based on the payment provisions of the contract.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the term of the lease, unless its useful life is less than the term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Leases - (Continued)

City as Lessee - (Continued)

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

City as Lessor

With the exception of short-term leases and certain regulated leases, when the City is a lessor in noncancellable lease arrangements the City recognizes a right-to-use lease receivable (lease receivable) and a deferred inflow of resources in the government-wide and governmental fund financial statements. The City recognizes lease receivables with an initial, individual value that would be material to the governmental financial statements. For leases not meeting these criteria, lease revenues are recognized as inflows of resources based on the payment provisions of the contract. See Note 6 for details of the City's leasing arrangements as lessor.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995.

G. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in the fund financial statements as well as in the government-wide statements. Prepaid items are recorded when purchased rather than when consumed.

I. Inventories

Inventories of materials and supplies held by the General Fund and the Utility Fund are valued at cost (first-in, first-out). Estimated cost is used when actual cost figures are not available.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Capital Assets - (Continued)

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Public domain infrastructure	50
System infrastructure	30-33
Machinery and equipment	5-10

K. Compensated Absences

All full-time employees, except temporary or part time employees shall earn vacation leave for each month of service. Full time employees, scheduled more than 40 hours per work week and 32 hours a work week for library employees, shall earn vacation leave on a prorated basis to be computed in direct ratio to the hours employed to work in relation to the normal work week for the City (i.e., 40 hours per week = standard work week).

Employees are not eligible to take vacation leave until they have worked for six continuous months nor within the same pay period that leave is accrued. Unused vacation time can be accumulated up to a maximum of 100 hours unless approved by the City Administrator. Each year on January 1, any balance in excess of the appropriate maximum will be lost. In the event of termination (after employed for one full year and evaluation period), an employee is reimbursed for all accumulated vacation days up to the maximum accrued time.

Sick leave benefits are earned by all full-time employees at a rate of 6.67 hours for each month of continuous employment, for a total of 80 hours per year. Employees scheduled more or less than 40 hours per week shall earn sick leave on the same prorated basis as vacation leave. Sick leave will begin to accrue from the date of employment and may be accumulated up to 60 days. After each calendar year and at termination, employees will be paid for sick leave accumulated in excess of 60 days or 480 hours, whichever is greater, at a rate equal to one-half of regular pay.

All compensated absence pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**L. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. 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.

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.

M. Deferred Outflows/Inflows of Resources

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

- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.
- Deferred amounts relating to leases represent future inflows of resources which will be recognized as revenue over the life of the lease term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

N. Pensions and OPEB

For purposes of measuring the net pension liability, OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEBs, and pension and OPEB expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension and OPEB liability is obtained from TMRS through reports prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68 and No. 75.

O. Fund Equity

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through formal action. Once passed, the commitment remains in place until a two-thirds majority vote is made by Council to remove or revise the commitment.

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the City Administrator or his/her designee to assign fund balance. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Unlike commitments, assignments generally only exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

P. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Compliance**

Budgetary compliance is monitored at the departmental level. There was one instance of expenditures exceeding the amount appropriated for the year ended December 31, 2022.

<u>Fund/Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Municipal court	\$ 87,939	\$ 88,994	\$ (1,055)

These over expenditures were funded by available fund balance in the General Fund.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

As of December 31, 2022, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>	<u>Credit Risk</u>	<u>Portfolio %age</u>
Public Funds Investment Pool				
TexPool	\$ 554,470	0.6	AAAm	5%
LoneStar	8,105,372	0.3	AAAm	80%
Certificates of Deposit	1,545,795	8.5	N/A	15%
	<u>\$ 10,205,637</u>			

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool uses amortized cost and LoneStar uses the fair value method to value portfolio assets. The pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The investment pools transact at a net asset value of \$1.00 per share and are classified as cash and cash equivalents for reporting purposes.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2022, the City has certificates of deposit valued using quoted prices for similar assets in active markets (Level 2 inputs).

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturities of its investments within its investment portfolio. As of December 31, 2022, and for the year then ended, the City's investments did not exceed the maximum maturities as specified in the investment policy. The weighted average maturities of its investment pools did not exceed one year. Also, investments in certificates of deposit did not exceed five years to maturity.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. As of December 31, 2022, and for the year then ended, the City was not exposed to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of December 31, 2022, and for the year then ended, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the year and at year-end, all deposits held in the depository bank were fully collateralized and therefore the City was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of December 31, 2022, and for the year then ended, the City was not exposed to any custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at December 31, 2022, consist of the following:

	<u>General</u>	<u>Utility</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:				
Accounts	\$ 20,082	\$ 583,300	\$ -	\$ 603,382
Ad valorem taxes	201,502	-	-	201,502
Franchise taxes	12,443	-	-	12,443
Occupancy taxes	-	-	18,205	18,205
Fines	1,012,507	-	-	1,012,507
Other	<u>651</u>	<u>-</u>	<u>-</u>	<u>651</u>
Total gross receivables	1,247,185	583,300	18,205	1,848,690
Less: Allowances	<u>978,056</u>	<u>5,492</u>	<u>-</u>	<u>983,548</u>
Total net receivables	<u>\$ 269,129</u>	<u>\$ 577,808</u>	<u>\$ 18,205</u>	<u>\$ 865,142</u>

The City's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 499,513	\$ -	\$ 499,513
Fines	50,625	-	50,625
Grant Fund			
Grants	<u>21,000</u>	<u>527,683</u>	<u>548,683</u>
	<u>\$ 571,138</u>	<u>\$ 527,683</u>	<u>\$ 1,098,821</u>

The City's property taxes are levied annually on October 1st on the basis of the Appraisal District's assessed values as of January 1st of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. Taxes are levied on October 1st and payable by the following January 31st, which comprise the collection dates for the current tax roll. The Lavaca County Tax Assessor and Collector bills, collects, and remits all ad valorem taxes.

For the current budgetary year (2021), the City levied property taxes of \$0.2958 per \$100 of assessed valuation for maintenance and operations. The total net taxable valuation (after freeze) was \$142,895,636 for the 2021 tax year.

NOTE 5: DUE FROM OTHER GOVERNMENTS

The City reported amounts due from other governments as of the end of the current year. These amounts are comprised of the following at December 31, 2022:

	<u>General</u>	<u>Sales Tax Mft. Dev. 4A</u>	<u>Sales Tax Bus. Dev. 4B</u>	<u>Grant</u>	<u>Total</u>
Property taxes	\$ 32,189	\$ -	\$ -	\$ -	\$ 32,189
Sales taxes	59,053	29,526	29,526	-	118,105
Grants	-	-	-	833,498	833,498
	<u>\$ 91,242</u>	<u>\$ 29,526</u>	<u>\$ 29,526</u>	<u>\$ 833,498</u>	<u>\$ 983,792</u>

NOTE 6: LEASE RECEIVABLE

Lease receivable at December 31, 2022 for which the City is a lessor, is comprised of the following individual noncancelable lease agreement:

Building lease with United States Postal Service recorded in the General Fund. The final renewal option began in March 2020 and continues through March 2025. Rent is payable in annual installments of \$49,356.

The present value of future minimum lease payments as of December 31, 2022 for governmental leases of \$109,626 is recorded as a right-to-use lease receivable in the government-wide and fund financial statements. The related deferred inflow of resources as of December 31, 2022 of \$109,626 is recorded in the fund financial statements.

Governmental fund inflows of resources during the current year include \$47,997 in base lease revenues and \$1,359 in lease interest revenues.

NOTE 7: CAPITAL ASSETS

The City's capital asset activity for the year ended December 31, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,027,351	\$ -	\$ -	\$ 2,027,351
Construction in progress	<u>716,093</u>	<u>1,089,145</u>	<u>713,379</u>	<u>1,091,859</u>
Total capital assets not being depreciated	<u>2,743,444</u>	<u>1,089,145</u>	<u>713,379</u>	<u>3,119,210</u>
Capital assets, being depreciated				
Machinery and equipment	2,216,192	126,509	53,804	2,288,897
Buildings and improvements	4,377,646	137,342	-	4,514,988
Infrastructure	<u>8,348,809</u>	<u>504,988</u>	<u>-</u>	<u>8,853,797</u>
Total capital assets being depreciated	<u>14,942,647</u>	<u>768,839</u>	<u>53,804</u>	<u>15,657,682</u>
Less accumulated depreciation for				
Capital assets, being depreciated				
Machinery and equipment	1,434,755	142,655	53,804	1,523,606
Buildings and improvements	1,356,279	100,863	-	1,457,142
Infrastructure	<u>4,565,056</u>	<u>106,417</u>	<u>-</u>	<u>4,671,473</u>
Total accumulated depreciation	<u>7,356,090</u>	<u>349,935</u>	<u>53,804</u>	<u>7,652,221</u>
Total capital assets being depreciated, net	<u>7,586,557</u>	<u>418,904</u>	<u>-</u>	<u>8,005,461</u>
Governmental activities capital assets, net	<u>\$ 10,330,001</u>	<u>\$ 1,508,049</u>	<u>\$ 713,379</u>	<u>\$ 11,124,671</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 37,611	\$ -	\$ -	\$ 37,611
Construction in progress	<u>20,870</u>	<u>1,474,224</u>	<u>-</u>	<u>1,495,094</u>
Total capital assets not being depreciated	<u>58,481</u>	<u>1,474,224</u>	<u>-</u>	<u>1,532,705</u>
Capital assets, being depreciated				
Machinery and equipment	2,715,471	26,549	-	2,742,020
Buildings and improvements	66,132	-	-	66,132
Infrastructure	<u>20,585,826</u>	<u>28,091</u>	<u>-</u>	<u>20,613,917</u>
Total capital assets being depreciated	<u>23,367,429</u>	<u>54,640</u>	<u>-</u>	<u>23,422,069</u>
Less accumulated depreciation for				
Capital assets, being depreciated				
Machinery and equipment	2,616,705	28,066	-	2,644,771
Buildings and improvements	66,132	-	-	66,132
Infrastructure	<u>13,747,249</u>	<u>459,681</u>	<u>-</u>	<u>14,206,930</u>
Total accumulated depreciation	<u>16,430,086</u>	<u>487,747</u>	<u>-</u>	<u>16,917,833</u>
Total capital assets being depreciated, net	<u>6,937,343</u>	<u>(433,107)</u>	<u>-</u>	<u>6,504,236</u>
Business-type activities capital assets, net	<u>\$ 6,995,824</u>	<u>\$ 1,041,117</u>	<u>\$ -</u>	<u>\$ 8,036,941</u>

NOTE 7: CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 16,945
Public safety	87,079
Public works	142,381
Culture and recreation	<u>103,530</u>
Total depreciation expense - governmental activities	<u>\$ 349,935</u>
Business-type activities	
Utilities	<u>\$ 487,747</u>
Total depreciation expense - business-type activities	<u>\$ 487,747</u>

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 901 plans in the defined benefit cash-balance plan administered by the TMRS. TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the TMRS with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (Annual report) that can be obtained at www.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, within the options available in the state statutes governing TMRS.

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

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**Benefits Provided - (Continued)**

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2021 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25
Updated service credit	Last adopted 2008 – Auto Readoption – 100% - Transfers
COLA (for retirees)	Last adopted 2008 – Auto Readoption – 70%
Military service credit	Yes, adopted 12-2003
Restricted prior service credit	Yes, adopted 10-2000
Buy back last adopted	09-2000

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

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	21
Active employees	<u>33</u>
	<u>79</u>

Contributions

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

Employees for the City were required to contribute 5.00% of their annual compensation during the year. The contribution rates for the City were 12.42% and 12.30% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended December 31, 2022 were \$196,051, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	2.5% per year
Overall Payroll Growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)***Actuarial Assumptions - (Continued)*

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 through December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Public Equity	35.00%	7.55%
Core Fixed Income	6.00%	2.00%
Non-Core Fixed Income	20.00%	5.68%
Other Public and Private Markets	12.00%	7.22%
Real Estate	12.00%	6.85%
Hedge Funds	5.00%	5.35%
Private Equity	<u>10.00%</u>	10.00%
Total	<u>100.00%</u>	

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)

Net Pension Liability - (Continued)

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.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2020	\$ 8,707,982	\$ 8,260,457	\$ 447,525
Changes for the year:			
Service cost	197,990	-	197,990
Interest	583,630	-	583,630
Changes of benefit terms	-	-	-
Difference between expected and actual experience	214,023	-	214,023
Change of assumptions	-	-	-
Contributions - Employer	-	202,853	(202,853)
Contributions - Employee	-	81,679	(81,679)
Net investment income	-	1,077,077	(1,077,077)
Benefit payments, including refunds of employee contributions	(321,208)	(321,208)	-
Administrative expense	-	(4,983)	4,983
Other changes	-	34	(34)
Net changes	<u>674,435</u>	<u>1,035,452</u>	<u>(361,017)</u>
Balance at 12/31/2021	<u>\$ 9,382,417</u>	<u>\$ 9,295,909</u>	<u>\$ 86,508</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:

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability/(Asset):	\$1,282,437	\$86,508	\$(910,033)

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.

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2022 the City recognized pension expense (income) of \$10,665.

At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 171,378	\$ 6,932
Changes in actuarial assumptions	4,280	-
Difference between projected and actual investment earnings	-	553,832
Contributions subsequent to the measurement date	196,051	-
Total	\$ 371,709	\$ 560,764

\$196,051 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2022	\$ (38,076)
2023	(180,912)
2024	(63,811)
2025	(102,305)
2026	-
Thereafter	-
Total	\$ (385,104)

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)Plan Description and Benefits Provided

TMRS administers an optional death benefit plan known as the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This voluntary program allows participating cities to provide supplemental death benefits for their active members, with optional coverage for their retirees. A City may terminate coverage in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF had 783 participating cities on December 31, 2021.

Benefits payable from SDBF become due after the death of a covered active member or retiree and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active members provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the member's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership

At the December 31, 2021 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>33</u>
Total	<u>60</u>

Contributions

Contributions to the SDBF are made monthly based on the payroll of covered members of the cities participating in the SDBF. The required contribution rate is actuarially determined annually for each City participating in the SDBF. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2018	0.28%	0.08%
2019	0.27%	0.08%
2020	0.28%	0.09%
2021	0.39%	0.28%
2022	0.39%	0.29%

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

Actuarial Assumptions

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

Inflation	2.5%
Salary increases	3.5% to 11.5 % including inflation
Discount rate	1.84%*
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates-disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

Changes in Total OPEB Liability

The following details the changes in the Total OPEB liability:

Balance at 12/31/20	\$ 184,585
Changes for the year:	
Service cost	6,861
Interest	3,715
Change of benefit terms	-
Difference between expected and actual experience	665
Change of assumptions	5,439
Benefit payments	<u>(4,574)</u>
Net changes	<u>12,106</u>
Balance at 12/31/21	<u>\$ 196,691</u>

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)

Total OPEB Liability - (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 1.84%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

	1.0% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1.0% Increase in Discount Rate (2.84%)
City's Total OPEB Liability:	\$235,990	\$196,691	\$165,766

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

For the year ended December 31, 2022, the City recognized OPEB expense of \$19,664.

At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 534	\$ 4,222
Changes in actuarial assumptions	29,157	2,051
Contributions subsequent to the measurement date	4,463	-
Total	\$ 34,154	\$ 6,273

\$4,463 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	OPEB Expense Amount
2022	\$ 7,771
2023	8,525
2024	5,823
2025	1,202
2026	94
Thereafter	-
Total	\$ 23,415

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss encompassed in the areas of general liabilities and workers compensation claims. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductibles and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past year, and there were no settlements exceeding insurance coverage for each of the past three years.

The City has also entered into an interlocal agreement with the Texas Municipal League Intergovernmental Employees Benefit Pool for health benefits coverage for its employees. The City pays the premiums for full-time employees. Dependent coverage is available at additional premiums paid by the employee.

NOTE 11: LONG-TERM DEBTChanges In Long-term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Net pension liability	\$ 270,268	\$ -	\$ 218,363	\$ 51,905	\$ -
OPEB liability	111,474	6,541	-	118,015	-
Compensated absences	<u>41,621</u>	<u>40,098</u>	<u>50,013</u>	<u>31,706</u>	<u>3,171</u>
Total governmental activity long-term liabilities	<u>\$ 423,363</u>	<u>\$ 46,639</u>	<u>\$ 268,376</u>	<u>\$ 201,626</u>	<u>\$ 3,171</u>
Business-type activities					
Net pension liability	177,257	-	142,654	34,603	-
OPEB liability	73,111	5,565	-	78,676	-
Compensated absences	27,803	26,867	33,865	20,805	2,081
Accrued closure and post-closure care	<u>12,893</u>	<u>903</u>	<u>-</u>	<u>13,796</u>	<u>-</u>
Total business-type activity long-term liabilities	<u>\$ 291,064</u>	<u>\$ 33,335</u>	<u>\$ 176,519</u>	<u>\$ 147,880</u>	<u>\$ 2,081</u>

Compensated absences are generally liquidated by the General Fund for the governmental activities and by the Utility Fund for the business-type activities.

At December 31, 2022 an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the City's transfer station no longer accepts waste. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A. Interfund Receivables and Payables

At times during the year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund.

Interfund receivable and payable balances as of December 31, 2022, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sales Tax Mft. Dev. 4A	\$ 440
	Sales Tax Bus. Dev. 4B	440
	Grant	138,772
	Utility	701,702
	Nonmajor Funds	7,971
Sales Tax Mft. Dev. 4A	Utility	63,841
Sales Tax Bus. Dev. 4B	Utility	63,841
Nonmajor Funds	General	<u>50,205</u>
		<u>\$ 1,027,212</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. The most significant of these is the planned transfers from the City's Utility Fund to the General Fund. These transfers are intended to provide the necessary resources to meet the operating obligations of the General Fund. During the current year, transfers between funds consisted of the following:

	<u>Transfers In</u>	
<u>Transfers Out</u>	<u>General</u>	<u>Total</u>
Utility	<u>\$ 849,962</u>	<u>\$ 849,962</u>
	<u>\$ 849,962</u>	<u>\$ 849,962</u>

NOTE 13: COMMITMENTS AND CONTINGENCIESGrant Programs

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2022, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Litigation

The City is not currently involved in any litigation which, in the opinion of the City's administration, would have a material effect on the financial statements.

NOTE 14: FUND BALANCES

The following is a detail of the governmental fund balances as of December 31, 2022:

	<u>Governmental Fund Balances</u>			
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Unassigned</u>	<u>Total</u>
General				
Inventory	\$ 19,610	\$ -	\$ -	\$ 19,610
Prepaid items	107,376	-	-	107,376
Unassigned	-	-	2,069,107	2,069,107
Sales Tax Mft. Dev. 4A				
Prepaid items	978	-	-	978
Development	-	1,168,835	-	1,168,835
Sales Tax Bus. Dev. 4B				
Prepaid items	978	-	-	978
Development	-	1,440,531	-	1,440,531
Grant				
Various government costs	-	75,372	-	75,372
Nonmajor governmental				
Arts and tourism	-	177,328	-	177,328
Public safety	-	139,008	-	139,008
Municipal court	-	29,057	-	29,057
	<u>\$ 128,942</u>	<u>\$ 3,030,131</u>	<u>\$ 2,069,107</u>	<u>\$ 5,228,180</u>

NOTE 15: IMPLEMENTATION OF NEW STANDARD

The City implemented GASB Statement No. 87, *Leases* ("GASB 87") during the year ended December 31, 2022. GASB 87 requires recognition of certain lease assets, liabilities, and deferred inflows of resources for leases that previously were classified as operating leases and were previously recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, 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. The City implemented GASB 87 as of the beginning of the year, resulting in the recognition of \$157,622 in both a lease receivable and deferred inflows of resources, related to leasing arrangements under which the City is the lessor. Implementation of GASB 87 had no impact on the net position or the change in net position previously reported prior to implementation.

NOTE 16: RESTATEMENT OF BEGINNING BALANCES

The following table lists the restatements of net position and fund balance as of December 31, 2021:

	Government-wide		Fund Level					
	Governmental Activities	Business-type Activities	General	Sales Tax Mft. Dev. 4A	Sales Tax Bus. Dev. 4B	Grant	Other Governmental Funds	Utility
Net position / fund balance at December 31, 2021, as previously reported	\$ 15,223,120	\$ 11,180,407	\$1,380,021	\$1,683,706	\$1,117,052	\$ 456,053	\$ 265,125	\$11,180,407
Restatement of cash	129,147	-	219,851	-	-	(90,704)	-	-
Restatement of hotel tax receivable	42,571	-	-	-	-	-	42,571	-
Restatement of inventory	13,098	-	13,098	-	-	-	-	-
Restatement of due to/from other funds and sales tax revenues	187,780	-	93,890	46,945	46,945	-	-	(187,780)
Restatement of sales tax payable	-	-	-	-	-	-	-	187,780
Restatement of accrued compensation	-	-	41,621	-	-	-	-	-
Restatement of unearned revenue	(321,506)	-	-	-	-	(321,506)	-	-
Restatement of deferred inflows related to property taxes	(129,003)	-	-	-	-	-	-	-
Restatement of deferred outflows related to pension	(54,186)	(34,224)	-	-	-	-	-	(34,224)
Restatement of deferred inflows related to pension	(95,610)	(64,138)	-	-	-	-	-	(64,138)
Restatement of deferred outflows related to OPEB	2,066	-	-	-	-	-	-	-
Restatement of deferred inflows related to OPEB	(2,170)	-	-	-	-	-	-	-
Report restricted municipal court funds	-	-	(58,688)	-	-	-	58,688	-
Net position / fund balance at December 31, 2021, as restated	<u>\$ 14,995,307</u>	<u>\$ 11,082,045</u>	<u>\$1,689,793</u>	<u>\$1,730,651</u>	<u>\$1,163,997</u>	<u>\$ 43,843</u>	<u>\$ 366,384</u>	<u>\$11,082,045</u>

Required Supplementary Information

CITY OF HALLETTSVILLE, TEXAS

MAJOR GOVERNMENTAL FUNDS - GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET (GAAP BASIS) AND ACTUAL

For the year ended December 31, 2022

	2022			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes				
Property	\$ 421,700	\$ 428,528	\$ 503,645	\$ 75,117
Sales	750,000	715,000	756,657	41,657
Franchise	44,000	47,707	50,427	2,720
Other	9,500	11,150	11,155	5
Licenses and permits	23,600	41,500	40,884	(616)
Intergovernmental	2,500	879	879	-
Charges for services	148,900	231,364	225,303	(6,061)
Fines and forfeitures	122,100	123,669	131,984	8,315
Investment income	6,775	25,000	27,214	2,214
Miscellaneous	130,903	274,456	302,718	28,262
Total revenues	<u>1,659,978</u>	<u>1,899,253</u>	<u>2,050,866</u>	<u>151,613</u>
EXPENDITURES				
Current				
General government				
Administration	317,129	325,605	297,096	28,509
Municipal court	91,664	87,939	88,994	(1,055)
Total general government	<u>408,793</u>	<u>413,544</u>	<u>386,090</u>	<u>27,454</u>
Public safety				
Police	1,018,882	1,054,158	989,466	64,692
Fire	77,165	82,037	80,794	1,243
Fire marshal	13,177	4,991	2,767	2,224
Total public safety	<u>1,109,224</u>	<u>1,141,186</u>	<u>1,073,027</u>	<u>68,159</u>
Public works				
Streets	436,295	329,540	243,835	85,705
Total public works	<u>436,295</u>	<u>329,540</u>	<u>243,835</u>	<u>85,705</u>
Culture and recreation				
Airport	37,165	78,019	68,224	9,795
Library	215,476	226,031	203,227	22,804
Parks	315,142	369,125	265,185	103,940
Golf course	176,185	191,770	154,940	36,830
Total culture and recreation	<u>743,968</u>	<u>864,945</u>	<u>691,576</u>	<u>173,369</u>
Total expenditures	<u>2,698,280</u>	<u>2,749,215</u>	<u>2,394,528</u>	<u>354,687</u>
Excess (deficiency) of revenues over expenditures	<u>(1,038,302)</u>	<u>(849,962)</u>	<u>(343,662)</u>	<u>506,300</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

	2022			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 971,204	\$ 849,962	\$ 849,962	\$ -
Total other financing sources (uses)	<u>971,204</u>	<u>849,962</u>	<u>849,962</u>	<u>-</u>
Change in fund balance	(67,098)	-	506,300	506,300
Fund balance at beginning of year, as restated	<u>1,689,793</u>	<u>1,689,793</u>	<u>1,689,793</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,622,695</u>	<u>\$ 1,689,793</u>	<u>\$ 2,196,093</u>	<u>\$ 506,300</u>

CITY OF HALLETTSVILLE, TEXAS*MAJOR GOVERNMENTAL FUNDS - SALES TAX 4A MANUFACTURING DEVELOPMENT CORPORATION**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**BUDGET (GAAP BASIS) AND ACTUAL**For the year ended December 31, 2022*

	2022			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes				
Sales	\$ 375,000	\$ 375,000	\$ 378,329	\$ 3,329
Investment income	2,000	2,000	24,448	22,448
Miscellaneous	1,400	1,400	1,400	-
Total revenues	<u>378,400</u>	<u>378,400</u>	<u>404,177</u>	<u>25,777</u>
EXPENDITURES				
Current				
General government				
Administration	207,490	207,490	46,512	160,978
Capital outlay	1,100,000	1,100,000	918,503	181,497
Total expenditures	<u>1,307,490</u>	<u>1,307,490</u>	<u>965,015</u>	<u>342,475</u>
Excess (deficiency) of revenues over expenditures	(929,090)	(929,090)	(560,838)	368,252
Fund balance at beginning of year, as restated	<u>1,730,651</u>	<u>1,730,651</u>	<u>1,730,651</u>	<u>-</u>
Fund balance at end of year	<u>\$ 801,561</u>	<u>\$ 801,561</u>	<u>\$ 1,169,813</u>	<u>\$ 368,252</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HALLETTSVILLE, TEXAS*MAJOR GOVERNMENTAL FUNDS - SALES TAX 4B BUSINESS DEVELOPMENT CORPORATION**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**BUDGET (GAAP BASIS) AND ACTUAL**For the year ended December 31, 2022*

	2022			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
REVENUES				
Taxes				
Sales	\$ 375,000	\$ 375,000	\$ 378,329	\$ 3,329
Investment income	2,500	2,500	16,409	13,909
Total revenues	<u>377,500</u>	<u>377,500</u>	<u>394,738</u>	<u>17,238</u>
EXPENDITURES				
Current				
General government				
Administration	218,490	218,490	117,226	101,264
Capital outlay	<u>500,000</u>	<u>500,000</u>	-	<u>500,000</u>
Total expenditures	<u>718,490</u>	<u>718,490</u>	<u>117,226</u>	<u>601,264</u>
Excess (deficiency) of revenues over expenditures	(340,990)	(340,990)	277,512	618,502
Fund balance at beginning of year, as restated	<u>1,163,997</u>	<u>1,163,997</u>	<u>1,163,997</u>	-
Fund balance at end of year	<u>\$ 823,007</u>	<u>\$ 823,007</u>	<u>\$ 1,441,509</u>	<u>\$ 618,502</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HALLETTSVILLE, TEXAS

*SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION
Last ten years*

	2016	2017	2018
Total Pension Liability			
Service cost	\$ 170,705	\$ 175,461	\$ 174,312
Interest (on the total pension liability)	458,080	479,223	498,923
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(37,062)	(77,630)	(34,211)
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	<u>(248,241)</u>	<u>(313,503)</u>	<u>(255,735)</u>
Net Change in Total Pension Liability	343,482	263,551	383,289
Total Pension Liability - Beginning	<u>6,825,132</u>	<u>7,168,614</u>	<u>7,432,165</u>
Total Pension Liability - Ending (a)	<u>\$ 7,168,614</u>	<u>\$ 7,432,165</u>	<u>\$ 7,815,454</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 170,421	\$ 187,021	\$ 184,709
Contributions - Employee	71,614	73,170	73,364
Net investment income	389,413	851,122	(207,703)
Benefit payments, including refunds of employee contributions	(248,241)	(313,503)	(255,735)
Administrative expense	(4,397)	(4,410)	(4,014)
Other	<u>(237)</u>	<u>(223)</u>	<u>(211)</u>
Net Change in Plan Fiduciary Net Position	378,573	793,177	(209,590)
Plan Fiduciary Net Position - Beginning	<u>5,761,498</u>	<u>6,140,071</u>	<u>6,933,248</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,140,071</u>	<u>\$ 6,933,248</u>	<u>\$ 6,723,658</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,028,543</u>	<u>\$ 498,917</u>	<u>\$ 1,091,796</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.65%	93.29%	86.03%
Covered Payroll	\$ 1,414,290	\$ 1,463,395	\$ 1,467,274
Net Pension Liability as a Percentage of Covered Payroll	72.73%	34.09%	74.41%

NOTE: Information for the prior four years was not readily available. The City will compile the respective information over the next four years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

2019	2020	2021
\$ 176,886	\$ 184,363	\$ 197,990
524,274	555,466	583,630
-	-	-
36,191	(11,887)	214,023
14,803	-	-
<u>(273,760)</u>	<u>(313,808)</u>	<u>(321,208)</u>
478,394	414,134	674,435
<u>7,815,454</u>	<u>8,293,848</u>	<u>8,707,982</u>
<u>\$ 8,293,848</u>	<u>\$ 8,707,982</u>	<u>\$ 9,382,417</u>
\$ 176,059	\$ 181,150	\$ 202,853
73,906	76,499	81,679
1,039,653	587,096	1,077,077
(273,760)	(313,808)	(321,208)
(5,873)	(3,798)	(4,983)
<u>(177)</u>	<u>(148)</u>	<u>34</u>
1,009,808	526,991	1,035,452
<u>6,723,658</u>	<u>7,733,466</u>	<u>8,260,457</u>
<u>\$ 7,733,466</u>	<u>\$ 8,260,457</u>	<u>\$ 9,295,909</u>
<u>\$ 560,382</u>	<u>\$ 447,525</u>	<u>\$ 86,508</u>
93.24%	94.86%	99.08%
\$ 1,487,686	\$ 1,529,984	\$ 1,633,578
37.67%	29.25%	5.30%

CITY OF HALLETTSVILLE, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION
Last ten fiscal years

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 170,421	\$ 187,021	\$ 184,709
Contribution in relation to the actuarially determined contribution	<u>(170,421)</u>	<u>(187,021)</u>	<u>(184,709)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,414,290	\$ 1,463,395	\$ 1,467,274
Contributions as a percentage of covered payroll	12.05%	12.78%	12.59%

NOTE: Information for the prior three fiscal years was not readily available. The City will compile the respective information over the next three fiscal years.

The accompanying notes to required supplementary information are an integral part of this schedule.

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
\$ 176,059	\$ 181,150	\$ 202,853	\$ 196,051
<u>(176,059)</u>	<u>(181,150)</u>	<u>(202,853)</u>	<u>(196,051)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,487,686	\$ 1,529,984	\$ 1,633,578	\$ 1,593,909
11.83%	11.84%	12.42%	12.30%

CITY OF HALLETTSVILLE, TEXAS

*SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT
Last ten years*

	Measurement Year		
	2017	2018	2019
Total OPEB Liability			
Service cost	\$ 4,244	\$ 4,989	\$ 4,314
Interest (on the total OPEB liability)	4,317	4,357	4,829
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	(830)	(2,988)
Change of assumptions	9,645	(8,460)	24,868
Benefit payments	<u>(1,171)</u>	<u>(1,174)</u>	<u>(1,190)</u>
Net Change in Total OPEB Liability	17,035	(1,118)	29,833
Total OPEB Liability - Beginning	<u>112,676</u>	<u>129,711</u>	<u>128,593</u>
Total OPEB Liability - Ending	<u>\$ 129,711</u>	<u>\$ 128,593</u>	<u>\$ 158,426</u>
Covered Payroll	\$ 1,463,395	\$ 1,467,274	\$ 1,487,686
Total OPEB Liability as a Percentage of Covered Payroll	8.86%	8.76%	10.65%

NOTE: Information for the prior five years was not readily available. The City will compile the respective information over the next five years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

Measurement Year	
2020	2021
\$ 5,049	\$ 6,861
4,407	3,715
-	-
(4,612)	665
22,692	5,439
<u>(1,377)</u>	<u>(4,574)</u>
26,159	12,106
<u>158,426</u>	<u>184,585</u>
<u>\$ 184,585</u>	<u>\$ 196,691</u>
\$ 1,529,984	\$ 1,633,578
12.06%	12.04%

CITY OF HALLETTSVILLE, TEXAS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT

Last ten fiscal years

	Fiscal Year		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially Determined Contribution	\$ 1,174	\$ 1,190	\$ 1,377
Contribution in relation to the actuarially determined contribution	<u>(1,174)</u>	<u>(1,190)</u>	<u>(1,377)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,467,274	\$ 1,487,686	\$ 1,529,984
Contributions as a percentage of covered payroll	0.0800%	0.0800%	0.0900%

NOTE: Information for the prior five years was not readily available. The City will compile the respective information over the next five years.

The accompanying notes to required supplementary information are an integral part of this schedule.

Fiscal Year	
2021	2022
\$ 4,574	\$ 4,622
<u>(4,574)</u>	<u>(4,622)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 1,633,578	\$ 1,593,909
0.2800%	0.2900%

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

The City annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The Required Supplementary Information includes a budgetary comparison schedule for the Major Special Revenue Funds, Sales Tax 4A Manufacturing Development Corporation and Sales Tax 4B Business Development Corporation. The activity of these funds is funded from local sources and an annual budget is adopted by the City. The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Grant Fund. The activity of the fund is funded by the federal government, thereby no local control over appropriating funds is possible. Therefore, there is no requirement of presenting a budgetary comparison schedule.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended December 31, 2022, the City complied with budgetary restrictions at all departmental levels except the following. The following table details this variance:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Municipal court	\$ 87,939	\$ 88,994	\$ (1,055)

NOTE 3: DEFINED BENEFIT PENSION PLAN

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	24 years (longest amortization ladder)
Asset Valuation Method	10 year Smoothed Market; 12% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018

NOTE 3: DEFINED BENEFIT PENSION PLAN - (Continued)

Methods and Assumptions Used to Determine Contribution Rates - (Continued)

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 tables used for males and the General employee tables used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information

There were no benefit changes during the year.

NOTE 4: SUPPLEMENTAL DEATH BENEFIT PLAN - OPEB

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

There were no changes in plan provisions during the year.

Changes in Assumptions

- Discount rate decreased to 1.84% from 2.00%.

Combining Statements

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

CITY OF HALLETTSVILLE, TEXAS
ALL NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
December 31, 2022

Special Revenue Funds

	Volunteer Fireman Pension	Hotel/Motel Tax	Fire Truck	Friench Simpson Memorial Library	Municipal Court	Total Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 35,595	\$ 81,347	\$ 54,033	\$ 86,482	\$ 29,057	\$ 286,514
Receivables (net)	-	18,205	-	-	-	18,205
Due from other funds	-	-	50,205	-	-	50,205
Total assets	<u>\$ 35,595</u>	<u>\$ 99,552</u>	<u>\$ 104,238</u>	<u>\$ 86,482</u>	<u>\$ 29,057</u>	<u>\$ 354,924</u>
LIABILITIES						
Accounts payable	\$ -	\$ 922	\$ -	\$ 638	\$ -	\$ 1,560
Due to other funds	825	413	-	6,733	-	7,971
Total liabilities	<u>825</u>	<u>1,335</u>	<u>-</u>	<u>7,371</u>	<u>-</u>	<u>9,531</u>
FUND BALANCES						
Restricted						
Arts and tourism	-	98,217	-	79,111	-	177,328
Public safety	34,770	-	104,238	-	-	139,008
Municipal court	-	-	-	-	29,057	29,057
Total fund balances	<u>34,770</u>	<u>98,217</u>	<u>104,238</u>	<u>79,111</u>	<u>29,057</u>	<u>345,393</u>
Total liabilities and fund balances	<u>\$ 35,595</u>	<u>\$ 99,552</u>	<u>\$ 104,238</u>	<u>\$ 86,482</u>	<u>\$ 29,057</u>	<u>\$ 354,924</u>

CITY OF HALLETTSVILLE, TEXAS

ALL NONMAJOR GOVERNMENTAL FUNDS

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

For the year ended December 31, 2022

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Volunteer Fireman Pension	Hotel/Motel Tax	Fire Truck	Friench Simpson Memorial Library	Municipal Court	
REVENUES						
Taxes	\$ -	\$ 79,231	\$ -	\$ -	\$ -	\$ 79,231
Intergovernmental	-	-	-	21,000	-	21,000
Fines and forfeitures	-	-	-	-	369	369
Investment income	629	1,449	892	66	-	3,036
Miscellaneous	-	-	-	2,290	-	2,290
Total revenues	<u>629</u>	<u>80,680</u>	<u>892</u>	<u>23,356</u>	<u>369</u>	<u>105,926</u>
EXPENDITURES						
Current						
General government	-	-	-	-	30,000	30,000
Public safety	200	-	-	-	-	200
Culture and recreation	-	72,585	-	24,132	-	96,717
Total expenditures	<u>200</u>	<u>72,585</u>	<u>-</u>	<u>24,132</u>	<u>30,000</u>	<u>126,917</u>
Net change in fund balances	429	8,095	892	(776)	(29,631)	(20,991)
Fund balances at beginning of year, as restated	<u>34,341</u>	<u>90,122</u>	<u>103,346</u>	<u>79,887</u>	<u>58,688</u>	<u>366,384</u>
Fund balances at end of year	<u>\$ 34,770</u>	<u>\$ 98,217</u>	<u>\$ 104,238</u>	<u>\$ 79,111</u>	<u>\$ 29,057</u>	<u>\$ 345,393</u>

SINGLE AUDIT SECTION



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255
FAX: (361) 573-9531

**INDEPENDENT AUDITORS' 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**

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallettsville, Texas (the "City") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 or significant deficiencies may exist that were not identified.

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

August 22, 2023



CERTIFIED PUBLIC ACCOUNTANTS
101 S. MAIN, SUITE 400
VICTORIA, TEXAS 77901-8142

STEPHEN W. VAN MANEN, CPA
DENNIS C. CIHAL, CPA
ERIC L. KUCERA, CPA
CLAYTON P. VAN PELT, CPA
ROBERT W. SCHAAR, CPA
MELISSA M. TERRY, CPA

VOICE: (361) 573-3255
FAX: (361) 573-9531

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

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

The Honorable Mayor and Members
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Auditor's Responsibility for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink that reads "Harrison, Waldrop & Uherek, LLP". The signature is written in a cursive, flowing style.

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

August 22, 2023

CITY OF HALLETTSVILLE, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing No.	Other Award Number
FEDERAL EXPENDITURES		
U. S. Department of Housing and Urban Development		
<i>Passed Through the Texas General Land Office</i>		
Community Development Block Grant	14.228	22-085-026-D267
Community Development Block Grant	14.228	20-065-036-C116
<i>Total passed through the Texas General Land Office</i>		
<i>Passed Through the Texas Department of Agriculture</i>		
Community Development Block Grant	14.228	7220179
<i>Passed Through the Texas Department of Housing and Community Affairs</i>		
Home Investment Partnerships Program	14.239	2021-0012
Total U.S. Department of Housing and Urban Development		
U. S. Department of Transportation		
<i>Passed Through the Texas Department of Transportation</i>		
Airport Improvement Program	20.106	M2313HALE
Total U.S. Department of Transportation		
U. S. Department of Treasury		
<i>Passed Through the Texas Division of Emergency Management</i>		
Coronavirus State and Local Fiscal Recovery Funds	21.027	COVID-19
Total U.S. Department of Treasury		
U. S. Department of Homeland Security		
<i>Passed Through the Texas Division of Emergency Management</i>		
Hazard Mitigation Grant	97.039	DR-4332-0094
Total U.S. Department of Homeland Security		
TOTAL FEDERAL EXPENDITURES		

See accompanying notes to schedule of expenditures of federal awards.

<u>Expenditures</u>			<u>Passed through to Subrecipients</u>	<u>Name of Cluster (if applicable)</u>	<u>Note</u>
<u>From Pass-Through Awards</u>	<u>From Direct Awards</u>	<u>Total</u>			
\$ 954,396	\$ -	\$ 954,396	\$ -		
<u>74,102</u>	<u>-</u>	<u>74,102</u>	<u>-</u>		
<u>1,028,498</u>	<u>-</u>	<u>1,028,498</u>	<u>-</u>		
<u>263,330</u>	<u>-</u>	<u>263,330</u>	<u>-</u>		
<u>1,291,828</u>	<u>-</u>	<u>1,291,828</u>	<u>-</u>		
<u>476,387</u>	<u>-</u>	<u>476,387</u>	<u>-</u>		
<u>1,768,215</u>	<u>-</u>	<u>1,768,215</u>	<u>-</u>		
<u>879</u>	<u>-</u>	<u>879</u>	<u>-</u>		
<u>879</u>	<u>-</u>	<u>879</u>	<u>-</u>		
<u>121,820</u>	<u>-</u>	<u>121,820</u>	<u>-</u>		
<u>121,820</u>	<u>-</u>	<u>121,820</u>	<u>-</u>		
<u>18,800</u>	<u>-</u>	<u>18,800</u>	<u>-</u>		
<u>18,800</u>	<u>-</u>	<u>18,800</u>	<u>-</u>		
<u>\$ 1,909,714</u>	<u>\$ -</u>	<u>\$ 1,909,714</u>	<u>\$ -</u>		

CITY OF HALLETTSVILLE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2022

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City, under programs of the federal government for the year ended December 31, 2022 in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable; except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

NOTE 3: INDIRECT COST RATE

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

CITY OF HALLETTSVILLE, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended December 31, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted?

- yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

- yes no

Identification of major programs:

<i>Assistance Listing Number(s)</i>	<i>Name of Major Programs or Cluster</i>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

CITY OF HALLETTSVILLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended December 31, 2022

None were reported.