



**FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2023**

**CITY OF TATUM, TEXAS
TABLE OF CONTENTS
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>EXHIBIT/ SCHEDULE</u>	<u>PAGE(S)</u>
Independent Auditor’s Report		1-3
Management’s Discussion and Analysis		4-12
Basic Financial Statements:		13
Government-Wide Financial Statements:		14
Statement of Net Position	1	15
Statement of Activities	2	16
Fund Financial Statements:		17
Balance Sheet – Governmental Funds	3	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	4	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	5	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	21
Statement of Net Position – Proprietary Funds	7	22
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	8	23
Statement of Cash Flows – Proprietary Funds	9	24
Notes to the Financial Statements		25-52
Required Supplementary Information:		53
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	10	54
TMRS Schedule of Changes in Net Pension Liability and Related Ratios		55
TMRS Schedule of Contributions		56
TMRS SDBF Schedule of Changes in Total OPEB Liability and Related Ratios		57
Compliance and Internal Control:		58
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>		59-60
Summary Schedule of Prior Findings and Responses		61-62
Schedule of Findings and Responses		63-72



DAVID K. GODWIN
CERTIFIED PUBLIC ACCOUNTANT, PLLC

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
City of Tatum, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tatum, Texas, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Tatum, Texas, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12, budgetary comparison information on page 54, and the Texas Municipal Retirement System schedules on pages 55 through 57 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2024, on our consideration of the City of Tatum, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Tatum, Texas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Tatum, Texas's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "David K. Godwin, CPA, PLLC". The signature is written in a cursive style.

David K. Godwin, CPA, PLLC

Tyler, Texas

August 29, 2024

Management's Discussion and Analysis

City of Tatum

CITY HALL

AC 903-947-2260

680 CRYSTAL FARMS ROAD

P.O. BOX 1105

TATUM, TEXAS 75691

Management's Discussion and Analysis For Year Ended June 30, 2023 (Unaudited)

The Management Discussion and Analysis of the City of Tatum's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2023. Please read in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Mayor and Council

Michael Henry
Mayor

Tate R. Smith
Mayor Pro-Tem

Wendell Moore
Alderman

J.R. Smith
Alderman

Robin Palmer
Alderman

Greggory Cole
Alderman

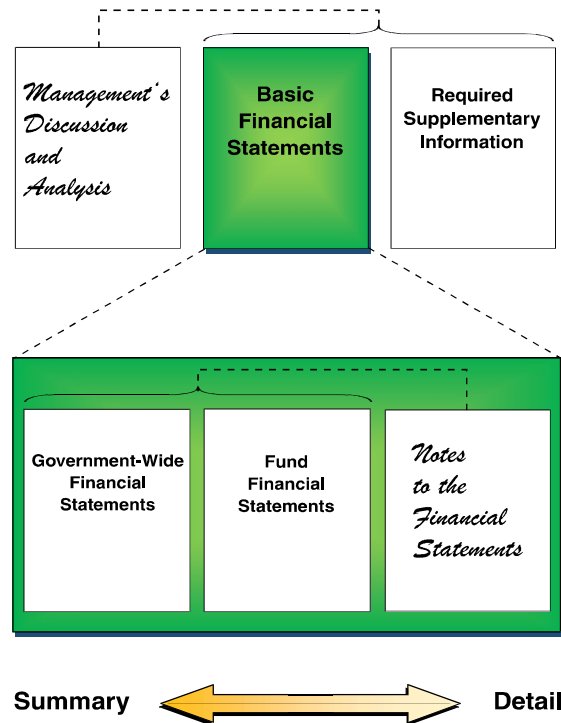
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$4,598,068 (Net Position). Of this amount, \$2,333,379 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by \$445,818.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,698,532. Of this amount, \$1,282,846 is unassigned and available for use within the City's fund designation and fiscal policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,282,846, or 230% of the total general fund expenditures.
- The City's long-term debt increased by \$30,781 due to additional utility deposits, right-to-use software arrangements, and pension liability, increases during 2023.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City’s annual report consists of a series of financial statements, notes to those statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are Government-Wide Financial Statements that provide both long-term and short-term information about the City’s overall financial status.
- The remaining statements are Fund Financial Statements that focus on individual parts of the government, reporting the City’s operations in more detail than the Government-Wide Statements.
 - The Governmental Funds Statements tell how general government services were financed in the short term as well as what remains for future spending.
 - Proprietary Fund Statements offer financial information about the internal service fund used to report activities that provide services to organizations within the City.

Figure A-1 Required Components of the City’s Annual Financial Report



The basic financial statements include notes that explain information contained within the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 (above) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 (next page) summarizes the major features of the City’s financial statements, including the portion of the City’s government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-2
MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

<i>Type of Statement</i>	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: Wastewater
<i>Required financial statements</i>	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of flow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The Government-Wide Statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-Wide Statements report the City's net position and how it has changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's tax base.

The Government-Wide Financial Statements of the City include the governmental activities. The City's basic activities include general government, public safety, municipal court, highways and streets, and culture and recreation. Fines, forfeitures and taxes finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices used by the City to track specific sources and uses of funding for specified activities.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two types of funds:

- **Governmental funds**—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the year-end balances that are available for spending. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps you determine the level of financial resources that can be spent in the near term to finance the City's programs. Because this information does not encompass the additional long-term focus of the Government-Wide Statements, we provide additional information at the bottom of the Governmental Fund Statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary funds**—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the Government-Wide Statements, provide both long-term and short-term financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$4,598,068 as of June 30, 2023.

The largest portion of the City's net position, 40.21%, or \$1,849,003, reflects its investments in capital assets (e.g., land, building, equipment, vehicles, improvements, and infrastructure), less any outstanding debt used in acquiring those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to repay these liabilities.

CITY OF TATUM'S NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Current and Other Assets	\$ 2,058,623	\$ 1,583,437	\$ 819,209	\$ 811,536	\$ 2,877,832	\$ 2,394,973
Capital Assets	440,803	486,433	1,416,227	1,441,447	1,857,030	1,927,880
Total Assets	<u>2,499,426</u>	<u>2,069,870</u>	<u>2,235,436</u>	<u>2,252,983</u>	<u>4,734,862</u>	<u>4,322,853</u>
Total Deferred Outflows of Resources	33,966	27,043	20,120	9,789	54,086	36,832
Non-Current Liabilities	34,134	18,294	53,018	38,077	87,152	56,371
Other Liabilities	43,157	73,799	20,540	16,923	63,697	90,722
Total Liabilities	<u>77,291</u>	<u>92,093</u>	<u>73,558</u>	<u>55,000</u>	<u>150,849</u>	<u>147,093</u>
Total Deferred Inflows of Resources	28,089	44,243	11,942	16,099	40,031	60,342
Net Position:						
Invested in Capital Assets, Net of Related Debt	432,776	486,433	1,416,227	1,441,447	1,849,003	1,927,880
Restricted	415,686	234,394	-	-	415,686	234,394
Unrestricted	1,579,550	1,239,750	753,829	750,226	2,333,379	1,989,976
Total Net Position	<u>\$ 2,428,012</u>	<u>\$ 1,960,577</u>	<u>\$ 2,170,056</u>	<u>\$ 2,191,673</u>	<u>\$ 4,598,068</u>	<u>\$ 4,152,250</u>

A small portion of net position, \$71,168, is restricted for municipal court security and technology enhancements, \$29,921 is restricted police seizure awards in accordance with Article 59 of the Code of Criminal Procedure, in addition, \$314,597 is held for infrastructure improvements under the American Rescue Plan Act, Coronavirus Local Fiscal Recovery Fund. The remaining balance of unrestricted net position, \$1,579,550, may be used to meet the government's ongoing obligations to citizens and creditors.

As of June 30, 2023, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities. In the prior fiscal year, the City also reported positive balances in all three categories of net position.

Analysis of the City's Operations - Overall the City had an increase in net position of \$445,818.

Governmental Activities: Net position for the governmental activities increased by \$467,435. Net position invested in capital assets, net of related debt, decreased by \$53,657 due to depreciation expenses exceeding capital asset additions. The remaining change in net position is due to higher-than-expected municipal court collections and tax receipts.

Total revenues for the governmental activities decreased from the previous year by \$22,018, primarily due to lower municipal court collections during the year. General revenue decreased \$1,651 during 2023, primarily due to similar activity.

Business-type Activities: Net position from business-type activities decreased by \$21,617. This decrease was primarily due to capital asset purchases along with typical depreciation and supporting costs associated with the water and sewer production and processing in 2023.

The following table provides a summary of the City’s operations for the year ended June 30, 2023, with comparative totals for the year ended June 30, 2022.

CITY OF TATUM’S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Revenues:						
Operating Revenues:						
Charges for Services	\$ 2,865	\$ 24,906	\$ 448,359	\$ 455,202	\$ 451,224	\$ 480,108
Other	173,142	171,468	-	-	173,142	171,468
General Revenues:						
Taxes	523,513	484,109	-	-	523,513	484,109
Fines & Forfeitures	330,350	398,057	-	-	330,350	398,057
Miscellaneous	33,332	6,680	15,347	3,871	48,679	10,551
Total Revenues	<u>1,063,202</u>	<u>1,085,220</u>	<u>463,706</u>	<u>459,073</u>	<u>1,526,908</u>	<u>1,544,293</u>
Expenses:						
General Government	601,937	590,425	-	-	601,937	590,425
Water and Sewer	-	-	491,680	537,621	491,680	537,621
Total Expenses	<u>601,937</u>	<u>590,425</u>	<u>491,680</u>	<u>537,621</u>	<u>1,093,617</u>	<u>1,128,046</u>
Increase (Decrease) in Total Revenues	<u>461,265</u>	<u>494,795</u>	<u>(27,974)</u>	<u>(78,548)</u>	<u>433,291</u>	<u>416,247</u>
NONOPERATING REVENUES (EXPENSES)						
Interest Income	6,170	3,880	6,870	3,778	13,040	7,658
Interest Expense	-	-	(513)	-	(513)	-
Total Non-operating Revenue (Expense)	<u>6,170</u>	<u>3,880</u>	<u>6,357</u>	<u>3,778</u>	<u>12,527</u>	<u>7,658</u>
Change in Net Position	467,435	498,675	(21,617)	(74,770)	445,818	423,905
Net Position – Beginning	<u>1,960,577</u>	<u>1,461,902</u>	<u>2,191,673</u>	<u>2,266,443</u>	<u>4,152,250</u>	<u>3,728,345</u>
Net Position – Ending	<u>\$ 2,428,012</u>	<u>\$ 1,960,577</u>	<u>\$ 2,170,056</u>	<u>\$ 2,191,673</u>	<u>\$ 4,598,068</u>	<u>\$ 4,152,250</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

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, unrestricted fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$1,698,532; of this total amount, \$1,282,846, constitutes a surplus in unassigned fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

In the general fund, the City’s original budget planned for a decrease in the fund balance on a budget basis.

Actual revenues in all categories were higher than the final budgeted amounts by a total of \$182,440. Actual expenditures not including transfers were lower than final budgeted amounts by a total of \$145,384.

Proprietary funds – The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

CAPITAL ASSETS

The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2023, amounts to \$1,849,003 (net of accumulated depreciation). This investment in capital assets, includes land, construction in progress, buildings, equipment, improvements, vehicles, and infrastructure. The total decrease in capital assets for the current fiscal year was \$70,850, or 3.68%.

Major capital asset additions during fiscal year 2023 included \$85,806 for equipment utilized in operations of the City’s waterworks system and \$15,497 for construction and rehabilitation of the water and sewer system.

CAPITAL ASSETS AT YEAR-END AND ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
	2023	2022	2023	2022	2023	2022
Land	\$ 20,496	\$ 20,496	\$ 79,993	\$ 79,993	\$ 100,489	\$ 100,489
Construction in Progress	-	-	-	-	-	-
Buildings & Improvements	661,692	661,692	18,550	18,550	680,242	680,242
Equipment	343,725	343,725	669,755	583,949	1,013,480	927,674
Infrastructure	195,477	195,477	-	-	195,477	195,477
Park Improvements	12,723	12,723	-	-	12,723	12,723
Vehicles	184,132	184,132	92,497	92,497	276,629	276,629
Right-to-use software arrangements	11,588	-	6,224	-	17,812	-
Waterworks System	-	-	5,522,844	5,507,347	5,522,844	5,507,347
Accumulated Depreciation	(989,030)	(931,812)	(4,973,636)	(4,840,889)	(5,962,666)	(5,772,701)
Total	\$ 440,803	\$ 486,433	\$ 1,416,227	\$ 1,441,447	\$ 1,857,030	\$ 1,927,880

Additional information on the City’s capital assets can be found in Note 2 on pages 36 and 37 in the notes of this report.

DEBT ADMINISTRATION

At the end of the current and prior fiscal years, the City had no bonded debt.

Additional information on the City's long term-debt can be found in Note 2 on page 38 in the notes of this report.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the City of Tatum, Attn: City Secretary at 680 Crystal Farms Road, Tatum, Texas 75691, or call (903) 947-2260.

Basic Financial Statements

Government-Wide Financial Statements

CITY OF TATUM, TEXAS
STATEMENT OF NET POSITION
JUNE 30, 2023

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TEDCO
ASSETS				
Cash and cash equivalents	\$ 1,337,532	\$ 743,538	\$ 2,081,070	\$ 368,969
Investments	-	-	-	156,939
Receivables (net of allowances):				
Sales taxes	52,018	-	52,018	20,807
Property taxes	38,506	-	38,506	-
Franchise taxes	7,620	-	7,620	-
Fines and forfeitures	278,429	-	278,429	-
Other	-	42,886	42,886	519
Restricted cash	344,518	32,785	377,303	-
Capital assets:				
Land and other non-depreciated assets	20,496	79,993	100,489	267,545
Other capital assets - net of depreciation	420,307	1,336,234	1,756,541	17,448
Total assets	2,499,426	2,235,436	4,734,862	832,227
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows from pensions	33,032	19,771	52,803	-
Deferred outflows from OPEB	934	349	1,283	-
Total deferred outflows of resources	33,966	20,120	54,086	-
LIABILITIES				
Accounts payable and accrued liabilities	43,157	20,540	63,697	400
Long-term liabilities:				
Due within one year	3,855	2,070	5,925	-
Due in more than one year	30,279	50,948	81,227	-
Total liabilities	77,291	73,558	150,849	400
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows from pensions	20,394	7,992	28,386	-
Deferred inflows from OPEB	7,695	3,950	11,645	-
Total deferred inflows of resources	28,089	11,942	40,031	-
NET POSITION				
Investment in capital assets, net of related debt	432,776	1,416,227	1,849,003	284,993
Restricted for infrastructure improvements	314,597	-	314,597	-
Restricted police seizure awards	29,921	-	29,921	-
Restricted for municipal court	71,168	-	71,168	-
Restricted purpose of donor and trustee	-	-	-	400
Unrestricted	1,579,550	753,829	2,333,379	546,434
Total net position	\$ 2,428,012	\$ 2,170,056	\$ 4,598,068	\$ 831,827

**CITY OF TATUM, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			COMPONENT UNIT
		CHARGES FOR SERVICES	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TEDCO
Primary government:							
Governmental activities:							
General government	\$ 157,082	\$ 2,330	\$ 173,142	\$ 18,390	\$ -	\$ 18,390	
Public safety	348,266	85	-	(348,181)	-	(348,181)	
Municipal court	67,847	330,350	-	262,503	-	262,503	
Highways and streets	11,090	-	-	(11,090)	-	(11,090)	
Parks and recreation	16,696	450	-	(16,246)	-	(16,246)	
Total governmental activities	<u>601,937</u>	<u>333,215</u>	<u>173,142</u>	<u>(95,580)</u>	<u>-</u>	<u>(95,580)</u>	
Business-type activities:							
Waterworks	<u>492,193</u>	<u>448,359</u>	<u>-</u>	<u>-</u>	<u>(43,834)</u>	<u>(43,834)</u>	
Total business-type activities	<u>492,193</u>	<u>448,359</u>	<u>-</u>	<u>-</u>	<u>(43,834)</u>	<u>(43,834)</u>	
Total primary government	<u>\$ 1,094,130</u>	<u>\$ 781,574</u>	<u>\$ 173,142</u>	<u>(95,580)</u>	<u>(43,834)</u>	<u>(139,414)</u>	
Component unit:							
Tatum Economic Development Corporation	<u>\$ 65,864</u>	<u>\$ 3,178</u>	<u>\$ -</u>				<u>\$ (62,686)</u>
Total component unit	<u>\$ 65,864</u>	<u>\$ 3,178</u>	<u>\$ -</u>				<u>(62,686)</u>
General revenues:							
Sales taxes				315,892	-	315,892	126,357
Property taxes				155,499	-	155,499	-
Franchise taxes				52,122	-	52,122	-
Hotel taxes				-	-	-	34,919
Investment earnings				6,170	6,870	13,040	2,009
Miscellaneous local and intermediate revenue				<u>33,332</u>	<u>15,347</u>	<u>48,679</u>	<u>1,373</u>
Total general revenues and transfers				<u>563,015</u>	<u>22,217</u>	<u>585,232</u>	<u>164,658</u>
Change in net position				467,435	(21,617)	445,818	101,972
Net position - beginning				<u>1,960,577</u>	<u>2,191,673</u>	<u>4,152,250</u>	<u>729,855</u>
Net position - ending				<u>\$ 2,428,012</u>	<u>\$ 2,170,056</u>	<u>\$ 4,598,068</u>	<u>\$ 831,827</u>

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

Fund Financial Statements

**CITY OF TATUM, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	MAJOR FUNDS		NON- MAJOR	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	GRANT FUND	POLICE SEIZURE FUND	
ASSETS				
Cash	\$ 1,337,532	\$ -	\$ -	\$ 1,337,532
Receivables (net of allowances):				
Sales taxes	52,018	-	-	52,018
Property taxes	38,506	-	-	38,506
Franchise taxes	7,620	-	-	7,620
Fine and forfeitures	278,429	-	-	278,429
Restricted cash	-	314,597	29,921	344,518
	<u>\$ 1,714,105</u>	<u>\$ 314,597</u>	<u>\$ 29,921</u>	<u>\$ 2,058,623</u>
Total assets				
	<u>\$ 1,714,105</u>	<u>\$ 314,597</u>	<u>\$ 29,921</u>	<u>\$ 2,058,623</u>
LIABILITIES				
Accounts payable	\$ 43,157	\$ -	\$ -	\$ 43,157
	<u>43,157</u>	<u>-</u>	<u>-</u>	<u>43,157</u>
Total liabilities				
	<u>43,157</u>	<u>-</u>	<u>-</u>	<u>43,157</u>
DEFERRED INFLOWS (OF RESOURCES)				
Property taxes	38,505	-	-	38,505
Fines, forfeitures, and warrants	278,429	-	-	278,429
	<u>316,934</u>	<u>-</u>	<u>-</u>	<u>316,934</u>
Total deferred inflows				
	<u>316,934</u>	<u>-</u>	<u>-</u>	<u>316,934</u>
FUND BALANCES				
Restricted fund balance:				
Police seizure awards	-	-	29,921	29,921
Municipal court technology	25,755	-	-	25,755
Municipal court security	45,413	-	-	45,413
Infrastructure improvements	-	314,597	-	314,597
Unassigned fund balance	1,282,846	-	-	1,282,846
	<u>1,354,014</u>	<u>314,597</u>	<u>29,921</u>	<u>1,698,532</u>
Total fund balances				
	<u>1,354,014</u>	<u>314,597</u>	<u>29,921</u>	<u>1,698,532</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,714,105</u>	<u>\$ 314,597</u>	<u>\$ 29,921</u>	<u>\$ 2,058,623</u>

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

CITY OF TATUM, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances - governmental funds	\$	1,698,532
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.		440,803
Long-term pension asset, which is based on GASB 68 reporting requirements, is not available to pay for current period expenditures and therefore is not reported in the governmental fund financial statements:		
Net pension liability		(11,789)
Deferred outflows, related to pension		33,032
Deferred inflows, related to pension		(20,394)
Long-term OPEB liability, which is based on GASB 75 reporting requirements, is not due and payable in the current period and therefore is not reported in the governmental fund financial statements:		
Net OPEB liability		(14,318)
Deferred outflows, related to OPEB		934
Deferred inflows, related to OPEB		(7,695)
Outstanding fines, forfeitures and warrants are a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.		278,429
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		(8,027)
Delinquent property taxes receivable is a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.		38,505
		38,505
Net position of governmental activities	\$	2,428,012

CITY OF TATUM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	MAJOR FUNDS		NON- MAJOR	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	GRANT FUND	POLICE SEIZURE FUND	
REVENUES				
Taxes:				
Sales	\$ 315,892	\$ -	\$ -	\$ 315,892
Property	160,815	-	-	160,815
Franchise	52,122	-	-	52,122
Fines and forfeitures	213,947	-	29,883	243,830
Licenses and permits	2,330	-	-	2,330
Grants and contributions	1,335	171,807	-	173,142
Charges for services	85	-	-	85
Facility rental	450	-	-	450
Interest income	6,132	-	38	6,170
Miscellaneous	33,332	-	-	33,332
Total revenues	<u>786,440</u>	<u>171,807</u>	<u>29,921</u>	<u>988,168</u>
EXPENDITURES				
General government	147,617	-	-	147,617
Public safety	292,794	29,017	-	321,811
Municipal court	65,509	-	-	65,509
Highways and streets	7,746	-	-	7,746
Parks and recreation	2,337	-	-	2,337
Capital outlay	11,588	-	-	11,588
Total expenditures	<u>527,591</u>	<u>29,017</u>	<u>-</u>	<u>556,608</u>
Excess (deficiency) of revenues over (under) expenditures	<u>258,849</u>	<u>142,790</u>	<u>29,921</u>	<u>431,560</u>
OTHER FINANCING SOURCES (USES)				
Right-to-use software arrangements	11,588	-	-	11,588
Total other financing sources (uses)	<u>11,588</u>	<u>-</u>	<u>-</u>	<u>11,588</u>
Net change in fund balances	270,437	142,790	29,921	443,148
Fund balances - beginning of year	<u>1,083,577</u>	<u>171,807</u>	<u>-</u>	<u>1,255,384</u>
Fund balances - end of year	<u>\$ 1,354,014</u>	<u>\$ 314,597</u>	<u>\$ 29,921</u>	<u>\$ 1,698,532</u>

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

CITY OF TATUM, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$	443,148
The depreciation of capital assets used in governmental activities is not reported in the funds.		(53,355)
Net delinquent property tax collections provide current financial resources to the funds (but has no effect on net assets).		(5,316)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide statement of activities.		11,588
The portion of fines, forfeitures and warrants receivable which are measurable and available are recognized as revenue in the funds. The remainder of the receivables are deferred and, therefore, are not reported in the governmental activities.		86,520
Increases in long-term liabilities on capital assets should be shown as an expenditure in the government-wide statement of activities, however, current financial resources are not consumed in the governmental funds.		(8,027)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
GASB 68 Pension adjustments		(2,863)
GASB 75 Other post employment benefit adjustments		(397)
Right-to-use software arrangements		(3,863)
		(7,123)
Change in net position of governmental activities	\$	467,435

**CITY OF TATUM, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2023**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATERWORKS
ASSETS	
Current assets:	
Cash	\$ 743,538
Accounts receivable (net)	42,886
Total current assets	786,424
Noncurrent assets:	
Restricted cash	32,785
Capital assets:	
Waterworks system	5,522,844
Equipment	669,755
Buildings	18,550
Vehicles	92,497
Right-to-use software arrangements	6,224
Land	79,993
Less: accumulated depreciation	(4,973,636)
Total noncurrent assets	1,449,012
Total assets	2,235,436
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows from pensions	19,771
Deferred outflows from OPEB	349
Total deferred outflows of resources	20,120
LIABILITIES	
Current liabilities:	
Accounts payable	17,290
Accrued liabilities	3,250
Right-to-use software arrangements	2,070
Total current liabilities	22,610
Non-current liabilities:	
Customer meter deposits	32,785
Right-to-use software arrangements	2,241
Net pension liability	11,717
Net OPEB liability	4,205
Total non-current liabilities	50,948
Total liabilities	73,558
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	7,992
Deferred inflows from OPEB	3,950
Total deferred inflows of resources	11,942
NET POSITION	
Investment in capital assets, net of related debt	1,416,227
Unrestricted	753,829
Total net position	\$ 2,170,056

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

CITY OF TATUM, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2023

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	<u>WATERWORKS</u>
OPERATING REVENUES	
Service charges	\$ 442,818
Tapping fees	5,541
Contributions and other	<u>15,347</u>
Total operating revenues	<u>463,706</u>
OPERATING EXPENSES	
Payroll costs	163,563
Chemicals and supplies	79,173
Contract labor	11,777
Depreciation	132,747
Maintenance and repairs	25,424
Professional fees and services	19,639
Travel and training	-
Utilities	57,679
Other	<u>1,678</u>
Total operating expenses	<u>491,680</u>
Operating loss	<u>(27,974)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	6,870
Interest expense	<u>(513)</u>
Total nonoperating revenues (expenses)	<u>6,357</u>
Change in net position	(21,617)
Net position - beginning	<u>2,191,673</u>
Net position - end of year	<u>\$ 2,170,056</u>

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

**CITY OF TATUM, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2023**

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND
	WATERWORKS
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 438,795
Other cash receipts	15,347
Payments to suppliers for goods and services	(167,701)
Payments to employees and contractors for service	(168,982)
	117,459
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Due to other funds	(5,725)
	(5,725)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(107,527)
Interest on debt	(513)
	(108,040)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	6,870
	6,870
Net increase in cash and cash equivalents	10,564
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	765,759
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 776,323
Reconciliation of Operating Loss to Net Cash provided by Operating Activities	
Operating loss	\$ (27,974)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	132,747
Changes in assets and liabilities:	
Decrease (increase) in accounts receivable	(4,424)
Decrease (increase) in deferred outflows	(10,331)
Increase (decrease) in accounts payable	15,892
Increase (decrease) in accrued liabilities	(6,550)
Increase (decrease) in customer meter deposits	1,410
Increase (decrease) in pension liability	1,814
Increase (decrease) in OPEB liability	19,032
Increase (decrease) in deferred inflows	(4,157)
	145,433
Total adjustments	145,433
Net cash provided by operating activities	\$ 117,459

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

Notes to the Financial Statements

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Tatum (City) operates as a general law city pursuant to the laws of the State of Texas under a Mayor-Alderman form of government. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2023.

Discretely Presented Component Unit

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

The financial statements of a city normally include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Based on these criteria, the financial activities of the Tatum Economic Development Corporation (TEDCO) is included in the financial statements as a discretely presented component unit of the City.

TEDCO was established to collect sales tax pursuant to the Development Corporation Act of 1979 with the purpose to promote, assist, and enhance economic development within the City so as to provide needed services and facilities to the residents of the City. The governing body of TEDCO is selected and approved by the City Council.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government-Wide and Fund Financial Statements - continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity.

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Interfund activities between governmental funds appear as due to/due froms on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are non-operating.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue 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.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of taxes. Tax revenue and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

The City reports the following major governmental funds:

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

The **Grant Fund** is used to account for monies received from other governmental agencies that have restricted legal requirements.

The City reports the following major proprietary fund:

The **Waterworks Fund** is utilized for the operations of the water distribution system and the wastewater system provided by the City for the community.

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 they are needed.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The City's cash and cash equivalents includes amounts on hand and in demand deposits.

Investments

State statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Treasury, State of Texas obligations, certificates of deposit, commercial paper, corporate bonds, repurchase agreements, and mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "Due to/from Other Funds" (i.e. the current portion of the interfund loan) or "Advances to/from Other Funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from Other Funds."

Property Taxes Receivable are shown net of an allowance for uncollectibles. The allowance is equal to zero (0) percent of delinquent property taxes receivable at June 30, 2023. The City's ad valorem taxes are levied on October 1 but do not become due until January 1 of the following year. Taxes become past due February 1 and become delinquent June 30. The City's taxes become a lien on real property on the due date of January 1. This lien is effective until the taxes are paid.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of three (3) years. Such assets are recorded at historical cost where records are available or at an estimated fair market value at the date of acquisition where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide statements regardless of their amount.

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.

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

<u>Assets</u>	<u>Years</u>
Waterworks system	30
Infrastructure	20
Equipment	10
Building and improvements	10-45
Vehicles	5

In the case of initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities), public domain property including roads, bridges, curbs and gutters, streets and sidewalks and similar assets prior to June 30, 2003 have not been capitalized by the City. Additional capital assets, constructed or acquired each period subsequent to June 30, 2003, are capitalized and reported at historical cost.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all cash on hand and demand deposits to be cash equivalents.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Fund Balance Classification

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the City Council, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the City Council intends to use for a specific purpose. Intent can be expressed by the Mayor or the City Secretary, through which the City Council has delegated the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). When it is appropriate for fund balance to be assigned, the City Council designated the authority to the Mayor and the City Secretary (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the fund financial statements, governmental fund types report the face amount of the debt issued as Other Financing Sources and debt payments as Expenditures.

Compensated Absences

Compensated vacations are granted to all full-time regular employees of the City. After the completion of a probationary three (3) months of employment, vacation is granted for employees. Regular employees earn five (5) days of vacation their first and second year, ten (10) days during their third and fourth year, and after five (5) years of employment, the employee will receive three (3) weeks of vacation. Management positions are provided with three (3) weeks of vacation from the date of hire. Vacation leave may not be carried from one calendar year to the next and upon termination of employment, any earned and unused vacation is forfeited and not paid.

Sick leave is accrued at the rate of seven (6) days per year. Sick leave accrues from year to year up to a maximum of thirty (30) days. Upon termination of employment, any earned and unused sick leave is not paid.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two (2) items which arises only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items are unavailable revenue, and are reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all cash on hand and demand deposits to be cash equivalents.

Stewardship, Compliance, and Accountability

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. The City holds a public hearing on the proposed budget prior to its adoption. All appropriations lapse at fiscal year-end.

The budget is legally enacted and once approved, can only be amended by approval of a majority of the Council members. Amendments are presented to the Council at its regular meetings.

Expenditures in Excess of Budgeted Amounts

The following is a summary if expenditures in excess of appropriations for the General Fund:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Capital outlay	\$ 11,588	\$ 8,000	\$ (3,588)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits

The City's balances were completely covered by federal deposit insurance or collateralized at June 30, 2023. The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk for cash and cash equivalents are as follows:

<u>Primary Government</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
<i>Governmental activities:</i>					
General fund	\$ 1,337,532	\$ 250,000	\$ 1,087,532	\$ -	\$ 1,337,532
Grant fund	314,597	-	314,597	-	314,597
Police seizure fund	29,921	-	29,921	-	29,921
<i>Business-type activities:</i>					
Waterworks fund	776,323	-	776,323	-	776,323
Total	2,458,373	250,000	2,208,373	-	2,458,373
Component Unit					
TEDCO	368,969	250,000	-	118,969	368,969
Total	<u>\$ 2,827,342</u>	<u>\$ 500,000</u>	<u>\$ 2,208,373</u>	<u>\$ 118,969</u>	<u>\$ 2,827,342</u>

Investments

TEDCO's investments are entirely covered by federal depository insurance (FDIC). The FDIC currently insures the first \$250,000 of TEDCO's deposits at each financial institution. Deposit balances over \$250,000 are uninsured. As of June 30, 2023, the carrying amount of TEDCO's investments were \$156,939.

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Property Tax

The assessed valuation (net of exemptions) was \$65,358,249 for 2023 (with taxes due January 1, 2023) levied at a rate of \$0.205068 per hundred-dollar valuation.

Receivables

Receivables as of year-end for the City’s major government funds and business-type funds, including applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>Governmental</u>			<u>Business-Type</u>	<u>Total</u>	<u>Component</u>
	<u>General</u>	<u>Grant</u>	<u>Police Seizure</u>	<u>Waterworks</u>		<u>Unit</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>		<u>TEDCO</u>
Accounts	\$ -	\$ -	\$ -	\$ 42,886	\$ 42,886	\$ 519
Fines	305,966	-	-	-	305,966	-
Taxes	98,144	-	-	-	98,144	20,807
Gross receivables	404,110	-	-	42,886	446,996	21,326
Less: Allowance for uncollectables	(27,537)	-	-	-	(27,537)	-
Total	<u>\$ 376,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,886</u>	<u>\$ 419,459</u>	<u>\$ 21,326</u>

Economic Dependence

The City’s operations are funded by taxes and revenues collected from the residents of the City of Tatum, Texas. Accordingly, the City is economically dependent on the property values and the local economy of the City and surrounding area.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets

The following is a summary of the changes in the capital assets during the fiscal year:

<u>Primary Government</u>	<u>Balance 6/30/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2023</u>
<i>Governmental activities</i>				
<u>Non-depreciable assets:</u>				
Land	\$ 20,496	\$ -	\$ -	\$ 20,496
<u>Depreciable assets:</u>				
Buildings and improvements	661,692	-	-	661,692
Equipment	343,725	-	-	343,725
Infrastructure	195,477	-	-	195,477
Park improvements	12,723	-	-	12,723
Vehicles	184,132	-	-	184,132
Right-to-use software arrangements	-	11,588	-	11,588
Accumulated depreciation	(931,812)	(57,218)	-	(989,030)
Governmental activities, net	<u>486,433</u>	<u>(45,630)</u>	<u>-</u>	<u>440,803</u>
<i>Business-type activities</i>				
<u>Non-depreciable assets:</u>				
Land	79,993	-	-	79,993
<u>Depreciable assets:</u>				
Waterworks system	5,507,347	15,497	-	5,522,844
Equipment	583,949	85,806	-	669,755
Buildings	18,550	-	-	18,550
Vehicles	92,497	-	-	92,497
Right-to-use software arrangements	-	6,224	-	6,224
Accumulated depreciation	(4,840,889)	(132,747)	-	(4,973,636)
Business-type activities, net	<u>1,441,447</u>	<u>(25,220)</u>	<u>-</u>	<u>1,416,227</u>
Capital assets, net	<u>\$ 1,927,880</u>	<u>\$ (70,850)</u>	<u>\$ -</u>	<u>\$ 1,857,030</u>

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Capital Assets – continued

Depreciation expense for governmental activities was charged to Functions/Programs as follows:

Administration	\$	9,933
Police department		25,322
Municipal court		4,260
Highways and streets		3,344
Parks and recreation		<u>14,359</u>
Total depreciation expense	\$	<u>57,218</u>

<u>Component Unit</u>	<u>Balance 6/30/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2023</u>
<u>Non-depreciable assets:</u>				
Land	\$ 267,545	\$ -	\$ -	\$ 267,545
<u>Depreciable assets:</u>				
Buildings	26,009	-	-	26,009
Accumulated depreciation	<u>(7,261)</u>	<u>(1,300)</u>	<u>-</u>	<u>(8,561)</u>
Component unit, net	<u>\$ 286,293</u>	<u>\$ (1,300)</u>	<u>\$ -</u>	<u>\$ 284,993</u>

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverage during the year ending June 30, 2023.

The City is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage, real and personal property coverage, and employee health insurance.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. No reportable litigation was pending against the City as of June 30, 2023.

Long-Term Debt

The changes in the City's long-term debt as of June 30, 2023 are as follows:

	Balance 6/30/2022	Additions	Reductions	Balance 6/30/2023	Due Within One Year
Governmental Activities					
Net pension liability	\$ -	\$ 11,789	\$ -	\$ 11,789	\$ -
Net OPEB liability	18,294	-	(3,976)	14,318	-
Right-to-use software arrangements	-	11,589	(3,562)	8,027	3,855
Business-Type Activities					
Customer meter deposits	31,375	1,410	-	32,785	-
Net pension liability	-	11,717	-	11,717	-
Net OPEB liability	6,702	-	(2,497)	4,205	-
Right-to-use software arrangements	-	6,224	(1,913)	4,311	2,070
Total	<u>\$ 56,371</u>	<u>\$ 42,729</u>	<u>\$ (11,948)</u>	<u>\$ 87,152</u>	<u>\$ 5,925</u>

Related Parties

In the ordinary course of business, the City has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the City.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Subscription-Based Information Technology Arrangements

The City implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, in fiscal year 2023. The City has three (3) software arrangements that require recognition under GASBS No. 96. The software amortization expense is included on the Statement of Revenues, Expenses and Changes in Fund Net Position related to the City's intangible asset of five software systems, which is included in the capital assets table as Intangible Right-to-Use Software Arrangements.

The City recognizes subscription-based information technology arrangement (SBITA) liabilities and intangible right-to-use assets for software as follows:

The QuickBooks accounting software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of \$650. At the inception, the City has used a 8.25% interest rate for this arrangement based on the prime rate as publish by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

The eForce public safety software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of \$1,376. At the inception, the City has used a 8.25% interest rate for this arrangement based on the prime rate as publish by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

The Utility Data Systems municipal court software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of \$2,491. At the inception, the City has used a 8.25% interest rate for this arrangement based on the prime rate as publish by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

The Master Meter utility auto reading software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of \$1,200. At the inception, the City has used a 8.25% interest rate for this arrangement based on the prime rate as publish by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Subscription-Based Information Technology Arrangements – continued

The RVS utility billing/tracking software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of \$1,226. At the inception, the City has used a 8.25% interest rate for this arrangement based on the prime rate as publish by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

These assets will be amortized over the lease terms of three years with \$17,813 recorded as intangible right-to-use software arrangements in the General Fund and Water Sewer Fund capital assets.

SBITA agreements are summarized as follows:

<u>Governmental Activities</u>	<u>SBITA Date</u>	<u>Payment Terms</u>	<u>Payment Amount</u>	<u>Interest Rate</u>	<u>Total SBITA Liability</u>	<u>Yearend Balance</u>
<u>Right-to-use software arrangements</u>						
Utility Data Systems	7/1/2022	36 months	\$ 2,491	8.25%	\$ 6,391	\$ 4,427
eForce	7/1/2022	36 months	1,376	8.25%	3,530	2,445
QuickBooks	7/1/2022	36 months	650	8.25%	1,668	1,155
<u>Business-Type Activities</u>						
<u>Right-to-use software arrangements</u>						
RVS	7/1/2022	36 months	1,226	8.25%	3,145	2,178
Master Meter	7/1/2022	36 months	1,200	8.25%	3,079	2,133
Total					<u>\$ 17,813</u>	<u>\$ 12,338</u>

A summary of the principal and interest amounts for the remaining arrangements includes the following principal and interest payments:

<u>Year Ending</u> <u>June 30</u>	<u>SBITA Payment Schedule</u>				<u>Total</u>
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2024	\$ 3,855	\$ 662	\$ 2,070	\$ 356	\$ 6,943
2025	4,172	345	2,241	184	6,942
Total	<u>\$ 8,027</u>	<u>\$ 1,007</u>	<u>\$ 4,311</u>	<u>\$ 540</u>	<u>\$ 13,885</u>

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan

The City participates as one of 919 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided – TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

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

Plan provisions for the City were as follows:

Plan Year	2022	2021
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Employees covered by benefit terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4	
Inactive employees entitled to but not yet receiving benefits	23	
Active employees	6	
Total	33	

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

Employees for the City were required to contribute 7% of their annual gross earnings during the 2023 fiscal year. The contribution rates for the City were 6.53% and 6.01% in calendar years 2022 and 2023, respectively. The City’s contributions to TMRS for the year ended June 30, 2023 were \$4,757, and were equal to the required contributions.

Net Pension Liability – The City’s Net Pension Liability (NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Actuarial assumptions – continued:

For disabled annuitants, the same mortality tables for healthy retirees is used with a 4- year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

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

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

Discount rate:

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

Changes in the net pension liability:

	<u>Total Pension Liability (a)</u>	<u>Increase (Decrease) Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at 12/31/2021	\$ 477,207	\$ 503,046	\$ (25,839)
Changes for the year:			
Service cost	\$ 22,999	\$ -	\$ 22,999
Interest	32,410	-	32,410
Change of benefit terms	-	-	-
Difference between expected and actual experience	(18,889)	-	(18,889)
Changes of assumptions	-	-	-
Contributions - employer	-	6,182	(6,182)
Contributions - employee	-	17,664	(17,664)
Net investment income	-	(36,733)	36,733
Benefit payments, including refunds of employee contributions	(17,108)	(17,108)	-
Administrative expense	-	(318)	318
Other changes	-	379	(379)
Net changes	<u>19,412</u>	<u>(29,934)</u>	<u>49,346</u>
Balance at 12/31/2022	<u>\$ 496,619</u>	<u>\$ 473,112</u>	<u>\$ 23,507</u>

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

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

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

	1% Decrease in Discount Rate 5.75%	Current Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City’s net pension liability (asset)	\$ 82,904	\$ 23,506	\$ (25,285)

Pension plan fiduciary net position:

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended June 30, 2023, the City recognized pension expense of \$4,660.

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 28,386
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	31,640	-
Contributions subsequent to the measurement date	21,163	-
Total	\$ 52,803	\$ 28,386

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Texas Municipal Retirement System Plan – continued

The amount of \$21,163 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense (income) as follows:

Year ended December 31:	
2023	\$ (6,547)
2024	5,894
2025	8,622
2026	14,137
2027	-
Thereafter	-
Total	<u>\$ 22,106</u>

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Postemployment Benefits Other Than Pensions (OPEB): Supplemental Death Benefits Fund

Plan Description – The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected by ordinance to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits Provided – The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Employees covered by benefit terms:

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	2
Active employees	6
Total	11

Contributions – The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The SDBF contribution rates for the City were 0.20% and 0.44% in calendar years 2022 and 2023, respectively.

Schedule of contributions:

Plan Year	2022	2021
Total SDB Contribution (Rate)	0.20%	0.21%
Retiree Portion of SDB Contribution (Rate)	0.00%	0.00%

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

(OPEB): Supplemental Death Benefits Fund - continued

Actuarial assumptions:

Summary of actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate*	4.05%
Retirees' share of benefit-related costs	\$0.00
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

Changes in the OPEB liability:

	Total OPEB Liability
Balance at 12/31/2021	\$ 24,996
Changes for the year:	
Service cost	\$ 1,166
Interest	467
Change of benefit terms	-
Difference between expected and actual experience	1,196
Changes of assumptions	(8,878)
Benefit payments	(424)
Net changes	(6,473)
Balance at 12/31/2022	\$ 18,523

**CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

(OPEB): Supplemental Death Benefits Fund - continued

Sensitivity of the OPEB liability to changes in the discount rate:

	1% Decrease in Discount Rate 3.05%	Current Rate Assumption 4.05%	1% Increase in Discount Rate 5.05%
City's net pension liability (asset)	\$ 21,887	\$ 18,523	\$ 15,937

OPEB expense:

	OPEB Expense
Service cost	\$ 1,166
Interest	467
Change of benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(685)
Changes of assumptions	(301)
Balance at 12/31/2022	\$ 647

Deferred outflows of resources and deferred inflows of resources related to OPEB:

At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 10,151
Changes in assumptions and other inputs	-	1,494
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	1,283	-
Total	\$ 1,283	\$ 11,645

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

(OPEB): Supplemental Death Benefits Fund - continued

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

<u>Year ended December 31:</u>	
2023	\$ (986)
2024	(986)
2025	(1,188)
2026	(1,187)
2027	(1,281)
Thereafter	<u>(685)</u>
Total	<u>\$ (6,313)</u>

Accounting Standards

The GASB has issued the following Statement(s) which were implemented during the current fiscal year as shown below:

GASB Statement No. 91, *“Conduit Debt Obligations.”* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. All applicable provisions have been included in the City’s financial statements as of June 30, 2023.

GASB Statement No. 94 – *“Public-Private and Public-Public Partnerships and Availability Payment Arrangements.”* The primary objectives of this Statement are to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). The Statement will become effective for fiscal years beginning after June 15, 2022. All applicable provisions have been included in the City’s financial statements as of June 30, 2023.

GASB Statement No. 96 – *“Subscription-Based Information Technology Arrangements.”* The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users. The Statement will become effective for fiscal years beginning after June 15, 2022. All applicable provisions have been included in the City’s financial statements as of June 30, 2023.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS - continued

Accounting Standards – continued

GASB Statement No. 99 – “*Omnibus 2022.*” The objective of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. All applicable provisions have been included in the City’s financial statements as of June 30, 2023.

The GASB has issued the following Statements which will become effective in future years as shown below:

GASB Statement No. 100 – “*Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62.*” The objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Statement will become effective for fiscal years beginning after June 15, 2023. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 101 – “*Compensated Absences.*” The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The Statement will become effective for fiscal years beginning after December 15, 2023. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 102 – “*Certain Risk Disclosures.*” The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. The Statement will become effective for fiscal years beginning after June 15, 2024. Management has not yet determined the impact of this Statement on its financial statements.

CITY OF TATUM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

OMB Circular A-133 – State of Texas Single Audit Circular

The City did not expend \$750,000 or more in federal or state awards during 2023. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required for the year ended June 30, 2023.

Subsequent Events

On August 1, 2023, the City purchased a Kubota tractor for use in the water and sewer department in the amount of \$49,562.

On July 14, 2023, the City purchased a Dodge Ram for use in the water and sewer department in the amount of \$61,760.

Management has evaluated subsequent events through August 29, 2024, which is the date the financial statements were made available to management.

Required Supplementary Information

**CITY OF TATUM, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes:				
Sales	\$ 292,000	\$ 292,000	\$ 315,892	\$ 23,892
Property	148,000	148,000	160,815	12,815
Franchise	49,000	49,000	52,122	3,122
Fines and forfeitures	100,000	100,000	213,947	113,947
Licenses and permits	4,000	4,000	2,330	(1,670)
Grants and contributions	-	-	1,335	1,335
Charges for services	7,000	7,000	85	(6,915)
Lease income	-	-	450	450
Interest income	-	-	6,132	6,132
Miscellaneous	4,000	4,000	33,332	29,332
	<u>604,000</u>	<u>604,000</u>	<u>786,440</u>	<u>182,440</u>
Total revenues				
EXPENDITURES				
General government	169,016	169,016	147,617	21,399
Public safety	402,373	402,373	292,794	109,579
Municipal court	77,261	77,261	65,509	11,752
Emergency services	325	325	-	325
Highways and streets	9,000	9,000	7,746	1,254
Parks and recreation	7,000	7,000	2,337	4,663
Capital outlay	8,000	8,000	11,588	(3,588)
	<u>672,975</u>	<u>672,975</u>	<u>527,591</u>	<u>145,384</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	<u>(68,975)</u>	<u>(68,975)</u>	<u>258,849</u>	<u>327,824</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	16,500	16,500	-	(16,500)
Right-to-use software arrangements	-	-	11,588	11,588
	<u>16,500</u>	<u>16,500</u>	<u>11,588</u>	<u>(4,912)</u>
Total other financing sources				
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	<u>\$ (52,475)</u>	<u>\$ (52,475)</u>	<u>270,437</u>	<u>\$ 322,912</u>
Fund balance - beginning of year			<u>1,083,577</u>	
Fund balance - end of year			<u>\$ 1,354,014</u>	

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

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total pension liability									
Service cost	\$ 17,689	\$ 24,668	\$ 23,603	\$ 21,571	\$ 25,832	\$ 24,322	\$ 25,978	\$ 26,377	\$ 22,999
Interest (on the total pension liability)	21,235	22,662	22,698	24,252	24,640	26,652	28,295	30,004	32,410
Changes of benefit terms	-	-	-	-	-	-	-	-	-
Difference between expected and actual experience	7,897	(12,949)	(1,253)	(18,570)	(462)	75	2,029	84	(18,889)
Change of assumptions	-	9,265	-	-	-	(471)	-	-	-
Benefit payments, including refunds of employee contributions	(19,428)	(40,411)	(20,787)	(21,224)	(26,031)	(12,889)	(41,213)	(21,157)	(17,108)
Net change in total pension liability	27,393	3,235	24,261	6,029	23,979	37,689	15,089	35,308	19,412
Total pension liability - beginning	304,224	331,617	334,852	359,113	365,142	389,121	426,810	441,899	477,207
Total pension liability - ending (a)	\$ 331,617	\$ 334,852	\$ 359,113	\$ 365,142	\$ 389,121	\$ 426,810	\$ 441,899	\$ 477,207	\$ 496,619
Plan fiduciary net position									
Contributions - employer	\$ 7,616	\$ 7,605	\$ 7,578	\$ 7,127	\$ 8,543	\$ 6,781	\$ 7,324	\$ 7,597	\$ 6,182
Contributions - employee	17,579	19,302	18,129	16,826	20,245	18,942	20,232	20,802	17,664
Net investment income	16,180	450	19,676	43,734	(10,838)	54,662	31,949	57,215	(36,733)
Benefit payments, including refunds of employee contributions	(19,428)	(40,411)	(20,787)	(21,224)	(26,031)	(12,889)	(41,213)	(21,157)	(17,108)
Administrative expense	(169)	(274)	(222)	(227)	(210)	(309)	(207)	(265)	(318)
Other	(14)	(14)	(12)	(11)	(11)	(9)	(6)	2	379
Net change in plan fiduciary net position	21,764	(13,342)	24,362	46,225	(8,302)	67,178	18,079	64,194	(29,934)
Plan fiduciary net position - beginning	282,888	304,652	291,310	315,672	361,897	353,595	420,773	438,852	503,046
Plan fiduciary net position - ending (b)	\$ 304,652	\$ 291,310	\$ 315,672	\$ 361,897	\$ 353,595	\$ 420,773	\$ 438,852	\$ 503,046	\$ 473,112
Net pension liability - ending [(a) - (b)]	\$ 26,965	\$ 43,542	\$ 43,441	\$ 3,245	\$ 35,526	\$ 6,037	\$ 3,047	\$ (25,839)	\$ 23,507
Plan fiduciary net position as a percentage of total pension liability	91.87%	87.00%	87.90%	99.11%	90.87%	98.59%	99.31%	105.41%	95.27%
Covered employee payroll	\$ 343,098	\$ 386,038	\$ 362,572	\$ 336,520	\$ 404,896	\$ 378,846	\$ 404,648	\$ 416,043	\$ 353,283
Net pension liability as a percentage of covered employee payroll	7.86%	11.28%	11.98%	0.96%	8.77%	1.59%	0.75%	-6.21%	6.65%

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)**

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actuarially determined contribution	\$ 11,681	\$ 13,673	\$ 11,982	\$ 12,047	\$ 15,175	\$ 13,782	\$ 13,455	\$ 13,873	\$ 28,485
Contributions in relation to the actuarially determined contribution	11,681	13,673	11,982	12,047	15,175	13,782	13,455	13,873	28,485
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
Covered employee payroll	343,098	386,038	362,572	336,520	404,896	378,846	404,648	416,043	353,283
Contributions as a percentage of covered employee payroll	1.97%	2.09%	2.12%	2.11%	1.79%	1.81%	1.81%	1.75%	1.47%

NOTES TO THE SCHEDULE OF CONTRIBUTIONS

Valuation Date:	
Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	N/A
Asset valuation method	10 year smoothed market, 12% soft corridor
Inflation	2.5%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other information:	
Notes	There were no benefit changes during the year.

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SUPPLEMENTAL DEATH BENEFITS FUND
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)**

	2018	2019	2020	2021	2022
Total OPEB liability					
Service cost	\$ 972	\$ 720	\$ 1,214	\$ 1,373	\$ 1,166
Interest (on the total OPEB liability)	661	743	682	467	467
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	362	(1,077)	(5,894)	88	1,196
Change of assumptions	(1,587)	4,292	2,792	662	(8,878)
Benefit payments	(283)	(152)	(162)	(499)	(424)
Net change in total OPEB liability	125	4,526	(1,368)	2,091	(6,473)
Total OPEB liability - beginning	<u>19,622</u>	<u>19,747</u>	<u>24,273</u>	<u>22,905</u>	<u>24,996</u>
Total OPEB liability - ending	<u>\$ 19,747</u>	<u>\$ 24,273</u>	<u>\$ 22,905</u>	<u>\$ 24,996</u>	<u>\$ 18,523</u>
Covered employee payroll	\$ 404,896	\$ 378,846	\$ 404,648	\$ 416,043	\$ 353,283
Total OPEB liability as a percentage of covered employee payroll	4.88%	6.41%	5.66%	6.01%	5.24%

Compliance and Internal Control



DAVID K. GODWIN
CERTIFIED PUBLIC ACCOUNTANT, PLLC

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of City Council
City of Tatum, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tatum, Texas (City), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 29, 2024.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2023-001, 2023-002, 2023-003, 2023-004, and 2023-005 to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 items 2023-006, 2023-007, 2023-008, 2023-009, and 2023-010.

City's Response to Prior Findings


Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the prior findings identified in our audit and described in the accompanying summary schedule of prior findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



David K. Godwin, CPA, PLLC

Tyler, Texas

August 29, 2024

**CITY OF TATUM, TEXAS
SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2022-01 Compliance

Recommendation 2022-01

The City should establish a process to monitor the content and communication of the City’s website to ensure compliance with statutory requirements of Texas Government Code and Local Government Code.

Corrective Action Plan

The City is actively facilitating training of its key personnel to help maintain its website in compliance with the statutory requirements of Texas Government Code and Local Government Code.

Remediation Status

IN PROGRESS

2022-02 Compliance

Recommendation 2022-02

The City should establish a process to monitor its compliance with Chapter 59 of the Code of Criminal Procedure and the Federal ESAC program.

Corrective Action Plan

The City has contacted the Office of the Attorney General and U.S. Department of the Treasury to properly file the Chapter 59 asset forfeiture and ESAC reports.

Remediation Status

COMPLETE

**CITY OF TATUM, TEXAS
SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2022-03 Compliance

Recommendation 2022-03

The City should complete required Cyber Security training and train key personnel to ensure its compliance with the Texas House Bill 3834.

Corrective Action Plan

The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.

Remediation Status

COMPLETE

2022-04 Compliance

Recommendation 2022-04

Training should be provided to the municipal court staff to establish consistent record maintenance and compliance with State regulations over the municipal court.

Corrective Action Plan

The municipal court is evaluating current processes and procedures, including enhancements of records management and training with the Texas Municipal Courts Education Center.

Remediation Status

COMPLETE

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-001 Material Weakness

Condition:

The City’s QuickBooks generated financial statements included various reconciliation discrepancies.

Criteria:

Section 101.002 of the Texas Local Government Code, provides for the governing body of the municipality to have control of the City’s finances.

Cause of Condition:

Turnover of City Council members and the City Secretary resulted in a loss of proper oversight and review practices by the City.

Potential Effect of Condition:

Poor financial decisions can be made from inaccurate and incomplete financial information.

Recommendation 2023-001

Monitoring activities should be re-established by the City Council to ensure inaccurate transactions and errors within QuickBooks are identified and corrected in a timely manner.

This should also include a formal financial review by the City Council. At a minimum, the financial review should include a QuickBooks Balance Sheet, Profit and Loss, Budget vs Actual for all funds, along with the previous month’s bank statements and bank reconciliations for all accounts held by the City.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
------------------------	-------------------------------------	-------------------------------	------------------

The City is working to establish a formal review of the City’s financial statements at monthly Council meetings as part of the consent agenda items. The new City Secretary will add the QB Balance Sheet, Profit and Loss, Budget vs. Actual reports, previous months bank statements and reconciliations for all accounts as part of the consent agenda items.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-002 Material Weakness

Condition:

During inspection of City records, twenty-five (25) transactions selected for review did not include supporting documentation.

Criteria:

Chapter 552 of the Texas Local Government Code requires that most city records be open to public inspection.

Cause of Condition:

Ongoing turnover within the City Secretary position resulted in a loss of proper filing practices by the City.

Potential Effect of Condition:

Inability to provide documents could lead to fines and penalties under Texas Local Government Code.

Recommendation 2023-002

In order to maintain integrity of the City’s public records and documents, the City should implement standardized filing practices and also limit access to appropriate personnel.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
------------------------	-------------------------------------	-------------------------------	------------------

The City will work with key personnel to develop procedures that outline standardized filing practices and establish training over the Public Information Act for new City officials and staff. The new City Secretary has established a process by which receipts are entered into QB immediately and documentation is filed monthly.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-003 Material Weakness

Condition:

The City is not tracking restricted cash received for municipal court Local Consolidated Fee’s and the American Rescue Plan Act (ARPA) grant.

Criteria:

Section 134.103 of the Texas Local Government Code indicates that a \$14 Local Consolidated Fee be collected on all nonjailable misdemeanor offenses, including criminal violation of a municipal ordinance. The municipal treasurer is required to allocate these fees to four separate funds, Municipal Court Building Security Fund, Local Truancy Prevention and Diversion Fund, Municipal Court Technology Fund, and Municipal Jury Fund.

All ARPA funds received along with expenditures made must be tracked to ensure compliance with the grant terms.

Cause of Condition:

The City Secretary has not had sufficient training to comply with Governmental Accounting Standards Board (GASB) Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” that tracks spending constraints of restricted fund balances.

Potential Effect of Condition:

Omission of allocated resources within the City’s financial infrastructure can be misleading to both internal and external financial statement users. Additionally, failure to properly track grant funds spent can result in the forfeiture of remaining funds, having to repay the grant award in full, or being disqualified from future grants.

Recommendation 2023-003

Training should be provided to the City Secretary to assist with proper tracking of spending constraints as outlined by GASB Statement No. 54.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
------------------------	-------------------------------------	-------------------------------	------------------

The City Council is actively working to establish proper tracking and monitoring activities over restricted assets included within the City’s financial infrastructure.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-004 Material Weakness

Condition:

Inadequate training and documentation of processes and procedures impede the effectiveness of long-term operations.

Criteria:

Training and succession planning ensures longevity of the City’s current operations and financial infrastructure.

Cause of Condition:

The City has not fully designed an effective strategy for training and succession of key responsibilities within the City.

Potential Effect of Condition:

In the event of loss of key personnel within the City, the City would no longer have the capacity to perform ALL daily public service functions.

Recommendation 2023-004

The City should evaluate continuing professional education needs of City staff to enhance financial infrastructure and effectiveness of City operations.

Also, in order to maintain integrity of the City’s financial infrastructure, a succession plan should be developed to ensure common daily processes and procedures for routine public services can be performed by the City in the event key personnel become unavailable to perform regular duties.

General effective training and succession planning activities often include cross training key personnel and/or identifying key responsibilities and essential processes to establish a formal listing of these activities (i.e., monthly – bank reconciliations, quarterly – 941’s filed, annually – 1099’s filed).

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
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To ensure public services functions are performed daily, the City will work with key personnel to outline their daily routines and develop a formal catalogue of essential processes.

Per the new Mayor, continuing education needs will be identified and established as a job requirement, as needed, for key personnel and City Council members.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-005 Material Weakness

Condition:

Segregation of duties problems account for the number one internal control weakness in organizations, allowing a trusted individual access to assets while maintaining the capability of concealing their activity. In addition to payroll processing, sick leave/vacation accruals, and employee direct deposits, the City Secretary has administrative abilities, including check signing authority over the City’s bank accounts while also being charged with performance of bookkeeping and bank reconciliations.

Criteria:

Segregation of duties is a key component of effective internal controls for payroll activities.

Cause of Condition:

Turnover of City Council members and the City Secretary resulted in a loss of proper oversight and review practices by the City.

Potential Effect of Condition:

Without proper oversight of vacation and sick leave accrual as well as daily payroll, there is a risk that financial misstatements and/or misappropriation of assets could occur and go undetected.

Recommendation 2023-005

Mitigating controls over the lack of segregation of duties should be established to require an individual, independent of the payroll direct deposits and bank reconciliation processes, substantiate supporting documentation and timecards provided for payroll activities.

Management Response



Agree

Disagree

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
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The City Council will design, implement and document a review of payroll processing to enhance oversight of future payroll activities. The new Mayor is reviewing bank records, timecards and supporting documentation in addition to the new City Secretary. He will also review bank deposits, records for the court clerk.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-006 Compliance

Condition:

The City Council was not provided a detailed budget of expenditures for police seizure funds prior to the funds being spent.

Criteria:

In accordance with Art. 59.06 (d) of the Code of Criminal Procedure, proceeds awarded to a law enforcement agency may be spent by the agency after a budget for the expenditure of the proceeds has been submitted to the governing body of the municipality.

Cause of Condition:

The City's key personnel have not had sufficient training to comply with Article 59 of the Code of Criminal Procedure.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas Government Codes.

Recommendation 2023-006

The City should evaluate training needs of City staff to ensure effectiveness of City operations and State compliance.

Management Response



Agree

Disagree

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	June 30, 2025
<p>The City will establish a process, within its annual budgetary procedures, to ensure compliance with funds awarded under Art. 59.06 (d) of the Code of Criminal Procedure.</p>			

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-007 Compliance

Condition:

The City did not properly file quarterly Internal Revenue Service (IRS) Form 941's.

Criteria:

Form 941's must be filed with the IRS quarterly if you pay wages subject to federal income tax withholding or social security and Medicare taxes.

Cause of Condition:

The City's key personnel have not had sufficient training to comply with statutory requirements.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Federal laws and regulations.

Recommendation 2023-007

The City should train key personnel and establish a process to monitor its compliance with statutory requirements of the Internal Revenue Service.

Management Response



Agree

Disagree

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
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The City is actively facilitating training of its key personnel and City Council to maintain compliance with Federal regulations. The new City Secretary submits weekly payments to the IRS and will complete quarterly 941 reports to the IRS.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-008 Compliance

Condition:

The City did not properly file unemployment taxes with the Texas Workforce Commission (TWC).

Criteria:

Quarterly wage reports and taxes are due to TWC by the last day of the month following the end of the calendar quarter.

Cause of Condition:

The City’s key personnel have not had sufficient training to comply with statutory requirements.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas labor laws and regulations.

Recommendation 2023-008

The City should train key personnel and establish a process to monitor its compliance with statutory requirements of the Texas Labor Code and Unemployment Compensation Act.

Management Response



Agree



Disagree

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
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The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-009 Compliance

Condition:

The City did not file the adopted budget with the county clerk.

Criteria:

Chapter 102.011 of the Texas Local Government Code states that after the budget has been finally prepared and approved, a copy of the budget and the amendments to the budget shall be filed with the county clerk.

Cause of Condition:

The City’s key personnel have not had sufficient training to comply with Chapter 102.011 of the Texas Local Government Code.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2023-009

The City should file the adopted budget with the county clerk and train key personnel to ensure its compliance with the Chapter 102.011 of the Texas Local Government Code.

Management Response



Agree



Disagree

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	October 31, 2024
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The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.

**CITY OF TATUM, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2023**

2023-010 Compliance

Condition:

The City is not meeting State statutes for timely preparation of its annual financial statements.

Criteria:

Chapter 103.003 of the Texas Local Government Code requires the annual financial statements, including the auditor’s opinion on the statements, to be filed in the office of the municipal secretary within 180 days after the last day of the municipality’s fiscal year.

Cause of Condition:

Turnover of City Council members and the City Secretary resulted in a loss of proper oversight and review practices of financial reporting by the City.

Potential Effect of Condition:

Inability to provide timely financial statements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2023-010

Effective and efficient operations rely on timely financial reporting for internal and external decision making. Internal controls should be established to ensure compliance with Chapter 103.003 of the Texas Local Government Code.

Management Response **Agree** **Disagree**

Corrective Action Plan

Individual Responsible	Jackie Muckleroy, City Secretary	Estimated Implementation Date	December 31, 2024
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To ensure longevity and integrity of the City’s financial infrastructure the City is developing internal controls to assist with timely preparation of its annual audited financial statements.