



# ANNUAL FINANCIAL REPORT 2022

FOR FISCAL YEAR ENDED  
SEPTEMBER 30, 2022

CITY OF  
**LIBERTY, TEXAS**

1829 SAM HOUSTON STREET | LIBERTY, TX | 77575  
936.336.3684 | [WWW.CITYOFLIBERTY.ORG](http://WWW.CITYOFLIBERTY.ORG)



*ANNUAL FINANCIAL REPORT*

of the

**City of Liberty, Texas**

**For the Year Ended  
September 30, 2022**



# City of Liberty, Texas

## TABLE OF CONTENTS

September 30, 2022

### FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements	
Statement of Net Position	20
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet - Governmental Funds	26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	29
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances	
Governmental Funds to the Statement of Activities	35
Statement of Net Position - Proprietary Funds	36
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	39
Statement of Cash Flows - Proprietary Funds	40
Notes to the Financial Statements	43
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balances -	
Budget (GAAP Basis) and Actual - General Fund	82
Schedule of Revenues, Expenditures, and Changes in Fund Balances -	
Budget (GAAP Basis) and Actual - HMPG Flood Wall & Levee Fund	83
Schedule of Changes in Net Pension Liability and Related Ratios	84
Schedule of Employer Contributions to Pension Plan	86
<b>Combining and Individual Fund Financial Statements and Schedules:</b>	
Combining Balance Sheet - Nonmajor Governmental Funds	91
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -	
Nonmajor Governmental Funds	95

(This page intentionally left blank.)



## ***INDEPENDENT AUDITOR'S REPORT***

To the Honorable Mayor and  
Members of the City Council  
City of Liberty, Texas:

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

#### ***Opinions***

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Liberty, Texas, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

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

#### ***Responsibilities of Management for the Financial Statements***

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

In performing an audit in accordance with GAAS, we:

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

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



### ***Emphasis of Matter***

As discussed in Note V.E. to the financial statements, the City restated beginning net position/fund balance for governmental activities, business-type activities, component unit activities, the general fund, the HMPG flood wall and levee fund, two nonmajor governmental funds, the electric fund, the water/wastewater fund, and the solid waste fund. These restatements were the result of corrections to the presentation of the LCDC fund (a discretely presented component unit for the current year ended) and various accounting errors occurring in the prior year. Our opinion is not modified with respect to these matters.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, schedule of employer contributions to pension plan, and budgetary comparison 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Liberty, Texas's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the combining and individual nonmajor fund financial statements, the supplemental schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2023, on our consideration of the City of Liberty, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

Brooks Watson & Co.  
Certified Public Accountants  
Houston, Texas  
February 9, 2023

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

(This page intentionally left blank.)

# **City of Liberty, Texas**

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

### **September 30, 2022**

As management of the City of Liberty, Texas (the "City"), 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. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current-year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as an MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources (net position) at September 30, 2022 by \$96,902,517. Of this amount, \$32,459,776 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$7,264,602. The majority of the City's net position is invested in capital assets and restricted for specific purposes.
- The City's governmental funds reported combined ending fund balances of \$6,954,941 at September 30, 2022, a decrease of \$2,207,826 from the prior fiscal year; this includes a decrease of \$1,332,201 in the general fund, a decrease of \$50,744 in the debt service fund, a decrease of \$364,733 in the capital projects fund, and a decrease of \$325,074 in the nonmajor governmental funds.
- At the end of the fiscal year, unassigned fund balance for the general fund was \$1,615,184 or 14% of total general fund expenditures.

#### **Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

# City of Liberty, Texas

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

September 30, 2022

### **Government-Wide Statements**

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

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is 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 is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City'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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include administration, recreation and leisure, economic development/tourism, public health/safety, public works, airport, golf course, and business and support services. The business-type activities of the City include electric, water and wastewater and solid waste operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate component unit, the Liberty Community Development Corporation, which the City is financially accountable. Financial information for this component unit are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 20-25 of this report.

### **FUND FINANCIAL STATEMENTS**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### **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

# City of Liberty, Texas

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

### September 30, 2022

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 assessing a government's near-term financing requirements.

Because the focus of 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 revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects, debt service fund, HMPG Flood Wall and Levee, and American Rescue Plan fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and certain special revenue funds. A budgetary comparison statement has been provided for the general fund and the major special revenue funds.

The basic governmental fund financial statements can be found on pages 26-35 of this report.

#### **Proprietary Funds**

The City's proprietary funds are all enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its electric, water/wastewater, and solid waste utility operations. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric fund, water/wastewater fund, and solid waste fund, all of which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 36-41 of this report.

# **City of Liberty, Texas**

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

**September 30, 2022**

### **Component Unit**

The City maintains the accounting and financial statements for one component unit. The Liberty Community Development Corporation ("LCDC") is a discretely presented component unit and displayed on the government-wide financial statements.

### **Notes to Financial Statements**

The notes provide additional information that is necessary to acquire 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 43-79 of this report.

### **Other Information**

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund and major special revenue funds, a schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Liberty, Texas, assets and deferred outflows exceeded liabilities and deferred inflows by \$96,902,517 as of September 30, 2022, in the primary government.

The largest portion of the City's net position, \$59,880,084 reflects its investments in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment, construction in progress), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Liberty, Texas's net position of \$4,562,657 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$32,459,776 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City of Liberty, Texas is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.



**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2022**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

	2022			2021		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 15,013,118	\$ 41,194,714	\$ 56,207,832	\$ 14,884,970	\$ 26,835,652	\$ 41,720,622
Internal balances	(3,073,806)	3,073,806	-	(3,089,232)	3,089,232	-
Long-term assets	46,623,760	27,600,259	74,224,019	43,328,211	28,394,690	71,722,901
<b>Total Assets</b>	<b>58,563,072</b>	<b>71,868,779</b>	<b>130,431,851</b>	<b>55,123,949</b>	<b>58,319,574</b>	<b>113,443,523</b>
 <b>Deferred Outflows</b>	 566,190	 62,071	 628,261	 968,809	 176,101	 1,144,910
Current liabilities	5,978,317	2,391,729	8,370,046	3,983,578	2,366,106	6,349,684
Long-term liabilities	14,069,586	10,647,601	24,717,187	16,294,398	1,456,184	17,750,582
<b>Total Liabilities</b>	<b>20,047,903</b>	<b>13,039,330</b>	<b>33,087,233</b>	<b>20,277,976</b>	<b>3,822,290</b>	<b>24,100,266</b>
 <b>Deferred Inflows</b>	 960,038	 110,324	 1,070,362	 733,144	 117,108	 850,252
 Net Position:						
Net investment in capital assets	32,597,104	27,282,980	59,880,084	29,587,506	28,028,072	57,615,578
Restricted	4,456,889	105,768	4,562,657	2,689,145	3,091,923	5,781,068
Unrestricted	1,067,328	31,392,448	32,459,776	2,804,987	23,436,282	26,241,269
<b>Total Net Position</b>	<b>\$ 38,121,321</b>	<b>\$ 58,781,196</b>	<b>\$ 96,902,517</b>	<b>\$ 35,081,638</b>	<b>\$ 54,556,277</b>	<b>\$ 89,637,915</b>

Current and other assets for business-type activities increased \$14,359,062 primarily due to unspent certificate of obligation proceeds and increased net position over the course of the year. Long-term assets for governmental activities increased \$3,295,549 due to infrastructure and capital additions during the year. Current liabilities increased \$1,994,739 in governmental activities primarily as a result of new grant funds received in advanced and outstanding payables for capital improvements as of year end. Long-term liabilities for business-type activities increased \$9,191,417 due to the aforementioned certificates of obligation proceeds received, which were unspent as of yearend.

**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2022**

**Statement of Activities:**

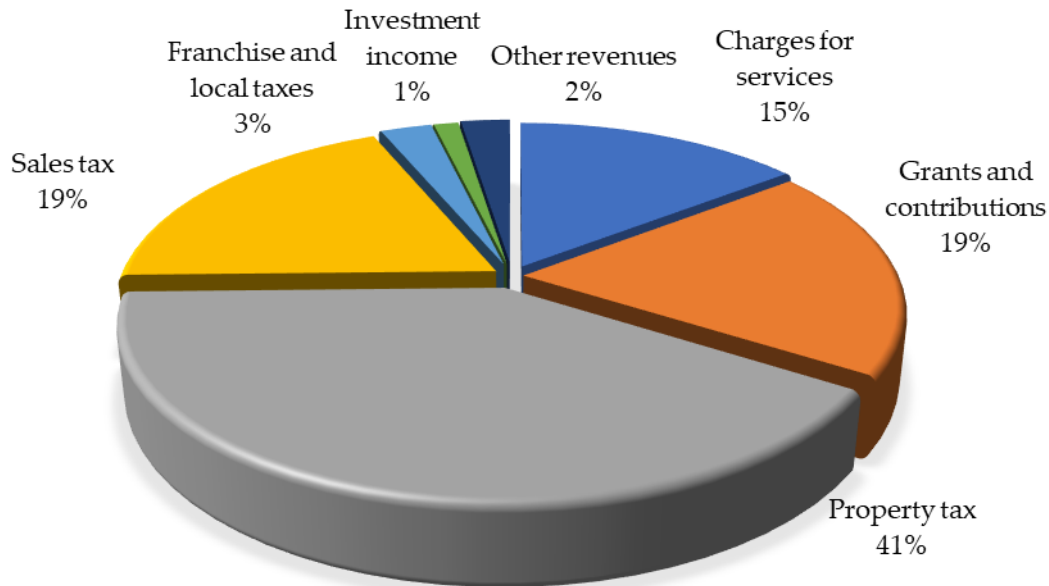
The following table provides a summary of the City's changes in net position:

	<b>For the Year Ended September 30, 2022</b>			<b>For the Year Ended September 30, 2021</b>		
	<b>Governmental</b>	<b>Business-Type</b>	<b>Total</b>	<b>Governmental</b>	<b>Business-Type</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	<b>Primary</b>	<b>Activities</b>	<b>Activities</b>	<b>Primary</b>
			<b>Government</b>			<b>Government</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,757,378	\$ 17,881,732	\$ 19,639,110	\$ 1,713,833	\$ 16,884,419	\$ 18,598,252
Operating grants	126,062	-	126,062	613,230	-	613,230
Capital contributions	2,205,128	6,000,000	8,205,128	3,303,235	6,000,000	9,303,235
General revenues:						
Property tax	4,911,011	-	4,911,011	4,651,256	-	4,651,256
Sales tax	2,288,204	-	2,288,204	2,177,800	-	2,177,800
Franchise & local taxes	314,187	-	314,187	239,065	-	239,065
Investment income	151,399	181,992	333,391	87,575	198,777	286,352
Other revenues	301,390	-	301,390	131,359	47,701	179,060
<b>Total Revenues</b>	<b>12,054,759</b>	<b>24,063,724</b>	<b>36,118,483</b>	<b>12,917,353</b>	<b>23,130,897</b>	<b>36,048,250</b>
<b>Expenses</b>						
Administration	1,675,202	-	1,675,202	1,448,475	-	1,448,475
Public health and safety	6,014,165	-	6,014,165	5,706,134	-	5,706,134
Public works	2,104,155	-	2,104,155	1,464,904	-	1,464,904
Recreation and leisure	1,098,671	-	1,098,671	906,665	-	906,665
Econ. Dev/tourism	70,061	-	70,061	132,692	-	132,692
Airport operations	804,127	-	804,127	492,334	-	492,334
Golf course	490,876	-	490,876	524,769	-	524,769
Bus. & support services	1,368,228	-	1,368,228	954,064	-	954,064
Int. & fiscal charges	289,029	278,011	567,040	458,788	40,913	499,701
Electric	-	10,111,226	10,111,226	-	11,985,024	11,985,024
Water and wastewater	-	3,938,889	3,938,889	-	2,613,408	2,613,408
Solid waste	-	611,241	611,241	-	571,400	571,400
<b>Total Expenses</b>	<b>13,914,514</b>	<b>14,939,367</b>	<b>28,853,881</b>	<b>12,088,825</b>	<b>15,210,745</b>	<b>27,299,570</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	(1,859,755)	9,124,357	7,264,602	828,528	7,920,152	8,748,680
Transfers	4,899,438	(4,899,438)	-	2,365,648	(2,365,648)	-
<b>Total</b>	<b>4,899,438</b>	<b>(4,899,438)</b>	<b>-</b>	<b>2,365,648</b>	<b>(2,365,648)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>3,039,683</b>	<b>4,224,919</b>	<b>7,264,602</b>	<b>3,194,176</b>	<b>5,554,504</b>	<b>8,748,680</b>
Beginning Net Position	35,081,638	54,556,277	89,637,915	31,887,462	49,001,773	80,889,235
<b>Ending Net Position</b>	<b>\$ 38,121,321</b>	<b>\$ 58,781,196</b>	<b>\$ 96,902,517</b>	<b>\$ 35,081,638</b>	<b>\$ 54,556,277</b>	<b>\$ 89,637,915</b>

**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2022**

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

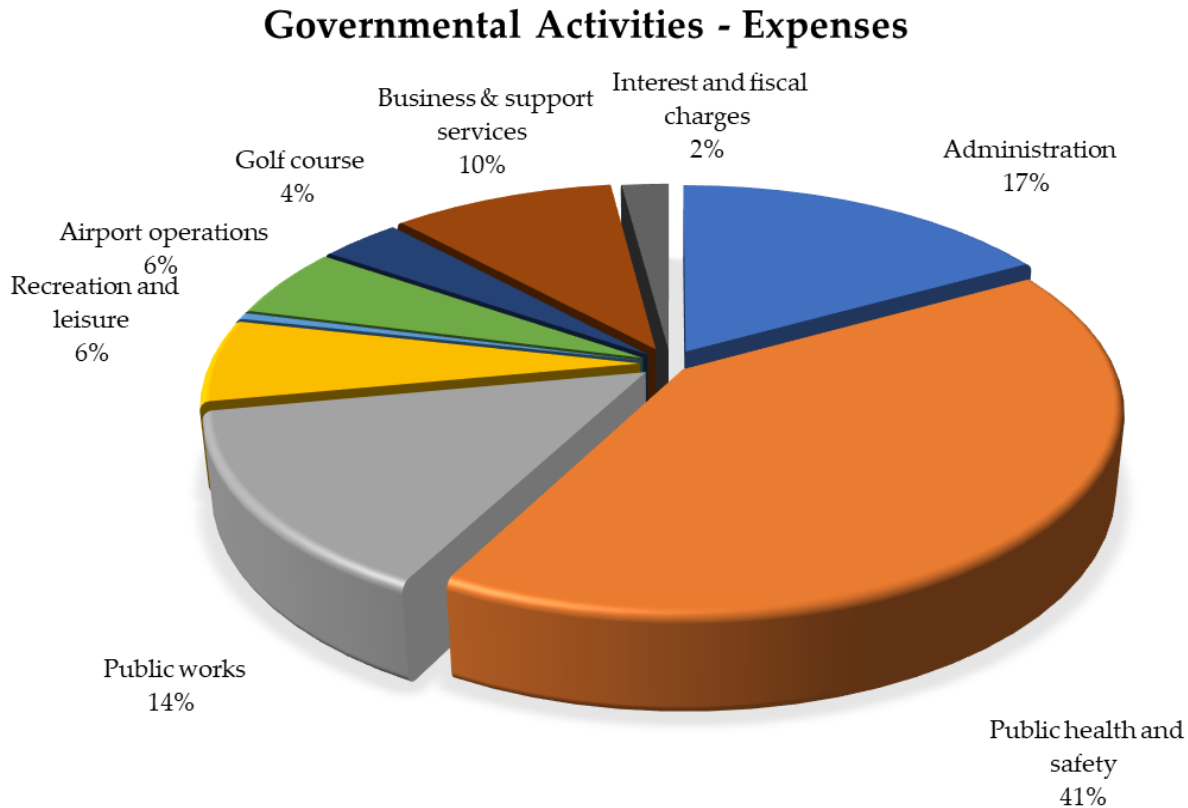
**Governmental Activities - Revenues**



For the year ended September 30, 2022, revenues from governmental activities totaled \$12,054,759. Property tax and sales tax are the City's largest general revenue sources. Overall revenue decreased \$862,594 or 7% from the prior year. This decrease is due to a reduction in grants and contributions. Sales taxes and franchise taxes increased by \$259,755 or 6% and \$110,404 or 5%, respectively. These increases are primarily due to economic growth fueled by local purchases. Property taxes increased by \$259,755 or 6% due to ascending appraisal values and greater tax rate compared to the prior year. Capital and operating contributions decreased by \$1,585,275 primarily due to nonrecurring capital contributions received in the prior year. Investment income increased by \$63,824 or 73% due to greater interest-bearing cash accounts over the course of the year. All other revenues remained relatively stable when compared to the previous year.

**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2022**

This graph shows the governmental function expenses of the City:

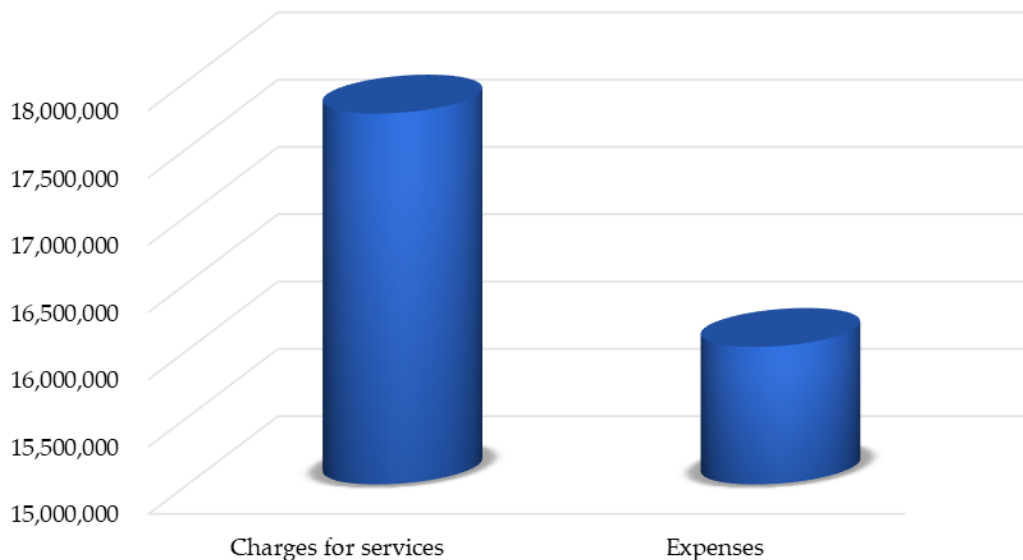


For the year ended September 30, 2022, expenses for governmental activities totaled \$13,914,514. This represents an increase of \$1,825,689 or 15% from the prior year. The City's largest functional expense is public health and safety totaling \$6,014,165, which increased by \$308,031 or 5% and is considered minimal. Public works expenses increased by \$639,251 or 44% primarily due to greater annual depreciation resulting from sanitary sewer improvements being transferred to in-service assets during the year. Airport expenses increased by \$311,793 or 63% primarily due to greater aviation fuel expenses, as fuel prices and public use of the municipal airport was on the rise in the current year. Business and support services increased by \$414,164 or 43% primarily as a result of greater personnel costs, vehicle support expenses, and nonrecurring credit card fees recognized in the current year. Interest and fiscal charges decreased by \$169,759 or 59% primarily resulting from nonrecurring bond issuance costs recognized in the prior year. All other governmental activities expenses remained relatively consistent with the prior year.

**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2022**

Business-type activities are shown comparing operating costs to revenues generated by related services.

**Business-Type Activities - Revenues and Expenses**



For the year ended September 30, 2022, charges for services by business-type activities totaled \$17,881,732. This represents an increase of \$997,313 and 6% from the previous year primarily due to greater utility service rates charged to customers in the current year.

Total business-type activity expenses decreased by \$271,378 or 2% to a total of \$14,939,367. Electric expenses totaled \$10,111,226, while water/wastewater and solid waste utility operations totaled \$4,216,900 (includes interest and fiscal charges) and \$611,241, respectively. Solid waste related expenses remained consistent with the prior year. Electric fund expenses decreased by \$1,873,798 or 16% primarily due to an increased rebate of electric costs from SRMRP, lower electricity consumption by a major customer and purchased electric power in the current year. This decline resulted from the bankruptcy of PTC Liberty Tubular, a major customer that ceased plant operations in the current year. In addition, nonrecurring electric buydown expenses were incurred in the prior year. Water and wastewater fund expenses increased by \$1,325,481 or 34% primarily as a result nonrecurring maintenance on the sewer plant and equipment, increased legal fees, and a write off of customer receivables during the current year. Interest and fiscal charges increased by \$237,098 primarily as a result of nonrecurring bond issuance costs and new certificates of obligation issued in the current year.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

# City of Liberty, Texas

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

### September 30, 2022

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

At September 30, 2022, the City's governmental funds reported combined fund balances of \$6,954,941, a decrease of \$2,207,826 in comparison with the prior year. Approximately 21% of this amount, \$1,435,016, constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted, or committed* to indicate that it is 1) not in spendable form \$48,509, 2) restricted for particular purposes \$4,456,889, or 3) assigned for capital improvements \$1,014,527.

As of the end of the year the general fund reflected a total fund balance of \$2,572,427. Of this, \$48,509 is considered not in spendable form, \$12,009 is restricted, \$896,725 is assigned, and \$1,615,184 is unassigned. General fund balance decreased by \$1,332,201 during the current year primarily as a result of less than anticipated transfers in from other funds.

As a measure of the general fund's liquidity, it may be useful to compare total unassigned fund balance to total fund expenditures. The unassigned (the amount available for spending) fund balance of the general fund of \$1,615,184 is 14% of total general fund expenditures.

The debt service fund had an ending fund balance of \$2,567,022 on September 30, 2022, a decrease of \$50,744 primarily due to debt service expenditures exceeding current year revenues. During the year, the fund recorded total principal and interest payments totaling \$1,714,893 and property tax revenue of \$1,634,707.

The capital projects fund had an ending fund balance of \$1,200,919 at September 30, 2022, an decrease of \$364,733 when compared to the prior year. This decrease is primarily attributable to greater capital expenditures than intergovernmental revenues and transfers in.

The HMPG flood wall and levee fund had an ending fund balance of \$83,371, a decrease of \$135,074 is primarily due to greater than anticipated revenues and less than anticipated expenditures.

The American Rescue Plan fund had an ending fund balance of \$0. The fund balance did not change over the course of the year. The current year revenues were equal to current year expenditures. The fund received \$2,306,209 of grant revenues in advance over the course of the year.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position in the City's largest proprietary fund, the electric fund, totaled \$37,895,604. Unrestricted net position at the close of the fiscal year for all proprietary funds amounted to \$31,392,448, an increase of \$7,956,166 over the previous year. Total investment in capital assets, net of related debt was \$27,282,980, and capital assets, net of depreciation totaled \$27,600,259.

**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2022**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Total budgeted revenues of \$7,224,912 were less than actual revenues of \$7,748,562, resulting in a total positive revenue variance of \$523,650. All actual revenues were greater than the budgeted amounts, with the exception of charges for services and rents/royalties. Total budgeted expenditures of \$12,115,590 were more than actual expenditures of \$11,186,664, resulting in a total positive expenditure variance of \$928,926. All departmental expenditures were less than the budgeted amounts, with the exception of the police department. Expenditures did not exceed appropriations at the legal level of control. No budget amendments were approved during the year.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$46,623,760 in a variety of capital assets and infrastructure, net of accumulated depreciation. The City's business-type activities funds had invested \$27,600,259 in a variety of capital assets and infrastructure, net of accumulated depreciation. This investment in capital assets includes land, buildings, vehicles, equipment, park improvements, and infrastructure.

Major capital asset events during the current year include the following:

- Flood wall and levee improvements totaling \$925,912.
- Investments to the City's library for \$970,647.
- Golf course renovations totaling \$1,576,081.
- Fire station renovations for \$145,176.
- Street rehabilitation project improvements totaling \$1,333,280.
- Purchased three new police vehicles for \$211,578.
- Console improvements for dispatch vehicle amounting to \$123,835.
- Sanitary sewer extension for \$146,410.
- Waterline valve replacement for \$88,986.

More detailed information about the City's capital assets is presented in note IV. D to the financial statements.

**LONG-TERM DEBT**

The City's outstanding bonds, notes payable, capital leases and certificates of obligation, net of all premiums and discounts, increased by \$8,366,963 from the prior year. The total bonds and certificates of obligation payable at the close of the fiscal year was \$23,979,774, net of all premiums and discounts. Of this amount, \$21,920,000 (excluding unamortized premium/discount) comprises of bonded debt backed by the full faith and credit of the City, and the remaining represents bonds secured solely by self-supporting activities.

More detailed information about the City's long-term liabilities is presented in note IV.E to the financial statements.

**City of Liberty, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2022**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The property values, as certified on the 2022 tax roll, was \$743,916,400 or 3.94% over the 2021 property values. However, the total values of taxable property for tax year 2022 are \$717,135,490 or 2.0% higher than the previous tax year, with the values under protest and tax ceiling properties included. This is an increase of \$1,409,964 over the 2021 total taxable value. The value of property under protest and the tax ceilings at the time the certified tax roll was received was \$78,107,046 and \$104,787,996, respectively. Of the amount under protest, approximately \$68,000,000 was for one property. Although an agreement has not been executed on the final value, it is anticipated that the final value will result in a loss of taxable value of \$38,400,000 from previous years. The remaining \$10.1 million remaining under protest has not been determined at this time. The increase in the tax ceiling was 8.9% or \$8,544,208 over the 2021 values. The FY 2022 Budget also includes revenue from the Industrial District Agreement (IDA) executed in 2019 between the Moss Bluff Hub Partners, INC., and the City. The anticipated revenue for FY 2022 from the IDA agreement is \$450,000.

Sale and Use Taxes and Property Taxes are the largest sources of revenue in the General Fund representing 20.3% and 23.5%, respectively. The FY 2022 Budget anticipates an increase of 2.3% growth in sales tax revenue and a 0.66% decrease in property tax revenue over the FY 2022 Budget.

The recent changes in tax legislation by the State Legislature as resulted in a change in calculating the tax rate. The Administration is proposing a decrease in the tax rate to the voter approval rate of \$.6122 for Fiscal Year 2023. The no new tax rate of .5581 per \$100 of assessed value will not generate sufficient revenues to cover the loss in property values protested and the increase in debt service. The current tax rate of \$.6372 per \$ 100 of assessed value is proposed to be decreased to \$.6122 per \$100 of assessed value. Of the FY 2022 assessed value, \$.3727 will be allocated to the General Fund and \$.2395 will be apportioned to debt service.

The proposed 2022 Budget includes the elimination of two positions. The duties of the two eliminated positions were absorbed by existing employees having similar responsibilities. Additionally, a 4% cost increase in health care costs for employees and dependents is included in the budget for all full-time employees. The cost for employee only insurance will continue to be paid for by the City. The cost of dependent coverage will be split between the City and the employee on a 55% and 45% basis, respectively. Additionally, a 3% wage increase for all employees has been included in next year's budget.

A balanced general fund budget is proposed with revenues and expenditures of \$10,825,575.00. This is a 5.8% or \$587,710.00 increase over the Fiscal Year 2022 Budget.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Financial Department.



## ***BASIC FINANCIAL STATEMENTS***

**City of Liberty, Texas**  
**STATEMENT OF NET POSITION (Page 1 of 2)**  
**September 30, 2022**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 13,075,907	\$ 27,182,901	\$ 40,258,808
Investments	253,798	10,632,362	10,886,160
Receivables, net	1,631,732	2,960,214	4,591,946
Due from primary government	-	-	-
Internal balances	(3,073,806)	3,073,806	-
Inventories	51,681	419,237	470,918
<b>Total Current Assets</b>	<b>11,939,312</b>	<b>44,268,520</b>	<b>56,207,832</b>
Capital assets:			
Non-depreciable	14,539,112	7,781,378	22,320,490
Net depreciable capital assets	32,084,648	19,818,881	51,903,529
<b>Total Noncurrent Assets</b>	<b>46,623,760</b>	<b>27,600,259</b>	<b>74,224,019</b>
<b>Total Assets</b>	<b>58,563,072</b>	<b>71,868,779</b>	<b>130,431,851</b>
<b><u>Deferred Outflows of Resources</u></b>			
Pension outflows	540,133	62,071	602,204
Deferred charge on refunding	26,057	-	26,057
<b>Total Deferred Outflows of Resources</b>	<b>566,190</b>	<b>62,071</b>	<b>628,261</b>

Component Unit	
LCDC	
\$	2,523,041
	-
	196,029
	95,322
	-
	-
	2,814,392
	-
	-
	-
	2,814,392
	-
	-
	-

# City of Liberty, Texas

## STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2022

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
<b>Liabilities</b>			
Accounts payable	\$ 1,563,478	\$ 1,279,661	\$ 2,843,139
Accrued liabilities	110,430	32,248	142,678
Due to component unit	93,058	2,264	95,322
Deposits payable	-	603,149	603,149
Grants received in advance	2,306,209	-	2,306,209
Unearned revenue	-	5,448	5,448
Compensated absences, current	453,973	53,146	507,119
Accrued interest payable	27,343	95,813	123,156
Long-term debt due in one year	1,423,826	320,000	1,743,826
	5,978,317	2,391,729	8,370,046
Noncurrent liabilities:			
Net pension liability	2,116,016	243,164	2,359,180
Compensated absences, noncurrent	50,441	5,906	56,347
Long-term debt due in more than one year	11,903,129	10,398,531	22,301,660
<b>Total Noncurrent Liabilities</b>	14,069,586	10,647,601	24,717,187
<b>Total Liabilities</b>	20,047,903	13,039,330	33,087,233
<b>Deferred Inflows of Resources</b>			
Pension inflows	960,038	110,324	1,070,362
<b>Total Deferred Inflows of Resources</b>	960,038	110,324	1,070,362
<b>Net Position</b>			
Net investment in capital assets	32,597,104	27,282,980	59,880,084
Restricted for:			
Debt service	2,601,743	105,768	2,707,511
Public education	62,582	-	62,582
Public safety	58,116	-	58,116
Tourism	108,998	-	108,998
Library	340,153	-	340,153
Capital projects	1,285,297	-	1,285,297
Community development	-	-	-
Unrestricted	1,067,328	31,392,448	32,459,776
<b>Total Net Position</b>	\$ 38,121,321	\$ 58,781,196	\$ 96,902,517

See Notes to Financial Statements.

Component	Unit
<hr/>	
LCDC	
<hr/>	
\$	-
	-
	-
	-
	-
	-
	-
	9,627
	172,763
	<hr/>
	182,390
	<hr/>
	-
	-
	2,375,395
	<hr/>
	2,375,395
	<hr/>
	2,557,785
	<hr/>
	-
	<hr/>
	-
	<hr/>
	-
	78,917
	-
	-
	-
	-
	-
	177,690
	-
	<hr/>
\$	256,607
	<hr/>
	<hr/>

# City of Liberty, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<b>Governmental Activities</b>				
Administration	\$ 1,675,202	\$ -	\$ -	\$ -
Public health and safety	6,014,165	1,097,461	30,727	-
Public works	2,104,155	115,016	95,335	1,522,460
Recreation and leisure	1,098,671	29,342	-	-
Economic development/tourism	70,061	35,000	-	248,373
Airport operations	804,127	480,559	-	76,510
Golf course	490,876	-	-	357,785
Business & support services	1,368,228	-	-	-
Interest and fiscal charges	289,029	-	-	-
<b>Total Governmental Activities</b>	<b>13,914,514</b>	<b>1,757,378</b>	<b>126,062</b>	<b>2,205,128</b>
<b>Business-Type Activities</b>				
Electric	10,111,226	12,506,530	6,000,000	-
Water and wastewater	4,216,900	4,564,974	-	-
Solid waste	611,241	810,228	-	-
<b>Total Business-Type Activities</b>	<b>14,939,367</b>	<b>17,881,732</b>	<b>6,000,000</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 28,853,881</b>	<b>\$ 19,639,110</b>	<b>\$ 6,126,062</b>	<b>\$ 2,205,128</b>
<b>Component Units</b>				
LCDC	1,123,136	-	-	-
<b>Total Component Units</b>	<b>\$ 1,123,136</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

### General Revenues:

Taxes  
     Property taxes  
     Sales taxes  
     Franchise and local taxes  
 Other revenues  
 Investment income  
 Transfers

### Total General Revenues and Transfers

### Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	LCDC
\$ (1,675,202)	\$ -	\$ (1,675,202)	\$ -
(4,885,977)	-	(4,885,977)	-
(371,344)	-	(371,344)	-
(1,069,329)	-	(1,069,329)	-
213,312	-	213,312	-
(247,058)	-	(247,058)	-
(133,091)	-	(133,091)	-
(1,368,228)	-	(1,368,228)	-
(289,029)	-	(289,029)	-
(9,825,946)	-	(9,825,946)	-
-	8,395,304	8,395,304	-
-	348,074	348,074	-
-	198,987	198,987	-
-	8,942,365	8,942,365	-
(9,825,946)	8,942,365	(883,581)	-
			(1,123,136)
			(1,123,136)
4,911,011	-	4,911,011	-
2,288,204	-	2,288,204	1,141,845
314,187	-	314,187	-
301,390	-	301,390	-
151,399	181,992	333,391	29,854
4,899,438	(4,899,438)	-	-
12,865,629	(4,717,446)	8,148,183	1,171,699
3,039,683	4,224,919	7,264,602	48,563
35,081,638	54,556,277	89,637,915	208,044
\$ 38,121,321	\$ 58,781,196	\$ 96,902,517	\$ 256,607

**City of Liberty, Texas**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS (Page 1 of 2)**  
**September 30, 2022**

	<b>General</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>HMPG Flood Wall &amp; Levee</b>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 2,254,624	\$ 2,554,309	\$ 2,128,184	\$ 3,372,870
Investments	-	-	-	-
Accounts receivable, net	755,447	186,579	-	678,624
Due from other funds	561,292	13,453	-	-
Inventories	48,509	-	-	-
<b>Total Assets</b>	<b>\$ 3,619,872</b>	<b>\$ 2,754,341</b>	<b>\$ 2,128,184</b>	<b>\$ 4,051,494</b>
<b><u>Liabilities</u></b>				
Accounts payable	613,771	740	927,265	-
Accrued liabilities	-	-	-	110,430
Grants received in advance	-	-	-	-
Due to component unit	93,058	-	-	-
Due to other funds	13,453	-	-	3,460,239
<b>Total Liabilities</b>	<b>720,282</b>	<b>740</b>	<b>927,265</b>	<b>3,570,669</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	327,163	186,579	-	-
Unavailable revenue - grants	-	-	-	397,454
<b>Total Deferred Inflows of Resources</b>	<b>327,163</b>	<b>186,579</b>	<b>-</b>	<b>397,454</b>
<b><u>Fund Balances</u></b>				
Nonspendable:				
Inventories	48,509	-	-	-
Restricted for:				
Debt service	-	2,567,022	-	-
Public education	-	-	-	-
Public safety	12,009	-	-	-
Tourism	-	-	-	-
Library	-	-	-	-
Capital projects	-	-	1,200,919	83,371
Assigned	896,725	-	-	-
Unassigned	1,615,184	-	-	-
<b>Total Fund Balances</b>	<b>2,572,427</b>	<b>2,567,022</b>	<b>1,200,919</b>	<b>83,371</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 3,619,872</b>	<b>\$ 2,753,601</b>	<b>\$ 1,200,919</b>	<b>\$ 480,825</b>

See Notes to Financial Statements.



<b>American Rescue Plan</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,306,209	\$ 459,711	\$ 13,075,907
-	253,798	253,798
-	11,082	1,631,732
-	-	574,745
-	3,172	51,681
<u>\$ 2,306,209</u>	<u>\$ 727,763</u>	<u>\$ 15,587,863</u>
-	21,702	1,563,478
-	-	110,430
2,306,209	-	2,306,209
-	-	93,058
-	174,859	3,648,551
<u>2,306,209</u>	<u>196,561</u>	<u>7,721,726</u>
-	-	513,742
-	-	397,454
<u>-</u>	<u>-</u>	<u>911,196</u>
-	-	48,509
-	34,721	2,601,743
-	62,582	62,582
-	46,107	58,116
-	108,998	108,998
-	340,153	340,153
-	1,007	1,285,297
-	117,802	1,014,527
-	(180,168)	1,435,016
<u>-</u>	<u>531,202</u>	<u>6,954,941</u>
<u>\$ -</u>	<u>\$ 727,763</u>	<u>\$ 14,676,667</u>

(This page intentionally left blank.)

# City of Liberty, Texas

## RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2022

<b>Fund Balances - Total Governmental Funds</b>	<b>\$ 6,954,941</b>
<b>Adjustments for the Statement of Net Position:</b>	
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	
Capital assets - non-depreciable	14,539,112
Capital assets - net depreciable	32,084,648
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	911,196
Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time	
Pension inflows	(960,038)
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditures) until then	
Pension outflows	540,133
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(27,343)
Deferred charges:	
Deferred charges on refunding	26,057
Bond premium	(946,243)
Net pension liability	(2,116,016)
Compensated absences	(504,414)
Non-current liabilities due in one year	(1,423,826)
Non-current liabilities due in more than one year	(10,956,886)
<b>Net Position of Governmental Activities</b>	<b>\$ 38,121,321</b>

See Notes to Financial Statements.

# City of Liberty, Texas

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS (Page 1 of 2) For the Year Ended September 30, 2022

	General	Debt Service	Capital Projects	HMPG Flood Wall & Levee
<b><u>Revenues</u></b>				
Property tax	\$ 3,421,740	\$ 1,634,707	\$ -	\$ -
Sales tax	2,288,204	-	-	-
Franchise and local taxes	243,409	-	-	-
License and permits	115,016	-	-	-
Intergovernmental	374,435	-	288,500	836,506
Charges for services	886,732	-	-	-
Fines and forfeitures	222,394	-	-	-
Investment income	113,620	29,442	-	-
Other revenue	79,312	-	-	-
Rents and royalties	3,700	-	-	-
<b>Total Revenues</b>	<b>7,748,562</b>	<b>1,664,149</b>	<b>288,500</b>	<b>836,506</b>
<b><u>Expenditures</u></b>				
Current:				
General government	1,112,504	-	-	-
Fire/EMS	2,462,431	-	-	-
Police	2,776,652	-	-	-
Municipal court	194,226	-	-	-
Animal control	125,872	-	-	-
Streets	743,289	-	-	-
Parks and recreation	924,762	-	-	-
Tourism	-	-	-	-
Airport	-	-	-	-
Golf course	-	-	-	-
Inspection	240,399	-	-	-
Business and support services	1,365,472	-	-	-
Debt service:				
Principal	-	1,348,725	-	-
Interest and fiscal charges	-	366,168	-	-
Capital outlay	1,241,057	-	3,524,806	971,580
<b>Total Expenditures</b>	<b>11,186,664</b>	<b>1,714,893</b>	<b>3,524,806</b>	<b>971,580</b>

<b>American Rescue Plan</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 5,056,447
-	-	2,288,204
-	70,778	314,187
-	-	115,016
-	434,295	1,933,736
-	533,236	1,419,968
-	-	222,394
-	8,337	151,399
6,000	37,297	122,609
-	70,545	74,245
<u>6,000</u>	<u>1,154,488</u>	<u>11,698,205</u>

6,000	-	1,118,504
-	-	2,462,431
-	37,283	2,813,935
-	-	194,226
-	-	125,872
-	99,415	842,704
-	-	924,762
-	70,061	70,061
-	668,854	668,854
-	412,435	412,435
-	-	240,399
-	-	1,365,472
-	22,893	1,371,618
-	3,128	369,296
-	191,993	5,929,436
<u>6,000</u>	<u>1,506,062</u>	<u>18,910,005</u>

# City of Liberty, Texas

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS (Page 2 of 2) For the Year Ended September 30, 2022

	General	Debt Service	Capital Projects	HMPG Flood Wall & Levee
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (3,438,102)	\$ (50,744)	\$ (3,236,306)	\$ (135,074)
<b>Other Financing Sources (Uses)</b>				
Sale of assets	104,536	-	-	-
Transfers in	2,027,865	-	2,871,573	-
Transfers (out)	(26,500)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	2,105,901	-	2,871,573	-
<b>Net Change in Fund Balances</b>	(1,332,201)	(50,744)	(364,733)	(135,074)
Beginning fund balances	3,904,628	2,617,766	1,565,652	218,445
<b>Ending Fund Balances</b>	<u>\$ 2,572,427</u>	<u>\$ 2,567,022</u>	<u>\$ 1,200,919</u>	<u>\$ 83,371</u>
See Notes to Financial Statements.				

<b>American Rescue Plan</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ (351,574)	\$ (7,211,800)
-	-	104,536
-	26,500	4,925,938
-	-	(26,500)
-	26,500	5,003,974
-	(325,074)	(2,207,826)
-	856,276	9,162,767
\$ -	\$ 531,202	\$ 6,954,941

(This page intentionally left blank.)



# City of Liberty, Texas

## *RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES*

**For the Year Ended September 30, 2022**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (2,207,826)
---	----------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	5,433,444
Depreciation expense	(2,137,895)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	252,018
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(47,676)
Accrued interest	10,107
Pension expense	295,733

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of deferred charges on refunding	(13,030)
Amortization of premium	83,190
Principal payments	1,371,618

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 3,039,683</b>
--	---------------------

See Notes to Financial Statements.

**City of Liberty, Texas**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS (Page 1 of 2)**  
**September 30, 2022**

	<b>Electric</b>	<b>Water and Wastewater</b>	<b>Solid Waste</b>	<b>Total</b>
<b><u>Assets</u></b>				
<b><u>Current Assets</u></b>				
Cash and cash equivalents	\$ 12,623,533	\$ 14,506,960	\$ 52,408	\$ 27,182,901
Investments	10,632,362	-	-	10,632,362
Accounts receivable, net	2,307,016	552,596	100,602	2,960,214
Inventories	293,344	125,893	-	419,237
Due from other funds	3,400,520	1,504	-	3,402,024
<b>Total Current Assets</b>	<b>29,256,775</b>	<b>15,186,953</b>	<b>153,010</b>	<b>44,596,738</b>
<b><u>Noncurrent Assets</u></b>				
Capital assets:				
Non-depreciable	6,031,226	1,750,152	-	7,781,378
Net depreciable capital assets	4,636,296	15,182,585	-	19,818,881
<b>Total Noncurrent Assets</b>	<b>10,667,522</b>	<b>16,932,737</b>	<b>-</b>	<b>27,600,259</b>
<b>Total Assets</b>	<b>39,924,297</b>	<b>32,119,690</b>	<b>153,010</b>	<b>72,196,997</b>
<b><u>Deferred Outflows of Resources</u></b>				
Pension outflows	8,479	53,592	-	62,071
<b>Total Deferred Outflows of Resources</b>	<b>8,479</b>	<b>53,592</b>	<b>-</b>	<b>62,071</b>

See Notes to Financial Statements.

**City of Liberty, Texas**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS (Page 2 of 2)**  
**September 30, 2022**

	<u>Electric</u>	<u>Water and Wastewater</u>	<u>Solid Waste</u>	<u>Total</u>
<b><u>Liabilities</u></b>				
<b><u>Current Liabilities</u></b>				
Accounts payable	\$ 1,184,346	\$ 42,846	\$ 52,469	\$ 1,279,661
Accrued liabilities	9,763	22,485	-	32,248
Customer deposits	558,991	44,003	155	603,149
Unearned revenue	5,448	-	-	5,448
Compensated absences, current	9,715	43,431	-	53,146
Due to component unit	-	-	2,264	2,264
Due to other funds	219,544	105,493	3,181	328,218
Long-term debt, current	-	320,000	-	320,000
Accrued interest	-	95,813	-	95,813
<b>Total Current Liabilities</b>	<u>1,987,807</u>	<u>674,071</u>	<u>58,069</u>	<u>2,719,947</u>
<b><u>Noncurrent Liabilities</u></b>				
Compensated absences, noncurrent	1,080	4,826	-	5,906
Long-term debt, noncurrent	-	10,398,531	-	10,398,531
Net pension liability	33,215	209,949	-	243,164
<b>Total Liabilities</b>	<u>2,022,102</u>	<u>11,287,377</u>	<u>58,069</u>	<u>13,367,548</u>
<b><u>Deferred Inflows of Resources</u></b>				
Pension inflows	15,070	95,254	-	110,324
<b>Total Deferred Inflows of Resources</b>	<u>15,070</u>	<u>95,254</u>	<u>-</u>	<u>110,324</u>
<b><u>Net Position</u></b>				
Net investment in capital assets	10,667,522	16,615,458	-	27,282,980
Restricted for:				
Debt service	105,768	-	-	105,768
Unrestricted	27,122,314	4,175,193	94,941	31,392,448
<b>Total Net Position</b>	<u>\$ 37,895,604</u>	<u>\$ 20,790,651</u>	<u>\$ 94,941</u>	<u>\$ 58,781,196</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

# City of Liberty, Texas

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2022

	Electric	Water and Wastewater	Solid Waste	Total
<b><u>Operating Revenues</u></b>				
Charges for services, net	\$ 12,088,941	\$ 4,564,974	\$ 810,228	\$ 17,464,143
Late fees and penalties	291,117	-	-	291,117
Other income	126,472	-	-	126,472
<b>Total Operating Revenues</b>	<b>12,506,530</b>	<b>4,564,974</b>	<b>810,228</b>	<b>17,881,732</b>
<b><u>Operating Expenses</u></b>				
Power purchases, net	7,889,660	-	-	7,889,660
Personnel costs	88,140	584,793	611,241	1,284,174
Distribution supplies and contracts	1,069	149,358	-	150,427
Maintenance and repairs	1,047,204	1,059,439	-	2,106,643
Other charges and services	100,434	1,138,124	-	1,238,558
General operations	822,295	139,774	-	962,069
Depreciation	162,424	867,401	-	1,029,825
<b>Total Operating Expenses</b>	<b>10,111,226</b>	<b>3,938,889</b>	<b>611,241</b>	<b>14,661,356</b>
<b>Operating Income (Loss)</b>	<b>2,395,304</b>	<b>626,085</b>	<b>198,987</b>	<b>3,220,376</b>
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Investment income	103,440	78,552	-	181,992
Intergovernmental	6,000,000	-	-	6,000,000
Interest expense	-	(107,536)	-	(107,536)
Bond issuance costs	-	(170,475)	-	(170,475)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>6,103,440</b>	<b>(199,459)</b>	<b>-</b>	<b>5,903,981</b>
<b>Income Before Transfers</b>	<b>8,498,744</b>	<b>426,626</b>	<b>198,987</b>	<b>9,124,357</b>
<b><u>Transfers</u></b>				
Transfers in	-	243,087	-	243,087
Transfers (out)	(3,945,659)	(938,491)	(258,375)	(5,142,525)
<b>Total Transfers</b>	<b>(3,945,659)</b>	<b>(695,404)</b>	<b>(258,375)</b>	<b>(4,899,438)</b>
<b>Change in Net Position</b>	<b>4,553,085</b>	<b>(268,778)</b>	<b>(59,388)</b>	<b>4,224,919</b>
Beginning net position	33,342,519	21,059,429	154,329	54,556,277
<b>Ending Net Position</b>	<b>\$ 37,895,604</b>	<b>\$ 20,790,651</b>	<b>\$ 94,941</b>	<b>\$ 58,781,196</b>

See Notes to Financial Statements.

**City of Liberty, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 1 of 2)**  
**For the Year Ended September 30, 2022**

	Electric	Water and Wastewater	Solid Waste	Total
<b><u>Cash Flows from Operating Activities</u></b>				
Payments to employees	\$ (360,486)	\$ (714,519)	\$ (601,815)	\$ (1,676,820)
Payments to suppliers	(10,080,933)	(2,458,405)	-	(12,539,338)
Receipts from customers	12,114,177	4,836,613	807,195	17,757,985
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>1,672,758</b>	<b>1,663,689</b>	<b>205,380</b>	<b>3,541,827</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Intergovernmental	6,000,000	-	-	6,000,000
Transfers in	-	243,087	-	243,087
Transfers (out)	(3,945,659)	(938,491)	(258,375)	(5,142,525)
<b>Net Cash (Used) by Noncapital Financing Activities</b>	<b>2,054,341</b>	<b>(695,404)</b>	<b>(258,375)</b>	<b>1,100,562</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Purchase of capital assets	-	(235,395)	-	(235,395)
Premiums on debt issuance	-	393,124	-	393,124
Proceeds from long-term debt	-	9,605,000	-	9,605,000
Interest paid on capital debt	-	(178,959)	-	(178,959)
Principal paid on capital debt	-	(180,000)	-	(180,000)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>-</b>	<b>9,403,770</b>	<b>-</b>	<b>9,403,770</b>
<b><u>Cash Flows from Investing Activities</u></b>				
Sale (Purchase) of investments	(3,651,847)	548,382	-	(3,103,465)
Interest on investments	103,440	78,552	-	181,992
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(3,548,407)</b>	<b>626,934</b>	<b>-</b>	<b>(2,921,473)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>178,692</b>	<b>10,998,989</b>	<b>(52,995)</b>	<b>11,124,686</b>
Beginning cash and cash equivalents	12,444,841	3,507,971	105,403	16,058,215
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 12,623,533</b>	<b>\$ 14,506,960</b>	<b>\$ 52,408</b>	<b>\$ 27,182,901</b>

See Notes to Financial Statements.

**City of Liberty, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 2 of 2)**  
**For the Year Ended September 30, 2022**

	Electric	Water and Wastewater	Solid Waste	Total
<b><u>Reconciliation of Operating Income (Loss)</u></b>				
<b><u>to Net Cash Provided (Used) by Operating Activities</u></b>				
Operating Income (Loss)	\$ 2,395,304	\$ 626,085	\$ 198,987	\$ 3,220,376
Adjustments to reconcile operating income (loss) to net cash provided (used):				
Depreciation	162,424	867,401	-	1,029,825
<b>Changes in Operating Assets and Liabilities:</b>				
<b>(Increase) Decrease in:</b>				
Accounts receivable	(460,716)	(94,238)	(3,063)	(558,017)
Due from other governments	-	359,222	-	359,222
Due from other funds	34,345	-	-	34,345
Inventory	-	31,080	-	31,080
<b>Increase (Decrease) in:</b>				
Accounts payable	(196,202)	(39,975)	9,387	(226,790)
Accrued liabilities	(58,414)	22,485	(5,406)	(41,335)
Due to other funds	-	14,700	3,181	17,881
Due to component unit	-	-	2,264	2,264
Unearned revenue	5,448	-	-	5,448
Compensated absences	(6,848)	(6,209)	-	(13,057)
Deferred outflows - pension	56,873	57,157	-	114,030
Deferred inflows - pension	(33,785)	27,001	-	(6,784)
Net pension liability	(288,586)	(207,675)	-	(496,261)
Customer deposits	62,915	6,655	30	69,600
<b>Net Cash Provided (Used) by     Operating Activities</b>	<b>\$ 1,672,758</b>	<b>\$ 1,663,689</b>	<b>\$ 205,380</b>	<b>\$ 3,541,827</b>

See Notes to Financial Statements.

(This page intentionally left blank.)



# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Liberty, Texas (the “City”) is a Home Rule City which operates under a City Charter adopted by the voters in 1958. The Charter provides for a Council – Manager form of government comprised of a mayor and six council members. It is the Council’s responsibility to appoint a City Manager who is the chief administrative and executive officer of the City.

The City’s major operations include public safety, fire protection, emergency medical services, parks and recreation, library, and general administrative services. Additionally, the City operates utility funds for the provision of utilities, including electric, water and wastewater, and solid waste services.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) applicable to government units. The following is a summary of the more significant accounting policies.

#### A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

#### B. Reporting Entity

For financial reporting purposes, management has considered all potential component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The criteria used are as follows:

Financial Accountability – The primary government is deemed to be financially accountable if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government. Additionally, the primary government may be financially accountable if an organization is fiscally dependent on the primary government and there is a potential for the organization to provide specific financial benefits or impose specific financial burdens on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government or a jointly appointed board.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

**Discretely Presented Component Unit**

Liberty Community Development Corporation

The Liberty Community Development Corporation (the "LCDC"), is a non-profit industrial development corporation whose purpose is to promote economic development within the City of Liberty. Due to the control and financial dependence exerted by the City over the Corporation, that entity is considered a component unit of the City for financial reporting purposes, and its financial activity is included in the accompanying financial statements as a special revenue fund. The Corporation is funded by a one-half (1/2) cent sales tax which became effective as of October 1995. During 2014, LCDC issued \$3.2 million of sales tax revenue bonds for a street construction project.

Discretely presented is appropriate because the Corporation's Board is not substantially the same as the City. Separate unaudited financial statements are available by contacting the City's finance department.

**C. Basis of Presentation - Government-Wide and Fund Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As discussed earlier, the government has one discretely presented component unit which is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided and other charges between 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.

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category; governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

The government reports the following major governmental funds:

**General Fund**

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, recreation and leisure, business and support services, and community development.

**Debt Service Fund**

The City accounts for the accumulation of financial resources for the payments of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the debt service fund is restricted exclusively for debt service expenditures.

**Capital Projects Fund**

The City's capital projects fund accounts for the acquisition and construction of the government's major capital facilities, other than those financed by proprietary funds.

**HMPG Flood Wall and Levee Fund**

The HMPG Flood Wall Levee fund is used to account for revenues and grant expenditures related to funds received through the federal grants for hazard mitigation.

**American Rescue Plan Fund**

The American Rescue Plan fund is used to account for revenues and grant expenditures related to funds received through the federal government's COVID-19 response.

The government reports the following major enterprise funds:

**Electric Fund**

Electricity services provided by the City are accounted for in the utility fund. Activities of the fund include administration, operation and maintenance of the electric system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for outstanding debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the funds.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

### **Water and Wastewater Fund**

This fund accounts for the administration, operation and maintenance of the City's water system and wastewater treatment facility.

### **Solid Waste Fund**

The solid waste fund accounts for the administration, operation and maintenance of the solid waste department.

Additionally, the government reports the following fund types:

### **Special Revenue Funds**

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of the police seizures, airport, hotel-motel/tourism, golf course, CDBG Harvey recovery, municipal library trust, library memorial, capital projects (CO 2016), and public education, government cable and police pre-seizure.

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 from/to other funds and advances 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 the funds included in governmental activities (i.e., the governmental and internal service funds) 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 (i.e., the enterprise funds) 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 governmental activities are eliminated so that only the net amount is included as transfers 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 transfers in the business-type activities column.

### **D. 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

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

### September 30, 2022

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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary, pension and other postemployment benefit trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Custodial funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

**E. Assets, Liabilities, Deferred Outflows/Inflows, and Fund Equity or Net Position**

**1. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government  
Fully collateralized certificates of deposit and money market accounts  
Statewide investment pools  
SEC registered, no load money market mutual funds

**2. Fair Value**

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

**3. Receivables and Interfund Transactions**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

component unit/primary government.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds are offset by a nonspendable fund balance account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

**4. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories of supplies are reported at cost using the first-in/first-out method. The City does not maintain significant inventories of materials and supplies in the governmental fund types, except for street department materials. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

**5. Restricted Assets**

Certain proceeds of enterprise fund certificates of obligation and funds reserved for capital projects are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

**6. 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 columns in the government-wide financial statements. Capital 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art, and capital items received in a service concession arrangement are reported at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

### September 30, 2022

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Infrastructure	15 - 40 years
Buildings and improvements	15 - 40 years
System	15 - 40 years
Vehicles	5 - 7 years
Heavy equipment	5 - 10 years
Office equipment	3 - 5 years

#### 7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows / inflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government only has three items that qualify for reporting in this category. One example is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

#### 8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.



**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed when incurred.

The net pension liability is included within long term debt. This liability is valued using an actuarial model and represents the difference between the plan fiduciary net position and the net pension liability consistent with GASB statement no. 68. The portion of this liability presented as a current liability is based on actuarial calculations for estimated future payments of benefits and refunds over the twelve months following yearend.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

**9. Leases**

Lessee: The City is a lessee for a noncancellable lease of equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The City recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

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

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

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor: When City is a lessor for a noncancellable lease. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

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

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

**10. Pensions**

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

**11. Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**12. Fund Balance Flow Assumptions**

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**13. Fund Balance Policies**

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (Council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**14. Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**F. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as 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 segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

### **3. Compensated Absences**

City employees are entitled to certain compensated absences based on the length of their employment. Sick leave may be carried from one year to the next year. Employees with more than five years of service with the City will be paid for unused sick leave upon separation of employment. The amount of leave is based on their length of service with the maximum amount paid between 20 days and 60 days. Compensation for vacation time may be carried from one year to the next year. Employees will be paid for unused vacation time up to two times their annual vacation days upon separation of employment. Unused accrued vacation in excess of these days will not be reimbursed. Additionally, employees can accumulate up to 40 hours per year in compensation time to be used as time off from work. A liability for these amounts is reported in governmental funds only if they are expected to be liquidated with expendable available financial resources, for example, as a result of employee resignations and retirements.

### **4. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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, golf course fund, and storm water utility funds are charges to customers for sales and services. The utility fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

### **A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.**

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

### **B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

### **III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, police seizure, airport, HMPG flood wall and levee, hotel/motel tax, golf course, debt service, and capital projects, and enterprise funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the fund level. No funds can be transferred or added which affect the total fund expenditures without City Council approval. Appropriations lapse at the end of the year.

#### **A. Deficit Fund Balance**

As of September 30, 2022, the golf course fund and the CDBG Harvey recovery fund had a deficit fund balance of \$5,308 and \$174,859, respectively.

### **IV. DETAILED NOTES ON ALL FUNDS**

#### **A. Deposits and Investments**

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City’s deposits were fully insured or collateralized as required by the state statutes at September 30, 2022.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

### September 30, 2022

As of September 30, 2022, the primary government had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Treasury bills	\$ 8,029,356	0.47
Certificates of deposit	2,668,516	0.51
Mutual funds	188,288	0.00
Total value	\$ 10,886,160	
Portfolio weighted average maturity		0.47

*Interest rate risk:* In compliance with the City's Investment Policy, as of September 30, 2022, the City minimized the interest rate risk, related to current events market turmoil in the portfolio by: limiting the effective duration of security types not to exceed two years with the exception of securities purchases related to reserve funds; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in short-term securities, money market mutual funds, or similar government investment pools.

*Credit risk:* The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service. As of September 30, 2022, all of the City's purchased investments in US treasury fixed income securities are rated AAA+ by Moody's.

*Custodial credit risk – deposits:* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2022, the market values of pledged securities and FDIC exceeded bank balances.

*Custodial credit risk – investments:* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

### September 30, 2022

Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

#### **B. Fair Value Measurement**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The following table sets forth by level, within the fair value hierarchy, the City's fair value measurements at September 30, 2022:

	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Treasury Bills	\$ 8,029,356	\$ 8,029,356	\$ -	\$ -
Mutual funds	188,288	188,288	-	-
<b>Total Assets at fair value</b>	<u>\$ 8,217,644</u>	<u>\$ 8,217,644</u>	<u>\$ -</u>	<u>\$ -</u>



**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

**C. Receivables**

The following comprise receivable balances of the primary government at year end:

	<b>General</b>	<b>Debt Service</b>	<b>HMPG Flood Wall &amp; Levee</b>	<b>Nonmajor</b>	<b>Governmental Activities Total</b>
Property taxes	\$ 656,895	\$ 404,815	\$ -	\$ -	\$ 1,061,710
Sales tax	392,059	-	-	-	392,059
Franchise taxes	29,363	-	-	-	29,363
Hotel/motel	-	-	-	10,208	10,208
Intergovernmental	156,012	-	678,624	-	834,636
Other	4,179	-	-	874	5,053
Allowance	(483,061)	(218,236)	-	-	(701,297)
<b>Total</b>	<b>\$ 755,447</b>	<b>\$ 186,579</b>	<b>\$ 678,624</b>	<b>\$ 11,082</b>	<b>\$ 1,631,732</b>

	<b>Electric</b>	<b>Water &amp; Wastewater</b>	<b>Solid Waste</b>	<b>Business-Type Activities Total</b>
Electric services	\$ 2,328,326	\$ -	\$ -	\$ 2,328,326
Water & wastewater	-	558,126	-	558,126
Solid waste	-	-	101,703	101,703
Intergovernmental	-	359,222	-	359,222
Allowance	(21,310)	(364,752)	(1,101)	(387,163)
<b>Total</b>	<b>\$ 2,307,016</b>	<b>\$ 552,596</b>	<b>\$ 100,602</b>	<b>\$ 2,960,214</b>

The following comprise receivable balances of the discretely presented component unit at year end:

	<b>LCDC</b>
Sales taxes	\$ 196,029
<b>Total</b>	<b>\$ 196,029</b>

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

**D. Capital Assets**

A summary of changes in governmental activities capital assets for the year end was as follows:

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 1,508,940	\$ -	\$ -	\$ 1,508,940
Construction in progress	15,347,146	5,010,292	(7,327,266)	13,030,172
Total capital assets not being depreciated	<u>16,856,086</u>	<u>5,010,292</u>	<u>(7,327,266)</u>	<u>14,539,112</u>
Capital assets, being depreciated:				
Buildings and improvements	17,504,021	-	-	17,504,021
Infrastructure	54,491,926	-	7,327,266	61,819,192
Vehicles	3,747,836	273,554	(112,315)	3,909,075
Furniture and equipment	5,753,982	149,598	(7,171)	5,896,409
Right-to-use asset	117,093	-	-	117,093
Total capital assets being depreciated	<u>81,614,858</u>	<u>423,152</u>	<u>7,207,780</u>	<u>89,245,790</u>
Less accumulated depreciation				
Buildings and improvements	8,126,200	376,075	-	8,502,275
Infrastructure	41,265,468	866,452	-	42,131,920
Vehicles	2,006,874	383,651	(112,315)	2,278,210
Furniture and equipment	3,743,029	494,989	(7,171)	4,230,847
Right-to-use asset	1,162	16,728	-	17,890
Total accumulated depreciation	<u>55,142,733</u>	<u>2,137,895</u>	<u>(119,486)</u>	<u>57,161,142</u>
Net capital assets being depreciated	<u>26,472,125</u>	<u>(1,714,743)</u>	<u>7,327,266</u>	<u>32,084,648</u>
<b>Total Capital Assets</b>	<u><u>\$ 43,328,211</u></u>	<u><u>\$ 3,295,549</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 46,623,760</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 88,782
Public safety	572,830
Public works	1,047,041
Recreation and leisure	200,533
Tourism	78,441
Airport	135,273
Business and support services	14,995
<b>Total Governmental Activities Depreciation Expense</b>	<u><u>\$ 2,137,895</u></u>

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

A summary of changes in business-type activities capital assets for the year end was as follows:

	<b>Beginning Balances</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 2,568	\$ -	\$ -	\$ 2,568
Construction in progress	7,841,840	-	(63,030)	7,778,810
Total capital assets not being depreciated	<u>7,844,408</u>	<u>-</u>	<u>(63,030)</u>	<u>7,781,378</u>
Capital assets, being depreciated:				
Buildings and improvements	849,482	-	-	849,482
System improvements	26,964,268	235,395	63,030	27,262,693
Vehicles	421,440	-	-	421,440
Furniture and equipment	9,405,733	-	-	9,405,733
Total capital assets being depreciated	<u>37,640,923</u>	<u>235,395</u>	<u>63,030</u>	<u>37,939,348</u>
Less accumulated depreciation				
Buildings and improvements	260,084	20,454	-	280,538
System improvements	14,747,662	628,362	-	15,376,024
Vehicles	316,483	29,907	-	346,390
Furniture and equipment	1,766,413	351,102	-	2,117,515
Total accumulated depreciation	<u>17,090,642</u>	<u>1,029,825</u>	<u>-</u>	<u>18,120,467</u>
Net capital assets being depreciated	<u>20,550,281</u>	<u>(794,430)</u>	<u>63,030</u>	<u>19,818,881</u>
<b>Total Capital Assets</b>	<u><u>\$ 28,394,689</u></u>	<u><u>\$ (794,430)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,600,259</u></u>

Depreciation was charged to business-type activities as follows:

Water and wastewater	\$ 867,401
Electric	162,424
<b>Total Business-type Activities Depreciation Expense</b>	<u><u>\$ 1,029,825</u></u>

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2022

### E. Long-term Debt

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2022. In general, the City uses the debt service fund and golf course fund to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Retired	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds, notes and other payables:					
General Obligation Refunding Bonds	\$ 7,500,000	\$ -	\$ (925,000)	\$ 6,575,000	\$ 1,050,000
Certificate of Obligation Bonds	6,163,725	-	(423,725)	5,740,000	350,000
Premiums	1,029,433	-	(83,190)	946,243	-
Total Bonds Payable	14,693,158	-	(1,431,915)	13,261,243	1,400,000
Leases	88,605	-	(22,893)	65,712	23,826
<b>Total Governmental Activities</b>	<b>\$ 14,781,763</b>	<b>\$ -</b>	<b>\$ (1,454,808)</b>	<b>\$ 13,326,955</b>	<b>\$ 1,423,826</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 11,903,129</b>	
<b>Business-Type Activities:</b>					
Certificate of Obligation Bonds	\$ -	\$ 9,605,000	\$ -	\$ 9,605,000	\$ 140,000
Revenue Bonds	915,000	-	(180,000)	735,000	180,000
Discounts	(18,240)	-	3,647	(14,593)	-
Premiums	-	393,124	-	393,124	-
Total Bonds Payable	896,760	9,998,124	(176,353)	10,718,531	320,000
<b>Total Business-Type Activities</b>	<b>\$ 896,760</b>	<b>\$ 9,998,124</b>	<b>\$ (176,353)</b>	<b>\$ 10,718,531</b>	<b>\$ 320,000</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 10,398,531</b>	

	Beginning Balance	Additions	Retired	Ending Balance	Amounts Due Within One Year
<b>Component Unit Activities (CDC):</b>					
Sales Tax Bonds	\$ 2,345,000	\$ -	\$ (145,000)	\$ 2,200,000	\$ 150,000
Note payable	359,374	-	(21,872)	337,502	22,763
Premiums	11,625	-	(969)	10,656	-
<b>Total Component Unit Activities</b>	<b>\$ 2,715,999</b>	<b>\$ -</b>	<b>\$ (167,841)</b>	<b>\$ 2,548,158</b>	<b>\$ 172,763</b>
<b>Long-term liabilities due in more than one year</b>				<b>\$ 2,375,395</b>	

# City of Liberty, Texas

## *NOTES TO THE FINANCIAL STATEMENTS, Continued*

September 30, 2022

General obligation bonds and certificates are serviced by the debt service fund. The amount of long-term debt that can be incurred by the City is not limited by state statute or the City's Home Rule Charter. The only limitation would be the overall tax rate limitation of \$2.50 per \$100 assessed valuation. Bond covenants for the general obligation bonds and certificates of obligation require the City to levy a tax sufficient to pay the current interest and principal of the debt. During the current year, the City was in compliance with these bond covenants.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The City intends to retire all of its general long-term liabilities, plus accrued interest, from property taxes and other current revenues from the debt service fund as has been done in prior years. The proprietary fund type long-term debt will be repaid, plus accrued interest, from operating revenues of the respective fund.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

Long-term debt at year end was comprised of the following debt issues:

	<b>Governmental Activities</b>	<b>Business - Type Activities</b>	<b>Total</b>
<b>General Obligation Bonds:</b>			
\$6,740,000 General Obligation Refunding Bond, Series 2020, due in installments through 2032, interest at 4.0%	\$ 6,005,000	\$ -	\$ 6,005,000
\$2,695,000 General Obligation Refunding Bonds, Series 2012, due in installments through 2024, interest at 2.0%	570,000	-	570,000
<b>Total General Obligation Bonds</b>	<b>\$ 6,575,000</b>	<b>\$ -</b>	<b>\$ 6,575,000</b>
<b>Certificates of Obligation:</b>			
\$7,655,000 Certificates of Obligation, Series 2016, due in annual installments through 2036, interest at 2.1%	\$ 5,740,000	\$ -	\$ 5,740,000
\$9,605,000 Certificates of Obligation, Series 2022, due in annual installments through 2042, interest at 2.1%	-	9,605,000	9,605,000
<b>Total Certificates of Obligation</b>	<b>\$ 5,740,000</b>	<b>\$ 9,605,000</b>	<b>\$ 15,345,000</b>
<b>Revenue Bonds:</b>			
\$900,000 Utility Revenue Bond, Series 2016A, due in installments through 2026, interest at 1.5%	\$ -	\$ 360,000	\$ 360,000
\$915,000 Utility Revenue Bond, Series 2016B, due in installments through 2026, interest at 1.5%	-	375,000	375,000
<b>Total Revenue Bonds</b>	<b>\$ -</b>	<b>\$ 735,000</b>	<b>\$ 735,000</b>
Less deferred amounts:			
Premiums/discounts	\$ 946,243	\$ 378,531	\$ 1,324,774
<b>Total Deferred Amounts</b>	<b>946,243</b>	<b>378,531</b>	<b>1,324,774</b>
Leases Payable:			
\$117,092 lease payable to Wells Fargo Equipment, due in monthly installments of \$2,168 through 2025, interest at 4%	65,712	-	65,712
<b>Total Leases Payable</b>	<b>65,712</b>	<b>-</b>	<b>65,712</b>
<b>Total Debt</b>	<b>\$ 13,326,955</b>	<b>\$ 10,718,531</b>	<b>\$ 24,045,486</b>

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2022

	<u>Component Unit Activities</u>
<b>Sales Tax Bonds:</b>	
\$3,215,000 Sales Tax Bonds, Series 2014, due in annual installments through 2036, interest at 3.0%	\$ 2,200,000
<b>Total Sales Tax Bonds</b>	<u>\$ 2,200,000</u>
<b>Notes Payable:</b>	
\$492,982 due to HGAC, due in monthly installments through 2034, interest at 4.0%	\$ 337,502
<b>Total Notes Payable</b>	<u>\$ 337,502</u>
Less deferred amounts:	
Premiums	\$ 10,656
<b>Total Deferred Amounts</b>	<u>\$ 10,656</u>
<b>Total Debt</b>	<u><u>\$ 2,548,158</u></u>

The annual requirements to amortize the City's long-term activities debt issues outstanding at year end were as follows:

### Certificates of Obligations

Year Ending	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 350,000	\$ 124,630	\$ 140,000	\$ 404,879
2024	360,000	113,980	340,000	371,800
2025	370,000	103,030	355,000	357,900
2026	380,000	93,680	370,000	343,400
2027	390,000	85,785	380,000	328,400
2028-2032	2,070,000	301,667	2,160,000	1,394,600
2033-2037	1,820,000	77,490	2,635,000	917,100
2038-2042	-	-	3,225,000	332,500
<b>Total</b>	<u>\$ 5,740,000</u>	<u>\$ 900,262</u>	<u>\$ 9,605,000</u>	<u>\$ 4,450,579</u>

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

General Obligation Refunding Bonds

<b>Year Ending</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2023	\$ 1,050,000	\$ 190,650
2024	1,085,000	152,225
2025	830,000	116,100
2026	865,000	86,525
2027	880,000	64,750
2028-2032	1,865,000	77,475
<b>Total</b>	<b>\$ 6,575,000</b>	<b>\$ 687,725</b>

Revenue Bonds

<b>Year Ending September 30,</b>	<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2023	\$ 180,000	\$ 4,543
2024	185,000	3,674
2025	185,000	2,408
2026	185,000	845
<b>Total</b>	<b>\$ 735,000</b>	<b>\$ 11,470</b>

Revenue Bonds

<b>Year Ending September 30,</b>	<b>Component Unit Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2023	\$ 150,000	\$ 83,275
2024	155,000	78,319
2025	160,000	73,000
2026	165,000	67,313
2027	170,000	61,025
2028-2032	960,000	195,263
2033-2034	440,000	18,911
<b>Total</b>	<b>\$ 2,200,000</b>	<b>\$ 577,106</b>



**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

Note Payable

<b>Year Ending September 30,</b>	<b>Component Unit Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2023	\$ 22,763	\$ 13,086
2024	23,690	12,158
2025	24,655	11,193
2026	25,660	10,189
2027	26,705	9,143
2028-2032	150,760	28,482
2033-2034	63,269	2,454
<b>Total</b>	<b>\$ 337,502</b>	<b>\$ 86,705</b>

The annual requirements to amortize leases outstanding at year end were as follows:

<b>Year ending September 30,</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2023	\$ 23,826	\$ 2,195
2024	24,796	1,224
2025	17,090	257
<b>Total</b>	<b>\$ 65,712</b>	<b>\$ 3,676</b>

The following is an analysis of equipment leased under a lease as of September 30, 2022:

	<b>Governmental Activities</b>
Equipment (30 golf carts)	\$ 117,092
(Less) accumulated depreciation	(17,889)
<b>Total</b>	<b>\$ 99,203</b>

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2022

### F. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general fund and enterprise funds to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$ 456,738	\$ 346,020	\$ (298,344)	\$ 504,414	\$ 453,973
<b>Total Governmental Activities</b>	<u>\$ 456,738</u>	<u>\$ 346,020</u>	<u>\$ (298,344)</u>	<u>\$ 504,414</u>	<u>\$ 453,973</u>
<b>Long-term Liabilities Due in More than One Year</b>				<u>\$ 50,441</u>	
<b>Business-Type Activities:</b>					
Compensated Absences	\$ 72,109	\$ 29,515	\$ (42,572)	\$ 59,052	\$ 53,146
<b>Total Business-Type Activities</b>	<u>\$ 72,109</u>	<u>\$ 29,515</u>	<u>\$ (42,572)</u>	<u>\$ 59,052</u>	<u>\$ 53,146</u>
<b>Long-term Liabilities Due in More than One Year</b>				<u>\$ 5,906</u>	

### G. Deferred Charges on Refunding

Deferred charges resulting from the issuance of Series 2012 refunding bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding certificates of obligation. Current year balances for governmental activities totaled \$26,057. Current year amortization expense for governmental activities totaled \$13,030.

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

**H. Interfund Transactions**

The compositions of interfund due to/from balances as of the year ended September 30, 2022 were as follows:

<b>Due to (payable):</b>	<b>Due From (receivable):</b>				<b>Total</b>
	<b>General</b>	<b>Debt Service</b>	<b>Electric</b>	<b>Wastewater</b>	
General	\$ -	\$ 13,453	\$ -	\$ -	\$ 13,453
HMPG Flood Wall	58,718	-	3,400,520	1,000	3,460,239
Nonmajor governmental	174,355	-	-	504	174,859
Electricity	219,544	-	-	-	219,544
Wastewater	105,493	-	-	-	105,493
Solid waste	3,181	-	-	-	3,181
<b>Total</b>	<b>\$ 561,292</b>	<b>\$ 13,453</b>	<b>\$ 3,400,520</b>	<b>\$ 1,504</b>	<b>\$ 3,976,768</b>

The amounts payable relate to temporary loans for operating and capital activities that will be replenished in the subsequent year.

Transfers between the primary government during the 2022 year were as follows:

<b>Transfers In:</b>	<b>Transfer Out:</b>				<b>Total</b>
	<b>General</b>	<b>Electric</b>	<b>Wastewater</b>	<b>Garbage</b>	
General	\$ -	\$ 830,999	\$ 938,491	\$ 258,375	\$ 2,027,865
Capital projects	-	2,871,573	-	-	2,871,573
Wastewater	-	243,087	-	-	243,087
Nonmajor govt.	26,500	-	-	-	26,500
<b>Total</b>	<b>\$ 26,500</b>	<b>\$ 3,945,659</b>	<b>\$ 938,491</b>	<b>\$ 258,375</b>	<b>\$ 5,169,025</b>

Transfers between the primary government and the component unit during the 2022 year were as follows:

<b>Transfer In:</b>	<b>Transfer Out</b>	
	<b>CDC</b>	<b>Total</b>
General	\$ 232,500	\$ 232,500
Capital projects	288,500	288,500
Airport	40,000	40,000
Golf course	357,785	357,785
<b>Total</b>	<b>\$ 918,785</b>	<b>\$ 918,785</b>

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Transfers between the primary government funds were primarily to support debt service requirements and operation of funds. In addition, the LCDC transferred \$918,785 to the primary government for various operating expenses. These transfers are presented as expenses and intergovernmental revenue in the LCDC and primary government, respectively.

### I. Fund Equity

The City records restrictions to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures due to internal assignments. The following is a list of restricted/assigned fund balances:

	<b>Assigned Fund Balance</b>	<b>Restricted Fund Balance</b>
Debt service	\$ -	\$ 2,601,743
Public education	-	62,582
Public safety	-	58,116
Tourism	-	108,998
Library	-	340,153
Capital projects	86,650	1,285,297
Library	468,312	-
Fixed asset replacement	341,763	-
Airport	117,802	-
<b>Total</b>	<b>\$ 1,014,527</b>	<b>\$ 4,456,889</b>

### V. OTHER INFORMATION

#### A. Risk Management

The City is exposed to various risks of losses related to torts; theft, damage, or destruction of assets; errors and omission; injuries to employees or others; and natural disasters. The City's primary risk management activity is to maintain various types of insurance coverage to cover any significant losses that might be incurred.

The City is contingently liable with respect to claims or litigation arising from the ordinary course of operations. The settlement of such claims would require budget appropriations of future revenues. City officials have asserted that they have no significant pending or threatened litigation or claims against the City that would have a material adverse effect on the financial position of the City. Federal and State funds received during the current year and prior years through various grant programs are subject to audit by the applicable agencies. The City does not anticipate any substantial disallowance of project costs for any of the projects.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

### B. Contingent Liabilities

The City is involved in lawsuits with other parties from time to time. While the ultimate result of these matters cannot be predicted with certainty, the City does not expect them to have a materially adverse effect on the basic financial statements.

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

### C. Contracts/Agreements

#### Electric System

The City owns and operates a municipal electric distribution system for the benefit of its citizens. The electric distribution system consists of distribution lines, two substations (which are owned and operated by Sam Rayburn Municipal Power Agency ("SRMPA") and interconnected transmission lines of Entergy Gulf States, which supply power to the City's system. The City furnishes electric service to its customers solely within its City limits.

The City is one of three voting members (consisting of the cities of Liberty, Livingston, and Jasper, Texas) of the SRMPA. The SRMPA is a political subdivision of the State of Texas and is governed by a board of six directors, two of which are appointed by each member City. SRMPA is considered to be a joint venture with no equity interest.

SRMPA was formed to undertake the planning, financing, development, acquisition, and operation of projects for the generation and transmission of electric power to supply the present and future needs of the member cities and the Vinton (Louisiana) Public Power Agency ("VPPA"). Each participant is required by contract with SRMPA, to purchase its electrical requirements from SRMPA, and to pay liabilities under such contract as an operating and maintenance expense to its electrical system. SRMPA is required to establish rates for electric power to the participants sufficient to pay all debt service requirements (including funding of required reserves), all operating and maintenance costs of repairs and improvements. The City, as a participant, is required to establish rates to its customers sufficient to meet its obligations to

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

SRMPA under the exclusive power sales contract. On September 19, 2012, the Agency issued \$108,940,000 of Power Supply System Revenue Refunding Bonds, the Series 2012 Bonds, and defeased all of the Agency's outstanding Series 2002 Bonds. As a result of SRMPA restructuring its debts, the City has received a rebate on power costs due to overfunded debt service accounts of \$1,377,048 during 2022. This rebate is being used to defray the cost of purchased power.

The Agency and VPPA began concept development of a separate wholesale power enterprise called the "Cambridge Project" prior to 2010. The Cambridge Project is distinct and separate from the Agency's primary wholesale power supply mission serving its three member cities, although the project compliments the Agency's performance. The Agency's revenues, funds, and accounts established under the participant agreement are not comingled with Cambridge Project accounts and are not available to the Cambridge Project enterprise. The Cambridge Project is independent from the Agency's existing operations that secure the Agency's payment obligations to holders of the 2012 Bonds. During Fiscal Years 2010 and 2011, the Agency and VPPA were engaged in discussions with Entergy operating companies regarding additional power supply and purchase arrangements that became effective in early Fiscal Year 2012 on December 1, 2011. The new power supply contractual arrangements enabled the Cambridge Project to obtain four new wholesale loads and provide the Agency with firm power supply for the next 25 years to serve its three Member cities. The four wholesale loads are two large oil refineries, a chemical company and Entergy Texas Inc. The two oil refineries and the chemical companies are served through VPPA. The Cambridge Project supplements the existing Agency Systems and the VPPA Systems under the original power supply agreement. In addition to the aforementioned wholesale loads, the Cambridge Project includes additional power supply resources consisting of generation from third parties and power supply purchases from Entergy Gulf States Louisiana LLC and from EWO Marketing, Inc ("EWOM"). The power purchase agreement with EWOM is referred to as the Supplemental Requirements Power Supply Agreement (SRPSA) and, in addition to serving wholesale loads of the Cambridge Project, it assures an energy supply to the Agency beyond the 2021 termination of the RPSA to 2035 and provides that, if the Agency has load growth above the anticipated rate, EWOM will provide service for such load. Should any of the Cambridge Project contractual arrangements be terminated, all Cambridge contracts will terminate and the Agency and VPPA Systems will revert to their original condition with wholesale energy provided under the RPSA for the Agency to serve its participating Member cities. Due to excess operating reserves generated from the Cambridge project, the Agency elected to approve a distribution to the City of \$6,000,000 during the year. This distribution is reported as an operating expense of the Agency and intergovernmental revenue by the City.

### **Joint Operating Agreement – Port of Liberty**

Commencing in 1968, the City of Liberty entered into a joint operating agreement with the Chambers-Liberty Counties Navigation District (the "District") which established certain terms with respect to the operation of the Port of Liberty (the "Port"). The Port facilities were

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

constructed on land owned jointly by the City and the District, and the board of commissioners of the Port are appointed jointly by the City and the District, but neither entity can unilaterally appoint a majority of the board. The board of the Port is responsible for selection of management, development of a budget, and for continuing operations of the Port. The City does not account for revenues or expenditures for Port activities. The Port of Liberty has separate audited financial statements which may be obtained by contacting Port officials.

### D. Pension Plans

#### Texas Municipal Retirement Systems

##### **Plan Description**

The City of Liberty participates as one of 901 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

##### **Benefits Provided**

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

At retirement, the 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 payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

Plan provisions for the City were as follows:

	<u>Plan Year 2021</u>	<u>Plan Year 2020</u>
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI repeating	0% of CPI repeating

### 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	54
Inactive employees entitled to but not yet receiving benefits	146
Active employees	100
Total	300

### Contributions

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

Employees for the City of Liberty were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Liberty were 16.53% and 15.48% in calendar years 2021 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2022, were \$849,026, and were equal to the required contributions.



# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

### Net Pension Liability

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

### Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	1.95% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum 16 mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, *Continued*

September 30, 2022

percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public/Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

### Discount Rate:

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

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2022

### Changes in the Net Pension Liability:

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net</b>	<b>Total Net Pension Liability</b>
<b>Balance at 12/31/20</b>	<b>\$ 17,916,055</b>	<b>\$ 14,148,400</b>	<b>\$ 3,767,655</b>
Changes for the year:			
Service cost	701,246	-	701,246
Interest	1,204,446	-	1,204,446
Change in benefit terms	-	-	-
Difference between expected and actual experience	(136,764)	-	(136,764)
Changes of assumptions	-	-	-
Contributions – employer	-	942,598	(942,598)
Contributions – employee	-	398,112	(398,112)
Net investment income	-	1,845,169	(1,845,169)
Benefit payments, including refunds of emp. contributions	(846,067)	(846,067)	-
Administrative expense	-	(8,534)	8,534
Other changes	-	58	(58)
Net changes	922,861	2,331,336	(1,408,475)
<b>Balance at 12/31/21</b>	<b>\$ 18,838,916</b>	<b>\$ 16,479,736</b>	<b>\$ 2,359,180</b>

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

<b>1% Decrease 5.75%</b>	<b>Current Single Rate Assumption 6.75%</b>	<b>1% Increase 7.75%</b>
<b>\$ 4,813,740</b>	<b>\$ 2,359,180</b>	<b>\$ 332,464</b>

### Pension Plan Fiduciary Net Position:

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

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2022

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

For the year ended September 30, 2022, the City recognized pension expense of \$164,279.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between projected and actual investment earnings	\$ -	\$ (941,952)
Differences between expected and actual economic experience	-	(128,410)
Contributions subsequent to the measurement date	601,464	-
Change in assumptions	740	-
<b>Total</b>	<u>\$ 602,204</u>	<u>\$ (1,070,362)</u>

The City reported \$601,464 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2023.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	<u>Total</u>
2022	\$ (256,213)
2023	(432,351)
2024	(203,029)
2025	(178,029)
2026	-
Thereafter	-
	<u>\$ (1,069,622)</u>

# City of Liberty, Texas

## NOTES TO THE FINANCIAL STATEMENTS, Continued

September 30, 2022

### E. Restatement

The City restated beginning net position/fund balance for governmental activities, business-type activities, component unit activities, the general fund, the HMPG Flood Wall and Levee fund, two nonmajor governmental funds, the electric fund, the water/wastewater fund, and the solid waste fund. These restatements were the result of corrections to the presentation of the LCDC fund (a discretely presented component unit for the current year ended), deferred grant revenues/receivables, accrued payroll expenses, unbilled utility receivables, depreciation expenses, and cash balances. The restatements were as follows:

	<b>Governmental Activities</b>	<b>General Fund</b>	<b>HMPG Flood Wall &amp; Levee</b>	<b>Nonmajor Governmental</b>
Prior year ending net position/fund balance, as reported	\$ 35,782,631	\$ 4,447,573	\$ 165,856	\$ 878,822
To correct deferred grant revenue	(153,328)	(153,328)	-	-
To correct accrued payroll expenses	(185,363)	(179,257)	-	(6,106)
To correct grant receivables	(157,771)	(210,360)	52,589	-
To correct cash balances	(16,440)	-	-	(16,440)
Reclassification of LCDC funds	(2,931,415)	-	-	-
Transfer debt to CU activities	2,715,998	-	-	-
Record capital lease obligation	(88,605)	-	-	-
Record capital assets	115,931	-	-	-
Restated beginning net position/fund balance	<u>\$ 35,081,638</u>	<u>\$ 3,904,628</u>	<u>\$ 218,445</u>	<u>\$ 856,276</u>

	<b>Business-Type Activities</b>	<b>Electric</b>	<b>Water &amp; Wastewater</b>	<b>Solid Waste</b>
Prior year ending net position/fund balance, as reported	\$ 53,577,705	\$ 32,584,989	\$ 20,879,764	\$ 112,952
To correct accrued payroll expenses	(25,091)	(9,238)	(15,853)	-
To accrue unbilled revenue	1,018,678	756,783	220,518	41,377
To record receivables	94,985	94,985	-	-
To correct depreciation expense	(110,000)	(85,000)	(25,000)	-
Restated beginning net position/fund balance	<u>\$ 54,556,277</u>	<u>\$ 33,342,519</u>	<u>\$ 21,059,429</u>	<u>\$ 154,329</u>

**City of Liberty, Texas**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**September 30, 2022**

	<b>Component Unit Activities</b>	<b>Governmental Activities</b>	
		<b>LCDC Fund</b>	<b>LCDC Debt Service</b>
Prior year ending net position/fund balance, as reported	\$ -	\$ 2,621,379	\$ 310,036
Reclassification of LCDC funds	2,931,415	(2,621,379)	(310,036)
Transfer debt to CU activities (in govt activities last year)	(2,715,999)	-	-
Transfer accrued interest to CU activities	(7,372)	-	-
Restated beginning net position/fund balance	<u>\$ 208,044</u>	<u>\$ -</u>	<u>\$ -</u>

**F. Subsequent Events**

There were no material subsequent events through February 9, 2023, the date the financial statements were issued.

## ***REQUIRED SUPPLEMENTARY INFORMATION***

# City of Liberty, Texas

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2022

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Property tax	\$ 3,307,000	\$ 3,421,740	\$ 114,740
Sales tax	2,150,000	2,288,204	138,204
Franchise and local taxes	220,000	243,409	23,409
License and permits	61,400	115,016	53,616
Intergovernmental	101,937	374,435	272,498
Charges for services	1,082,700	886,732	(195,968)
Fines and forfeitures	221,500	222,394	894
Investment income	48,925	113,620	64,695
Other revenue	26,450	79,312	52,862
Rents and royalties	5,000	3,700	(1,300)
<b>Total Revenues</b>	<b>7,224,912</b>	<b>7,748,562</b>	<b>523,650</b>
<b><u>Expenditures</u></b>			
Current:			
General government	1,307,025	1,112,504	194,521
Fire/EMS	2,539,930	2,462,431	77,499
Police	2,648,060	2,776,652	(128,592)
Municipal court	241,340	194,226	47,114
Animal control	142,870	125,872	16,998
Streets	861,660	743,289	118,371
Parks and recreation	982,220	924,762	57,458
Inspection	282,350	240,399	41,951
Business and support services	1,610,135	1,365,472	244,663
Capital outlay	1,500,000	1,241,057	258,943
<b>Total Expenditures</b>	<b>12,115,590</b>	<b>11,186,664</b>	<b>928,926</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(4,890,678)</b>	<b>(3,438,102)</b>	<b>1,452,576</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Sale of assets	50,000	104,536	54,536
Transfers in	4,840,678	2,027,865	(2,812,813)
Transfers (out)	-	(26,500)	(26,500)
<b>Total Other Financing Sources (Uses)</b>	<b>4,890,678</b>	<b>2,105,901</b>	<b>(2,784,777)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>(1,332,201)</b>	<b>\$ (1,332,201)</b>
Beginning fund balance		3,904,628	
<b>Ending Fund Balance</b>		<b>\$ 2,572,427</b>	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.



# City of Liberty, Texas

## *SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL HMPG FLOOD WALL AND LEVEE For the Year Ended September 30, 2022*

	Original & Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Intergovernmental	\$ -	\$ 836,506	\$ 836,506
<b>Total Revenues</b>	<u>-</u>	<u>836,506</u>	<u>836,506</u>
<b><u>Expenditures</u></b>			
Capital outlay	1,570,681	971,580	599,101
<b>Total Expenditures</b>	<u>1,570,681</u>	<u>971,580</u>	<u>599,101</u>
<b>Revenues Over Expenditures</b>	<u>(1,570,681)</u>	<u>(135,074)</u>	<u>1,435,607</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfer in	133,422	-	(133,422)
<b>Net Change in Fund Balances</b>	<u><u>\$ (1,437,259)</u></u>	<u>(135,074)</u>	<u><u>\$ 1,302,185</u></u>
Beginning fund balances		218,445	
<b>Ending Fund Balances</b>		<u><u>\$ 83,371</u></u>	

### Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

See Notes to Financial Statements.

# City of Liberty, Texas

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Years Ended:

	12/31/2021	12/31/2020	12/31/2019
Total pension liability			
Service cost	\$ 701,246	\$ 664,751	\$ 608,445
Interest	1,204,446	1,145,698	1,083,968
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(136,764)	(91,483)	(59,406)
Changes of assumptions	-	-	17,800
Benefit payments, including refunds of participant contributions	(846,067)	(887,669)	(641,213)
<b>Net change in total pension liability</b>	<b>922,861</b>	<b>831,297</b>	<b>1,009,594</b>
<b>Total pension liability - beginning</b>	<b>17,916,055</b>	<b>17,084,758</b>	<b>16,075,164</b>
<b>Total pension liability - ending (a)</b>	<b>18,838,916</b>	<b>17,916,055</b>	<b>17,084,758</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 942,598	\$ 944,762	\$ 877,584
Contributions - members	398,112	377,700	343,754
Net investment income	1,845,169	968,002	1,631,316
Benefit payments, including refunds of participant contributions	(846,067)	(887,669)	(641,213)
Administrative expenses	(8,534)	(6,263)	(9,216)
Other	58	(244)	(276)
<b>Net change in plan fiduciary net position</b>	<b>2,331,336</b>	<b>1,396,288</b>	<b>2,201,949</b>
<b>Plan fiduciary net position - beginning</b>	<b>14,148,400</b>	<b>12,752,112</b>	<b>10,550,163</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 16,479,736</b>	<b>\$ 14,148,400</b>	<b>\$ 12,752,112</b>
<b>Fund's net pension liability - ending (a) - (b)</b>	<b>\$ 2,359,180</b>	<b>\$ 3,767,655</b>	<b>\$ 4,332,646</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>87.48%</b>	<b>78.97%</b>	<b>74.64%</b>
<b>Covered payroll</b>	<b>\$ 5,687,319</b>	<b>\$ 5,395,709</b>	<b>\$ 4,910,776</b>
<b>Fund's pension liability as a percentage of covered payroll</b>	<b>41.48%</b>	<b>69.83%</b>	<b>88.23%</b>

### Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>	<sup>1</sup>
\$ 554,261	\$ 555,605	\$ 520,691	\$ 517,416	\$ 318,408	
1,036,711	991,341	935,272	863,571	780,406	
-	-	-	-	4,030,494	
(272,717)	(242,896)	(76,539)	53,707	325,260	
-	-	-	530,215	-	
(649,270)	(613,204)	(519,266)	(375,511)	(295,510)	
668,985	690,846	860,158	1,589,398	5,159,058	
15,406,179	14,715,333	13,855,175	12,265,777	7,106,719	
16,075,164	15,406,179	14,715,333	13,855,175	12,265,777	
\$ 832,343	\$ 837,384	\$ 735,499	\$ 732,389	\$ 201,943	
310,635	311,887	290,194	304,618	204,251	
(310,700)	1,197,456	515,312	10,273	371,202	
(649,270)	(613,204)	(519,266)	(375,511)	(295,510)	
(6,005)	(6,210)	(5,824)	(6,261)	(3,875)	
(315)	(315)	(314)	(308)	(319)	
176,688	1,726,998	1,015,601	665,200	477,692	
10,373,475	8,646,477	7,630,876	6,965,676	6,487,984	
\$ 10,550,163	\$ 10,373,475	\$ 8,646,477	\$ 7,630,876	\$ 6,965,676	
\$ 5,525,001	\$ 5,032,704	\$ 6,068,856	\$ 6,224,299	\$ 5,300,101	
65.63%	67.33%	58.76%	55.08%	56.79%	
\$ 4,437,636	\$ 4,455,530	\$ 4,145,627	\$ 4,351,691	\$ 4,085,010	
124.50%	112.95%	146.39%	143.03%	129.75%	

# City of Liberty, Texas

## SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Years Ended:

	9/30/2022	9/30/2021	9/30/2020
Actuarially determined employer contributions	\$ 849,026	\$ 915,687	\$ 935,280
Contributions in relation to the actuarially determined contribution	\$ 849,026	\$ 915,687	\$ 935,280
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Annual covered payroll	\$ 5,383,076	\$ 5,453,720	\$ 5,335,230
Employer contributions as a percentage of covered payroll	15.77%	16.79%	17.53%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

### NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

#### Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

#### Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

#### Other Information:

Notes There were no benefit changes during the year.

<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<sup>1</sup>
\$ 861,152	\$ 830,396	\$ 819,924	\$ 744,092	\$ 605,241	
<u>\$ 861,152</u>	<u>\$ 830,396</u>	<u>\$ 819,924</u>	<u>\$ 744,092</u>	<u>\$ 605,241</u>	
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
\$ 4,762,279	\$ 4,426,509	\$ 4,419,225	\$ 4,253,975	\$ 4,424,680	
18.08%	18.76%	18.55%	17.49%	13.68%	

(This page intentionally left blank.)

***COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES***

(This page intentionally left blank.)



**City of Liberty, Texas**  
**COMBINING BALANCE SHEET (Page 1 of 2)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**September 30, 2022**

	Police Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund	Golf Course Fund
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 46,033	\$ 124,798	\$ 98,790	\$ 351
Investments	-	-	-	-
Receivables, net	-	874	10,208	-
Inventory	-	-	-	3,172
<b>Total Assets</b>	<b>\$ 46,033</b>	<b>\$ 125,672</b>	<b>\$ 108,998</b>	<b>\$ 3,523</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ 7,870	\$ -	\$ 8,832
Due to other funds	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>7,870</b>	<b>-</b>	<b>8,832</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Public safety	46,033	-	-	-
Debt service	-	-	-	-
Tourism	-	-	108,998	-
Public education	-	-	-	-
Library	-	-	-	-
Capital projects	-	-	-	-
Assigned	-	117,802	-	-
Unassigned	-	-	-	(5,309)
<b>Total Fund Balances</b>	<b>46,033</b>	<b>117,802</b>	<b>108,998</b>	<b>(5,309)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 46,033</b>	<b>\$ 125,672</b>	<b>\$ 108,998</b>	<b>\$ 3,523</b>

See Notes to Financial Statements.

**City of Liberty, Texas**  
**COMBINING BALANCE SHEET (Page 2 of 2)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**September 30, 2022**

	<b>CDBG Harvey Recovery</b>	<b>Liberty Ranch PID</b>	<b>Municipal Library Trust</b>	<b>Library Memorial Fund</b>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ -	\$ 34,721	\$ 28,902	\$ 57,453
Investments	-	-	253,798	-
Receivables, net	-	-	-	-
Inventory	-	-	-	-
<b>Total Assets</b>	<b>\$ -</b>	<b>\$ 34,721</b>	<b>\$ 282,700</b>	<b>\$ 57,453</b>
<b><u>Liabilities</u></b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	174,859	-	-	-
<b>Total Liabilities</b>	<b>174,859</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Fund Balances</u></b>				
Restricted for:				
Public safety	-	-	-	-
Debt service	-	34,721	-	-
Tourism	-	-	-	-
Public education	-	-	-	-
Library	-	-	282,700	57,453
Capital projects	-	-	-	-
Assigned	-	-	-	-
Unassigned	(174,859)	-	-	-
<b>Total Fund Balances</b>	<b>(174,859)</b>	<b>34,721</b>	<b>282,700</b>	<b>57,453</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ -</b>	<b>\$ 34,721</b>	<b>\$ 282,700</b>	<b>\$ 57,453</b>

See Notes to Financial Statements.

<b>Capital Projects (CO 2016)</b>	<b>Public Educ. &amp; Government Cable Fund</b>	<b>Police Pre-seizure</b>	<b>Total</b>
\$ 1,007	\$ 62,582	\$ 5,074	\$ 459,711
-	-	-	253,798
-	-	-	11,082
-	-	-	3,172
<u>\$ 1,007</u>	<u>\$ 62,582</u>	<u>\$ 5,074</u>	<u>\$ 727,763</u>
\$ -	\$ -	\$ 5,000	\$ 21,702
-	-	-	174,859
-	-	5,000	196,561
-	-	74	46,107
-	-	-	34,721
-	-	-	108,998
-	62,582	-	62,582
-	-	-	340,153
1,007	-	-	1,007
-	-	-	117,802
-	-	-	(180,168)
<u>1,007</u>	<u>62,582</u>	<u>74</u>	<u>531,202</u>
<u>\$ 1,007</u>	<u>\$ 62,582</u>	<u>\$ 5,074</u>	<u>\$ 727,763</u>

(This page intentionally left blank.)

# City of Liberty, Texas

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Page 1 of 2)

### NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

	Police Seizure Fund	Airport Fund	Hotel-Motel/ Tourism Fund	Golf Course Fund
<b><u>Revenues</u></b>				
Hotel occupancy taxes	\$ -	\$ -	\$ 57,282	\$ -
Franchise taxes	-	-	-	-
Charges for services	-	480,559	-	-
Intergovernmental	-	76,510	-	357,785
Rents and royalties	-	70,545	-	-
Investment income	669	-	-	-
Other income	-	-	35,197	2,100
<b>Total Revenues</b>	<u>669</u>	<u>627,614</u>	<u>92,479</u>	<u>359,885</u>
<b><u>Expenditures</u></b>				
Tourism	-	-	69,782	-
Library	-	-	-	-
Public works	-	-	-	-
Airport	-	668,854	-	-
Golf course	-	-	-	412,435
Debt service:				
Principal	-	-	-	22,893
Interest and fiscal charges	-	-	-	3,128
Capital outlay	-	-	-	-
<b>Total Expenditures</b>	<u>-</u>	<u>668,854</u>	<u>69,782</u>	<u>438,456</u>
<b>Revenues Over (Under)</b>				
<b>Expenditures</b>	<u>669</u>	<u>(41,240)</u>	<u>22,697</u>	<u>(78,571)</u>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	-	-	-	26,500
<b>Total Other Financing Sources</b>				
<b>(Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,500</u>
<b>Net Change in Fund Balances</b>	669	(41,240)	22,697	(52,071)
Beginning fund balances	45,364	159,042	86,301	46,762
<b>Ending Fund Balances</b>	<u>\$ 46,033</u>	<u>\$ 117,802</u>	<u>\$ 108,998</u>	<u>\$ (5,309)</u>

See Notes to Financial Statements.

# City of Liberty, Texas

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Page 2 of 2)

### NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

	CDBG Harvey Recovery	Liberty Ranch PID	Municipal Library Trust	Library Memorial Fund
<b><u>Revenues</u></b>				
Hotel occupancy taxes	\$ -	\$ -	\$ -	\$ -
Franchise taxes	-	-	-	-
Charges for services	-	35,000	-	17,677
Intergovernmental	-	-	-	-
Rents and royalties	-	-	-	-
Investment income	-	-	6,784	14
Other income	-	-	-	-
<b>Total Revenues</b>	<b>-</b>	<b>35,000</b>	<b>6,784</b>	<b>17,691</b>
<b><u>Expenditures</u></b>				
Tourism	-	279	-	-
Library	-	-	23,460	13,823
Public works	-	-	-	-
Airport	-	-	-	-
Golf course	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Capital outlay	191,993	-	-	-
<b>Total Expenditures</b>	<b>191,993</b>	<b>279</b>	<b>23,460</b>	<b>13,823</b>
<b>Revenues Over (Under)</b>				
<b>Expenditures</b>	<b>(191,993)</b>	<b>34,721</b>	<b>(16,676)</b>	<b>3,868</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Transfers in	-	-	-	-
<b>Total Other Financing Sources</b>				
<b>(Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(191,993)</b>	<b>34,721</b>	<b>(16,676)</b>	<b>3,868</b>
Beginning fund balances	17,134	-	299,376	53,585
<b>Ending Fund Balances</b>	<b>\$ (174,859)</b>	<b>\$ 34,721</b>	<b>\$ 282,700</b>	<b>\$ 57,453</b>

See Notes to Financial Statements.

<b>Capital Projects (CO 2016)</b>	<b>Public Educ &amp; Government Cable Fund</b>	<b>Police Pre-seizure</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ 57,282
-	13,496	-	13,496
-	-	-	533,236
-	-	-	434,295
-	-	-	70,545
11	785	74	8,337
-	-	-	37,297
11	14,281	74	1,154,488
-	-	-	70,061
-	-	-	37,283
-	99,415	-	99,415
-	-	-	668,854
-	-	-	412,435
-	-	-	22,893
-	-	-	3,128
-	-	-	191,993
-	99,415	-	1,506,062
11	(85,134)	74	(351,574)
-	-	-	26,500
-	-	-	26,500
11	(85,134)	74	(325,074)
996	147,716	-	856,276
\$ 1,007	\$ 62,582	\$ 74	\$ 531,202

*SINGLE AUDIT REPORTS*

**City of Liberty, Texas**

**Fiscal Year Ended  
September 30, 2022**



# City of Liberty, Texas

## *SINGLE AUDIT REPORTS*

Year Ended September 30, 2022

### TABLE OF CONTENTS

	<u>Page</u>
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	1
REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE	3
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS	7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	8-10
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	11
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	12



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

*Independent Auditor's Report*

To the Honorable Mayor and  
Members of the City Council  
City of Liberty, 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 Liberty, Texas as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise City of Liberty, Texas's basic financial statements, and have issued our report thereon dated February 9, 2023.

***Report on Internal Control over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-1 that we consider to be a material weakness.

### ***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of Liberty, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully,

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC  
14950 Heathrow Forest Pkwy | Ste 530  
Houston, TX 77032  
February 9, 2023



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT  
ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

*Independent Auditor's Report*

To the Honorable Mayor and  
Members of the City Council  
City of Liberty, Texas:

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

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

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

***Basis for Opinion on Each Major Federal Program***

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

We are required to be independent of the City of Liberty, Texas and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our

opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Liberty, Texas's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

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

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

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

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

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

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

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Liberty, Texas as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Liberty, Texas' basic financial statements. We issued our report thereon dated February 9, 2023, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the

basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

This report is intended solely for the information and use of, management, governing body, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

BrooksWatson & Co., PLLC  
14950 Heathrow Forest Pkwy | Ste 530  
Houston, TX 77032  
February 9, 2023

**City of Liberty, Texas**  
***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***  
**For the Year Ended September 30, 2022**

**I. SUMMARY OF PRIOR YEAR AUDIT FINDINGS:**

**None.**



**City of Liberty, Texas**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended September 30, 2022**

**I. SUMMARY OF AUDITOR'S RESULTS:**

***Financial Statements***

Type of auditor's report issued:

The auditor's report on the basic financial statements of the City expresses an unmodified opinion.

Internal control over financial reporting:

Are any material weaknesses identified?	<u>  X  </u> Yes	<u>      </u> No
Are any significant deficiencies identified not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> None Reported
Is any noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> No

***Federal Awards***

The auditor's report on compliance for major federal programs expresses an unmodified opinion.

Internal control over major program compliance:

Are any material weaknesses identified?	<u>      </u> Yes	<u>  X  </u> No
Are any significant deficiencies identified not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, <i>Audits of State, Local Governments, and Non-Profit Organizations</i> , Section .510(a) or 2 CFR 200.516(a)?	<u>      </u> Yes	<u>  X  </u> No

**City of Liberty, Texas**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended September 30, 2022**

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

97.039

Hazard Mitigation Grant

Enter the dollar threshold used to distinguish  
between Type A and Type B programs:

\$750,000

Is the auditee qualified as a low-risk auditee?

☐ Yes

☒ No

**II. FINANCIAL STATEMENT FINDINGS:**

**Material Weakness:**

**Finding 2022-001:**

**Criteria:** Management is responsible for establishing, maintaining and monitoring internal controls over financial reporting, and for the fair presentation of the financial statements and related notes in conformity with U.S. generally accepted accounting principles ("GAAP").

**Condition and Context:** For the year ended September 30, 2022, management requested the auditor to prepare a draft of the City's financial statements and the related notes. Management reviewed, approved, and accepted responsibility for those statements prior to their issuance.

**Cause:** The City does not have controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements in the absence of the auditor's preparation.

**Effect or Potential Effect:** Without the auditor's assistance, the City may not include all disclosures or have materially correct financial statements as required under U.S. generally accepted accounting principles.

**Recommendation:** We recommend that management review the existing policies, procedures, and controls over these areas to ensure that all information is recorded and reported properly.

**City of Liberty, Texas**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***  
**For the Year Ended September 30, 2022**

**Responsible Official's Response:** Management of the City will continue to work with the auditor to reduce the number of adjusting journal entries. In addition, we will take steps to further our understanding of GAAP financials and footnote disclosures.

**III. FEDERAL AWARDS FINDINGS:**

**None.**

**City of Liberty, Texas**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended September 30, 2022**

Federal Grantor/Pass-through Agency/Program Name	Program/Grant/ Project Number	CFDA Number	Expenditures
<b>US DEPARTMENT OF TREASURY</b>			
Pass-through Texas Department of Emergency Management			
<i>Coronavirus State and Local Fiscal Recovery Funds</i>	2020-CF-21019	21.019	\$ 6,000
	<b>Total U.S. Department of Treasury</b>		<u>6,000</u>
<b>US DEPARTMENT OF HOMELAND SECURITY</b>			
Pass-through Texas Division of Emergency Management:			
<i>Emergency Management Performance Grants</i>	EMT-2020-EP-00004	97.042	6,474
<i>Emergency Management Performance Grants</i>	DR-4332	97.039	968,080
	<b>Total U.S. Department of Homeland Security</b>		<u>974,554</u>
	<b>TOTAL PROGRAMS</b>		<u><u>\$ 980,554</u></u>

# City of Liberty, Texas

## *NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

**For the Year Ended September 30, 2022**

### **Note 1: BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Liberty, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Cost Principles for Federal Awards (the Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

### **Note 2: INDIRECT COST RATE**

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