

CITY OF MILES, TEXAS

Annual Financial Report

For the Year Ended September 30, 2022

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CAROLINE McLANE
CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
of the City of Miles, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Miles, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Miles, Texas as of September 30, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, and the respective budgetary comparison for the general and utility funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



CAROLINE McLANE
CPA

Other Matters

Required Supplementary Information

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

Caroline McLane, CPA

Caroline McLane, CPA
June 5, 2023

**CITY OF MILES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

As management of the City of Miles, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements

- The assets of the City of Miles exceeded its liabilities at the close of the 2022 fiscal year by \$2,292,742 (net position), which is an increase of \$37,692 over the 2021 fiscal year's ending net position of \$2,255,050.
- As of September 30, 2022, \$970,415(unrestricted) may be used to meet the government's ongoing obligations to citizens. \$1,258,487 of the City's equity is invested in capital assets (net of related debt), and \$63,840 of the City's equity is restricted for the use of the Economic Development Corporation.
- The City's total assets increased by \$6,899 during the 2022 fiscal year, and total liabilities decreased by -\$54,413.

Fund Financial Statements

- As of the close of the fiscal year, the City's General Fund report an ending unassigned fund balance of \$429,717 which reflects an decrease of -\$6,444 for the year ended September 30, 2022, over the 2021 fiscal year's closing unassigned fund balance of \$436,161.
- The City's Utility Fund had an increase of \$9,946 in net position during the 2022 fiscal year, resulting in ending fund balances of \$1,527,907. Of the Utility Fund's net position, \$1,034,684 (67.72%) was invested in capital assets (net of related debt) as of September 30, 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Miles' basic financial statements. The City's basic financial statements comprise three components:

- 1) government- wide financial statements,
- 2) fund financial statements, and
- 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

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

**CITY OF MILES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

The government-wide financial statements reflect functions of the City of Miles that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City of Miles include general government, public safety, public works, and judicial. The government-wide financial statements can be found on pages 9 through 10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of Miles, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Miles can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The City had no fiduciary funds as of or for the year ended September 30, 2022.

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

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Miles maintains two governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenses, and changes in fund balances for the General Fund, which is considered a major fund, and the Miles Economic Development Corporation (MEDC), categorized as a non-major special revenue fund. The governmental fund financial statements can be found on pages 11 through 14 of this report.

Proprietary funds. When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Changes in Net Position. In fact, the City's enterprise funds are the same as the business-type activities reported in the government-wide financial statements, but the proprietary fund statements provide more detail and additional information, such as cash flows, for the proprietary fund. The City utilizes one major proprietary fund, the Utility fund, and one non major proprietary fund, the Weatherby Hall Community Center Fund. The proprietary fund statements can be found on pages 15 through 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 35 of this report.

**CITY OF MILES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Miles, assets exceeded liabilities by \$2,292,742 at the end of 2022.

As of September 30, 2022, \$1,258,487 of the City of Miles' net position \$2,292,742 reflects its investment in capital assets (e.g., buildings, equipment, infrastructure), net of the debt balances used to obtain such assets. The City of Miles uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

City of Miles' Net Position—Comparative Schedules

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 529,615	\$ 649,288	\$ 636,221	\$ 458,304	\$ 1,165,836	\$ 1,107,592
Capital assets (net of depreciation)	286,062	290,380	1,224,969	1,271,996	1,511,031	1,562,376
Total assets	815,677	939,668	1,861,190	1,730,300	2,676,867	2,669,968
Deferred outflows	411	1,459	855	2,228	1,266	3,687
Current and other liabilities	32,064	36,794	141,799	160,356	173,863	197,150
Long-term liabilities	5,546	14,270	177,603	200,005	183,149	214,275
Total liabilities	37,610	51,064	319,402	360,361	357,012	411,425
Deferred inflows	13,643	2,974	14,736	4,206	28,379	7,180
Net position:						
Net investment in capital assets	223,803	245,942	1,034,684	1,059,869	1,258,487	1,305,811
Restricted for general fund savings	63,840	49,891	-	-	63,840	49,891
Unrestricted	477,192	591,256	493,223	308,092	970,415	899,348
	\$ 764,835	\$ 887,089	\$ 1,527,907	\$ 1,367,961	\$ 2,292,742	\$ 2,255,050

**CITY OF MILES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

City of Miles' Changes in Net Position—Comparative Schedules

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Program Revenues						
Fees, fines, and charges	\$ -	\$ -	\$ 522,290	\$ 375,897	\$ 522,290	\$ 375,897
Operating grants and contributions	5,555	73,437	108,462	108,035	114,017	181,472
General Revenues						
Property taxes	127,350	114,624	-	-	127,350	114,624
Sales and use taxes	141,688	134,185	-	-	141,688	134,185
Franchise taxes	37,660	28,774	-	-	37,660	28,774
Licenses, permits, and fees	241,245	147,812	-	-	241,245	147,812
Investment earnings	3,714	-	3,514	1,850	7,228	1,850
Miscellaneous	9,023	11,702	(4,674)	-	4,349	11,702
Gain (loss) on disposal of capital assets	-	-	-	-	-	-
Total Revenues	566,235	510,534	629,592	485,782	1,195,827	996,316
Expenditures						
General government	81,292	77,599	-	-	81,292	77,599
Public safety	280,967	181,656	-	-	280,967	181,656
Public works	40,125	104,418	-	-	40,125	104,418
Economic development	9,663	3,387	-	-	9,663	3,387
Water and sewer fund	-	-	616,112	508,275	616,112	508,275
Community center	-	-	3,534	2,357	3,534	2,357
Total Expenses	412,047	367,060	619,646	510,632	1,031,693	877,692
Change in net position	154,188	143,474	9,946	(24,850)	164,134	118,624
Net position, beginning	760,647	743,615	1,367,961	1,392,811	2,128,608	2,136,426
Net position, ending	\$ 914,835	\$ 887,089	\$ 1,377,907	\$ 1,367,961	\$ 2,292,742	\$ 2,255,050

**CITY OF MILES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

FINANCIAL ANALYSIS OF THE GOVERNMENTS FUNDS

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

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

As September 30, 2022, the City of Miles' governmental General Fund reported an ending fund balance of \$429,717, with \$63,840 reserved for EDC and was unassigned and available for spending at the City's discretion. This represents approximately fifteen months of operating equity based on fiscal year 2022 General fund expenses.

CAPITAL ASSETS

The City of Miles' investment in capital assets for its governmental activities amounts to \$223,803 (net of accumulated depreciation) as of September 30, 2022, and its investment in capital assets for its business-type activities amounts to \$1,034,684 (net of accumulated depreciation and related debt) as of September 30, 2022. These investments in capital assets includes land, buildings, street improvements, water and sewer facilities, as well as city vehicles and equipment.

See detailed comparative schedules of the City's capital asset balances on the following page.

Additional information on the City's capital assets can be found in Note 4 on pages 25 and 26 of this report.

DEBT ADMINISTRATION AND LONG TERM LIABILITIES

At September 30, 2022, the City had \$183,149 in outstanding long-term liabilities. See detailed comparative schedules of the City's long-term liabilities on the following page. Additional information on the City's debt can be found in Note 6 on page 27 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Miles' finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Secretary, City of Miles, 110 Robinson Street, Miles, Texas 76861.

**CITY OF MILES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

City of Miles' Capital Assets—Comparative Schedules

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 48,407	\$ 48,407	\$ 202,341	\$ 202,341	\$ 250,748	\$ 250,748
Buildings and improvements	13,545	14,868	40,394	41,964	53,939	56,832
Machinery, vehicles and equipment	47,878	63,981	285,045	691,551	332,923	755,532
Infrastructure	113,973	118,687	-	-	113,973	118,687
Improvements other than buildings	-	-	631,124	280,260	631,124	280,260
	<u>\$ 223,803</u>	<u>\$ 245,943</u>	<u>\$ 1,158,904</u>	<u>\$ 1,216,116</u>	<u>\$ 1,382,707</u>	<u>\$ 1,462,059</u>

City of Miles' Long-Term Liabilities—Comparative Schedules

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Compensated absences	\$ -	\$ 9,796	\$ 4,093	\$ 4,093	\$ 4,093	\$ 13,889
Net OPEB liability	5,546	4,474	5,886	5,627	11,432	10,101
Notes payable	-	-	190,285	212,127	190,285	212,127
	<u>\$ 5,546</u>	<u>\$ 14,270</u>	<u>\$ 200,264</u>	<u>\$ 221,847</u>	<u>\$ 205,810</u>	<u>\$ 236,117</u>

BASIC FINANCIAL STATEMENTS

CITY OF MILES, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Pooled cash and cash equivalents	\$ 505,471	\$ 535,464	\$ 1,040,935
Investments			
Receivables (net of allowance for uncollectibles)	74,251	45,161	119,412
Prepaid expenses	1,801	3,688	5,489
Capital assets:			
Land	48,407	202,341	250,748
Buildings and other improvements	52,763	2,220,589	2,273,352
Machinery, vehicles and equipment	189,919	361,918	551,837
Infrastructure	177,126	-	177,126
Less accumulated depreciation	(244,412)	(1,625,945)	(1,870,357)
Net pension asset	62,259	66,066	128,325
Total assets	<u>867,585</u>	<u>1,809,282</u>	<u>2,676,867</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS- pension	193	624	817
Deferred outflows related to TMRS- OPEB	218	231	449
Total deferred outflows of resources	<u>411</u>	<u>855</u>	<u>1,266</u>
INTERNAL BALANCES	<u>(51,908)</u>	<u>51,908</u>	<u>-</u>
LIABILITIES			
Accounts payable	29,368	76,012	105,380
Accrued liabilities	2,696	16,854	19,550
Deposits payable	-	26,272	26,272
Current portion of noncurrent liabilities	-	22,661	22,661
Noncurrent liabilities			
Compensated absences	-	4,093	4,093
Net OPEB liability	5,546	5,886	11,432
Due in more than one year	-	167,624	167,624
Total liabilities	<u>37,610</u>	<u>319,402</u>	<u>357,012</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue, utility customers	-	259	259
Deferred inflow related to TMRS- pension	12,522	13,287	25,809
Deferred inflow related to TMRS- OPEB	1,121	1,190	2,311
Total deferred inflows of resources	<u>13,643</u>	<u>14,736</u>	<u>28,379</u>
NET POSITION			
Net investment in capital assets	223,803	1,034,684	1,258,487
Restricted for EDC	63,840	-	63,840
Unrestricted	477,192	493,223	970,415
Total net position	<u>\$ 764,835</u>	<u>\$ 1,527,907</u>	<u>\$ 2,292,742</u>

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

CITY OF MILES, TEXAS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2022

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT						
GOVERNMENTAL ACTIVITIES						
General government	\$ 81,292	\$ -	\$ 5,555	\$ (75,737)	\$ -	\$ (75,737)
Public safety	280,967	-	-	(280,967)	-	(280,967)
Public works	40,125	-	-	(40,125)	-	(40,125)
Economic development	9,663	-	-	(9,663)	-	(9,663)
Total governmental activities	412,047	-	5,555	(406,492)	-	(406,492)
BUSINESS-TYPE ACTIVITIES						
Water and sewer fund	616,112	519,755	108,462	-	12,105	12,105
Weatherby hall community center	3,534	2,535	-	-	(999)	(999)
Total business-type activities	619,646	522,290	108,462	-	11,106	11,106
TOTAL PRIMARY GOVERNMENT	\$ 1,031,693	\$ 522,290	\$ 114,017	(406,492)	11,106	(395,386)
General revenues:						
Property taxes				127,350	-	127,350
Sales and use taxes				141,688	-	141,688
Franchise taxes				37,660	-	37,660
Licenses, permits, and fees				241,245	-	241,245
Investment earnings				3,714	3,514	7,228
Miscellaneous				9,023	(4,674)	4,349
Total general revenues				560,680	(1,160)	559,520
CHANGE IN NET POSITION				154,188	9,946	164,134
Transfers				(150,000)	150,000	-
CHANGE IN NET POSITION, NET OF TRANSFERS				4,188	159,946	164,134
NET POSITION AT BEGINNING OF YEAR				887,089	1,367,961	2,255,050
NET POSITION AT END OF YEAR				\$ 764,835	\$ 1,527,907	\$ 2,292,742

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

CITY OF MILES, TEXAS
BALANCE SHEET OF THE GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	General Fund	Miles Economic Development Corporation	Total
ASSETS			
Cash and cash equivalents	\$ 445,978	\$ 59,493	\$ 505,471
Accounts and taxes receivable, net	70,989	3,262	74,251
Due from other funds	-	1,085	1,085
Prepaid expenses	1,801	-	1,801
Total assets	<u>\$ 518,768</u>	<u>\$ 63,840</u>	<u>\$ 582,608</u>
LIABILITIES			
Accounts payable	\$ 25,374	\$ -	\$ 25,374
Due to other funds	52,993	-	52,993
Accrued liabilities	2,696	-	2,696
Deferred revenue	3,994	-	3,994
Total liabilities	85,057	-	85,057
FUND BALANCES			
Restricted fund balance:			
Economic Development Corporation	-	63,840	63,840
Unassigned fund balance	429,717	-	429,717
Total fund balances	<u>429,717</u>	<u>63,840</u>	<u>493,557</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 518,768</u>	<u>\$ 63,840</u>	<u>\$ 582,608</u>

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

CITY OF MILES, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

Total Fund Balances - Governmental Funds Balance Sheet	\$ 493,557
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 balance sheet. The net effect is to increase net position.	223,803
Included in items related to assets, liabilities, and deferred inflows and outflows of resources, are the City's share of their actuarially determined Net pension asset, Net OPEB liability, and related deferred in or outflows. The net effect is an increase to net position.	43,481
Long-term liabilities, like compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds. The net effect is a decrease in net position.	-
Net Position of Governmental Activities - Statement of Net Position	\$ <u>764,835</u>

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

CITY OF MILES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE—GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Miles Economic Development Corporation</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Property	\$ 113,559	\$ -	\$ 113,559
Sales and use	118,076	23,612	141,688
Franchise	37,660	-	37,660
Licenses and permits	4,267	-	4,267
Charges for services	236,978	-	236,978
Investment earnings	3,714	-	3,714
Grants and contributions	5,555	-	5,555
Miscellaneous	9,023	-	9,023
Total revenues	<u>528,832</u>	<u>23,612</u>	<u>552,444</u>
EXPENDITURES			
Current:			
General administrative	84,445	-	84,445
Public safety	269,191	-	269,191
Public works	31,640	-	31,640
Economic development	-	9,663	9,663
Capital outlay	-	-	-
Total expenditures	<u>385,276</u>	<u>9,663</u>	<u>394,939</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>143,556</u>	<u>13,949</u>	<u>157,505</u>
OTHER FINANCING SOURCES			
Transfers out	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Total other financing sources	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
NET CHANGE IN FUND BALANCES	(6,444)	13,949	7,505
FUND BALANCES AT BEGINNING OF YEAR	<u>562,603</u>	<u>49,891</u>	<u>612,494</u>
PRIOR PERIOD ADJUSTMENT	(126,442)	-	(126,442)
FUND BALANCES AT BEGINNING OF YEAR, AS RESTATED	<u>436,161</u>	<u>49,891</u>	<u>486,052</u>
FUND BALANCES AT END OF YEAR	<u>\$ 429,717</u>	<u>\$ 63,840</u>	<u>\$ 493,557</u>

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

**CITY OF MILES, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Net Change in Fund Balances - Total Governmental Funds	\$ 7,505
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect is an increase change in net position.	-
Depreciation expense is recorded in the government-wide financial statements and as an increase to accumulated depreciation, but is not recorded in the fund financial statements. The effect is a decrease to change in net position.	(22,140)
Gains or losses on sale or disposal of capital assets is recorded as such in the government-wide financial statements, but is only recorded as revenue or expense in the fund financial statements. The effect of the current year loss on disposal of fixed assets is a decrease in net position.	-
GASB 75 and GASB 68 require that certain expenses recorded in the government-wide financial statements be adjusted to reflect the City's pension and OPEB assets, deferred outflows, liabilities, and deferred inflows at their actuarially determined values. The current year result is an increase to the change in net position.	5,032
Property tax revenues are reported in the fund financial statements on the modified-accrual basis, resulting in the deferral of uncollected taxes. They are reported in the government-wide financial statements on the full-accrual basis, meaning the current year effect is the change in the unavailable revenue balances at the current fiscal yearend and the previous fiscal yearend. The current effect is a decrease to the change in net position.	13,791
Change in Net Position of Governmental Activities - Statement of Activities	\$ <u>4,188</u>

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

CITY OF MILES, TEXAS
STATEMENT OF NET POSITION—PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Utility Fund	Nonmajor - Weatherby Hall Community Center	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 529,034	\$ 6,430	\$ 535,464
Accounts receivable, net	45,161	-	45,161
Due from other funds	68,178	-	68,178
Prepaid expenses	3,688	-	3,688
Total current assets	<u>646,061</u>	<u>6,430</u>	<u>652,491</u>
Noncurrent assets:			
Capital assets:			
Land	202,341	-	202,341
Buildings and other improvements	2,157,525	63,064	2,220,589
Machinery and equipment	358,509	3,409	361,918
Less accumulated depreciation	<u>(1,595,906)</u>	<u>(30,039)</u>	<u>(1,625,945)</u>
Net pension asset	66,066	-	66,066
Total noncurrent assets	<u>1,188,535</u>	<u>36,434</u>	<u>1,224,969</u>
Total assets	<u>\$ 1,834,596</u>	<u>\$ 42,864</u>	<u>\$ 1,877,460</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions and OPEB	855	-	855
Total deferred outflows of resources	<u>855</u>	<u>-</u>	<u>855</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 75,955	\$ 57	\$ 76,012
Accrued liabilities	16,854	-	16,854
Due to other funds	-	16,270	16,270
Customer deposits	26,272	-	26,272
Notes payable- current	22,661	-	22,661
Unearned revenue	259	-	259
Total current liabilities	<u>142,001</u>	<u>16,327</u>	<u>158,328</u>
Noncurrent liabilities:			
Net OPEB liability	5,886	-	5,886
Compensated absences	4,093	-	4,093
Notes payable	167,624	-	167,624
Total noncurrent liabilities	<u>177,603</u>	<u>-</u>	<u>177,603</u>
Total liabilities	<u>319,604</u>	<u>16,327</u>	<u>335,931</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions and OPEB	14,477	-	14,477
Total deferred inflows of resources	<u>14,477</u>	<u>-</u>	<u>14,477</u>
NET POSITION			
Net invested in capital assets	998,250	36,434	1,034,684
Unrestricted	503,120	(9,897)	493,223
Total fund balances	<u>1,501,370</u>	<u>26,537</u>	<u>1,527,907</u>
TOTAL LIABILITIES, DEFERRED INFLOWS			
OF RESOURCES, AND FUND BALANCES			
	<u>\$ 1,835,451</u>	<u>\$ 42,864</u>	<u>\$ 1,878,315</u>

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

CITY OF MILES, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION—PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Water & Sewer</u>	<u>Nonmajor - Weatherby Hall Community Center</u>	<u>Total</u>
OPERATING REVENUES			
Charges for sales and services			
Water sales	\$ 300,290	\$ -	\$ 300,290
Sewer charges	75,371	-	75,371
Sanitation charges	144,094	-	144,094
Rent income	-	2,535	2,535
Total operating revenues	<u>519,755</u>	<u>2,535</u>	<u>522,290</u>
OPERATING EXPENSES			
Costs of sales and services	279,607	2,338	281,945
Administrative expenses	207,210	-	207,210
Depreciation	114,859	1,196	116,055
Total operating expenses	<u>601,676</u>	<u>3,534</u>	<u>605,210</u>
OPERATING INCOME	<u>(81,921)</u>	<u>(999)</u>	<u>(82,920)</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	3,514	-	3,514
Grant revenue	108,462		108,462
Miscellaneous revenues	(55)	-	(55)
Interest expense	(14,436)	-	(14,436)
Miscellaneous expense	(4,619)		(4,619)
Total non-operating revenues (expenses)	<u>92,866</u>	<u>-</u>	<u>92,866</u>
INCOME BEFORE TRANSFERS	10,945	(999)	9,946
TRANSFERS IN	<u>150,000</u>	<u>-</u>	<u>150,000</u>
CHANGE IN NET POSITION	<u>160,945</u>	<u>(999)</u>	<u>159,946</u>
NET POSITION - BEGINNING	<u>1,340,425</u>	<u>27,536</u>	<u>1,367,961</u>
NET POSITION - ENDING	<u>\$ 1,501,370</u>	<u>\$ 26,537</u>	<u>\$ 1,527,907</u>

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

CITY OF MILES, TEXAS
STATEMENT OF CASH FLOWS—PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Combined Business Type Activities
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 460,231
Payments to employees for salaries and benefits	(146,933)
Payments to suppliers and service providers	<u>(364,454)</u>
Net cash provided by operating activities	<u>(51,156)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid on capital debt	(7,117)
Principal paid on capital debt	(21,834)
Cash paid for capital assets	<u>(58,842)</u>
Net cash used in capital and related financing activities	<u>(87,793)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Miscellaneous revenues	<u>248,526</u>
Net cash provided by investing activities	<u>252,040</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	113,091
CASH AND EQUIVALENTS, BEGINNING	<u>422,373</u>
CASH AND EQUIVALENTS, ENDING	<u><u>\$ 535,464</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (82,920)
Adjustments to reconcile operating income to net cash flows from operating activities:	
Depreciation	116,055
Changes in operating assets	
Receivables	(1,023)
Prepaid expenses	-
Due from other funds	(63,803)
Changes in operating liabilities	
Accounts payable	(28,953)
Accrued liabilities and payroll	6,305
Changes in pension related accruals/deferrals	2,180
Customer deposits	744
Deferred income	<u>259</u>
Net cash provided by operating activities	<u><u>\$ (51,156)</u></u>

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

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Description of Reporting Entity

The financial statements of the City of Miles, Texas (the City) are prepared in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) (GAAP) for local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting and reporting policies of the City are described in the following notes to the financial statements.

The City, incorporated in 1906, adopted the powers of cities and towns under the provision of Title 28, Revised Civil Statutes of Texas, 1925, as amended. The City Council, which is made up of up to five Council Members and the Mayor, is the general governing body of the City. The City provides the following services as authorized by the statutes of the State of Texas: administrative (e.g., tax collection), public safety (police), public works, public utilities (water, sewer, and solid waste), and urban development and housing. As required by accounting principles generally accepted in the United States of America, these financial statements include the accounts of all City operations (the primary government), and a component unit for which the City is considered to be financially accountable. The City's component unit has a September 30 year end and the City maintains the accounting records in a separate fund in the City's general ledger. The component unit's financial statements are reported as a special revenue fund in a separate column to emphasize that it is legally separate from the City.

Component Unit

The Miles Economic Development Corporation (MEDC) was created to administer the 4B economic development sales tax proceeds approved by the voters in an election on November 6, 2007, and it is a duly constituted authority and instrumentality of the City. The MEDC's governing body is appointed by the City council and its budget is subject to approval by the City council.

Basis of Presentation – Government-wide Financial Statements

The statement of net position and the statement of changes in net position include the financial activities of the overall government. The government activities column incorporates data from the governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect on inter-fund activity has been eliminated from the government-wide financial statements. An exception to this general rule would be charges between the enterprise funds and the various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, inter-governmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of changes in net position presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of changes in net position. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, fees, fines, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Basis of Presentation – Fund Financial Statements – Continued

The fund financial statements provide information about the City's funds. Separate statements are presented for each fund category; governmental and proprietary. The City reports the following governmental funds:

The General Fund is the City's only major governmental fund and is its primary operating fund. It accounts for and reports all financial resources of the City except those required to be accounted for and reported in another fund.

The Miles Economic Development Corporation (MEDC) fund is a governmental special revenue fund that accounts for the collection of the 4B economic development sales tax and the expenditure of those taxes on authorized projects pursuant to the election ballot and applicable state laws.

The City reports the following enterprise funds:

The Utility Fund is to account for the provisions of water, sewer, and sanitation services to residents and commercial enterprises of the City and approximate area. The City maintains this fund to account for water and sewer billing and collection, maintenance and operations, extension and improvements, consumer deposits and debt service, all of which are intended to be self-supporting through user charges.

The Weatherby Hall Community Center fund is a non-major enterprise fund that accounts for the operation of a building that was acquired and renovated by the City through this fund, primarily to provide a facility or venue for lease to the general public.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in government activities are eliminated so that only the net amount is included as transfers in the government activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenues in the year for which they are levied. Grants, entitlements, and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus and Basis of Accounting—Continued

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as they are both measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they generally are not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Expenditures are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Utility Fund. The appropriated budget is prepared by fund and department, which is the legal level of budgetary control.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

The City budgets so that each fund will have a change in net position of about \$0 every year, so the actual resulting increase or decrease in net position is equivalent to the variance from the adopted budget.

For the year ended September 30, 2022, General fund revenues were \$74,425 over budget and expenditures were \$331,119 under budget, resulting in a favorable budget variance of \$405,544 in the General fund's fund balance from the final budget.

For the year ended September 30, 2022, Utility fund revenues were -\$24,456 under budget and expenses were \$142,033 under budget, resulting in a favorable budget variance of before miscellaneous and grant revenue were considered in the Utility fund's net position from the final budget.

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

Deposits and Investments

For purposes of the statement of cash flows, highly liquid investments are considered cash equivalents if they have a maturity of three months or less when purchased.

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Deposits and Investments—Continued

Investments are reported at fair value. U.S. Treasury obligations, if any, are valued at the last reported sales price on a national exchange. Investments in certificates of deposit, if any, are valued at cost as they are nonparticipating investments in which the value does not vary with market interest rate changes. City funds which are invested in external pools which are established under the authority of the Inter-local Cooperative Act, Chapter 791 of the Texas Government Code. The City's investments in these pooled funds use amortized cost to value portfolio assets and follow the criteria for GASB Statement No. 79.

Receivables and Payables

Amounts are aggregated into a single receivable (net of allowances for uncollectible) line for certain funds and aggregated columns. The allowance, where applicable, is based on historical experiences. Payables consist of vendor obligations for goods and services.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Vehicles and machinery and equipment related assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Buildings and improvements are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Infrastructure assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years.

Land is not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	20-40 years
Improvements other than buildings	15-30 years
Machinery and other equipment	5-10 years
Infrastructure	20 years

Inter-fund activity

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation in the government wide statements. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on government-wide statement of changes in net position. Similarly, inter-fund receivables and payables are netted and presented as a single "Internal Balances" line of government-wide statement of net position.

Use of Estimates

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

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Net Position

In government-wide financial statements, net position is classified and displayed in three categories:

Net Investment in Capital Assets – this amount consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Restricted – this amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, or constitutional provisions.

Unrestricted – this amount includes all amounts that comprise net position that do not meet the definition of “net investment in capital assets” or “restricted”.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Balance

Fund balance is reported in five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable fund balance – (inherently not spendable)

Includes amounts that will never convert to cash or will not convert to cash in the current period, such as inventory, supplies, long-term portion of loans and non-financial assets held for resale or principal of an endowment.

Restricted fund balance – (externally enforceable limitations on use)

Includes amounts that can be spent only for specific purposes stipulated by external resource providers such as grantors, contributors, laws and regulations of other governments, enabling legislation or constitutional provisions.

Committed fund balance – (self-imposed limitations)

Includes amounts that can be used for the specific purposes determined by a formal action of the City Council in form of a resolution. Commitments may be changed or lifted only by taking the same formal action that imposed the constraints originally.

Assigned fund balance – (limitation resulting from management’s intended use)

Comprises amounts intended to be used for a specific purpose, as expressed by City Council, by a designated official or committee. By adopting this policy, the City Council has hereby authorized the City Manager as the official to assign fund balance to a specific purpose. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed, as it is intended to be used for the purpose of that fund.

Unassigned fund balance – (residual net resources)

This is the excess of total fund balance over non-spendable, restricted, committed, and assigned fund balance. Unassigned amounts are technically available for any purpose.

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund Balance—Continued

Order of Expenditure of Funds: When multiple categories of fund balances are available for expenditure the City will start with the most restricted category first until depleted before moving to the next category with available funds. Spendable fund categories in order of most restricted to least restricted are: Restricted, Committed, Assigned, and Unassigned.

Revenues and Expenditures/Expenses

Program Revenues

Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or program. All taxes are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utility fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administration, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 2 – DEPOSITS AND INVESTMENTS

City policies and legal and contractual provisions governing deposits are as follows:

Custodial Credit Risk – Deposits: During the normal course of operations, with the City's routine deposit and check writing structure, the City may, at times, carry bank balances that exceed federally insured limits. City management does not consider this to be a significant risk to the City.

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Investment Accounting Policy

All investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term “short- term” refers to investments which have a remaining term of one year or less at time of purchase. The term “nonparticipating” means that the investment’s value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest earning investment contracts.

Compliance with the Public Funds Investment Act

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2022, the City had the following investments, which are included in cash and cash equivalents:

	<u>Governmental Type</u>		<u>Business-Type</u>
	<u>General Fund</u>	<u>Miles Economic Development Corporation</u>	<u>Utility Fund</u>
Citizen's State Bank:			
CD #55224	\$ 284,987	\$ -	\$ -
CD #55066	-	16,011	-
CD #55225	-	-	269,607
Total Citizen's State Bank	<u>\$ 284,987</u>	<u>\$ 16,011</u>	<u>\$ 269,607</u>

NOTE 3 – RECEIVABLES

Receivables for the governmental and business-type activities in the aggregate including the applicable allowance for uncollectible accounts are as follows:

	<u>Business-Type</u>		<u>Total</u>
	<u>Water and Sewer Fund</u>	<u>Weatherby Hall Fund</u>	<u>Proprietary Funds</u>
Receivables from customers			
Total receivables	<u>\$ 45,161</u>	<u>\$ -</u>	<u>\$ 45,161</u>

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 3 – RECEIVABLES—Continued

	Governmental Type		Total
	General	Miles Economic	Governmental
	Fund	Development	Funds
		Corporation	
Receivables			
Property taxes receivable	\$ 6,338	\$ -	\$ 6,338
State Comptroller receivable	18,380	3,123	21,503
Franchise tax receivable	13,149	-	13,149
Accounts receivable	33,122	139	33,261
Total receivables	<u>\$ 70,989</u>	<u>\$ 3,262</u>	<u>\$ 74,251</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended September 30, 2022, was as follows:

Governmental Activities	Beginning			Ending
	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 48,407	\$ -	\$ -	\$ 48,407
Total capital assets not being depreciated	48,407	-	-	48,407
Capital assets being depreciated:				
Buildings	52,763	-	-	52,763
Infrastructure	177,126	-	-	177,126
Machinery and equipment	189,919	-	-	189,919
Total capital assets being depreciated	419,808	-	-	419,808
Less accumulated depreciation for:				
Buildings	(37,895)	(1,323)	-	(39,218)
Infrastructure	(58,439)	(4,714)	-	(63,153)
Machinery and equipment	(125,938)	(16,103)	-	(142,041)
Total accumulated depreciation	(222,272)	(22,140)	-	(244,412)
Total capital assets being depreciated, net	197,536	(22,140)	-	175,396
Governmental activities capital assets, net	<u>\$ 245,943</u>	<u>\$ (22,140)</u>	<u>\$ -</u>	<u>\$ 223,803</u>

Depreciation expense was charged to the departments of the governmental activities of the primary government as follows:

Governmental activities:	
General Government	\$ 1,879
Public Safety	11,776
Public Works	8,485
	<u>\$ 22,140</u>

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 4 – CAPITAL ASSETS – Continued

Capital asset activity for business-type activities for the year ended September 30, 2022, was as follows:

Business-type Activities	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 202,341	\$ -	\$ -	\$ 202,341
Total capital assets not being depreciated	202,341	-	-	202,341
Capital assets being depreciated:				
Buildings	70,554	-	-	70,554
Improvements other than buildings	1,922,470	-	-	1,922,470
Machinery and equipment	<u>530,641</u>	<u>58,842</u>	<u>-</u>	<u>589,483</u>
Total capital assets being depreciated	2,523,666	58,842	-	2,582,508
Less accumulated depreciation for:				
Buildings	(28,590)	(1,570)	-	(30,160)
Improvements other than buildings	(1,230,919)	(60,427)	-	(1,291,346)
Machinery and equipment	<u>(250,381)</u>	<u>(54,057)</u>	<u>-</u>	<u>(304,438)</u>
Total accumulated depreciation	(1,509,890)	(116,054)	-	(1,625,944)
Total capital assets being depreciated, net	<u>1,013,776</u>	<u>(57,212)</u>	<u>-</u>	<u>956,564</u>
Governmental activities capital assets, net	<u>\$ 1,216,116</u>	<u>\$ (57,212)</u>	<u>\$ -</u>	<u>\$ 1,158,904</u>

Depreciation expense was charged to the departments/funds of the business-type activities of the primary government as follows:

Business-type activities:	
Utilities	\$ 114,858
Weatherby Hall	<u>1,196</u>
Public Works	<u>\$ 116,054</u>

NOTE 5 – INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

The primary purpose for inter-fund transfers is to reimburse or supplement resources between the funds. There were no interfund transfers in the year ended September 30, 2022.

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 5 – INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

The primary purpose of inter-fund receivables and payables is the loaning of resources between funds for the purpose of meeting current year expenditures. The following is a summary of items due to/from various funds (labeled internal balances on the Government-wide financial statements) as of September 30, 2022:

	Governmental type		Business-type	
	General Fund	Development Corporation Fund	Water & Sewer Fund	Weatherby Hall Community Center Fund
Due to/(from)	\$ (51,908)	\$ -	\$ 51,908	\$ -
Due to/(from)	(1,085)	1,085	-	-
Due to/(from)	-	-	16,270	(16,270)
Total Due to/(from)	\$ (52,993)	\$ 1,085	\$ 68,178	\$ (16,270)

NOTE 6 – LONG-TERM DEBT

Business-Type

The City's Utility fund financed the purchase of a water meter system with a revolving line of credit from Citizen's State Bank with a \$250,000 maximum. The required principle and interest payments of the \$190,285 outstanding as of September 30, 2022 is as follows:

Year Ending September 30,	Business-type Revolving Line of Credit Matures December 1, 2029		
	Principal	Interest	Total
2023	22,661	7,136	29,797
2024	23,511	6,286	29,797
2025	24,393	5,404	29,797
2026	25,307	4,490	29,797
2027	26,256	3,540	29,797
Thereafter	68,156	4,565	72,721
Total	\$ 190,285	\$ 31,420	\$ 221,705

Changes in Long Term Liabilities

The following is a summary of changes in long term debt for the year ended September 30, 2022:

	September 30, 2021	Increases	Decreases	September 30, 2022	Due Within One Year
Business-type activities					
Revolving line of credit, up to \$250,000, Citizen's State Bank	\$ 212,127	\$ -	\$ (21,842)	\$ 190,285	\$ 21,842
	\$ 212,127	\$ -	\$ (21,842)	\$ 190,285	\$ 21,842

Interest expense of paid or accrued as of and for the year ended September 30, 2022 is recognized by the Utility fund.

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 7 – OTHER CITY ASSETS AND LIABILITIES

Prepaid expenses are made up of dispatch and software services expenses paid for prior to September 30, 2022, for contract services to be received after September 30, 2022. Total prepaid expenses as of September 30, 2022 were \$1,801 and \$3,688 for governmental type and business-type activities, respectively.

Deposits payable represents amounts of Utility customer deposits that are refundable or applicable to customers' final utility bills upon their termination of their utility services contract with the City. Total deposits payable as of September 30, 2022 were \$26,272 for the City's business-type activities.

Compensated absences liability represents the portion of earned but unused employee benefits including vacation and sick leave that the City pays upon retirement or death of certain employees. Total compensated absences liabilities as of September 30, 2022 were \$0 and \$4,093 for governmental type and business-type activities, respectively.

Deferred revenue is made up of utility payments received by the City prior to the City's rendering the services for which they were paid. As of September 30, 2022, total deferred revenue was \$3,994 for the City's business-type activities.

NOTE 8 – RISK MANAGEMENT

The City has established risk management programs for liability, worker's compensation, property damage, and employee health care. These risks of loss are handled through the purchase of commercial insurance policies with an insurance company and a public entity risk pool in which all risk is transferred to those entities for all the above areas. The City pays a deductible per incident except on the employee health insurance in which the deductible is the responsibility of the employee. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded insurance coverage for the current year or the previous three years.

NOTE 9 – PENSION PLAN

Plan Description.

The City participates as one of 888 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 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.

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.

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 9 – PENSION PLAN—Continued

Benefits Provided—Continued

At retirement, the benefit is calculated as if the sum of the employee's contributions, 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 benefits 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.

Members can retire at ages 60 and above with five or more years of service or with twenty years of service. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>6</u>
Total	14

Contributions.

The contribution rates for employees in TMRS are 5% of employee gross earnings, and the city matching percentage is 100%, 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 5.00% of their annual gross earnings during the fiscal period. The City's contributions to TMRS for the year ended September 30, 2022, were approximately \$0 and were equal to the required contributions.

Net Pension Liability or Asset.

The City's Net Pension Liability (NPL) or Asset (NPA) 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	2.50% per year
Salary increases	3.50% to 11.50% including inflation
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75%

These actuarial assumptions used in the December 31, 2021 valuation were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. Economic assumptions used in the actuarial valuations are on the following page.

**CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022**

NOTE 9 – PENSION PLAN—Continued

Actuarial assumptions—Continued

Discount/Crediting Rates, System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment and administrative expenses. This is the discount rate used to value the liabilities of the individual employers.

Assumed discount/crediting rate for Supplemental Disability Benefits Fund and individual employee accounts: an annual rate of 5.00% for (1) accumulating prior service credit and updated service credit after the valuation date, (2) accumulating the employee current service balances, (3) determining the amount of the monthly benefit at future dates of retirement or disability, and (4) calculating the actuarial liability of the system-wide Supplemental Disability Benefits Fund.

Overall Payroll Growth – 2.75% per year, which is used to calculate the contribution rates for the retirement plan of each participating city as a level percentage of payroll. This represents the expected increase in total payroll. This increase rate is solely due to the effect of wage inflation on salaries, with no allowance for future membership growth. However, for cities with a decrease in the number of contributing members from 2008 to 2018, the payroll growth is decreased by half the annual percentage decrease in the count capped at a 1.0% decrease per year and rounded down to the nearest 0.1%.

Individual Salary Increases: Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

Annuity Increase: The Consumer Price Index (CPI) is assumed to be 2.50% per year prospectively. For the City of Miles annual annuity increases of 0.00% are assumed when calculating the TPL.

Load for Updated Service Credit: To reflect the asymmetric nature of the credits due to the USC provision, there is a load on the final average earnings used in the calculation of 0.1% per year into the future that the calculation is performed.

Demographic assumptions used in the actuarial valuations are as follows:

Termination rates: For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. For City of Miles the base table is then multiplied by a factor of 75.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire – 68%, 2) Police – 86%, or 3) Other – 108%. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. For City of Miles the base table is then multiplied by a factor of 75.0% based on the experience of the city in comparison to the group as a whole. A further multiplier is applied depending on an employee's classification: 1) Fire – 54%, 2) Police – 83%, or 3) Other – 113%.

Forfeiture Rates: (Withdrawal of Member Deposits from TMRS) for vested members vary by age and employer match, and they are expressed as a percentage of the termination rates described above. The withdrawal rates for cities with a 2-to-1 match are shown below. 4% is added to the rates for 1½-to-1 cities, and 8% is added for 1-to-1 cities. Miles is a 1-to-1 city.

Service Retirees and Beneficiary Mortality Rates: For calculating the actuarial liability and the retirement contribution rates, 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. Based on the size of the city, rates are multiplied by an additional factor of 88.0%.

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 9 – PENSION PLAN—Continued

Actuarial assumptions—Continued

Disabled Annuitant Mortality Rates: For calculating the actuarial liability and the retirement contribution rates, the mortality tables for healthy retirees is used with a 4 year set -forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% 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.

Pre-Retirement Mortality: For calculating the actuarial liability and the retirement contribution rates, the 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 by Scale UMP to account for future mortality improvements.

Annuity Purchase Rates: For determining the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) until 2027 are based on a mortality study performed in 2013, with the factors phasing into being based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. The current table of APRs is explicitly valued through 2032 and then it is assumed the APRs and the valuation mortality assumptions will be consistent over time. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries.

The following table summarizes changes in the Total Pension Liability and Plan Fiduciary Net Position (the difference of which is the Net Pension Liability) between the December 31, 2020 and December 31, 2021 measurement dates:

	Increase (Decrease)		
	Total	Fiduciary Net	Net Pension
	Pension	Position	Liability /
Changes in Net Pension Liability / (Asset)	Liability (a)	Position (b)	(a) - (b)
Balances as of December 31, 2020	\$ 286,449	\$ 386,767	\$ (100,318)
Changes for the year:			
Service cost	15,245	-	15,245
Interest on total pension liability	19,399	-	19,399
Changes of benefit terms	-	-	-
Difference in expected and actual experience	(1,548)	-	(1,548)
Benefit payments	(13,358)	(13,358)	-
Administrative expenses	-	(234)	234
Member contributions	-	10,968	(10,968)
Net investment income	-	50,367	(50,367)
Employer contributions	-	-	-
Other	-	2	(2)
Balances as of December 31, 2021	\$ 306,187	\$ 434,512	\$ (128,325)

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 9 – PENSION PLAN—Continued

Sensitivity of the Discount Rate

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

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability (asset)	\$ (90,574)	\$ (128,325)	\$ (159,705)

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.

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For the year ended September 30, 2022, the City recognized pension expense of .

At September 30, 2021, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ (1,548)	\$ -
Changes in actuarial assumptions	-	-
Net difference between projected and actual investment earnings	(24,260)	-
Contributions paid to TMRS subsequent to the measurement date	-	373
Total	\$ <u>(25,808)</u>	\$ <u>373</u>

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, 2022. 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:

2021	\$ (6,480)
2022	(10,949)
2023	(5,449)
2024	(4,852)
2025	-
Thereafter	-
	\$ <u>(27,730)</u>

Required Supplementary Information

The City is required to present its Schedule of Changes in its Net Pension Liability and Related Ratios which shows the changes in the Total Pension Liability and the Fiduciary Net Position, resulting in the Net Pension Asset as of September 30, 2022. This supplementary information beginning on page 38 includes further details regarding the actuarial assumptions for the December 31, 2021, valuation date.

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The City of Miles voluntarily participates in the Texas Municipal Retirement System Supplemental Death Benefits Fund (TMRS SDBF). The SDBF is a defined benefit group-term life insurance Other Postemployment Benefit (OPEB) plan as defined by GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. It is established and administered in accordance with the TMRS Act identically to the City's pension plan.

Benefits Provided

The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this system via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1st of any year to be effective the following January 1st. Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. 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). The death benefit for retirees is considered an "other postemployment benefit" (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

Employees Covered by Benefit Terms

In the December 31, 2021 actuarial valuation, the following number of employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>6</u>
Total	8

Contributions

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

Actuarial Methods and Assumptions

The SDBF OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary increases:	3.50% to 11.50% including inflation
Discount rate:	2.00%

Salary increases were based on a service-related table.

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)—Continued

Actuarial Methods and Assumptions—Continued

Discount Rate: Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

The SDBF's actuarial assumptions for Individual Salary Increases, Termination Rates, Forfeiture Rates, Service Retirees and Beneficiary Mortality Rates, Disabled Annuitant Mortality Rates, Pre-Retirement Mortality, Disability Rates, and Service Retirement Rates, applied to both Active and Inactive Members are the same as those described for the TMRS Pension Plan, in Note 9.

Discount Rate

The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 2.00% was used to measure the SDBF OPEB Liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2021.

Sensitivity of the SDBF OPEB Liability to Changes in the Discount Rate. The following schedule shows the impact of the SDBF OPEB liability if the discount rate used was 1% less than (1.00%) and 1% greater than (3.00%) the discount rate that was used (2.00%) in measuring the OPEB liability:

	1% Decrease (1.75%)	Current Discount Rate (2.75%)	1% Increase (3.75%)
Total OPEB Liability	\$ 14,657	\$ 11,432	\$ 9,054

OPEB Liability

At September 30, 2022, the City reported a liability of \$11,432 for its total SDBF OPEB liability. The total SDBF OPEB liability was determined by an actuarial valuation as of December 31, 2021. There were no changes of benefit terms that affected measurement of the Total SDBF Liability during the measurement period.

The total OPEB Liability was affected by the following changes between the December 31, 2020 and 2021 valuation dates is as follows:

Changes in Net OPEB Liability / (Asset)	Total OPEB Liability
Balances as of December 31, 2020	\$ 7,997
Changes for the year:	
Service cost	1,732
Interest on total OPEB liability	244
Difference in expected and actual experience	(1,539)
Changes of assumptions	1,667
Balances as of December 31, 2021	\$ <u>10,101</u>

CITY OF MILES, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2022
NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)—Continued

At September 30, 2022, the City reported deferred outflows of resources related to the SDBF OPEB from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ (2,311)	\$ -
Net difference between projected and actual investment earnings	-	449
Total	<u>\$ (2,311)</u>	<u>\$ 449</u>

These deferred outflows of resources related to SDBF OPEB will be recognized in OPEB expense as follows:

Year ended December 31:

2020	\$ (308)
2021	(454)
2022	(552)
2023	(313)
2024	(190)
Thereafter	-
	<u>\$ (1,817)</u>

NOTE 11 – SUBSEQUENT EVENTS

We have considered all events and transactions between the fiscal yearend of September 30, 2022 and the date this report was available to be issued, June 5, 2023, and noted nothing requiring disclosure.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

In the prior year, a mistake was made to the general fund statement of revenues, expenditures and changes in fund balances, in the amount of \$126,442. The mistake erroneously increased fund balances when the fund balances should have been decreased.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF MILES, TEXAS
GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Actual Results Cash Basis	Final Budget Results	Variance from Budget Favorable (Unfavorable)	GAAP Adjustments	Actual Results GAAP Basis
REVENUES					
Taxes					
Property	\$ 118,441	\$ 141,800	\$ (23,359)	\$ (4,882)	\$ 113,559
Sales and use	114,719	83,000	31,719	3,357	118,076
Franchise	34,942	30,000	4,942	2,718	37,660
Licenses and permits	4,267	50,100	(45,833)	-	4,267
Charges for services	236,978	144,600	92,378	-	236,978
Investment earnings	-	-	-	3,714	3,714
Grants and contributions	5,555	-	5,555	-	5,555
Miscellaneous	9,023	-	9,023	-	9,023
Total revenues	<u>523,925</u>	<u>449,500</u>	<u>74,425</u>	<u>4,907</u>	<u>528,832</u>
EXPENDITURES					
Current:					
General administrative	84,445	370,900	286,455	-	84,445
Public safety	269,191	310,495	41,304	-	269,191
Public works	31,640	35,000	3,360	-	31,640
Capital outlay	-	-	-	-	-
Total expenditures	<u>385,276</u>	<u>716,395</u>	<u>331,119</u>	<u>-</u>	<u>385,276</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>138,649</u>	<u>(266,895)</u>	<u>405,544</u>	<u>4,907</u>	<u>143,556</u>
TRANSFERS IN	<u>-</u>	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ 138,649</u>	<u>\$ (216,895)</u>	<u>\$ 355,544</u>	<u>\$ 4,907</u>	<u>\$ 143,556</u>

CITY OF MILES, TEXAS
UTILITY FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Actual Results Cash Basis	Final Budget Results	Variance from Budget Favorable (Unfavorable)	GAAP Adjustments	Actual Results GAAP Basis
OPERATING REVENUES					
Charges for sales and services					
Water sales	\$ 335,370	\$ 320,200	\$ 15,170	\$ -	\$ 335,370
Sewer charges	75,371	76,000	(629)	-	75,371
Sanitation charges	154,915	145,000	9,915	(10,821)	144,094
Total operating revenues	<u>565,656</u>	<u>541,200</u>	<u>24,456</u>	<u>(10,821)</u>	<u>554,835</u>
OPERATING EXPENSES					
Costs of sales and services	290,282	339,200	48,918	(10,675)	279,607
Administrative expenses	281,535	374,650	93,115	(74,325)	207,210
Depreciation	-	-	-	114,859	114,859
Total operating expenses	<u>571,817</u>	<u>713,850</u>	<u>142,033</u>	<u>29,859</u>	<u>601,676</u>
OPERATING INCOME	<u>(6,161)</u>	<u>(172,650)</u>	<u>166,489</u>	<u>(40,680)</u>	<u>(46,841)</u>
NON-OPERATING REVENUES (EXPENSES)					
Grant revenues	108,035	-	108,035	-	108,035
Gain on sale of capital assets	-	-	-	50,415	50,415
Miscellaneous revenues	372	1,000	(628)	(50,842)	(50,470)
Interest expense	-	-	-	(14,436)	(14,436)
Total non- operating revenues (expenses)	<u>108,407</u>	<u>1,000</u>	<u>107,407</u>	<u>(14,863)</u>	<u>93,544</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>102,246</u>	<u>(171,650)</u>	<u>273,896</u>	<u>(55,543)</u>	<u>46,703</u>
TRANSFERS IN	<u>-</u>	<u>(50,000)</u>	<u>50,000</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ 102,246</u>	<u>\$ (221,650)</u>	<u>\$ 323,896</u>	<u>\$ (55,543)</u>	<u>\$ 46,703</u>

CITY OF MILES, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability (Asset)							
Service Cost	\$ 15,245	\$ 11,582	\$ 10,545	\$ 9,793	\$ 9,206	\$ 7,444	\$ 7,112
Interest (on total pension liability)	19,399	18,235	16,967	15,967	14,643	13,347	12,224
Change of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(1,548)	(4,109)	(4,396)	(6,142)	(1,023)	(2,473)	(2,573)
Change of assumptions	-	-	434	-	-	-	6,176
Benefit payments, including refunds to employee contributions	<u>(13,358)</u>	<u>(7,236)</u>	<u>(3,334)</u>	<u>(7,018)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Total Pension Liability	19,738	18,472	20,216	12,600	22,826	18,318	22,939
Total Pension Liability- Beginning	286,449	267,977	247,761	235,161	212,335	194,017	171,078
Total Pension Liability- Ending (a)	<u>\$ 306,187</u>	<u>\$ 286,449</u>	<u>\$ 267,977</u>	<u>\$ 247,761</u>	<u>\$ 235,161</u>	<u>\$ 212,335</u>	<u>\$ 194,017</u>
Plan Fiduciary Net Position							
Contributions - Employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - Employee	10,968	8,249	7,096	6,906	7,104	5,899	5,926
Net Investment Income	50,367	27,193	47,494	(9,521)	37,838	16,919	360
Benefit payments, including refunds to employee contributions	(13,358)	(7,236)	(3,334)	(7,018)	-	-	-
Administrative expenses	(233)	(176)	(269)	(184)	(196)	(191)	(219)
Other	<u>2</u>	<u>(7)</u>	<u>(9)</u>	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(11)</u>
Net change in Fiduciary Net Position	47,746	28,023	50,978	(9,827)	44,736	22,617	6,056
Plan Fiduciary Net Position- Beginning	386,767	358,744	307,766	317,593	272,857	250,240	244,184
Plan Fiduciary Net Position- Ending (b)	<u>\$ 434,513</u>	<u>\$ 386,767</u>	<u>\$ 358,744</u>	<u>\$ 307,766</u>	<u>\$ 317,593</u>	<u>\$ 272,857</u>	<u>\$ 250,240</u>
Net Pension Liability (Asset) - Ending (a) - (b)	(128,326)	(100,318)	(90,767)	(60,005)	(82,432)	(60,522)	(56,223)
Plan Fiduciary Net Position as a Percentage of Total Pension Liability (Asset)	142%	135%	134%	124%	135%	129%	129%
Covered Employee Payroll	219,360	164,986	141,927	138,125	142,075	117,978	118,527
Net Pension Liability (Asset) as a Percentage of Covered Payroll	-59%	-61%	-64%	-43%	-58%	-51%	-47%

A full 10 year schedule will be displayed as it becomes available.

**CITY OF MILES, TEXAS
SCHEDULE OF CITY'S CONTRIBUTIONS TO PENSION PLAN
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ -	\$ 260	\$ 260	\$ 129	\$ 103	\$ 92	\$ 97
Contributions in relation to the actuarially determined contribution	<u>-</u>	<u>260</u>	<u>260</u>	<u>129</u>	<u>103</u>	<u>92</u>	<u>97</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	219,360	164,986	141,927	138,125	142,075	117,978	118,527
Contributions as a percentage of covered payroll	0.00%	0.16%	0.18%	0.09%	0.07%	0.08%	0.08%

A full 10 year schedule will be displayed as it becomes available.

**CITY OF MILES, TEXAS
 ADDITIONAL REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
 ACTUARIAL VALUATIONS FOR DECEMBER 31, 2021 VALUATION DATE**

Valuation Date	December 31, 2021
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	3.5% 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.

CITY OF MILES, TEXAS
SCHEDULE OF CHANGES IN NET OTHER POST EMPLOYMENT BENEFITS (OPEB)
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Pension Liability (Asset)				
Service Cost	\$ 2,961	\$ 1,732	\$ 1,732	\$ 1,326
Interest (on total OPEB liability)	232	244	196	214
Differences between expected and actual experience	(2,311)	(1,539)	(1,492)	(2,444)
Change of assumptions and other inputs	<u>449</u>	<u>1,667</u>	<u>3,131</u>	<u>(471)</u>
Net Change in Total OPEB Liability	1,331	2,104	3,567	(1,375)
Total OPEB Liability- Beginning	<u>10,101</u>	<u>7,997</u>	<u>4,430</u>	<u>5,805</u>
Total OPEB Liability- Ending (a)	<u>\$ 11,432</u>	<u>\$ 10,101</u>	<u>\$ 7,997</u>	<u>\$ 4,430</u>
 Covered Employee Payroll	 219,360	 164,986	 141,927	 138,125
Net OPEB Liability (Asset) as a Percentage of Covered Payroll	5%	6%	6%	3%

A full 10 year schedule will be displayed as it becomes available.

COMPLIANCE AND INTERNAL CONTROL SECTION



CAROLINE McLANE
CPA

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

To the Honorable Mayor and City Council
of the City of Miles, Texas:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Miles, 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 of Miles, Texas' basic financial statements, and have issued our report thereon dated June 5, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Miles, Texas' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Miles, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Miles, Texas' 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 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 the internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We consider the following deficiencies in internal control to be significant deficiencies:

- GAAP Accounting—the City does not focus its operations on an accrual basis of accounting nor a modified accrual basis of accounting, but rather a modified-cash basis, which is not in accordance with Generally Accepted Accounting Principles (GAAP). We recommend that the City begin to keep some GAAP basis reconciliations and integrate them into their system of internal control.
- Preparation of the financial statements—the City does not prepare its financial statements, notes to the financial statements, or management's discussion and analysis in accordance with Generally Accepted Accounting Principles (GAAP). Therefore, the City does not have internal controls over financial statement preparation or their reporting cycle.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Caroline McLane, CPA".

Caroline McLane, CPA
June 5, 2023