
CITY OF SULLIVAN CITY, TEXAS

AUDITED ANNUAL FINANCIAL REPORT

FOR YEAR ENDED SEPTEMBER 30, 2020

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CITY OF SULLIVAN CITY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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ADRIAN WEBB, CPA
Certified Public Accountant
Edinburg, Texas

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Commission
City of Sullivan City, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Sullivan City, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Management has not performed a thorough and complete inventory of fixed assets, including infrastructure, nor developed a complete and accurate depreciation expense calculation. Accounting principals generally accepted in the United States of America require that a complete fixed asset inventory be conducted to properly account for all fixed assets of the City, which would materially affect the assets and net position in the Government-wide Statement of Net Assets and Statement of Activities. The amount by which this departure would affect the assets, net position, and expenses of the City has not yet been determined.

Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material aspects, the financial position of the City of Sullivan City, Texas, as of September 30, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis, and budgetary comparison as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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 inquires, 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 Mayor and City Commission
City of Sullivan City, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2021, on our consideration of the City of Sullivan 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Sullivan City, Texas, internal control over financial reporting and compliance.

Adrian Webb, CPA

Adrian Webb, CPA
Edinburg, Texas
July 19, 2021

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CITY OF SULLIVAN CITY, TEXAS
Management's Discussion and Analysis

In this section of the Annual Financial and Compliance Report, we, the managers of CITY OF SULLIVAN CITY, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2020. Please read it in conjunction with the Independent Auditors' Report and the City's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The City's Assets from governmental activities exceeded its liabilities at the end of the most current fiscal year by over \$2,401,645 in comparison with \$2,320,354 in the prior year.
- The City's total net position increased by \$81,291.
- The General Fund ended the year with a positive fund balance of \$297,355.
- Unreserved fund balance for the general fund was \$297,355 for 2020 and \$192,451 for 2019.

USING THIS ANNUAL REPORT

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

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

Reporting the City as a Whole

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

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such grants provided by the Outside Sources (general revenues). All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

CITY OF SULLIVAN CITY, TEXAS
Management's Discussion and Analysis

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

In the Statement of Net position and the Statement of Activities, we report the activities of one fund type:

Governmental activities—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements- provide detailed information about the most significant funds—not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received under the Environmental Protection Agency program. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

Governmental funds- Most of the City's basic services are reported in governmental funds. This use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds- The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net position and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The City reports no proprietary funds.

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

CITY OF SULLIVAN CITY, TEXAS
Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's Statement of Net Position along with the last fiscal year's numbers are presented for comparison in the table below.

	Governmental	Activities	Totals		Increase
	2020	2019	2020	2019	(Decrease)
Current Assets	\$ 1,769,416	\$ 1,373,188	\$ 1,769,416	\$ 1,373,188	\$ 396,228
Non-Current Assets	1,676,640	1,751,640	1,676,640	1,751,640	(75,000)
Total Assets	3,448,076	3,126,847	3,448,076	3,126,847	321,229
Aggregate Deferred Outflows of Resources	-	-	-	-	-
Current Liabilities	966,786	694,722	966,786	694,722	272,064
Non-Current Liabilities	77,625	109,752	77,625	109,752	(32,127)
Total Liabilities	1,044,411	804,474	1,044,411	804,474	239,937
Aggregate Deferred Inflows of Resources	-	-	-	-	-
Net Invested in					
Capital Assets	1,566,888	1,387,439	1,566,888	1,387,439	179,449
Restricted		39,011	-	39,011	(39,011)
Unrestricted	834,757	893,904	834,757	893,904	(59,147)
Total Net Position	\$ 2,401,645	\$ 2,320,354	\$ 2,401,645	\$ 2,320,354	\$ 81,291

The City's overall net position increased by \$81,291 during the current fiscal year.

CITY OF SULLIVAN CITY, TEXAS
Management's Discussion and Analysis

Governmental activities. Governmental activities increased the City's net position by \$81,291.

	<u>Governmental</u>		<u>Activities</u>		<u>Totals</u>		<u>Increase (Decrease)</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	
Revenues							
Program Revenues							
Charges for Services	\$ 298,001	\$ 468,585	\$ 298,001	\$ 468,585	\$ (170,584)		
Operating Grants	234,890	118,868	234,890	118,868	116,022		
Capital Grants	-	282,262	-	282,262	(282,262)		
General Revenues							
Property Tax	565,209	537,997	565,209	537,997	27,212		
Sales Tax	380,979	306,227	380,979	306,227	74,752		
Other Tax	109,270	112,585	109,270	112,585	(3,315)		
Other Revenues	351,066	102,974	351,066	102,974	248,092		
Total Revenues	\$ 1,939,415	\$ 1,929,498	\$ 1,939,415	\$ 1,929,498	\$ 9,917		
Expenses							
General Government	563,782	448,274	563,782	448,274	115,508		
Public Safety	766,069	824,620	766,069	824,620	(58,551)		
Culture and Recreational	151,166	465,238	151,166	465,238	(314,072)		
Sanitation	290,490	-	290,490	-	290,490		
Economic Development	-	-	-	-	-		
Municipal Court	86,617	172,895	86,617	172,895	(86,278)		
Total Expenses	1,858,124	1,911,027	1,858,124	1,911,027	(52,903)		
Non-Operating Transfers (Net)	-	-	-	-	-		
Increase (decrease) in Net Position	81,291	18,471	81,291	18,471	62,820		
Prior Period Adjustment	-	14,107	-	14,107	(14,107)		
Net Position- Beginning (Restated)	<u>2,320,354</u>	<u>2,287,776</u>	<u>2,320,354</u>	<u>2,287,776</u>	<u>32,578</u>		
Net Position- Ending	<u>\$ 2,401,645</u>	<u>\$ 2,320,354</u>	<u>\$ 2,401,645</u>	<u>\$ 2,320,354</u>	<u>\$ 81,291</u>		

CITY OF SULLIVAN CITY, TEXAS
Management's Discussion and Analysis

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 fiscal year. The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund had a balance of \$297,355.

Capital Assets and Debt Administration

Capital Assets

The City of Sullivan City's investments in capital assets for its governmental activities amount to \$1,676,640 and \$1,751,640 (net of accumulated depreciation) for 2020 and 2019. This investment in capital assets includes land, buildings, construction in progress, machinery and equipment, infrastructure/streets and vehicles. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Totals		Increase (Decrease)
	2020	2019	2020	2019	
Capital Assets Not Being Depreciated:					
Land	\$ 69,819	\$ 69,819	\$ 69,819	\$ 69,819	\$ -
Construction-In-Progress	385,177	385,177	385,177	385,177	-
	<u>454,996</u>	<u>454,996</u>	<u>454,996</u>	<u>454,996</u>	-
Capital Assets, Being Depreciated					
Buildings	739,056	739,056	739,056	739,056	-
Machinery & Equipment	382,399	382,399	382,399	382,399	-
Infrastructure/Streets	352,222	352,222	352,222	352,222	-
Vehicles	124,041	124,041	124,041	124,041	-
	<u>\$ 1,597,718</u>	<u>\$ 1,597,718</u>	<u>\$ 1,597,718</u>	<u>\$ 1,597,718</u>	<u>\$ -</u>
Accumulated Depreciation:	\$ (376,074)	\$ (301,074)	\$ (376,074)	\$ (301,074)	\$ (75,000)
Total Capital Assets, Being Depreciated, N	<u>\$ 1,221,644</u>	<u>\$ 1,296,644</u>	<u>\$ 1,221,644</u>	<u>\$ 1,296,644</u>	<u>\$ (75,000)</u>
Capital Assets Net	<u>\$ 1,676,640</u>	<u>\$ 1,751,640</u>	<u>\$ 1,676,640</u>	<u>\$ 1,751,640</u>	<u>\$ (75,000)</u>

**CITY OF SULLIVAN CITY, TEXAS
Management's Discussion and Analysis**

Long-Term Debt

Below is a table summarizing the long-term debt of the City.

City of Sullivan City Long-Term Obligations

	Governmental Activities		Totals		Increase (Decrease)
	2020	2019	2020	2019	
Long-Term Obligations					
Capital Leases	\$109,752	\$151,139	\$109,752	\$151,139	\$(41,387)
Total Long-Term Obligations	<u>\$109,752</u>	<u>\$151,139</u>	<u>\$109,752</u>	<u>\$151,139</u>	<u>\$(41,387)</u>

Additional information on the City's debt service can be found in the notes to the financial statements.

Economic Factors and Next Year's Budget and Rates

The City's elected and appointed officials considered many factors when setting the fiscal year end 2020 budget.

1. The ad valorem property tax rate was set at \$.50 to generate the revenues necessary for the operation of the City. This tax rate should increase total property taxes as compared to the prior year.
2. General operating fund spending budget for 2021 was prepared based on history of actual definite revenues and essential expenses to operate.
3. The budget provides for medical insurance for all employees, changing Code Enforcement Position from part-time to full-time, a small salary increases for all employees, as well as a deposit for a rainy-day fund.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or the component unit (EDC) should be addressed to the Office of the City of Sullivan City, City Manager: P.O. Box 249, Sullivan City, Texas 78595.

CITY OF SULLIVAN CITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	Primary Government
	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 333,833
Taxes Receivable, Net	272,527
Accounts Receivable, Net	1,163,056
Capital Assets:	
Land Purchase and Improvements	69,819
Infrastructure, Net	352,222
Buildings, Net	362,982
Furniture and Equipment, Net	506,440
Construction in Progress	385,177
Total Assets	3,446,056
LIABILITIES	
Accounts Payable	46,715
Wages and Salaries Payable	5,111
Unearned Revenues-Urban County	882,833
Capital Leases Payable - Current	32,127
Noncurrent Liabilities:	
Capital Leases Payable - Noncurrent	77,625
Total Liabilities	1,044,411
NET POSITION	
Net Investment in Capital Assets	1,566,888
Unrestricted	834,757
Total Net Position	\$ 2,401,645

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

CITY OF SULLIVAN CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 563,782	\$ -	\$ -	\$ (563,782)
Judicial	86,617	-	-	(86,617)
Public Safety	766,069	-	-	(766,069)
Sanitation	290,490	298,001	-	7,511
Culture and Recreation	151,166	-	-	(151,166)
TOTAL PRIMARY GOVERNMENT	\$ 1,858,124	\$ 298,001	\$ -	(1,560,123)

General Revenues:

Taxes:		
Property Taxes, Levied for General Purposes		538,597
General Sales and Use Taxes		380,979
Franchise Tax		109,270
Penalty and Interest on Taxes		26,612
Grants and Contributions		234,890
Miscellaneous Revenue		351,066
Total General Revenues		1,641,414
	Change in Net Position	81,291
	Net Position-- Beginning	2,320,354
	Net Position - Ending	\$ 2,401,645

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

CITY OF SULLIVAN CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	General Fund	Other Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 333,833	\$ -	\$ 333,833
Taxes Receivable	272,527	-	272,527
Accounts Receivable, Net	1,163,056	-	1,163,056
Total Assets	\$ 1,769,416	\$ -	\$ 1,769,416
LIABILITIES			
Accounts Payable	\$ 46,715	\$ -	\$ 46,715
Wages and Salaries Payable	5,111	-	5,111
Unearned Revenues	882,833	-	882,833
Total Liabilities	934,659	-	934,659
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	272,528	-	272,528
Deferred Resource Inflow - Warrants/Fines	264,874	-	264,874
Total Deferred Inflows of Resources	537,402	-	537,402
FUND BALANCES			
Unassigned Fund Balance	297,355	-	297,355
Total Fund Balances	297,355	-	297,355
Total Liabilities, Deferred Inflows & Fund Balances	\$ 1,769,416	\$ -	\$ 1,769,416

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

CITY OF SULLIVAN CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

Total Fund Balances - Governmental Funds	\$	297,355
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		1,600,501
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2020 capital outlays and debt principal payments is to increase (decrease) net position.		41,387
The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(75,000)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		537,402
Net Position of Governmental Activities	<u>\$</u>	<u>2,401,645</u>

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

CITY OF SULLIVAN CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 490,586	\$ -	\$ 490,586
General Sales and Use Taxes	380,979	-	380,979
Franchise Tax	109,270	-	109,270
Penalty and Interest on Taxes	26,612	-	26,612
Licenses and Permits	97,277	-	97,277
Intergovernmental Revenue and Grants	234,890	-	234,890
Charges for Services	298,001	-	298,001
Fines	207,087	-	207,087
Other Revenue	45,702	-	45,702
Total Revenues	1,890,404	-	1,890,404
EXPENDITURES:			
Current:			
General Government	577,869	-	577,869
Judicial	86,617	-	86,617
Public Safety	736,069	-	736,069
Public Works:			
Sanitation	290,490	-	290,490
Culture and Recreation	133,466	-	133,466
Total Expenditures	1,824,511	-	1,824,511
Net Change in Fund Balances	65,893	-	65,893
Fund Balance - October 1 (Beginning)	231,462	-	231,462
Fund Balance - September 30 (Ending)	\$ 297,355	\$ -	\$ 297,355

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

CITY OF SULLIVAN CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

Total Net Change in Fund Balances - Governmental Funds	\$	65,893
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2020 capital outlays and debt principal payments is to increase (decrease) the change in net position.		41,387
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(75,000)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		49,011
Change in Net Position of Governmental Activities	\$	81,291

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

City of Sullivan City, Texas (the "City") was incorporated on April 15, 1972, under Article XI, Section 5 of the Constitution of the State of Texas. The city operates under a Mayor-Commissioner form of Government and provides the following services as authorized by its charter.

The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services.

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

B. Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government: CITY OF SULLIVAN CITY, TEXAS

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

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

Blended Component Unit

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Commission or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. The City does not report any component unit funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide and Fund Financial Statements

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

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

The fund financial statements provide reports on the financial condition and results of operations about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The City does not report Proprietary funds.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB pronouncements or APB opinions issued after November 30, 1989.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

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

In the fund financial statements, governmental funds report fund balances based on the following classifications: non-spendable, restricted, committed or unassigned. Restricted fund balances are amounts legally restricted by outside parties for use be a specific purpose. Commitments of fund balance require approval of the City Council through action. The City Council delegates the responsibility to assign fund balance to the City Manager or his designee, when appropriate.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Funds will be utilized in the following spending order: restricted, committed, assigned and unassigned.

On October 1, 2012, the District adopted GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and early implemented GASB Statement No. 65 Items Previously Reported as Assets and Liabilities as encouraged by GASB. As a result of the adoption of these new accounting standards, a restatement of beginning net position at the government-wide level financial statement was required.

GASB Statement No. 63 provides financial guidance for reporting deferred outflows, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Deferred outflows of resources are defined as a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are defined as an acquisition of net assets by a government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in a statement of financial position, being measured as the difference between (a) assets and deferred resources and (b) liabilities and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows or resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations.

In year 2019, the City adopted statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- 1 Statement No. 87, Leases
- 2 Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61

Statement No. 87 The objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions 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 this Statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Statement No. 87(Continued)

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the impact of the implementation of this standard.

Statement No. 90 The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. This Statement also establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City has not determined the impact of the implementation of this standards.

E. Fund Types and Major Funds

Governmental Funds

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations

General Fund – reports the primary fund (Major Fund) of the City. This fund is used to account for all financial resources not reported in other funds. In the current year, all financial activity is accounted and reported in the General Fund.

Other Governmental Funds:

Special Revenue Funds –The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The City has no special revenue funds.

Debt Service Funds - The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund. The City has no debt service fund.

Permanent Funds - The City accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the City's programs. The City has no Permanent Funds.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Types and Major Funds(Continued)

The Capital Projects Fund –This fund is used to account for financial resources used for the acquisition of capital assets or construction of major capital facilities, not being financed by the proprietary funds. The City has no capital projects funds.

Proprietary Funds-The City does not report any enterprise funds.

For cash flow purposes, the City of Sullivan City, Texas considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Assets, Liabilities and Net Position or Equity

1. Cash and Investments

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

2. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

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

Allowances for uncollectible tax receivables within the General and Debt Service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and included as part of the allowance for uncollectible; except for tax receivables over 20 year, the city is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Net Position or Equity(Continued)

3. Inventories

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

4. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectible.

5. Transactions between Funds

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

6. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded in historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings	30 Years
Infrastructure	10-45 Years
Vehicles	5-10 Years
Water and Sewer System	20-45 Years
Machinery and Equipment	5-15 Years

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Assets, Liabilities and Net Position or Equity (continued)

7. Compensated Absences

It is the City's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary 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. As of September 30, 2020, there was no liability for compensated absences.

8. Long-Term Obligations

In the government-wide, proprietary and component unit financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance cost are deferred and amortized over the life of the bonds using the straight-line method as the amount is immaterial against the effective interest method. Unamortized bond premium and discount, issuance cost and gain or loss on refunding are not netted against the liability, but recorded in the asset portion of the financial statements. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

9. Restricted Assets

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

10. Net Position / Fund Equity

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

11. Estimates

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

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

The City follows the procedures outlined below in establishing budgetary data reflected in the financial statements:

Annual Budgets are legally adopted for all City funds with revenue and expense/expenditure activity. The City Charter states that between sixty (60) and ninety (90) days prior to the end of the fiscal year, the City Manager is required to submit to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures/expenses and the proposed method to finance them.

Dates for public hearings, the purpose of which are to obtain taxpayer's comments are set by the Board of Commissioners at the same time the budget is submitted to that body. The Board of Commissioners may add to, subtract from or change appropriations, but may not change the form of the proposed budget. Any changes must be within the revenue and reserves estimated as available by the City Administrator. Prior to September 25 of each year, the budget is legally enacted through the passage of an ordinance.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations between/within a department in the same fund with the City Administrator's approval. Transfers of appropriations between funds require the approval of the Board of Commissioners. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. At any time during the fiscal year, the City Administrator can reallocate expenditures within a fund without the approval of the Board of Commissioners. However, any revisions to the budget which increase the total budgeted expenditures/expenses within any fund must be approved by the Board of Commissioners.

Budget Basis of Accounting

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

Deficit Fund Equity / Net Position

There were not any funds with a deficit fund balance/net position.

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	Not Applicable

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of General Fund Expenditures below Appropriations

At September 30, 2020, the general fund total expenditures were above budget appropriations by \$3,896 and actual revenues were above budgeted revenues by \$69,789. Actual revenues for the year were greater than actual expenditures by \$65,893, after other financing sources. There were several budget categories that were exceeded at year-end.

General Fund's Fund Balance Policy

The City has adopted GASB 54 as part of its fiscal year ending September 30, 2013. Implementation of GASB 54 is required of all cities for the fiscal year ending in 2013. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances which are non-spendable and spendable.

Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, noncurrent advances to other funds that not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. The City has inventories that are considered non-spendable, an encumbrance, and a non-current advance to the Hotel/Motel fund. The City does not have any prepaid items or no spendable funds related to an endowment. In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints;

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

-Committed: Fund balances that contain self-imposed constraints of the government from its highest level of decision-making authority. The responsibility to commit funds rests with the elected City Commissioners and Mayor. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.

The City formally approved the recording of its self-named "Contingency" fund balance as committed. The Contingency fund balance policy is as follows:

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

General Fund's Fund Balance Policy(Continued)

The City shall strive to maintain the General Fund (not the combined reporting General Fund which consists of the Payroll, Contingency, and the General funds) committed fund balance at 90 days (25%) of the current year's original budget appropriation for operations and maintenance, which is defined as the total budget less capital outlay purchase and the annual transfer from the General Fund to the other funds (Charter mandated contingency funding will not take place so long as the contingency fund is fully funded).

These funds shall be used only for emergencies, non-recurring expenditures, or major capital purchases that cannot be accommodated through current year savings. The use of these funds will be approved by the City Commission. Use of these funds will be disclosed to the City Commission. If the required amount goes below the stated policy amount, the City will set aside a sufficient portion of the upcoming fiscal year's budget to meet the required reserve amount. Any surpluses realized at year end shall be used first to meet reserve policies, then capital replacement purposes, then retirement/extinguishing of debt.

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

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

III. DETAILED NOTES ON FUNDS

A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

A. Deposits and Investments(Continued)

pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2020, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investment) was \$333,833, while the bank balance was \$337,738. The City's cash deposits at September 30, 2020 and during the year ended September 30, 2020 was entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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

Analysis of Specific Deposit and Investment Risks:

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

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments; the City requires that the investments shall be monitored by using specific identification.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not

CITY OF SULLIVAN CITY, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

A. Deposits and Investments(Continued)

fulfill its obligations. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the City limits investments to Certificates of Deposits, Public Funds Investment Pools and Guaranteed Investment Contracts, collateralized by U.S. Government Securities. As of September 30, 2019, the City's investments were secured by the U.S. Government Securities.

Custodial Credit Risk

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

Concentration of Credit Risk

To limit the risk of loss attributed to the magnitude of a government's investments in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all the City investments are collateralized by U.S Government Securities.

Foreign Currency Risk

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

B. Disaggregation of Receivables

Receivables for the City at September 30, 2020 were as follows:

Governmental Funds	Accounts Receivable	Allowance for Uncollectible	Total(Net)
Property Taxes (net)	\$ 287,417	\$ 14,890	\$ 272,527
Court Fines and Fees (net)	662,184	397,310	264,874
Sales Taxes	-	-	-
Franchise Taxes	15,349	-	15,349
Grants and Other Receivables	882,833	-	882,833
	<u>\$1,847,783</u>	<u>\$ 412,200</u>	<u>\$1,435,583</u>

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

C. Deferred Inflows of Resources & Unearned Revenues

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

Deferred Inflows Description	General Fund	Debt Service	Total
Property Taxes	\$272,528	\$ -	\$272,528
Court Fines	264,874	-	264,874
Total	\$537,402	\$ -	\$537,402

Total Deferred Inflows for Primary Government \$537,402

2. Unearned Revenues

Unearned Revenues Description	General Fund	Debt Service	Total
Urban County Grant	\$882,833	\$ -	\$882,833
Total	\$882,833	\$ -	\$882,833

Total Unearned Revenues for Primary Government \$882,833

D. Capital Assets

Capital asset activity for the year ended September 30, 2020 was as follows:

Capital Assets	10/1/2019	Additions	Retirements	9/30/2020
Land	\$ 69,819	\$ -	\$ -	\$ 69,819
Construction in Progress	385,177	-	-	385,177
Buildings/Parks/Facilities	739,056	-	-	739,056
Machinery/Equipment	382,399	-	-	382,399
Infrastructure	352,222	-	-	352,222
Vehicles	124,041	-	-	124,041
Less Accumulated Depreciation for:	(301,074)	(75,000)	-	(376,074)
Total Capital Asssets being Depreciated (net)	\$1,751,640	\$(75,000)	\$ -	\$1,676,640

CITY OF SULLIVAN CITY, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

D. Capital Assets(Continued)

Depreciation expense was charged to functions of the governmental activities as follows:

Expenditures	Depreciation By Function
General Government	\$ 27,300
Public Safety	30,000
Culture and Recreation	17,700
Total Allocable Expenditures	\$ 75,000

E. Long Term Obligations

The following schedule summarizes the changes in long-term debt during the year end;

	Government Capital Corp		Motorola Solutions, Inc		Deere Lease		Total Lease Payables	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Balance 10/01/19	\$ 124,041	\$ -	\$ 10,657	\$ -	\$ 16,441	\$ -	\$ 151,139	\$ -
Financing Lease	-	-	-	-	-	-	-	-
Payments	22,705	-	10,657	-	8,025	-	41,387	-
Ending Balance 09/30/20	101,336	-	-	-	8,416	-	109,752	-
2021	23,711	4,489	-	-	8,416	386	32,127	4,875
2022	24,762	3,439	-	-	-	-	24,762	3,439
2023	25,859	2,342	-	-	-	-	25,859	2,342
2024	27,004	1,196	-	-	-	-	27,004	1,196
2025	-	-	-	-	-	-	-	-
	\$ 101,336	\$ 11,466	\$ -	\$ -	\$ 8,416	\$ 386	\$ 109,752	\$ 11,852

Financing Lease –\$10,657 lease payable; due in annual payments of \$11,249, including interest, through June 2020; interest at 3.68%.

Financing Lease –\$16,441 note payable; due in annual payments of \$8,779; matures February 2021; interest at 4.5%.

Financing Lease –\$124,041 note payable; due in annual payments of \$28,200; matures November 2023; interest at 4.43%.

IV. OTHER INFORMATION

F. Prior Period Adjustment

No prior period adjustments were required in the year under audit.

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

G. Urban County

The City of Sullivan City and other municipalities in Hidalgo County participate in Hidalgo County's "Urban County" Program. By being designated as an "Urban County," Hidalgo County and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from U.S. Department of Housing and Urban Development (HUD). Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the "Urban County Program" in its audit report (s) as per CDBG guidelines. All monies received from HUD on this program are handled by the County. The County pays the vendors or contractors directly for goods or services which benefit the different cities. The County also reimburses the cities for general administration cost incurred by those cities. The City received \$ 3,538 for expenses and improvements occurred between October 1, 2019 and September 30, 2020.

H. Litigation

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel and management that resolution of these matters will not have a material adverse effect on the financial condition of the City at September 30, 2020.

I. Commitments and Contingencies

Federal and State Funds – The City has received federal and state funds as grants and other financial assistance. These funds must be spent only as allowed by the grant and other federal or state requirements. Also, the City must follow various laws and regulations when they receive these funds. If the City does not abide by these laws and regulations or does not spend the monies, as allowed under the grant agreements, the City may be required to return the grant monies, or portion thereof, to the granting agencies. The contingent liability, if any, that may be due to the federal and state agencies, cannot be readily determined.

J. Risk Management

The City is exposed to various risk of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2020, the City has maintained general liability coverage at a cost that is considered to be economically justifiable by joining together with the governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for formation of TML provides that TML will be self-sustaining through member premiums and will reinsure

CITY OF SULLIVAN CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

J. Risk Management

through commercial companies for claims in excess of acceptable risk levels; however each category of coverage has its own level of reinsurance. The city continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three years.

L. Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (FASB ASC 825-10) require disclosure of the fair value information about financial instruments, whether or not recognized in the balance sheet. In case where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The District 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.

In that regard, the derived fair value estimates cannot be sustained by comparison to independent markets and, cases could not be realized in immediate settlement of the instruments. Certain financial instruments and all nonfinancial instruments are excluded from these disclosure requirements.

Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the City.

The following methods and assumptions were used by the City in estimating its fair value disclosure for financial instruments:

Cash and Cash Equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents is the fair value.

Time deposits: Fair values of certificates of deposit are at cost plus accrued interest.

Accounts Receivable – The carrying amount approximates fair value because of the short maturity of these instruments.

CITY OF SULLIVAN CITY, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

III. DETAILED NOTES ON FUNDS(Continued)

L. Fair Value of Financial Instruments(Continued)

Payable and Accruals: The carrying amounts approximate fair value because of the short maturity period.

Financial Assets	Carrying Amount	Fair Value
Cash & Cash Equivalents	\$ 333,833	\$ 333,833
Property Taxes Receivable(Net)	272,527	272,527
Grants Receivable	882,833	882,833
Warrants Receivable(Net)	264,874	264,874
Other Receivables	15,349	15,349
Financial Liabilities		
Accounts Payable	\$ 46,715	\$ 46,715
Deferred Revenues-Urban County	882,833	882,833

M. Subsequent Events

In preparing the financial statements, the City's Management has evaluated events and transactions for potential recognition or disclosure through July 19, 2021, the date the financial statements will be available to be issued.

The COVID-19 pandemic sweeping across the country has resulted in mandatory closure of many businesses resulting in layoffs of much of the workforce. The economic effects of those closures are not yet known but could potentially affect collectability of future revenue billings of the City due to the significant economic impact on unemployment of the City's customers. No further subsequent events were noted.

CITY OF SULLIVAN CITY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 547,000	\$ 547,000	\$ 490,586	\$ (56,414)
5120	General Sales and Use Taxes	227,500	227,500	380,979	153,479
5170	Franchise Tax	106,928	106,928	109,270	2,342
5190	Penalty and Interest on Taxes	12,500	12,500	26,612	14,112
5200	Licenses and Permits	29,650	29,650	97,277	67,627
5300	Intergovernmental Revenue and Grants	145,187	145,187	234,890	89,703
5400	Charges for Services	310,000	310,000	298,001	(11,999)
5510	Fines	329,500	329,500	207,087	(122,413)
5700	Other Revenue	112,350	112,350	45,702	(66,648)
5020	Total Revenues	<u>1,820,615</u>	<u>1,820,615</u>	<u>1,890,404</u>	<u>69,789</u>
EXPENDITURES:					
Current:					
0100	General Government	489,505	489,505	577,869	(88,364)
0120	Judicial	160,840	160,840	86,617	74,223
0200	Public Safety	734,830	734,830	736,069	(1,239)
Public Works:					
0320	Sanitation	270,040	270,040	290,490	(20,450)
0500	Culture and Recreation	165,400	165,400	133,466	31,934
6030	Total Expenditures	<u>1,820,615</u>	<u>1,820,615</u>	<u>1,824,511</u>	<u>(3,896)</u>
1200	Net Change	-	-	65,893	65,893
0100	Fund Balance - October 1 (Beginning)	<u>231,462</u>	<u>231,462</u>	<u>231,462</u>	<u>-</u>
3000	Fund Balance - September 30 (Ending)	<u>\$ 231,462</u>	<u>\$ 231,462</u>	<u>\$ 297,355</u>	<u>\$ 65,893</u>

ADRIAN WEBB, CPA
Certified Public Accountant

Edinburg, Texas

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Independent Auditor's Report

To the City Commission of
City of Sullivan City, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, blended component units, each major fund, and the aggregate remaining fund information of CITY OF SULLIVAN CITY as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise CITY OF SULLIVAN CITY's basic financial statements, and have issued our report thereon dated July 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CITY OF SULLIVAN 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 CITY OF SULLIVAN CITY's internal control. Accordingly, we do not express an opinion on the effectiveness of CITY OF SULLIVAN 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items #2020-001, #2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CITY OF SULLIVAN CITY's financial statements are free from material misstatement, we performed tests of its compliance with

certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

CITY OF SULLIVAN CITY's Response to Findings

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

Purpose of this Report

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

Adrian Webb, CPA

Adrian Webb
Certified Public Accountant

Edinburg, Texas

July 19, 2021

CITY OF SULLIVAN CITY
 SCHEDULE OF FINDINGS AND RESPONSES
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

I. Summary of the Auditor's Results:

- | | |
|---|----------|
| A. The type of report issued:
opinion | Modified |
| B. Internal control over financial statements: | |
| Material Weakness(es) identified? | No |
| Significant Deficiency(ies) identified which
were not considered material weaknesses? | Yes |
| C. Noncompliance material to the financial statements noted? | No |
| D. The City did not qualify for a Single Audit as defined by the Uniform Guidance (2 CFR section 200.516(a)). | |

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

2020-01 Capital Assets

Criteria: A City's capital assets typically represent the entity's most significant assets and have a significant impact on the financial statements.

Condition: A physical inventory of the City's capital assets has not been performed periodically. Additionally, subsidiary records for capital assets were not reconciled to the general ledger on a timely basis. This would include depreciation schedules.

Effect: The City's perpetual records for accounting for capital assets may not accurately reflect capital assets on hand and accumulated depreciation during the year and at year-end unless all pertinent records are updated accordingly.

Recommendation: The City should update perpetual records (general ledgers) to reflect the results of the physical inventory. Additionally, depreciation records should also be updated in order to allow for an accurate annual calculation.

Auditee's Response: The City will review and update internal procedures related to this area. Contact is Ana Mercado, City Manager, and can be reached at (956)485-2828.

CITY OF SULLIVAN CITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

2020-02 C.A.R.E.S. Act Funding

Criteria: The City received C.A.R.E.S. Act federal funding. The funding, which was administered by the County of Hidalgo, included numerous provisions related to program requirements.

Condition: In some cases, the City's system of controls related to program guideline adherence was not place.

Effect: The City was not reimbursed for approximately \$29 thousand dollars of costs incurred.

Recommendation: The City should ensure consistency in controls related to program administration.

Auditee's Response: The City will review and update internal procedures related to this area. Contact is Ana Mercado, City Manager, and can be reached at (956)485-2828.

CITY OF SULLIVAN CITY
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Current Status: None Noted.