

**CITY OF SULLIVAN CITY, TEXAS**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2021**

CITY OF SULLIVAN CITY, TEXAS  
 ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

TABLE OF CONTENTS

	<u>Page</u>
<b><u>FINANCIAL SECTION</u></b>	
Independent Auditors' Report	1
Management's Discussion and Analysis	4
<b><u>BASIC FINANCIAL STATEMENTS</u></b>	
Government Wide Statements:	
Statement of Net Position	11
Statement of Activities	12
Governmental Fund Financial Statements:	
Balance Sheet	13
Reconciliation of Governmental Funds-Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of Governmental Funds-Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities	16
Notes to the Financial Statements	17
<b><u>REQUIRED SUPPLEMENTARY INFORMATION</u></b>	
Budgetary Comparison Schedule - General Fund	36
<b><u>OTHER SUPPLEMENTARY INFORMATION</u></b>	
Nonmajor Governmental Funds- Combining Balance Sheet	38
Nonmajor Governmental Funds- Combining Statements of Revenues, Expenditures and changes in Fund Balance	40
<b><u>INTERNAL CONTROL/COMPLIANCE SECTION</u></b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Schedule of Findings and Responses	45
Schedule of Status of Prior Findings	48
Corrective Action Plan	49

# LUIS C OROZCO

## CERTIFIED PUBLIC ACCOUNTANT

808 Del Oro Lane  
Pharr, TX 78577  
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### *Independent Auditor's Report*

To the Honorable Mayor and the City Council  
of the City of Sullivan City, Texas  
500 S. Cenizo Drive  
Sullivan City, Texas 78595

#### **Report on the Financial Statements**

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 (the City), as of and for the year ended September 30, 2021, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

# **LUIS C OROZCO**

## **CERTIFIED PUBLIC ACCOUNTANT**

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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 on Financial Statements***

Management has not established a proper control ledger for its general capital assets 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. 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 matter described in the Basis for Qualified Opinion on the preceding paragraph and the major adjustments made to the City's original general ledger balances on the fund and government-wide financial statements, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Sullivan City, Texas, as of September 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

# LUIS C OROZCO

## CERTIFIED PUBLIC ACCOUNTANT

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### *Other 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 June 30, 2022 on our consideration of the City of Sullivan City's internal control over financial reporting and 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's internal control over financial reporting and compliance.

Luis C. Orozco, CPA  
Pharr, Texas  
June 30, 2022

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, 2021. 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 \$2,418,329 in comparison with \$2,401,645 in the prior year.
- The City's total net position increased by \$16,684.
- The General Fund ended the year with a positive fund balance of \$632,160.
- Unreserved fund balance for the general fund was \$632,160 for 2021 and \$297,355 for 2020.

### **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
	2021	2020	2021	2020	(Decrease)
Current Assets	\$ 1,619,777	\$ 1,769,416	\$ 1,619,777	\$ 1,769,416	\$(149,639)
Non-Current Assets	1,730,376	1,676,640	1,730,376	1,676,640	53,736
<b>Total Assets</b>	3,350,153	3,446,056	3,350,153	3,446,056	(95,903)
<b>Aggregate Deferred</b>					
<b>Outflows of Resources</b>	-	-	-	-	-
Current Liabilities	551,199	966,786	551,199	966,786	(415,587)
Non-Current Liabilities	380,625	77,625	380,625	77,625	303,000
<b>Total Liabilities</b>	931,824	1,044,411	931,824	1,044,411	(112,587)
<b>Aggregate Deferred</b>					
<b>Inflows of Resources</b>	-	-	-	-	-
Net Invested in					
Capital Assets	1,349,751	1,566,888	1,349,751	1,566,888	(217,137)
Restricted			-	-	-
Unrestricted	1,068,578	834,757	1,068,578	834,757	233,821
<b>Total Net Position</b>	<u>\$ 2,418,329</u>	<u>\$ 2,401,645</u>	<u>\$ 2,418,329</u>	<u>\$ 2,401,645</u>	<u>\$ 16,684</u>

The City's overall net position increased by \$16,684 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 \$16,684.

	Governmental		Totals		Increase (Decrease)
	2021	2020	2021	2020	
Revenues					
Program Revenues					
Charges for Services	\$ 634,958	\$ 298,001	\$ 634,958	\$ 298,001	\$ 336,957
Operating Grants	824,194	234,890	824,194	234,890	589,304
Capital Grants	-	-	-	-	-
General Revenues					
Property Tax	566,913	565,209	566,913	565,209	1,704
Sales Tax	493,765	380,979	493,765	380,979	112,786
Other Tax	108,769	109,270	108,769	109,270	(501)
Other Revenues	223,352	351,066	223,352	351,066	(127,714)
Total Revenues	\$ 2,851,951	\$ 1,939,415	\$ 2,851,951	\$ 1,939,415	\$ 912,536
Expenses					
General Government	1,140,471	563,782	1,140,471	563,782	576,689
Public Safety	906,214	766,069	906,214	766,069	140,145
Culture and Recreational	126,764	151,166	126,764	151,166	(24,402)
Sanitation	350,076	290,490	350,076	290,490	59,586
Municipal Court	33,945	86,617	33,945	86,617	(52,672)
Total Expenses	2,557,470	1,858,124	2,557,470	1,858,124	699,346
Non-Operating Transfers (Net)		-	-	-	-
Increase (decrease) in Net Position	294,481	81,291	294,481	81,291	213,190
Prior Period Adjustment	(277,797)	-	(277,797)	-	(277,797)
Net Position- Beginning (Restated)	2,401,645	2,320,354	2,401,645	2,320,354	81,291
<b>Net Position- Ending</b>	<b>\$ 2,418,329</b>	<b>\$ 2,401,645</b>	<b>\$ 2,418,329</b>	<b>\$ 2,401,645</b>	<b>\$ 16,684</b>

**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 \$632,160.

**Capital Assets and Debt Administration**

**Capital Assets**

The City of Sullivan City's investments in capital assets for its governmental activities amount to \$1,730,376 and \$1,676,640 (net of accumulated depreciation) for 2021 and 2020. 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)
	2021	2020	2021	2020	
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	867,792	739,056	867,792	739,056	128,736
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>\$ 1,726,454</u>	<u>\$ 1,597,718</u>	<u>\$ 1,726,454</u>	<u>\$ 1,597,718</u>	<u>\$ 128,736</u>
Accumulated Depreciation:	<u>\$ (451,074)</u>	<u>\$ (376,074)</u>	<u>\$ (451,074)</u>	<u>\$ (376,074)</u>	<u>\$ (75,000)</u>
Total Capital Assets, Being Depreciated,	<u>\$ 1,275,380</u>	<u>\$ 1,221,644</u>	<u>\$ 1,275,380</u>	<u>\$ 1,221,644</u>	<u>\$ 53,736</u>
Capital Assets Net	<u><u>\$ 1,730,376</u></u>	<u><u>\$ 1,676,640</u></u>	<u><u>\$ 1,730,376</u></u>	<u><u>\$ 1,676,640</u></u>	<u><u>\$ 53,736</u></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		Totals		Increase (Decrease)
	Activities				
	2021	2020	2021	2020	
Long-Term Obligations					
Capital Leases	\$ 380,625	\$ 109,752	\$ 380,625	\$ 109,752	\$ 270,873
Total Long-Term Obligations	<u>\$ 380,625</u>	<u>\$ 109,752</u>	<u>\$ 380,625</u>	<u>\$ 109,752</u>	<u>\$ 270,873</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 2022 budget.

1. The ad valorem property tax rate was set at \$.4838 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 2022 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 should be addressed to the Office of the City of Sullivan City, City Manager: P.O. Box 249, Sullivan City, Texas 78595.

## BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	<u>Primary Government</u>  Governmental Activities
<b>ASSETS</b>	
1010 Cash and Cash Equivalents	\$ 1,289,487
1050 Taxes Receivable, Net	267,067
1150 Accounts Receivable, Net	35,435
1260 Due from Other Governments	27,788
Capital Assets:	
1710 Land Purchase and Improvements	69,819
1720 Infrastructure, Net	352,222
1730 Buildings, Net	416,718
1750 Furniture and Equipment, Net	506,440
1780 Construction in Progress	385,177
1000 Total Assets	<u>3,350,153</u>
<b>LIABILITIES</b>	
2010 Accounts Payable	34,428
2020 Wages and Salaries Payable	137
2230 Unearned Revenues	516,634
Noncurrent Liabilities:	
2501 Due Within One Year	64,019
2540 Capital Leases Payable - Noncurrent	316,606
2000 Total Liabilities	<u>931,824</u>
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	1,349,751
3900 Unrestricted	1,068,578
3000 Total Net Position	<u>\$ 2,418,329</u>

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

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

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
<b>Primary Government:</b>					
GOVERNMENTAL ACTIVITIES:					
100	General Government	\$ 1,140,471	\$ 16,496	\$ 552,210	\$ (571,765)
120	Judicial	33,945	-	-	(33,945)
200	Public Safety	906,214	246,104	214,290	(445,820)
320	Sanitation	350,076	372,358	-	22,282
500	Culture and Recreation	126,764	-	57,694	(69,070)
	<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 2,557,470</b>	<b>\$ 634,958</b>	<b>\$ 824,194</b>	<b>(1,098,318)</b>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	521,085
Property Taxes, Levied for Debt Service	45,828
General Sales and Use Taxes	493,765
Franchise Tax	108,769
Penalty and Interest on Taxes	1,215
Grants and Contributions	126,470
Miscellaneous Revenue	95,667
Total General Revenues	1,392,799

Change in Net Position	294,481
Net Position - Beginning	2,401,645
Prior Period Adjustment	(277,797)
Net Position - Ending	\$ 2,418,329

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

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

Data Control Codes	General Fund	ARPA Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1010 Cash and Cash Equivalents	\$ 581,630	\$ 516,734	\$ 191,123	\$ 1,289,487
1050 Taxes Receivable	261,660	-	5,407	267,067
1150 Accounts Receivable, Net	35,435	-	-	35,435
1260 Due from Other Governments	27,788	-	-	27,788
1300 Due from Other Funds	100	-	-	100
1000 Total Assets	<u>\$ 906,613</u>	<u>\$ 516,734</u>	<u>\$ 196,530</u>	<u>\$ 1,619,877</u>
<b>LIABILITIES</b>				
2010 Accounts Payable	\$ 34,428	\$ -	\$ -	\$ 34,428
2020 Wages and Salaries Payable	137	-	-	137
2080 Due to Other Funds	-	100	-	100
2230 Unearned Revenues	-	516,634	-	516,634
2000 Total Liabilities	<u>34,565</u>	<u>516,734</u>	<u>-</u>	<u>551,299</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	239,888	-	5,407	245,295
2600 Total Deferred Inflows of Resources	<u>239,888</u>	<u>-</u>	<u>5,407</u>	<u>245,295</u>
<b>FUND BALANCES</b>				
Committed Fund Balance:				
3525 Retirement of Loans or Notes Payable	-	-	15,260	15,260
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	175,863	175,863
3600 Unassigned Fund Balance	632,160	-	-	632,160
3000 Total Fund Balances	<u>632,160</u>	<u>-</u>	<u>191,123</u>	<u>823,283</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 906,613</u>	<u>\$ 516,734</u>	<u>\$ 196,530</u>	<u>\$ 1,619,877</u>

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

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

<b>Total Fund Balances - Governmental Funds</b>	\$	823,283
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.		1,566,888
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2021 capital outlays and debt principal payments is to increase (decrease) net position.		(142,137)
The 2021 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.		245,295
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,418,329</b>

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



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

Data Control Codes	General Fund	ARPA Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
5110 Property Taxes	\$ 548,318	\$ -	\$ 45,828	\$ 594,146
5120 General Sales and Use Taxes	249,330	-	244,435	493,765
5170 Franchise Tax	108,769	-	-	108,769
5190 Penalty and Interest on Taxes	1,215	-	-	1,215
5200 Licenses and Permits	29,341	-	-	29,341
5300 Intergovernmental Revenue and Grants	717,806	-	232,858	950,664
5400 Charges for Services	372,358	-	-	372,358
5510 Fines	214,082	-	-	214,082
5700 Other Revenue	102,494	-	12,350	114,844
5020 Total Revenues	<u>2,343,713</u>	<u>-</u>	<u>535,471</u>	<u>2,879,184</u>
<b>EXPENDITURES:</b>				
Current:				
0100 General Government	943,904	-	173,193	1,117,097
0120 Judicial	33,945	-	-	33,945
0200 Public Safety	828,530	-	47,684	876,214
Public Works:				
0320 Sanitation	350,076	-	-	350,076
0500 Culture and Recreation	50,586	-	58,478	109,064
Debt Service:				
0700 Debt Service	-	-	28,201	28,201
Capital Outlay:				
0800 Capital Outlay	128,736	-	-	128,736
6030 Total Expenditures	<u>2,335,777</u>	<u>-</u>	<u>307,556</u>	<u>2,643,333</u>
1100 Excess of Revenues Over Expenditures	<u>7,936</u>	<u>-</u>	<u>227,915</u>	<u>235,851</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7913 Proceeds from Capital Leases	303,000	-	-	303,000
7915 Transfers In	93,003	-	-	93,003
8911 Transfers Out	-	-	(93,003)	(93,003)
7080 Total Other Financing Sources (Uses)	<u>396,003</u>	<u>-</u>	<u>(93,003)</u>	<u>303,000</u>
1200 Net Change in Fund Balances	403,939	-	134,912	538,851
0100 Fund Balance - October 1 (Beginning)	238,645	-	58,711	297,356
1300 Prior Period Adjustment	(10,424)	-	(2,500)	(12,924)
3000 Fund Balance - September 30 (Ending)	<u>\$ 632,160</u>	<u>\$ -</u>	<u>\$ 191,123</u>	<u>\$ 823,283</u>

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

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

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	538,851
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase (decrease) the change in net position.		(142,137)
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.		(27,233)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>294,481</b>

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.

CITY OF SULLIVAN CITY, TEXAS  
Notes to Financial Statements  
For the Year Ended September 30, 2021

**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 by 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.

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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The District has not determined the impact of the implementation of this standard.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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.

Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

### **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, 2021

**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, 2021, 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, 2021

**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.

**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, 2021

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Excess of General Fund Expenditures below Appropriations**

At September 30, 2021, the general fund total expenditures were under budget appropriations by \$71,456 and actual revenues were above budgeted revenues by \$415,804. The following budget categories were exceeded at year-end.

General Government	\$133,720
Sanitation	\$ 55,036
Capital Outlay	\$ 66,584

**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 of an endowment fund. The City does not have any prepaid items or non-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, 2021

**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, 2021

**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, 2021, the carrying amount of the City's deposits (cash and interest-bearing savings accounts included in temporary investment) was \$1,289,487, while the bank balance was \$1,382,914. The City's cash deposits at September 30, 2021 and during the year ended September 30, 2021 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, 2021

**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, 2021, 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, 2021 were as follows:

Governmental Funds	Accounts Receivable
Property Taxes (net)	\$ 267,067
Franchise Taxes	8,551
Garbage Collections	26,884
Grants and Other Receivables	27,788
	\$ 330,290

CITY OF SULLIVAN CITY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**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	\$239,888	\$ 5,407	\$245,295
<b>Total</b>	<b>\$239,888</b>	<b>\$ 5,407</b>	<b>\$245,295</b>

  

Total Deferred Inflows for Primary Government	<u><u>\$245,295</u></u>
---	-------------------------

**2. Unearned Revenues**

Unearned Revenues Description	General Fund	Debt Service	Total
ARPA Grant	\$516,634	\$ -	\$516,634
<b>Total</b>	<b>\$516,634</b>	<b>\$ -</b>	<b>\$516,634</b>

  

Total Unearned Revenues for Primary Government	<u><u>\$516,634</u></u>
--	-------------------------

**D. Capital Assets**

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

Capital Assets	10/01/20	Additions	Retirements	09/30/21
Land	\$ 69,819	\$ -	\$ -	\$ 69,819
Construction in Progress	385,177	-	-	385,177
Buildings/Parks/Facilities	739,056	128,736	-	867,792
Machinery/Equipment	382,399	-	-	382,399
Infrastructure	352,222	-	-	352,222
Vehicles	124,041	-	-	124,041
Less Accumulated Depreciation for:	(376,074)	(75,000)	-	(451,074)
<b>Total Capital Assets being Depreciated (net)</b>	<b>\$ 1,676,640</b>	<b>\$ 53,736</b>	<b>\$ -</b>	<b>\$ 1,730,376</b>



CITY OF SULLIVAN CITY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**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	<u>\$ 75,000</u>

**E. Long Term Obligations**

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

	Government Capital Corp		Deere Lease		Total Lease Payables	
	Principal	Interest	Principal	Interest	Principal	Interest
Balance 10/01/20	\$ 101,336	\$ -	\$ 8,416	\$ -	\$ 109,752	\$ -
Financing Lease	303,000	-	-	-	303,000	-
Payments	23,711	4,489	8,416	-	32,127	4,489
Ending Balance 09/30/21	380,625	4,489	-	-	380,625	4,489
2022	64,019	13,256	-	-	64,019	13,256
2023	66,388	10,887	-	-	66,388	10,887
2024	68,846	8,428	-	-	68,846	8,428
2025	43,198	5,876	-	-	-	-
2026-2028	138,174	9,049	-	-	138,174	9,049
	<u>\$ 380,625</u>	<u>\$ 47,497</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 380,625</u>	<u>\$ 47,497</u>

**Financing Lease** –\$303,000 note payable; due in annual payments of \$49,074; matures September 2028; interest at 3.24%.

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

CITY OF SULLIVAN CITY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**III. DETAILED NOTES ON FUNDS(Continued)**

**F. 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 \$ 3,260 for expenses and improvements occurred between October 1, 2020 and September 30, 2021.

**G. 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, 2021.

**H. 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.

**I. 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 2021, 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, 2021

### **III. DETAILED NOTES ON FUNDS(Continued)**

#### **I. Risk Management (Continued)**

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.

#### **J. 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, 2021

**III. DETAILED NOTES ON FUNDS(Continued)**

**J. 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	\$ 1,289,487	\$ 1,289,487
Property Taxes Receivable(Net)	267,067	\$ 267,067
Grants Receivable	27,788	\$ 27,788
Other Receivables	35,435	\$ 35,435
<b>Financial Liabilities</b>		
Accounts Payable	\$ 34,428	\$ 34,428
Unearned Revenues-ARPA	516,634	516,634

**K. Prior Period Adjustment**

A prior period adjustment at the fund level was required for the following funds:

	<b>Prior Period Adjustment</b>	
<b>General Fund</b>	10,424	To adjust accounts receivable and accounts payable balances.
<b>Debt Service Fund</b>	2,500	To adjust accounts payable balance.
<b>Total</b>	<b>12,924</b>	
	<b>Prior Period Adjustment</b>	
<b>Governement Wide</b>	264,873	To adjust estimate on fines receivable.
<b>Total</b>	<b>264,873</b>	
<b>Total Prior Period Adjustment</b>	<b>277,797</b>	

**L. Subsequent Events**

In preparing the financial statements, the City's Management has evaluated events and transactions for potential recognition or disclosure through June 30,2022, the date the financial statements will be available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
Taxes:					
5110	Property Taxes	\$ 552,500	\$ 552,500	\$ 548,318	\$ (4,182)
5120	General Sales and Use Taxes	250,000	250,000	249,330	(670)
5170	Franchise Tax	110,610	110,610	108,769	(1,841)
5190	Penalty and Interest on Taxes	-	-	1,215	1,215
5200	Licenses and Permits	20,650	20,650	29,341	8,691
5300	Intergovernmental Revenue and Grants	278,947	278,947	717,806	438,859
5400	Charges for Services	377,000	377,000	372,358	(4,642)
5510	Fines	229,500	229,500	214,082	(15,418)
5700	Other Revenue	108,702	108,702	102,494	(6,208)
5020	Total Revenues	<u>1,927,909</u>	<u>1,927,909</u>	<u>2,343,713</u>	<u>415,804</u>
<b>EXPENDITURES:</b>					
Current:					
0100	General Government	810,184	810,184	943,904	(133,720)
0120	Judicial	145,492	145,492	33,945	111,547
0200	Public Safety	945,362	945,362	828,530	116,832
Public Works:					
0320	Sanitation	295,040	295,040	350,076	(55,036)
0500	Culture and Recreation	149,002	149,002	50,586	98,416
Capital Outlay:					
0800	Capital Outlay	62,152	62,152	128,736	(66,584)
6030	Total Expenditures	<u>2,407,233</u>	<u>2,407,233</u>	<u>2,335,777</u>	<u>71,456</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(479,324)</u>	<u>(479,324)</u>	<u>7,936</u>	<u>487,260</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
7913	Proceeds from Capital Leases	-	-	303,000	303,000
7915	Transfers In	-	-	93,003	93,003
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>396,003</u>	<u>396,003</u>
1200	Net Change	(479,324)	(479,324)	403,939	883,263
0100	Fund Balance - October 1 (Beginning)	238,645	238,645	238,645	-
1300	Prior Period Adjustment	-	-	(10,424)	(10,424)
3000	Fund Balance - September 30 (Ending)	<u>\$ (240,679)</u>	<u>\$ (240,679)</u>	<u>\$ 632,160</u>	<u>\$ 872,839</u>

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

COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES

CITY OF SULLIVAN CITY, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2021

Data Control Codes	201	203	204	205
	CARES Act Fund	Urban County Grant Program	Crime Control Prevention District	Municipal Development District
<b>ASSETS</b>				
1010 Cash and Cash Equivalents	\$ -	\$ -	\$ 34,657	\$ 141,206
1050 Taxes Receivable	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,657</u>	<u>\$ 141,206</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Committed Fund Balance:				
3525 Retirement of Loans or Notes Payable	-	-	-	-
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	34,657	141,206
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>34,657</u>	<u>141,206</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,657</u>	<u>\$ 141,206</u>

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



Total Nonmajor Special Revenue Funds	500 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 175,863	\$ 15,260	\$ 191,123
<u>-</u>	<u>5,407</u>	<u>5,407</u>
<u>\$ 175,863</u>	<u>\$ 20,667</u>	<u>\$ 196,530</u>
-	5,407	5,407
<u>-</u>	<u>5,407</u>	<u>5,407</u>
-	15,260	15,260
175,863	-	175,863
<u>175,863</u>	<u>15,260</u>	<u>191,123</u>
<u>\$ 175,863</u>	<u>\$ 20,667</u>	<u>\$ 196,530</u>

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

Data Control Codes	201 CARES Act Fund	203 Urban County Grant Program	204 Crime Control Prevention District	205 Municipal Development District
<b>REVENUES:</b>				
Taxes:				
5110 Property Taxes	\$ -	\$ -	\$ -	\$ -
5120 General Sales and Use Taxes	-	-	124,114	120,321
5300 Intergovernmental Revenue and Grants	229,598	3,260	-	-
5700 Other Revenue	-	-	-	12,350
5020 Total Revenues	<u>229,598</u>	<u>3,260</u>	<u>124,114</u>	<u>132,671</u>
<b>EXPENDITURES:</b>				
Current:				
0100 General Government	123,436	3,260	33	46,464
0200 Public Safety	47,684	-	-	-
0500 Culture and Recreation	58,478	-	-	-
Debt Service:				
0700 Debt Service	-	-	-	-
6030 Total Expenditures	<u>229,598</u>	<u>3,260</u>	<u>33</u>	<u>46,464</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	124,081	86,207
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out	-	-	(93,003)	-
7080 Total Other Financing Sources (Uses)	-	-	(93,003)	-
1200 Net Change in Fund Balance	-	-	31,078	86,207
0100 Fund Balance - October 1 (Beginning)	-	-	3,579	54,999
1300 Prior Period Adjustment	-	-	-	-
3000 Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,657</u>	<u>\$ 141,206</u>

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

Total Nonmajor Special Revenue Funds	500 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 45,828	\$ 45,828
244,435	-	244,435
232,858	-	232,858
12,350	-	12,350
<u>489,643</u>	<u>45,828</u>	<u>535,471</u>
173,193	-	173,193
47,684	-	47,684
58,478	-	58,478
-	28,201	28,201
<u>279,355</u>	<u>28,201</u>	<u>307,556</u>
<u>210,288</u>	<u>17,627</u>	<u>227,915</u>
<u>(93,003)</u>	-	<u>(93,003)</u>
<u>(93,003)</u>	-	<u>(93,003)</u>
117,285	17,627	134,912
58,578	133	58,711
-	(2,500)	(2,500)
<u>\$ 175,863</u>	<u>\$ 15,260</u>	<u>\$ 191,123</u>

FEDERAL SECTION

# LUIS C OROZCO

## CERTIFIED PUBLIC ACCOUNTANT

808 Del Oro Lane  
Pharr, TX 78577  
lcocpa@lcocpa.com

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 Honorable Mayor and the City Council  
of the City of Sullivan City, 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, each major fund, and the aggregate remaining fund information of the City of Sullivan City, Texas (the City) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2022.

#### ***Internal Control over Financial Reporting***

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses listed as 2021-01 and 2021-03.

# **LUIS C OROZCO**

## **CERTIFIED PUBLIC ACCOUNTANT**

**808 Del Oro Lane  
Pharr, TX 78577  
lcocpa@lcocpa.com**

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies listed as 2021-02 and 2021-04.

### ***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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2021-04.

### **City of Sullivan City's Response to Findings**

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

### **Purpose of this Report**

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

Luis C. Orozco, CPA  
Pharr, Texas  
June 30, 2022

CITY OF SULLIVAN CITY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**I. Summary of the Auditor's Results:**

- |   |            |
|---|------------|
| A. The type of report issued:<br>opinion  | Unmodified |
| B. Internal control over financial statements:  |            |
| Material Weakness(es) identified?   | Yes        |
| Significant Deficiency(ies) identified which<br>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.**

**2021-01 Capital Assets**

Criteria: Generally accepted accounting principles of the United States of America require that general infrastructure assets of the Governmental and Proprietary Funds be capitalized and depreciated.

Condition: A physical inventory of the city's capital assets has not been performed periodically. The city did not have a complete set of records for the capital assets. The city did not provide sufficient audit documentation to confirm the value of the capital assets.

Cause: The City personnel did not comply with generally accepted accounting principles.

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.

CITY OF SULLIVAN CITY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**2021-02 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 placed.

Effect: The City was not reimbursed for some costs incurred.

Recommendation: The City should ensure consistency in controls related to program administration. In addition, the City should set up accounts to properly account for the special revenue fund expenditures and balances.

**2021-03: Year-End Closing of Financial Statements**

Criteria: Controls relative to timely and proper close-out of financial statements at year-end should be in place, in order to provide management and other third-party stakeholders with the necessary financial information to make appropriate decisions, and to ensure compliance with federal, state and local reporting deadlines.

Condition: A significant amount of time lapsed after year-end, before the financial statements were properly closed out. In addition, significant audit adjustments were necessary in order for the financial statements to be in accordance with generally accepted accounting principles.

Cause: The City may not have had sufficiently trained staff or proper oversight to adequately manage the City's finances. In addition, prior years audited balances were reconciled to the City's books and records.

Effect: Financial statements prepared on a monthly basis and at year-end were not closed-out properly due to the omitted transactions.

Recommendation: The City should review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes.



CITY OF SULLIVAN CITY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**2021-04: Expenditures over Appropriations**

Criteria: Texas Local Government Code, Title 4, Subtitle A., Chapter 102 Municipal Budget establishes the law governing the annual General Fund budget requirements for the City.

Condition: The City's General Fund had excess expenditures over appropriations for the following expense categories; general government, sanitation, and capital outlay.

Cause: The City did not properly amend the budget to allow for the expenditures.

Effect: The City was not in compliance with the Texas Local Government Code.

Recommendation: The City should review their budget throughout the year and propose amendments to ensure compliance with State Law.

CITY OF SULLIVAN CITY  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**2020-01 Capital Assets**- See current year finding 2021-01

**2020-02 C.A.R.E.S. Act Funding**- See current year finding 2021-02

CITY OF SULLIVAN CITY, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

(Prepared by the Local Government's Administration)

The following is the corrective action plan for FYE September 30, 2021 findings:

**2021-01 Capital Assets**

**Corrective Action Plan:** The City will update its general ledgers to reflect the results of the physical inventory. A physical inventory of the city's capital assets will be performed and have a complete set of records for the capital assets and their values. Additionally, the depreciation records will also be updated in order to allow for accurate annual calculations.

**Planned Implementation Date:** September 30, 2022

**Contact Person:** Ana M. Mercado, City Manager

**2021-02: CARES Act Funding**

**Corrective Action Plan:** The City will ensure consistency in controls related to program administrations. The City will set up accounts to properly account for all special revenue fund expenditures and balances.

**Planned Implementation Date:** September 30, 2022

**Contact Person:** Ana M. Mercado, City Manager

**2021-03: Year- End Closing of Financial Statements**

**Corrective Action Plan:** The City will review its internal controls relating to financial statement accounting and reporting to ensure that timely financial statements in accordance with GAAP are prepared and available for management use, as well as for audit purposes. The City will train staff and properly oversee that the City's finances are adequately managed.

**Planned Implementation Date:** September 30, 2022

**Contact Person:** Ana M Mercado, City Manager

**2021-04: Expenditures Over Appropriations**

**Corrective Action Plan:** The City will review its budget throughout the year and propose amendments to ensure compliance with the Texas Local Government Code.

**Planned Implementation Date:** September 30, 2022

**Contact Person:** Ana M Mercado, City Manager