

CITY OF WALLIS, TEXAS  
Financial Statements  
With Report of Independent Auditor  
For the Year Ended September 30, 2022

City of Wallis, Texas  
For the Year Ended September 30, 2022

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Members of the City Council  
City of Wallis, Texas

**Report on the Audit of the Financial Statements**

*Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Wallis, Texas, (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Wallis, Texas, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Special Revenue City Park Fund 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our 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*

The City's 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'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 GAAS 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 GAAS, we:

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

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

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9, the Texas Municipal Retirement System ("TMRS") schedule of changes in net pension liability (asset) and related ratios on page 49, the TMRS schedule of contributions on page 50, and the schedule of changes in total OPEB liability and related ratios on page 51, 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wallis, Texas' basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2024 on our consideration of City of Wallis, 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 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 Wallis, Texas's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Seidel Schmede". The script is cursive and fluid, with the first name "Seidel" and last name "Schmede" clearly distinguishable.

Brenham, Texas  
March 28, 2024



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Wallis, we offer readers of the City of Wallis' financial statements this narrative overview and analysis of the financial activities of the City of Wallis for the fiscal year ended September 30, 2022. Please read it in conjunction with the independent auditors' report and the City's basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the City of Wallis exceeded its liabilities and deferred inflows of resources at the close the most recent fiscal year by \$7,964,134 (*net position*). Of this amount, \$657,481 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net position increased by \$495,696.
- The City's governmental funds reported ending fund balances of \$682,053, which was an increase of \$96,811 from the prior year.
- The City's proprietary fund reported net position of \$2,898,734, which was an increase of \$300,553 from the prior year.

### **USING THIS ANNUAL REPORT**

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

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

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

## **Reporting the City as a Whole**

### *The Statement of Net Position and the Statement of Activities*

Our analysis of the City as a whole begins with the government-wide financial statements. Their primary purpose is to show whether the City is better off as a result of the year's activities. The Statement of Net Position includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Position and the Statement of Activities, we report the activities of the City as follows:

- Governmental activities - Most of the City's basic services are reported here. Property and sales taxes and state and federal grants finance most of these activities.
- Business-type activities - The City charges a fee to "customers" to help cover all or most of the cost of services it provides for water, sewer, and garbage services.

## **Reporting the City's Most Significant Funds**

### *Fund Financial Statements*

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. The City establishes funds to help control and manage money for particular purposes. The City's two types of funds, governmental and proprietary, use different accounting approaches.

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's



programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

- Proprietary funds - The City reports the activities for which it charges users in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The City's proprietary fund is included in the business-type activities reported in the government-wide statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Statement of Net Position (Table 1) and Changes in Net Position (Table 2) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased by \$195,143. The increase in the governmental activities net position was primarily due to an increase in property taxes and sales tax in the current year. Total assets increased by \$383,021 primarily due to the capital grant projects in progress in the current year.

Net position of the City's business-type activities increased by \$300,553. The increase is primarily related to an increase in capital grants. Total assets increased by \$795,912 primarily due to an increase in grant receivables and capital grant projects. Total liabilities increased by \$480,784 primarily due to the additional payables and unearned revenue for the capital grant projects in progress in the current year.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	2022	2021	2022	2021	2022	2021
<b>ASSETS:</b>						
Current and other assets	\$ 1,360,855	\$ 1,033,716	\$ 1,060,273	\$ 552,323	\$ 2,421,128	\$ 1,586,039
Capital assets, net	4,276,594	4,220,712	2,588,650	2,300,688	6,865,244	6,521,400
Total assets	5,637,449	5,254,428	3,648,923	2,853,011	9,286,372	8,107,439
Deferred Outflows related to pensions	34,171	39,336	9,827	11,257	43,998	50,593
Deferred Outflows related to OPEB	8,385	9,444	2,412	2,703	10,797	12,147
<b>LIABILITIES:</b>						
Long-term liabilities	118,004	33,610	12,026	-	130,030	33,610
Other liabilities	414,048	361,294	726,660	257,902	1,140,708	619,196
Total liabilities	532,052	394,904	738,686	257,902	1,270,738	652,806
Deferred Inflows related to pensions	80,219	38,047	23,071	10,888	103,290	48,935
deferred Inflows related to OPEB	2,334	-	671	-	3,005	-
<b>NET POSITION:</b>						
Net investment in capital assets	4,250,982	4,187,102	2,588,650	2,300,688	6,839,632	6,487,790
Restricted	467,021	460,923	-	-	467,021	460,923
Unrestricted	347,397	222,232	310,084	297,493	657,481	519,725
Total net position	<u>\$ 5,065,400</u>	<u>\$ 4,870,257</u>	<u>\$ 2,898,734</u>	<u>\$ 2,598,181</u>	<u>\$ 7,964,134</u>	<u>\$ 7,468,438</u>

Total revenues (excluding transfers) from governmental activities decreased by \$1,421,108 primarily due to a decrease in grant revenues. Total expenses from governmental activities increased by \$163,416, primarily due to an increase in depreciation for assets added at the end of the prior year.

Total revenues (excluding transfers) from business-type activities increased by \$455,646. The increase in revenue was primarily due to an increase in capital grant revenue. Total expenses from business-type activities increased by \$63,856. The increase in expense was primarily due to an increase in water and sewer repairs needed.

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	2022	2021	2022	2021	2022	2021
<b>REVENUES:</b>						
Program revenues:						
Charges for service	\$ 7,554	\$ 6,737	\$ 621,019	\$ 595,461	\$ 628,573	\$ 602,198
Fees and fines	356,686	406,840	-	-	356,686	406,840
Grants and contributions	499,767	1,915,009	454,792	21,392	954,559	1,936,401
General revenues:						
Property taxes	497,780	465,701	-	-	497,780	465,701
Sales, franchise and other taxes	221,870	200,651	-	-	221,870	200,651
Interest income	12,422	4,326	709	309	13,131	4,635
Gain (loss) on sale of assets	-	10,009	(3,712)	-	(3,712)	10,009
Other revenues	28,563	36,477	-	-	28,563	36,477
Total revenues	1,624,642	3,045,750	1,072,808	617,162	2,697,450	3,662,912
<b>EXPENDITURES:</b>						
General government	403,011	384,868	-	-	403,011	384,868
Public safety	686,893	643,705	-	-	686,893	643,705
Highway and streets	292,523	197,592	-	-	292,523	197,592
Culture and recreation	88,916	84,944	-	-	88,916	84,944
Interest and fees	3,182	-	-	-	3,182	-
Water and sewer	-	-	597,083	535,179	597,083	535,179
Sanitation	-	-	130,146	128,194	130,146	128,194
Total expenditures	1,474,525	1,311,109	727,229	663,373	2,201,754	1,974,482
Increase in net position before transfers	150,117	1,734,641	345,579	(46,211)	495,696	1,688,430
Transfers	45,026	(80,566)	(45,026)	80,566	-	-
Change in net position	195,143	1,654,075	300,553	34,355	495,696	1,688,430
BEGINNING NET POSITION	4,870,257	3,216,182	2,598,181	2,563,826	7,468,438	5,780,008
ENDING NET POSITION	\$ 5,065,400	\$ 4,870,257	\$ 2,898,734	\$ 2,598,181	\$ 7,964,134	\$ 7,468,438

## THE CITY'S FUNDS

### General Fund Budgetary Highlights

The City's Council annually adopts an operating budget. Total actual revenues were \$432,887 more than budgeted, primarily due to higher than anticipated grant revenue. Proceeds from leases of \$162,528 related to leases entered into during the year, was not budgeted. Actual expenditures were over budget by \$560,607, primarily due to the increase in capital outlay in the current year for grant projects and leased assets. Capital outlay was over budget by \$401,428 due to an increase in drainage projects in the current year.

In total, the actual net increase in fund balance was \$90,713 compared to a budgeted decrease of \$31,287 for 2022.

## Capital Assets

As of September 30, 2022, the City had \$6,865,244 invested in capital assets.

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 341,030	\$ 341,030	\$ 9,570	\$ 9,570	\$ 350,600	\$ 350,600
Construction in progress	194,900	1,967,978	185,332	12,225	380,232	1,980,203
Buildings and improvements	1,429,976	1,428,339	1,639	2,048	1,431,615	1,430,387
Infrastructure	2,173,286	294,645	-	-	2,173,286	294,645
Vehicles	72,682	104,366	-	-	72,682	104,366
Furniture and equipment	64,720	84,354	1,389	1,906	66,109	86,260
Machinery and equipment	-	-	21,825	32,881	21,825	32,881
Water and sewer system	-	-	2,368,895	2,242,058	2,368,895	2,242,058
	<u>\$ 4,276,594</u>	<u>\$ 4,220,712</u>	<u>\$ 2,588,650</u>	<u>\$ 2,300,688</u>	<u>\$ 6,865,244</u>	<u>\$ 6,521,400</u>

This year's major additions included:

Drainage improvements	\$ 248,870
Sewer upgrades	425,796

## Debt

At year-end, the City had \$25,612 of outstanding debt. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Notes payable	\$ 25,612	\$ 33,610	\$ -	\$ -	\$ 25,612	\$ 33,610
Total	<u>\$ 25,612</u>	<u>\$ 33,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,612</u>	<u>\$ 33,610</u>

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at the City of Wallis, Texas, at 6810 Guyler, Building B, Wallis, Texas 77485.

**City of Wallis, Texas**  
**Statement of Net Position**  
**September 30, 2022**

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	City of Wallis Development Corporation	Wallis Cultural Education Facilities Financing Corporation	Wallis Education Facilities Financing Corporation
<b>Assets</b>						
Cash and equivalents	\$ 708,633	\$ 119,427	\$ 828,060	\$ -	\$ -	\$ -
Receivables, net of allowance for uncollectibles	81,004	78,724	159,728	-	-	-
Grants receivable	155,499	313,734	469,233	-	-	-
Internal balances	(408,241)	408,241	-	-	-	-
Due from primary government	-	-	-	23,614	-	-
Net pension asset	204,186	58,723	262,909	-	-	-
Right to use leased asset, net of amortization	137,305	24,485	161,790	-	-	-
Restricted assets:						
Cash	482,469	56,939	539,408	294,693	-	-
Capital assets:						
Non-depreciable	535,930	194,902	730,832	67,062	-	-
Depreciable, net	3,740,664	2,393,748	6,134,412	-	-	-
Total assets	5,637,449	3,648,923	9,286,372	385,369	-	-
<b>Deferred Outflows of Resources</b>						
Deferred amounts related to pensions	34,171	9,827	43,998	-	-	-
Deferred amounts related to OPEB	8,385	2,412	10,797	-	-	-
<b>Liabilities</b>						
Accounts payable	183,018	317,308	500,326	3,087	-	-
Accrued expenses	105,425	5,748	111,173	-	-	-
Unearned revenue	156	315,667	315,823	-	-	-
Due to component unit	23,614	-	23,614	-	-	-
Customer deposits	-	58,528	58,528	-	-	-
Liability for compensated absences:						
Due in more than one year	16,280	5,115	21,395	-	-	-
Total OPEB liability	39,773	11,441	51,214	-	-	-
Lease liability:						
Due within one year	37,520	12,853	50,373	-	-	-
Due in more than one year	100,654	12,026	112,680	-	-	-
Note payable:						
Due within one year	8,262	-	8,262	6,000	-	-
Due in more than one year	17,350	-	17,350	18,000	-	-
Total liabilities	532,052	738,686	1,270,738	27,087	-	-
<b>Deferred Inflows of Resources</b>						
Deferred amounts related to pensions	80,219	23,071	103,290	-	-	-
Deferred amounts related to OPEB	2,334	671	3,005	-	-	-
<b>Net Position</b>						
Net investment in capital assets	4,250,982	2,588,650	6,839,632	67,062	-	-
Restricted for:						
Park	403,800	-	403,800	-	-	-
Security and technology	63,221	-	63,221	-	-	-
Economic development	-	-	-	291,220	-	-
Unrestricted	347,397	310,084	657,481	-	-	-
Total net position	\$ 5,065,400	\$ 2,898,734	\$ 7,964,134	\$ 358,282	\$ -	\$ -

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

**City of Wallis, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2022**

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position						
					Primary Government			Component Units			
			Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	City of Wallis Development Corporation	Wallis Cultural Education Facilities Financing Corporation	Wallis Education Facilities Financing Corporation
Program Activities	Expenses										
Primary government:											
Governmental activities:											
General government	\$ 403,011	\$ 36,261	\$ -	\$ -	\$ (366,750)	\$ -	\$ (366,750)	\$ -	\$ -	\$ -	
Public safety	686,893	320,425	-	105,313	(261,155)	-	(261,155)	-	-	-	
Highways and streets	292,523	-	6,100	388,354	101,931	-	101,931	-	-	-	
Culture and recreation	88,916	7,554	-	-	(81,362)	-	(81,362)	-	-	-	
Interest on long-term debt	3,182	-	-	-	(3,182)	-	(3,182)	-	-	-	
Total governmental activities	1,474,525	364,240	6,100	493,667	(610,518)	-	(610,518)	-	-	-	
Business-type activities:											
Water and Sewer	597,083	455,659	-	454,792	-	313,368	313,368	-	-	-	
Sanitation	130,146	165,360	-	-	-	35,214	35,214	-	-	-	
Total business-type activities	727,229	621,019	-	454,792	-	348,582	348,582	-	-	-	
Total primary government	\$ 2,201,755	\$ 985,259	\$ 6,100	\$ 948,459	(610,518)	348,582	(261,936)	-	-	-	
Component units:											
City of Wallis Development Corporation	97,990	-	-	-				(97,990)	-	-	
Wallis Cultural Education Facility Financing Corporation	-	-	-	-				-	-	-	
	97,990	-	-	-				(97,990)	-	-	
General revenues:											
Taxes:											
Property taxes					497,780	-	497,780	-	-	-	
Sales taxes					165,760	-	165,760	82,877	-	-	
Franchise taxes					54,582	-	54,582	-	-	-	
Mixed beverage taxes					1,529	-	1,529	-	-	-	
Investment earnings					12,422	709	13,131	1,362	-	-	
Other revenue					28,562	-	28,562	-	-	-	
Gain (loss) on sales of capital assets					-	(3,712)	(3,712)	-	-	-	
Transfers					45,026	(45,026)	-	-	-	-	
Total general revenues and transfers					805,661	(48,029)	757,632	84,239	-	-	
Change in net position					195,143	300,553	495,696	(13,751)	-	-	
Net position, beginning of year					4,870,257	2,598,181	7,468,438	372,033	-	-	
Net position at end of year					\$ 5,065,400	\$ 2,898,734	\$ 7,964,134	\$ 358,282	\$ -	\$ -	

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

**City of Wallis, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2022**

	General	Special Revenue City Park Fund	Non- Major- Security & Technology	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 708,633	\$ -	\$ -	\$ 708,633
Receivables, net of allowance for uncollectibles	81,004	-	-	81,004
Grant receivables	155,499	-	-	155,499
Restricted assets:				
Restricted cash	-	419,248	63,221	482,469
Total assets	<u>\$ 945,136</u>	<u>\$ 419,248</u>	<u>\$ 63,221</u>	<u>\$ 1,427,605</u>
<b>Liabilities, deferred inflows of resources, and fund balances</b>				
Liabilities:				
Accounts payable	\$ 183,018	\$ -	\$ -	\$ 183,018
Accrued expenses	105,425	-	-	105,425
Due to other funds	392,793	15,448	-	408,241
Due to component units	23,614	-	-	23,614
Total liabilities	<u>704,850</u>	<u>15,448</u>	<u>-</u>	<u>720,298</u>
Deferred Inflows of Resources				
Unavailable revenue - taxes	<u>25,254</u>	<u>-</u>	<u>-</u>	<u>25,254</u>
Fund Balances				
Restricted:				
Restricted for city park	-	403,800	-	403,800
Restricted for security and technology	-	-	63,221	63,221
Unassigned	<u>215,032</u>	<u>-</u>	<u>-</u>	<u>215,032</u>
Total fund balances	<u>215,032</u>	<u>403,800</u>	<u>63,221</u>	<u>682,053</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 945,136</u>	<u>\$ 419,248</u>	<u>\$ 63,221</u>	<u>\$ 1,427,605</u>

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

**City of Wallis, Texas**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**September 30, 2022**

Fund balances - total governmental funds		\$ 682,053
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Governmental capital assets	\$ 5,724,123	
Less accumulated depreciation	<u>(1,447,529)</u>	4,276,594
Leased assets and liabilities are not current financial resources		(869)
Deferred tax revenues reported in the governmental funds are recognized as revenues for the governmental activities.		25,098
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.		
Notes Payable	\$ (25,612)	
Compensated absences	<u>(16,280)</u>	(41,892)
Deferred outflows and net pension assets are not receivable, and deferred inflows and total OPEB liabilities are not payable in the current period and, therefore, are not reported in the governmental funds.		
		124,416
Net position of governmental activities		<u><u>\$ 5,065,400</u></u>

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

**City of Wallis, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2022**

	General	Special Revenue City Park Fund	Non- Major- Security & Technology	Total Governmental Funds
Revenues:				
Taxes:				
Property	\$ 506,040	\$ -	\$ -	\$ 506,040
Sales	165,760	-	-	165,760
Franchise	54,582	-	-	54,582
Mixed beverage	1,529	-	-	1,529
Licenses and permits	36,261	-	-	36,261
Grant revenue	493,667	-	-	493,667
Fines	286,224	-	34,201	320,425
Property rentals	7,554	-	-	7,554
Investment income	6,629	5,081	712	12,422
Payment from component unit	6,100	-	-	6,100
Other revenues	18,340	10,223	-	28,563
Total revenues	<u>1,582,686</u>	<u>15,304</u>	<u>34,913</u>	<u>1,632,903</u>
Expenditures:				
Current:				
General government	340,056	-	13,771	353,827
Public safety	676,385	-	-	676,385
Highways and streets	231,296	-	-	231,296
Culture and recreation	-	25,795	-	25,795
Capital outlay	411,528	5,616	3,665	420,809
Debt service:				
Principal	32,482	-	-	32,482
Interest and fiscal charges	3,182	-	-	3,182
Total expenditures	<u>1,694,929</u>	<u>31,411</u>	<u>17,436</u>	<u>1,743,776</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(112,243)</u>	<u>(16,107)</u>	<u>17,477</u>	<u>(110,873)</u>
Other financing sources (uses):				
Proceeds from leases	162,658	-	-	162,658
Transfers in	45,026	-	4,728	49,754
Transfers out	(4,728)	-	-	(4,728)
Total other financing sources (uses)	<u>202,956</u>	<u>-</u>	<u>4,728</u>	<u>207,684</u>
Net change in fund balances	90,713	(16,107)	22,205	96,811
Fund balances, beginning	124,319	419,907	41,016	585,242
Fund balances at end of year	<u>\$ 215,032</u>	<u>\$ 403,800</u>	<u>\$ 63,221</u>	<u>\$ 682,053</u>

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



**City of Wallis, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2022**

Net changes in fund balances - total governmental funds	\$	96,811
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of these assets are depreciated and amortized over their estimated useful lives:

Expenditures for capital assets	\$	420,809	
Depreciation and amortization expense		(227,624)	193,185

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(130,176)

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:

Compensated absences	\$	5,228	
Pension expense		42,686	
OPEB expense		(4,331)	43,583

Some revenues in the fund statements are not reported as revenues in the Statement of Activities.

(8,260)

Change in net position of governmental activities	\$	195,143
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The notes to the financial statements are an integral part of this statement.

**City of Wallis, Texas**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended September 30, 2022**

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP Basis	Final Budget Over (Under)
Revenues:				
Taxes:				
Property	\$ 505,665	\$ 505,665	\$ 506,040	\$ 375
Sales	136,680	136,680	165,760	29,080
Franchise	51,000	51,000	54,582	3,582
Mixed beverage	1,200	1,200	1,529	329
Licenses and permits	20,000	20,000	36,261	16,261
Grant revenue	80,014	80,014	493,667	413,653
Fines	326,276	320,500	286,224	(34,276)
Property rentals	7,100	7,100	7,554	454
Investment income	1,125	1,125	6,629	5,504
Payment from component unit	6,100	6,100	6,100	-
Other revenues	14,315	14,315	18,340	4,025
Total revenues	<u>1,149,475</u>	<u>1,143,699</u>	<u>1,582,686</u>	<u>438,987</u>
Expenditures:				
Current:				
General government	329,575	329,575	340,056	10,481
Public safety	666,903	666,903	676,385	9,482
Highways and streets	163,408	163,408	231,296	67,888
Capital outlay	10,100	10,100	411,528	401,428
Debt service:				
Principal	-	-	32,482	32,482
Interest	-	-	3,182	3,182
Total debt service	<u>-</u>	<u>-</u>	<u>35,664</u>	<u>35,664</u>
Total expenditures	<u>1,169,986</u>	<u>1,169,986</u>	<u>1,694,929</u>	<u>560,607</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(20,511)</u>	<u>(26,287)</u>	<u>(112,243)</u>	<u>(85,956)</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	10,000	10,000	-	(10,000)
Proceeds from lease	-	-	162,658	162,658
Transfers in	-	-	45,026	45,026
Transfers out	(15,000)	(15,000)	(4,728)	10,272
Total other financing sources (uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>202,956</u>	<u>207,956</u>
Net change in fund balances	(25,511)	(31,287)	90,713	122,000
Fund balance, beginning	<u>124,319</u>	<u>124,319</u>	<u>124,319</u>	<u>-</u>
Fund balance, ending	<u>\$ 98,808</u>	<u>\$ 93,032</u>	<u>\$ 215,032</u>	<u>\$ 122,000</u>

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

**City of Wallis, Texas**  
**Special Revenue City Park Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended September 30, 2022**

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Over (Under)
Revenues:				
Investment income	\$ 2,500	\$ 2,500	\$ 5,081	\$ 2,581
Other revenues	2,500	2,500	10,223	7,723
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>15,304</u>	<u>10,304</u>
Expenditures:				
Current:				
Culture and recreation	34,196	34,196	25,795	(8,401)
Capital outlay	<u>50,000</u>	<u>50,000</u>	<u>5,616</u>	<u>(44,384)</u>
Total expenditures	<u>84,196</u>	<u>84,196</u>	<u>31,411</u>	<u>(52,785)</u>
Net change in fund balances	(79,196)	(79,196)	(16,107)	63,089
Fund balance, beginning	<u>419,907</u>	<u>419,907</u>	<u>419,907</u>	<u>-</u>
Fund balance, ending	<u>\$ 340,711</u>	<u>\$ 340,711</u>	<u>\$ 403,800</u>	<u>\$ 63,089</u>

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

**City of Wallis, Texas**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2022**

	Enterprise Fund
<b>Assets</b>	
Current assets:	
Cash and equivalents	\$ 119,427
Accounts receivable, net of allowance for uncollectibles	78,724
Grants receivable	313,734
Due from other funds	408,241
Restricted cash and cash equivalents	56,939
Total current assets	<u>977,065</u>
Non-Current assets:	
Net pension asset	58,723
Right to use leased asset, net of amortization	24,485
Capital assets:	
Land	9,570
Buildings and other improvements	1,489,496
Distribution and collection systems	3,707,467
Equipment	291,355
Construction in progress	185,332
	<u>5,683,220</u>
Less: accumulated depreciation	<u>(3,094,570)</u>
Capital assets, net of accumulated depreciation	<u>2,588,650</u>
Total non-current assets	<u>2,671,858</u>
Total assets	<u><u>\$ 3,648,923</u></u>
<b>Deferred outflows of resources</b>	
Deferred outflows related to pensions	9,827
Deferred outflows related to OPEB	2,412
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 317,308
Accrued expenses	5,748
Unearned revenue	315,667
Customer deposits payable	58,528
Lease liability, current	12,853
Total current liabilities	<u>710,104</u>
Long-term liabilities:	
Lease liability, long-term	12,026
Liability for compensated absences	5,115
Total OPEB liability	11,441
Total long-term liabilities	<u>28,582</u>
Total liabilities	<u>738,686</u>
<b>Deferred inflows of resources.</b>	
Deferred inflows related to pensions	23,071
Deferred inflows related to OPEB	671
<b>Net Position</b>	
Net investment in capital assets	2,588,650
Unrestricted	310,084
Total net position	<u><u>\$ 2,898,734</u></u>

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

**City of Wallis, Texas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended September 30, 2022**

	Enterprise Fund
Operating revenues:	
Charges for sales and services:	
Water sales	\$ 245,713
Sewer services	188,047
Garbage collection fees	165,360
Tap and reconnect fees	10,100
Penalties	11,799
Total operating revenues	<u>621,019</u>
Operating expenses:	
Personnel costs	219,034
Purchased sanitation services	130,146
Purchased professional and technical services	62,276
Maintenance	98,089
Supplies and fuel	28,180
Utilities	43,413
Other operating expenses	1,768
Depreciation and amortization	143,295
Total operating expenses	<u>726,201</u>
Operating income (loss)	<u>(105,182)</u>
Nonoperating revenues (expenses):	
Grant proceeds	454,792
Interest income	709
Gain (loss) on disposal of capital assets	(3,712)
Interest expense	(1,028)
Total nonoperating revenues (expense)	<u>450,761</u>
Income (loss) before transfers	345,579
Transfers out	<u>(45,026)</u>
Total other financing sources (uses)	<u>(45,026)</u>
Change in net position	300,553
Net position, beginning of year	<u>2,598,181</u>
Net position, end of the year	<u><u>\$ 2,898,734</u></u>

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

**City of Wallis, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2022**

	Enterprise Fund
Cash flows from operating activities:	
Cash received from customers	\$ 621,042
Cash payments to suppliers for goods and services	(534,433)
Cash payments to employees for services	(227,873)
Net cash provided by (used in) operating activities	<u>(141,264)</u>
Cash flows from non-capital financing activities:	
Transfers out	(45,026)
Net cash provided by (used in) non-capital financing activities	<u>(45,026)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(112,061)
Grant proceeds	295,292
Principal paid on leases	(13,473)
Net cash provided by (used in) capital and related financing activities	<u>169,758</u>
Cash flows from investing activities:	
Interest on cash and investments	709
Net increase (decrease) in cash and equivalents	(15,823)
Cash and equivalents, beginning of year	192,189
Cash and equivalents, end of year	<u>\$ 176,366</u>
Reconciliation of cash and equivalents:	
Unrestricted cash and equivalents	\$ 119,427
Restricted cash and investments	56,939
Total cash and equivalents	<u>\$ 176,366</u>

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

**City of Wallis, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2022**

	Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (105,182)
Adjustments to reconcile to net cash provided by operating activities:	
Depreciation and amortization	143,295
Increase (decrease) in cash resulting from changes in assets and liabilities:	
Accounts receivable	(2,266)
Due from other funds	(153,570)
Deferred outflows related to pensions	1,430
Deferred outflows related to OPEB	291
Net pension asset	(26,053)
Accounts payable	(16,991)
Accrued liabilities	1,467
Customer deposits	2,289
Net OPEB liability	327
Liability for compensated absences	845
Deferred inflows related to pensions	12,183
Deferred inflows related to OPEB	671
Net cash provided by (used in) operating activities	<u>\$ (141,264)</u>

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

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**Note 1. Summary of Significant Accounting Policies**

The financial statements of the City of Wallis, Texas (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 City's more significant accounting policies are described below.

**A. Reporting Entity**

The City of Wallis, Texas (the City) was incorporated in 1973 under the provisions of the State of Texas. The City operates as a Council-Administrator government. With few exceptions, all powers of the City are vested in an elective Council, which enacts local legislation, adopts budgets, determines policies, and appoints the City Attorney and the Municipal Court Judge. The Council also appoints the City Administrator, who executes the laws and administers the government of the City. The City provides the following services to its citizens: public safety, street maintenance, solid waste collection and disposal, recreation programs, municipal court, community development, public improvements, water and sewer services, and general administrative services.

As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

*Discretely Presented Component Units*

City of Wallis Development Corporation is a non-profit corporation created in 2000 under the Development Corporation Act of 1979. The Corporation receives one-half of one percent of local sales tax collected, which is used to promote economic development within the City. The Corporation is governed by a Board of Directors appointed by the City Council.

Wallis Education Facilities Finance Corporation and Wallis Cultural Education Facilities Finance Corporation are non-profit corporations created in 1999 and 2006, respectively, under the Cultural Education Facilities Finance Corporation Act of 1985 for the purpose of issuing bonds for private schools and other not-for-profit entities. Each corporation is governed by a Board of Directors appointed by the City Council.



**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**B. Basis of Presentation**

*Government-wide financial statements*

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The effect of interfund activity, other than interfund services provided and used within the governmental and business-type activities, has been removed from these statements. The statements distinguish between governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Safety, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; grants and contributions that are restricted to meeting the operational requirements of a particular function or segment; and grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

*Fund financial statements*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**Governmental Funds**

*General Fund*

The General Fund is the primary operating fund of the city and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

*City Park Fund*

The City Park Fund is classified as a major fund and is used to account for the resources from a trust gift of approximately 50 acres in real property and improvements.

*Other Governmental Funds*

Other Governmental Funds is a summation of all of the non-major governmental funds.

**Proprietary Funds**

*Enterprise Fund*

This fund is used to account for the operations of the City's utility systems, which include water, sewer, and sanitation services.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

*Measurement Focus*

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item "b" below.

In the fund financial statements, the "*current financial resources*" measurement focus or the "*economic resources*" measurement focus is used as appropriate:

- a. All governmental funds utilize a "*current financial resources*" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

- b. The proprietary funds utilize an “*economic resources*” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

*Basis of Accounting*

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “*measurable and available*”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property, sales, gross receipt tax revenues, and private reimbursement of governmental funds are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines, contributions and miscellaneous revenues are recorded when received in cash, as these revenues are not measurable and available until cash is received. Investment income is recorded as earned since it is measurable and available. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used. Operating revenues and expenses for proprietary funds include activities related to providing services and producing and delivering goods in connection with a proprietary fund’s principle ongoing operations. Revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses.

**D. Budgets**

Annual appropriated budgets are adopted for the general fund, city park, and proprietary funds. The budgets for all funds are prepared and adopted on a basis consistent with generally accepted accounting principles, which is the same basis of accounting used for financial reporting in these financial statements. Budgets are adopted by passage of a budget ordinance. All annual budget appropriations lapse at fiscal year-end.

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

Encumbrance accounting is a system under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. The City does not employ encumbrance accounting as it feels its current system is adequate to assure effective budgetary control and accountability and to facilitate effective cash planning and control.

**E. Cash and Investments**

For the purpose of the Statement of Net Position and the Statement of Cash Flows, "Cash and cash equivalents" consists of cash on hand, amounts in demand deposit accounts and interest-bearing checking accounts, as well as certificates of deposits and investments with maturities of three months or less.

**F. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds," respectively, on the fund financial statements. Residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**G. Restricted Assets**

Amounts in governmental funds which are legally identified for specific purposes either by City ordinance or contractual obligation are reflected as restricted assets. When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

**H. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds.

The City defines capital assets as assets with an estimated useful life greater than one year or more for land, machinery or equipment, buildings or improvements other than buildings. All capital assets are valued at historical cost or estimated historical cost if the actual historical cost is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Infrastructure assets (such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems) purchased before October 1, 2003, have not been capitalized and are excluded from capital assets of governmental activities.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation over the following estimated useful lives:

Buildings	40 years
Infrastructure	30-40 years
Improvements other than buildings	20 years
Machinery and equipment	3-10 years

In the fund financial statements, capital assets used in governmental operations are accounted for as capital outlay expenditures of the governmental fund at the time of acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

#### **I. Compensated Absences**

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the City and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the City and its employees are accounted for in the period in which such services are rendered or in which such events take place.

In the governmental fund financial statements, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for the compensated absences. Therefore, a liability for these amounts is recognized only if they have matured, for example, as a result of employee resignations and retirements. In the government-wide and proprietary fund financial statements, compensated absences are accrued as incurred.

#### **J. Long-term Obligations**

The accounting treatment for long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the governmental activities column of the government-wide Statement of Net Position. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**K. Fund Equity**

*Government-wide statements*

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

*Fund statements*

Proprietary fund equity is classified the same as in the government-wide statements.

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and/or unassigned.

*Classification of fund balances*

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include supplies inventories and prepaid items, long-term advances to other funds net of deferred interest revenue, long-term receivable net of deferred interest revenue, nonfinancial assets held for resale, and unrealized change in the fair value of investments.

Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment.

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The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, and contributors), laws and regulations of other governments, or through enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The City's revenue generated through enabling legislation includes municipal court fees.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Council actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the City Council or its designated officials to assign amounts to be used for specific purposes, but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council actions. The assigned fund balance is only reported in the General Fund.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

*Spending Prioritization in Using Available Resources*

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted resources to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

**L. Interfund Transfers**

Interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions in expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except interfund services provided and used and reimbursements, are reported as transfers.

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**M. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**N. Other Post-employment Benefits**

The City participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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.

**Note 2. Legal Compliance - Budgets**

In June of each year, all departments of the City submit requests for appropriations to the City Administrator so that a budget may be prepared. The City Administrator has ultimate responsibility for the budget and formulates the budget goals for the City under the direction of the City Council. The budget is prepared by fund, department, and activity, and includes information on the past year, current year estimates, and requested appropriations for the next fiscal year.

In compliance with the state's uniform budget law, the City Administrator files the proposed budget with the City Secretary and City Council before the 30th day prior to the date the City adopts its tax levy for the fiscal year. Once filed, the proposed budget is available for inspection by the public. The City is required to hold a public hearing on the proposed budget not less than 15 days after the budget is filed with the City Secretary and prior to the date the Council makes the tax levy. The City publishes notice of the public hearing in the official newspaper not more than 30 days and not less than 10 days before the hearing. Once the hearing is concluded and before adopting the proposed budget, the Council may make any changes it considers warranted by law or in the best interest of the taxpayers. The annual operating budget is then adopted through passage of an annual budget ordinance. Upon approval by the Council, the annual budget document becomes a matter of public record which is available for use and inspection by all interested persons and organizations. It is filed with the City Secretary.



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The legal level of budgetary control is the department. Therefore, expenditures may not legally exceed budget appropriations at the department level.

*Expenditures/Expenses in Excess of Appropriations*

General fund expenditures/expenses exceeded appropriations at the legal level of budgetary control by \$10,481 for general government expenditures, \$9,482 for public safety, \$67,888 for highways and streets, \$401,428 for capital outlay and \$35,664 for debt service.

**Note 3. Deposits and Investments**

Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the government's deposits may not be returned to it. The City has a depository policy for custodial risk incorporated into its depository contracts. Of the bank and certificates of deposit balances, \$500,000 was covered by federal depository insurance and \$1,195,382 was collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

**Note 4. Restricted Assets**

At September 30, 2022, restrictions on cash and investments were as follows:

	Governmental Funds	Proprietary Funds	City of Wallis Development Corporation
Cash and Investments			
Restricted for:			
City park	\$ 419,248	\$ -	\$ -
Building security and technology	63,221	-	-
Economic development	-	-	294,693
Utility deposits	-	56,939	-
	<u>\$ 482,469</u>	<u>\$ 56,939</u>	<u>\$ 294,693</u>

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**Note 5. Receivables**

Receivables at September 30, 2022, consist of the following:

	<u>Governmental Funds</u>	<u>Proprietary Funds</u>
Receivables:		
Taxes:		
Property	\$ 39,460	\$ -
Sales	42,867	-
Accounts	-	87,144
Other	6,569	-
Less:		
Allowance for uncollectibles	<u>(7,892)</u>	<u>(8,420)</u>
Net total receivables	<u><u>\$ 81,004</u></u>	<u><u>\$ 78,724</u></u>

Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1 and are payable by January 31. After which time they become delinquent, and penalties and interest may be assessed by the City.

**Note 6. Capital Assets**

Capital asset activity during the year ended September 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated				
Land	\$ 341,030	\$ -	\$ -	\$ 341,030
Construction in Progress	1,967,978	194,900	1,967,978	194,900
Total capital assets not being depreciated	<u>2,309,008</u>	<u>194,900</u>	<u>1,967,978</u>	<u>535,930</u>
Capital assets being depreciated				
Buildings and improvements	1,869,570	80,052	-	1,949,622
Infrastructure	549,870	1,942,542	-	2,492,412
Vehicles	340,898	-	-	340,898
Furniture and Equipment	396,626	8,635	-	405,261
Total at historical cost	<u>3,156,964</u>	<u>2,031,229</u>	<u>-</u>	<u>5,188,193</u>
Less: accumulated depreciation for:				
Buildings and improvements	441,231	78,416		519,646
Infrastructure	255,225	63,901		319,126
Vehicles	236,532	31,684		268,216
Furniture and Equipment	312,272	28,269		340,541
Total accumulated depreciation	<u>1,245,260</u>	<u>202,270</u>	<u>-</u>	<u>1,447,529</u>
Total capital assets being depreciated, net	<u>1,911,704</u>	<u>1,828,960</u>	<u>-</u>	<u>3,740,664</u>
Governmental activities capital assets, net	<u><u>\$ 4,220,712</u></u>	<u><u>\$ 2,023,860</u></u>	<u><u>\$ 1,967,978</u></u>	<u><u>\$ 4,276,594</u></u>

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	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>Business-type activities</u>				
Capital assets not being depreciated				
Land	\$ 9,570	\$ -	\$ -	9,570
Construction in progress	12,225	185,332	12,225	185,332
Total capital assets not being depreciated	<u>21,795</u>	<u>185,332</u>	<u>12,225</u>	<u>194,902</u>
Capital assets being depreciated				
Buildings and improvements	11,973	-	-	11,973
Furniture and Equipment	27,131	-	-	27,130
Machinery and equipment	218,015	-	-	218,015
Vehicles	73,877	-	31,700	42,177
Water and Sewer System	4,945,725	252,689	9,391	5,189,023
Total at historical cost	<u>5,276,721</u>	<u>252,689</u>	<u>41,091</u>	<u>5,488,318</u>
Less: accumulated depreciation for:				
Buildings and improvements	9,925	409	-	10,334
Furniture and Equipment	25,226	516	-	25,742
Machinery and equipment	185,135	11,055	-	196,190
Vehicles	73,877	-	31,700	42,177
Water and Sewer System	2,703,667	118,476	2,016	2,820,127
Total accumulated depreciation	<u>2,997,829</u>	<u>130,457</u>	<u>33,716</u>	<u>3,094,570</u>
Total capital assets being depreciated, net	<u>2,278,892</u>	<u>122,232</u>	<u>7,375</u>	<u>2,393,748</u>
Business-type activities capital assets, net	<u>\$ 2,300,687</u>	<u>\$ 307,564</u>	<u>\$ 19,600</u>	<u>\$ 2,588,650</u>
	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
<u>City of Wallis Development Corporation</u>				
Capital assets not being depreciated				
Land	\$ 37,062	\$ 30,000	\$ -	\$ 67,062
Total capital assets not being depreciated	<u>37,062</u>	<u>30,000</u>	<u>-</u>	<u>67,062</u>
City of Wallis Development Corporation capital assets, net	<u>\$ 37,062</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 67,062</u>

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Depreciation Expense	
General government	\$ 43,403
Streets	63,901
Public Safety	31,684
Culture and recreation	63,282
Business-type	130,457
	<u>\$ 332,727</u>

**Note 7. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool for its insurance and pays a quarterly premium to the Pool. The Pool is intended to be self-sustaining through member premiums and reinsures through commercial

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companies for excessive claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 8. Long-term Liabilities**

The City entered into a promissory note agreement in September 2021, for \$33,610 at an annual interest of 3.25%, maturing September 2025, secured by equipment. The City of Wallis Development Corporation entered into a promissory note in September 2022 for \$30,000 at an annual interest of 4%, maturing September 2026. Annual debt service requirements to maturity for the outstanding debt are as follows:

Year ending September 30	Governmental Activities		Component Units	
	Notes Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2023	\$ 8,262	\$ 710	\$ 6,000	\$ 960
2024	8,534	438	6,000	720
2025	8,816	156	6,000	480
2026	-	-	6,000	240
	<u>\$ 25,612</u>	<u>\$ 1,304</u>	<u>\$ 24,000</u>	<u>\$ 2,400</u>

During the year ended September 30, 2022, the following changes occurred in other long-term liabilities:

	Balance 9/30/21	Additions	Reductions	Balance 9/30/22	Due Within One Year
<u>Governmental activities</u>					
Compensated absences	\$ 21,507	\$ -	\$ (5,227)	\$ 16,280	\$ -
Notes payable	33,610	-	(7,998)	25,612	8,262
Governmental activities long-term liabilities	<u>\$ 55,117</u>	<u>\$ -</u>	<u>\$ (13,225)</u>	<u>\$ 41,892</u>	<u>\$ 8,262</u>
<u>Business type activities</u>					
Compensated absences	\$ 4,270	\$ 845	\$ -	\$ 5,115	\$ -
Business type activities long-term liabilities	<u>\$ 4,270</u>	<u>\$ 845</u>	<u>\$ -</u>	<u>\$ 5,115</u>	<u>\$ -</u>
<u>Component units</u>					
Notes payable	\$ -	\$ 30,000	\$ (6,000)	\$ 24,000	\$ 6,000
Component units long-term liabilities	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ (6,000)</u>	<u>\$ 24,000</u>	<u>\$ 6,000</u>

The general fund has typically been used to liquidate the liability for compensated absences for governmental activities, while the enterprise fund has been used to liquidate the liability for business-type activities.

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**Note 9. Interfund Receivables and Payables**

Interfund receivables and payables, all considered short-term, at September 30, 2022, were as follows:

Name of Fund	Due from other funds	Due to other funds
Governmental:		
General	\$ -	\$ 392,793
Non-Major Governmental	-	15,448
Business-Type:		
Enterprise Fund	408,241	-
	<u>\$ 408,241</u>	<u>\$ 408,241</u>

**Note 10. Interfund Transfers**

Interfund transfers during the year ended September 30, 2022, were as follows:

	Transfers In			
	General Fund	Non-Major Special Revenue	Enterprise	Total
<u>Transfers out</u>				
General	\$ -	\$ -	\$ (45,026)	\$ (45,026)
Enterprise	45,026	4,728		49,754
Non-Major Enterprise	(4,728)		-	(4,728)
	<u>\$ 40,298</u>	<u>\$ 4,728</u>	<u>\$ (45,026)</u>	<u>\$ -</u>

**Note 11. Commitments**

In March 2013, the City entered into a contract with a company to collect commercial and residential garbage within the City. The renewal contract term will expire on April 1, 2024. The City paid \$130,146 to this company during the year ended September 30, 2022.

In December 2021, the City entered into a contract with a Company for engineering services for a General Land Office grant project totaling \$633,736. As of September 30, 2022, the City had spent \$380,232.

During the year ended September 30, 2021, results of an audit of the City's municipal court fees conducted by the State of Texas revealed previously unremitted fees due to the state in the amount of \$24,716 for periods prior to 2020. In January 2022, the City agreed to, and the State accepted, a plan to repay the delinquent fees. The plan requires 13 quarterly payments of \$1,925 beginning in February 2022. The outstanding liability has been recorded in the general fund as of September 30, 2022.

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As of September 30, 2022, the Wallis Development Corporation has committed to grants for building improvements and renovations totaling \$47,500.

**Note 12. Pension Plans**

**A. Plan Description**

The City participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.

TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

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

Plan provisions for the City were as follows:

	Plan Year	
	2020	2021
Employee Deposit Rate	6%	6%
Matching Ratio (City to Employee)	1 to 1	1 to 1
A member is vested after	10 years	10 years
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated Service Credit	100% repeating, transfers	100% repeating, transfers
Annuity Increase (to retirees)	0% of CPI repeating	0% of CPI repeating

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*Employees covered by benefit terms.*

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

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	20
Active employees	16
	43

**C. Contributions**

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 2.27% and 2.33% in calendar years 2021 and 2022, respectively. The city's contributions to TMRS for the year ended September 30, 2022, were \$42,010, and were equal to the required contributions.

**D. Net Pension Liability**

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

**Actuarial assumptions:**

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

Inflation	2.5% per year
Overall payroll growth	3.5% to 11.5% including inflation
Investment rate of return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%.

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For cities with fewer than twenty employees, more conservative methods and assumptions are used. First, lower termination rates are used for smaller cities, with maximum multipliers of 75% for employers with less than 6 members, 85% for employers with 6 to 10 members, and 100% for employers with 11 to 15 members and 110% for employers with less than 100 members.

There is also a load on the life expectancy for employers with less than 15 active members. The life expectancy will be loaded by decreasing the mortality rates by 1% for every active member less than 15. For example, an employer with 5 active members will have the baseline mortality tables multiplied by 90% (10 active members times 1%). The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018, first used in the December 31, 2019 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method.

Assumptions are reviewed annually. 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 is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:



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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

*Discount Rate*

The discount rate used to measure the Total Pension Liability/Asset 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 the 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/Asset.

<b><i>Changes in the Net Pension Liability/(Asset)</i></b>	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balance at 12/31/2020	\$ 1,301,707	\$ 1,448,540	\$ (146,833)
Changes for the year:			
Service Cost	64,073	-	64,073
Interest	87,270	-	87,270
Difference between expected and actual experience	6,171	-	6,171
Contributions - employer	-	41,276	(41,276)
Contributions - employee	-	42,858	(42,858)
Net investment income	-	190,324	(190,324)
Benefit payments, including refunds of employee contributions	(81,707)	(81,707)	-
Administrative expense	-	(874)	874
Other charges	-	6	(6)
Net changes	75,807	191,883	(116,076)
<b>Balance at 12/31/2021</b>	<b>\$ 1,377,514</b>	<b>\$ 1,640,423</b>	<b>\$ (262,909)</b>

*Sensitivity of the net position liability (asset) to changes in the discount rate*

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

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	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability/(asset)	\$ (102,501)	\$ (262,909)	\$ (396,706)

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2022, the City recognized pension expense/(benefit) of (\$14,617).

At September 30, 2022, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 14,109	\$ 1,174
Changes in actuarial assumptions	-	2,889
Difference between projected and actual investment earnings	-	99,227
Contributions subsequent to the measurement date	29,889	-
Total	<u>\$ 43,998</u>	<u>\$ 103,290</u>

An amount of \$29,889 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2022	\$ (10,743)
2023	(39,508)
2024	(20,423)
2025	(18,507)
Total	<u>\$ (89,181)</u>

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**Note 13. Other Post-Employment Benefits (OPEB)**

**A. Plan Description**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System ("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.

**B. 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 October 1, 2021, the effective date of the most recent OPEB valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	2
Active employees	14
	<hr/> 21

**C. Contributions and Actuarial Information**

The City contributes to the SBDF as 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 to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust as defined by paragraph 4 of GASB Statement No. 75.

The total supplemental death benefit ("SDB") contribution rates were 0.21% and 0.22% for calendar years 2021 and 2022, respectively. The City's contributions for the year ended September 30, 2022 were \$1,125 and were equal to the required contributions.

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**D. Total OPEB Liability**

The City's total OPEB liability of \$51,214 was measured as of December 31, 2021, and was determined by an actuarial valuation as of December 31, 2020.

**Actuarial Assumptions**

The total OPEB in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions as of the December 31, 2021 measurement date:

Inflation	2.5% per year
Salary Increases	3.5% to 11.5% including inflation
Discount Rate	1.84%

Salary increases were based on a service-related table. Mortality rates for service retirees are based on the 2019 Municipal Retirees of Texas Mortality Tables. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set forward for males and a 3-year set-forward for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2019 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2014 through December 31, 2018. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013.

*Changes in the Total OPEB Liability*

	Total OPEB Liability
Balance at 12/31/2021	\$ 49,949
Changes for the year:	
Service Cost	3,286
Interest	1,025
Difference between expected and actual experience	(3,897)
Changes of assumptions	1,565
Benefit payments, including refunds of employee contributions	(714)
Net changes	1,265
Balance at 12/31/2022	\$ 51,214

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

*Sensitivity of the total OPEB liability to changes in the discount rate*

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

	1% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
City's total OPEB liability	\$ 62,110	\$ 51,214	\$ 42,673

**E. Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended September 30, 2022, the City recognized OPEB expense of \$7,120. At September 30, 2022, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 3,005
Changes in actuarial assumptions	9,701	-
Contributions subsequent to the measurement date	1,096	-
Total	<u>\$ 10,797</u>	<u>\$ 3,005</u>

Amounts reported as deferred outflows and inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

Year ended December 31:	
2022	\$ 2,043
2023	1,808
2024	1,898
2025	1,274
2026	(327)
Total	<u>\$ 6,696</u>

**Note 14. Leases**

Effective October 1, 2021, the City implemented GASB Statement No. 87, Leases, which required the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The adoption of GASB No. 87 had no impact on the City's net position as of the effective date and no restatement of net position was made.

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

*Lessee*

The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide funds financial statements. At implementation of GASB Statement No. 87 and the commencement of leases beginning after October 1, 2021, the City initially measured the lease liability at the present value of payments expected to be made during the remaining lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease right-to-use asset was initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease right-to-use asset is amortized on a straight-line basis over its useful life.

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

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

The City monitors changes in circumstances that would require a re-measurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Leased assets are reported on the government-wide Statement of Net Position and lease liabilities are reported as current and long-term liabilities on the Statement of Net Position.

Leased assets are reported on the government-wide Statement of Net Position and lease liabilities are reported as current and long-term liabilities on the Statement of Net Position.

Prior to beginning of the current fiscal year, the City entered into a lease agreement as lessee for the acquisition and use of office equipment. The lease term is for sixty-three months ending in October 2022. At the beginning of the fiscal year the initial lease liability was recorded in the amount of \$6,595. As of September 30, 2022, the recorded amount of the lease liability was \$1,648.

During the current fiscal year, the City entered into multiple lease agreements as lessee for the acquisition of vehicles. The lease terms vary through dates ending in 2027.

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

The future principal and interest payments as of September 30, 2022 were as follows:

Governmental Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2023	\$ 37,520	\$ 4,535	\$ 42,055
2024	33,250	2,968	36,218
2025	28,680	1,787	30,467
2026	20,857	917	21,774
2027	17,867	307	18,174
	<u>\$ 138,174</u>	<u>\$ 10,514</u>	<u>\$ 148,688</u>

Business-Type Activities			
Fiscal Year	Principal Payments	Interest Payments	Total Payments
2023	\$ 12,853	\$ 618	\$ 13,471
2024	9,028	221	9,249
2025	2,998	36	3,034
	<u>\$ 24,879</u>	<u>\$ 875</u>	<u>\$ 25,754</u>

Right to use assets are amortized on a straight-line basis over the terms of the related leases. Right to use asset balances as September 30, 2022 were as follows:

Governmental Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Equipment	\$ 6,595	\$ 4,974	\$ 1,621
Vehicles	154,462	20,778	135,684
Total	<u>\$ 161,057</u>	<u>\$ 25,752</u>	<u>\$ 137,305</u>
Business-Type Activities			
Asset Class	Lease Asset Value	Accumulated Amortization	Lease Asset, Net of Amortization
Vehicles	\$ 37,323	\$ 12,838	\$ 24,485
Total	<u>\$ 37,323</u>	<u>\$ 12,838</u>	<u>\$ 24,485</u>

**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**Note 15. Conduit Debt**

Wallis Cultural Education Facilities Finance Corporation (WCEFFC) and Wallis Education Facilities Finance Corporation (WEFFC) have issued tax-exempt revenue bonds or term loan agreements on behalf of various other entities in the form of conduit debt. WCEFFC and WEFFC have no obligation for the debt which is considered to be special and limited obligations payable solely from the revenues of the borrowers.

The following conduit debt has been issued:

Date of Issuance	Issuer	Issued on Behalf of	Amount of Original Issue
September 2008	WCEFFC	Crown of Life Lutheran Church of Colleyville, TX	\$2,420,000
January 2010	WCEFFC	The Young Men's Christian Association of Austin	\$7,500,000
April 2011	WEFFC	Franco American Educational Society d/b/a Saint Joseph Academy	\$5,350,000
December 2012	WEFFC	Covenant Christian School	\$2,000,000
July 2013	WCEFFC	Head Start of Greater Dallas, Inc.	\$1,890,000
October 2013	WEFFC	Manara Academy, Inc.	\$3,400,000
July 2014	WCEFFC	San Antonio Christian Schools	\$7,349,600
January 2015	WEFFC	Liberty Educational Ministries, Incorporated	\$10,000,000
December 2016	WEFFC	Hardin-Simmons University	\$10,000,000
April 2017	WEFFC	Goodwill Industries of Fort Worth	\$10,000,000
December 2018	WEFFC	Dallas International School	\$6,453,500
October 2019	WCEFFC	Austin Habitat for Humanity, Inc.	\$7,500,000
September 2020	WCEFFC	Headwaters School	\$7,250,000

**Note 16. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. 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.

**Note 17. Related Parties**

In 2022, the City paid \$1,868 to a council member's business for construction work.



**City of Wallis, Texas**  
**Notes to Basic Financial Statements**  
**September 30, 2022**

**Note 18. Subsequent Events**

In January 2023, the City approved the purchase of smart water meters using the funds from the America Rescue Plan in the amount of \$298,615.

In December 2022, the City approved the purchase of zero turn lawnmowers in the amount of \$31,405. The City financed the purchase through a note with its depository over a four year term.

In October 2022, the Wallis Development Corporation approved grants for building improvements and renovations of \$6,100. In July 2023, the Development Corporation also approved grants for building improvements and renovations of \$14,000.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Wallis, Texas**  
**Texas Municipal Retirement System**  
*Schedule of Changes in Net Pension Liability (Asset) and Related Ratios*  
*Last 10 years*  
*(unaudited)*

	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>								
Service Cost	\$ 64,073	\$ 63,233	\$ 62,221	\$ 56,480	\$ 54,606	\$ 45,091	\$ 32,339	\$ 22,419
Interest (on the Total Pension Liability)	87,270	81,216	78,053	73,462	69,783	63,825	60,561	58,250
Difference between expected and actual experience	6,171	29,913	(4,921)	(4,061)	(21,706)	16,626	510	(2,789)
Change of assumptions		-	(12,111)	-	-	-	25,206	-
Benefit payments, including refunds of employee contributions	(81,707)	(88,478)	(65,307)	(56,167)	(42,043)	(42,043)	(47,149)	(52,491)
<b>Net Change in Total Pension Liability</b>	75,807	85,884	57,935	69,714	60,640	83,499	71,467	25,389
<b>Total Pension Liability - Beginning</b>	1,301,707	1,215,823	1,157,888	1,088,174	1,027,534	944,035	872,568	847,179
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 1,377,514</u>	<u>\$ 1,301,707</u>	<u>\$ 1,215,823</u>	<u>\$ 1,157,888</u>	<u>\$ 1,088,174</u>	<u>\$ 1,027,534</u>	<u>\$ 944,035</u>	<u>\$ 872,568</u>
<b>Plan Fiduciary Net Position</b>								
Contributions - Employer	\$ 41,276	\$ 41,307	\$ 39,420	\$ 35,477	\$ 34,689	\$ 28,725	\$ 21,659	\$ 19,501
Contributions - Employee	42,858	42,677	41,206	36,956	35,885	29,697	22,406	19,452
Net Investment Income	190,324	103,109	180,548	(35,585)	141,056	63,597	1,373	51,102
Benefit payments, including refunds of employee contributions	(81,707)	(88,478)	(65,307)	(56,167)	(42,043)	(42,043)	(47,149)	(52,491)
Administrative expense	(874)	(663)	(1,010)	(681)	(723)	(708)	(836)	(534)
Other	6	(26)	(30)	(36)	(37)	(38)	(41)	(44)
<b>Net Change in Plan Fiduciary Net Position</b>	191,883	97,926	194,827	(20,036)	168,827	79,230	(2,588)	36,986
<b>Plan Fiduciary Net Position - Beginning</b>	1,448,540	1,350,614	1,155,787	1,175,821	1,006,994	927,764	930,352	893,366
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 1,640,423</u>	<u>\$ 1,448,540</u>	<u>\$ 1,350,614</u>	<u>\$ 1,155,785</u>	<u>\$ 1,175,821</u>	<u>\$ 1,006,994</u>	<u>\$ 927,764</u>	<u>\$ 930,352</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ (262,909)	\$ (146,833)	\$ (134,791)	\$ 2,103	\$ (87,647)	\$ 20,540	\$ 16,271	\$ (57,784)
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	119.09%	111.28%	111.09%	99.82%	108.05%	98.00%	98.28%	106.62%
<b>Covered Employee Payroll</b>	\$ 714,307	\$ 711,280	\$ 686,764	\$ 615,926	\$ 598,089	\$ 494,959	\$ 373,427	\$ 324,199
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	-36.81%	-20.64%	-19.63%	0.34%	-14.65%	4.15%	4.36%	-17.82%

**Notes to Schedule:**

GASB 68 requires 10 fiscal years of data to be provided in this schedule.  
As GASB 68 has been initially adopted for the 2014 plan year, historical data is presented beginning that year.

**City of Wallis, Texas**  
**Texas Municipal Retirement System**

*Schedule of Contributions*

*Last 10 years*

*(unaudited)*

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 16,314	\$ 16,807	\$ 16,417	\$ 18,529	\$ 17,665	\$ 15,875	\$ 11,827	\$ 12,285
Contributions in relation to the actuarially determined contributions	40,510	42,868	38,563	39,068	34,518	34,178	27,972	21,227
Contribution deficiency (excess)	(24,196)	(26,061)	(22,146)	(20,539)	(16,853)	(18,303)	(16,145)	(8,942)
Covered employee payroll	\$ 700,169	\$ 740,418	\$ 667,467	\$ 680,069	\$ 598,288	\$ 588,146	\$ 481,599	\$ 365,974
Contributions as a percentage of covered employee payroll	5.79%	5.79%	5.78%	5.74%	5.77%	5.81%	5.81%	5.80%

**Notes to Schedule:**

**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 11.5% 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.

**City of Wallis, Texas**  
**Required Supplementary Information**  
*Schedule of Changes in Total OPEB Liability and Related Ratios*  
*Last 10 years (will ultimately be displayed)*

	2021	2020	2019	2018	2017
<b>Total OPEB Liability</b>					
Service Cost	\$ 3,286	\$ 1,565	\$ 1,305	\$ 1,478	\$ 1,256
Interest (on total OPEB liability)	1,025	1,134	1,124	1,026	990
Difference between expected and actual experience	(3,897)	63	737	(602)	-
Change of assumptions	1,565	6,802	7,812	(2,351)	2,649
Benefit payments	(714)	(142)	(206)	(123)	(239)
<b>Net Change in Total OPEB Liability</b>	<b>1,265</b>	<b>9,422</b>	<b>10,772</b>	<b>(572)</b>	<b>4,656</b>
<b>Total OPEB Liability - Beginning</b>	<b>49,949</b>	<b>40,527</b>	<b>29,755</b>	<b>30,327</b>	<b>25,671</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 51,214</b>	<b>\$ 49,949</b>	<b>\$ 40,527</b>	<b>\$ 29,755</b>	<b>\$ 30,327</b>

**Related Ratios**

Covered Employee Payroll	\$ 714,307	\$ 711,280	\$ 686,764	\$ 615,926	\$ 598,089
Total OPEB Liability as a Percentage of Covered Employee Payroll	7.17%	7.02%	5.90%	4.83%	5.07%

**Notes to the Schedule of Changes in OPEB Liability**

Assumptions Used to Determine Contribution Rates

Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	1.84%
Mortality Rates- Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

Other information

Notes	No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.
Presentation of Schedule	In accordance with GASB standards, the City has elected to present data calculated at the actuarial valuation/measurement date, which occurs during each fiscal year on December 31.

## FEDERAL AWARDS



CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS ADVISORS

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 the City Council  
City of Wallis, Texas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Wallis, Texas, (the "City") as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 28, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

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

However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We considered the deficiency described in the accompanying schedule of findings and questioned costs as 2022-001 and 2022-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2022-003 and 2022-004 to be significant deficiencies.

### **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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Wallis, Texas' Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on City of Wallis, Texas' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Wallis, Texas' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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.



Brenham, Texas  
March 28, 2024



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

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

**Report on Compliance for Each Major Program**

*Opinion on Each Major Federal Program*

We have audited the City of Wallis, Texas' compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City of Wallis, Texas' major federal programs for the year ended September 30, 2022. The City of Wallis, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Wallis, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

*Basis for Opinion on Each Major Federal Program*

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

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

### *Responsibilities of Management for Compliance*

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

### *Auditor's Responsibilities for the Audit of Compliance*

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

## *Report on Internal Control over Compliance*

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency described in the accompanying schedule of findings and questioned costs- major federal award programs audit as 2022-005 to be a material weakness.

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

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



Brenham, Texas  
March 28, 2024

CITY OF WALLIS, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2022

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the City of Wallis, Texas were prepared in accordance with GAAP.
2. Material weaknesses and significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City of Wallis, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One material weakness in internal control over major federal award programs disclosed during the audit is reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for the City expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) reported in this schedule.
7. The programs tested as major programs were:
  - U.S. Department of Housing and Urban Development ALN 14.228.
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The City did not qualify as a low-risk auditee.

FINDINGS- FINANCIAL STATEMENT AUDIT

2022-001 Segregation of duties - municipal court

*Condition and Criteria:* The Municipal Court Clerk/City Secretary posts all citations to the municipal court software, receives and records municipal court payments, prepares municipal court deposits, and prepares municipal court monthly fine reports and quarterly remittance reports for submission to the State of Texas. To mitigate risk, deposits are taken to the bank by a police officer, adjustments are reviewed by the municipal court judge, and the Finance Director prepares the remittance payment based on the quarterly remittance report and submits it to the State of Texas.

*Cause:* A small office environment with few staff members limits the City's ability to segregate duties related to municipal court activities.

*Effect:* Inadequate segregation of duties limits the City's ability to timely identify municipal court reporting discrepancies and misappropriation of assets. To mitigate risk related to limited segregation of duties, the City has established controls, including having an individual other than the Municipal Court Clerk posts deposits of fine and fee receipts to the general ledger, having all adjustments made by the Municipal Court Clerk approved by the Municipal Court judge, and having the City Secretary reconcile monthly court activity to deposits with the general ledger each month. However, we noted that these offsetting controls are not consistently performed.

*Recommendation:* As an additional control, we recommend performance of a monthly reconciliation of municipal court activity to the general ledger activity.

*Response:* The recommended procedures in effect will continue to be followed, and we will add a reconciliation of municipal court activity to the general ledger.

#### 2022-002      Segregation of duties – utilities

*Condition and Criteria:* The Utilities clerk processes billings, collects payments, posts adjustments, and prepares the bank deposit. As an offsetting control, another employee posts the deposit and reconciles the bank statement. Billings and adjustments are entered into the general ledger by the Finance Director based on utility data system billing reports. Evidence of approval for utility adjustments is not maintained.

*Cause:* A small office environment with few staff members limits the City's ability to segregate duties related to utilities.

*Effect:* Inadequate segregation of duties limits the City's ability to timely identify discrepancies and misappropriation of assets. As offsetting controls, the City Secretary posts the deposits to the general ledger and reviews reports of monthly adjustments and write-offs.

*Recommendation:* We recommend that the City implement a multi-level approval process by authorized individuals for utility adjustments, continue to practice the offsetting controls, and review reports of monthly billings, adjustments and write offs.

*Response:* The City will practice the offsetting controls in a consistent manner and will implement the additional review controls.

#### 2022-003 Segregation of duties - general ledger

*Condition and Criteria:* The Finance Clerk records all accounting transactions in the general ledger and makes general ledger adjustments. The Finance Clerk is responsible for depositing receipts other than utility and municipal court payments and processes disbursements and payroll. Bank accounts are also reconciled by the Finance Clerk.

*Cause:* A small office environment with few staff members limits the City's ability to segregate duties related to significant assets.

*Effect:* Inadequate segregation of duties limits the City's ability to timely identify discrepancies and misappropriation of assets. As offsetting controls, dual signatures are required on all check disbursements, the bank statements are emailed to the City Administrator, and bank reconciliations are reviewed by a third person.

*Recommendation:* We recommend that the City provide the bank statements unopened to an independent person not involved in bank deposit or disbursement transactions so that person can review the statement transactions and its enclosures before reconciliation is performed. In addition, the bank reconciliation and all journal entries should be reviewed by someone other than the preparer.

*Response:* The City will continue to practice the offsetting controls and will implement the additional review controls.

#### 2022-004 Capital asset listing

*Condition and Criteria:* The City does not maintain a complete and accurate detailed listing of capital assets and related accumulated depreciation expense for capital assets (either governmental or enterprise).

*Cause:* The City has procedures in place to record capital outlay; however, a fixed asset listing is not maintained, expenditures meeting capitalization thresholds are not consistently evaluated for proper classification as capital outlay, and depreciation and accumulated depreciation for the fiscal year is not recorded by the City.

*Effect:* Failure to maintain and monitor capital asset listings limits the City's ability to safeguard capital assets. Inconsistent identification and proper recording of capital outlay and depreciation during the fiscal year limit the City's ability to identify and resolve differences such that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

*Recommendation:* We recommend that a complete capital asset listing be maintained and regularly updated.

*Response:* The recommended procedures will be implemented.

## FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

### **Material Weakness**

#### 2022-005 Federal Award Policies and Procedures

*Condition and Criteria:* The City does not have written policies, procedures, and standards of conduct for federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 20, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) Subparts D- Post Federal Award Requirements and E-Cost Principles. The Uniform Guidance requires the City to have written policies, procedures and standards of conduct for federal awards.

*Cause:* The City was unaware of a requirement to have written policies and procedures with respect to federal awards.

*Effect:* The requirements of Subparts D-Post Federal Award Requirements and E-Cost Principles may not be followed.

*Recommendation:* The City should establish written policies, procedures, and standards of conduct for federal awards in accordance with the Uniform Guidance.

*Response:* The City has established procurement policies and procedures to include federal contract provisions and will establish and adopt written policies for federal awards.

CITY OF WALLIS, TEXAS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED SEPTEMBER 30, 2022

US DEPARTMENT OF HOUSING AND  
URBAN DEVELOPMENT ALN 14.228

FINDING 2021-006: Federal Award Policies and Procedures

*Condition and Criteria:* The City does not have written policies, procedures, and standards of conduct for federal awards as required by Title 2 U.S. Code of Federal Regulations Part 20, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) Subparts D- Post Federal Award Requirements and E- Cost Principles. The Uniform Guidance requires the City to have written policies, procedures and standards of conduct for federal awards.

*Recommendation:* The City should establish written policies, procedures, and standards of conduct for federal awards in accordance with the Uniform Guidance.

*Current Status:* The City was informed of this finding in December 2023. The City will establish and adopt written policies for federal awards.



**CITY OF WALLIS, TEXAS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2022**

<b>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>GRANT NUMBER</b>	<b>PROGRAM AWARD AMOUNT</b>	<b>ACCRUED OR (DEFERRED) REVENUE AT 09/30/21</b>	<b>FEDERAL/ STATE FUNDS RECEIVED</b>	<b>FY 22 FEDERAL/ STATE EXPENDITURES</b>	<b>ACCRUED OR (DEFERRED) REVENUE AT 09/30/22</b>
<b>Federal</b>							
<u>U.S. DEPARTMENT OF JUSTICE</u>							
DJ Edward Byrne Memorial Justice Assistance Grant	16.738	3967002	55,091	-	(55,091)	55,091	-
Victims of Crime Advocate	16.575	3341105	39,232	-	(39,129)	39,129	-
Coronavirus Emergency Supplemental Funding Program	16.034	4166301	21,515	-	(6,114)	6,114	-
			<u>\$ 115,838</u>	<u>\$ -</u>	<u>\$ (100,334)</u>	<u>\$ 100,334</u>	<u>\$ -</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>							
<b>Texas Department of Agriculture</b>							
Texas Community Development Block Grant Program-2016 Floods	14.228	19-076-039-B692	\$ 2,000,000	\$ 82,402	\$ (146,871)	\$ 69,740	\$ 5,270
Texas Community Development Block Grant Program-Harvey	14.228	20-065-035-C115	427,602	-	-	273,852	273,852
Texas Community Development Block Grant Program-Downtown Revitalization Program - 2021	14.228	CDM21-0196	297,500	-	-	-	-
Texas Community Development Block Grant- Mitigation Funding	14.228	22-085-054-D311	5,748,125	-	(306,906)	497,017	190,111
			<u>\$ 8,473,227</u>	<u>\$ 82,402</u>	<u>\$ (453,777)</u>	<u>\$ 840,609</u>	<u>\$ 469,233</u>
<u>U.S. DEPARTMENT OF THE TREASURY</u>							
<b>Texas Division of Emergency Management</b>							
<u>COVID-19 Coronavirus State &amp; Local Fiscal Recovery Fund</u>							
Disaster Grants - State Public Assistance - 2021 CLFRF	21.027		\$ 323,184	\$ (161,433)	\$ (161,433)	\$ 7,518	\$ (315,348)
<b>TOTAL FEDERAL AWARDS</b>			<u><b>\$ 8,912,249</b></u>	<u><b>\$ (79,031)</b></u>	<u><b>\$ (715,544)</b></u>	<u><b>\$ 948,461</b></u>	<u><b>\$ 153,885</b></u>

**CITY OF WALLIS, TEXAS**  
**Notes to the Schedule of Expenditures of Federal and State Awards**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the City and is presented on the modified accrual basis of accounting.

**Note 2: Indirect Cost Rate**

The City of Wallis has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.