

The Village of Tiki Island, Texas

Financial Statements
and Independent Auditors' Report
for the year ended September 30, 2022

The Village of Tiki Island, Texas

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position as of September 30, 2022	8
Statement of Activities for the year ended September 30, 2022	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds as of September 30, 2022	10
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position as of September 30, 2022	11
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds for the year ended September 30, 2022	12
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities for the year ended September 30, 2022	13
Notes to Financial Statements for the year ended September 30, 2022	14
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios – Texas Municipal Retirement System	30
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Major Fund – General Fund	32
Notes to Required Supplementary Information	33

Independent Auditors' Report

To the Honorable Mayor and
Board of Aldermen of
The Village of Tiki Island, Texas:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund of The Village of Tiki Island, Texas (the Village), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village 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 audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Village and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

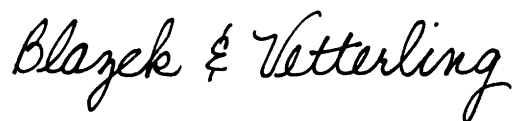
In performing an audit in accordance with generally accepted auditing standards, we:

- 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 Village'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 Village's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-6, and the required supplementary information on pages 30-33, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



June 12, 2023

The Village of Tiki Island, Texas
Management's Discussion and Analysis
For the year ended September 30, 2022
(unaudited)

The following discussion and analysis of The Village of Tiki Island, Texas' (the Village) financial performance provides an overview of the financial activities for the year ended September 30, 2022. This discussion and analysis should be read in conjunction with the Village's financial statements, which follow this section.

Financial Highlights

- The Village's total net position increased by \$0.5 million, which represents \$1.0 million less than the change for 2021. The decrease is largely due to contributed street improvements that the Village received from Galveston County during the 2021 fiscal year. General revenue including property taxes totaled \$1.9 million and expenses totaled \$1.4 million.
- The Village's long-term liabilities decreased by \$200,000 due to scheduled principal payments on Certificates of Obligation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The basic financial statements present the government-wide and governmental fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the basic financial statements.

Government-Wide Financial Statements

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

The *statement of net position* presents information on all the Village's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the net of the four reported as *net position*. Evaluated over a period of time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net position changed during the most recent fiscal year. All changes in the 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 expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods. Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

Governmental 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.

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

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

The Village maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund and the Debt Service Fund.

At September 30, 2022, the Village's general fund reported a fund balance of \$2.5 million, an increase of \$100,000 from the prior year. Approximately 76% of the fund balance constitutes unassigned fund balance, which is available for spending at the Village's discretion, with the majority of the remainder of the balance representing committed funds for economic uncertainty of \$400,000 and the continued dredging project (\$133,000).

Condensed Government-Wide Financial Information and Financial Analysis

Condensed Statements of Net Position:

	<u>AS OF SEPTEMBER 30</u>	
	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 2,983,463	\$ 2,770,606
Capital assets	<u>3,902,786</u>	<u>3,643,156</u>
Total assets	<u>\$ 6,886,249</u>	<u>\$ 6,413,762</u>
Deferred outflows of resources	<u>\$ 4,429</u>	<u>\$ 5,975</u>
Noncurrent liabilities	\$ 901,863	\$ 1,126,636
Current liabilities	<u>291,044</u>	<u>186,881</u>
Total liabilities	<u>\$ 1,192,907</u>	<u>\$ 1,313,517</u>
Deferred inflows of resources	<u>\$ 58,572</u>	<u>\$ 26,418</u>
Net position:		
Net investment in capital assets	\$ 3,032,786	\$ 2,573,156
Restricted	120,990	181,996
Unrestricted	<u>2,485,423</u>	<u>2,324,650</u>
Total net position	<u>\$ 5,639,199</u>	<u>\$ 5,079,802</u>

As the presentation appearing above demonstrates, a large portion of the Village's net position (57%) is invested in capital assets. Net position invested in capital assets consists of land, canal and bridge improvements, buildings, and equipment less any debt used to acquire the assets that remains outstanding.

Condensed Statements of Revenue, Expenses and Changes in Net Position:

	<u>YEAR ENDED SEPTEMBER 30</u>	
	<u>2022</u>	<u>2021</u>
REVENUE:		
Taxes	\$ 1,745,114	\$ 1,650,770
Program service fees	163,974	147,759
Grants and contributions	23,218	1,167,812
Other income	<u>26,870</u>	<u>10,163</u>
Total revenue	<u>1,959,176</u>	<u>2,976,504</u>
EXPENSES:		
General government	378,947	467,557
Public safety	629,488	625,978
Neighborhood services	201,182	129,753
Canal and island maintenance	169,745	247,810
Interest on debt	<u>20,417</u>	<u>27,077</u>
Total expenses	<u>1,399,779</u>	<u>1,498,175</u>
CHANGES IN NET POSITION	559,397	1,478,329
Net position, beginning of year	<u>5,079,802</u>	<u>3,601,473</u>
Net position, end of year	<u>\$ 5,639,199</u>	<u>\$ 5,079,802</u>

Fiscal Year 2022

The Village experienced a decrease in the changes in net position of \$1.0 million in fiscal year 2022 compared to fiscal year 2021 largely due to contributed street improvements by Galveston County of \$1.0 million in 2021. Total taxes in fiscal year 2022 increased by \$100,000 compared to fiscal year 2021. Permit revenues increased by \$13,000 in fiscal year 2022 from \$148,000 in fiscal year 2021 due to more home renovation and construction activity. Expenses decreased slightly from \$1.5 million in fiscal year 2021 to \$1.4 million in fiscal year 2022 due to a decrease in depreciation expense of \$100,000; prior year depreciation was accelerated for canal dredging projects as construction of a new canal project began in fiscal year 2021.

Governmental Fund Budget Highlights

The actual governmental fund revenues of the general fund for the year ended September 30, 2022 were in line with the final budget of \$1.8 million. Actual governmental fund expenditures for the year ended September 30, 2022 were approximately \$81,000 less than the final budget of \$1.7 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Village's investment in capital assets for its governmental activities as of September 30, 2022 totaled \$3.9 million (net of accumulated depreciation). This amount represents a net increase (including additions, deductions, and depreciation) of \$260,000 from the prior year. The investment in capital assets includes land, streets and bridge improvements, building, canal projects, equipment and vehicles, less accumulated depreciation.

Long-Term Debt

At September 30, 2022, the Village had total long-term debt outstanding of \$870,000; a decrease of \$200,000 from the prior year's ending debt balance. This decrease in outstanding long-term debt outstanding is due to scheduled principal payments on the Series 2016 Certificates of Obligation.

Annual debt service requirements related to the debt outstanding are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2023	\$ 210,000	\$ 15,747	\$ 225,747
2024	215,000	11,946	226,946
2025	220,000	8,055	228,055
2026	<u>225,000</u>	<u>4,073</u>	<u>229,073</u>
Total	<u>\$ 870,000</u>	<u>\$ 39,821</u>	<u>\$ 909,821</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Village's Board of Aldermen adopts a budget annually, which serves as the basis for the Village's allocation of resources.

The Village is projecting revenue of \$3 million for fiscal year 2023. The approved budget is based on a property tax rate of \$.472668 per \$100 and is projected to generate property tax revenue of \$2.6 million. Franchise and sales taxes are expected to generate \$125,000 and \$85,000, respectively. Permit revenue is expected to generate revenue of \$101,000.

Expenditures for 2023 are projected to be \$3 million with \$363,000 due to capital outlays for the continued canal dredging project. In 2023, the Village will issue \$8.0 million in new Certificates of Obligation to fund this project.

Contacting the Village's Financial Management

The financial report is designed to discuss issues that may be material to the operation of the Village. Questions concerning any of the information in this report or requests for additional information should be addressed to The Village of Tiki Island, Texas, 802 Tiki Drive, Tiki Island, Texas 77554.

BASIC FINANCIAL STATEMENTS

The Village of Tiki Island, Texas

Statement of Net Position as of September 30, 2022

ASSETS

Cash and investments <i>(Note 4)</i>	\$ 2,881,522
Property taxes receivable, net	27,233
Other assets	46,073
Pension asset <i>(Note 9)</i>	28,635
Capital assets <i>(Note 6)</i> :	
Capital assets not being depreciated	431,306
Capital assets net of depreciation	<u>3,471,480</u>
TOTAL ASSETS	<u>\$ 6,886,249</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred OPEB outflows	<u>\$ 4,429</u>
------------------------	-----------------

LIABILITIES

Accounts payable and accrued liabilities	\$ 124,598
Refundable bond deposits	34,500
Funds held for others	131,946
Noncurrent liabilities <i>(Note 8)</i> :	
Due within one year	210,000
Due in more than one year	<u>691,863</u>
TOTAL LIABILITIES	<u>1,192,907</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension inflows	<u>58,572</u>
--------------------------	---------------

NET POSITION

Net investment in capital assets	3,032,786
Restricted for debt service	78,045
Restricted for tourism and marketing	36,163
Restricted for other	6,782
Unrestricted	<u>2,485,423</u>
TOTAL NET POSITION	<u>\$ 5,639,199</u>

See accompanying notes to financial statements.

The Village of Tiki Island, Texas

Statement of Activities for the year ended September 30, 2022

	<u>EXPENSES</u>	<u>PROGRAM REVENUE</u>		<u>GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
Governmental activities:				
General government	\$ 378,947	\$ 14,519		\$ (364,428)
Public safety	629,488		\$ 23,218	(606,270)
Neighborhood services	201,182	149,455		(51,727)
Canal and island maintenance	169,745			(169,745)
Interest on debt	20,417			(20,417)
Total governmental activities	<u>\$ 1,399,779</u>	<u>\$ 163,974</u>	<u>\$ 23,218</u>	<u>\$ (1,212,587)</u>
General revenue:				
Taxes:				
Property				1,468,735
Franchise				144,559
Sales				131,820
Other				<u>26,870</u>
Total general revenue				<u>1,771,984</u>
CHANGES IN NET POSITION				559,397
Net position, beginning of year				<u>5,079,802</u>
Net position, end of year				<u>\$ 5,639,199</u>

See accompanying notes to financial statements.

The Village of Tiki Island, Texas

Balance Sheet – Governmental Funds as of September 30, 2022

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and investments <i>(Note 4)</i>	\$ 2,881,522		\$ 2,881,522
Due from General Fund		\$ 79,795	79,795
Property taxes receivable, net	22,223	5,010	27,233
Other assets	<u>46,073</u>		<u>46,073</u>
TOTAL ASSETS	<u>\$ 2,949,818</u>	<u>\$ 84,805</u>	<u>\$ 3,034,623</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 124,598		\$ 124,598
Refundable bond deposits	34,500		34,500
Due to Debt Service Fund	79,795		79,795
Funds held for others	<u>131,946</u>		<u>131,946</u>
Total liabilities	<u>370,839</u>		<u>370,839</u>
Deferred inflows of resources:			
Unavailable property tax <i>(Note 5)</i>	<u>23,385</u>	<u>\$ 6,760</u>	<u>30,145</u>
Fund balances:			
Restricted for debt service		78,045	78,045
Restricted for tourism and marketing	36,163		36,163
Restricted for other	6,782		6,782
Committed for economic uncertainty	400,000		400,000
Committed for dredging project	132,799		132,799
Committed for equipment	37,623		37,623
Unassigned	<u>1,942,227</u>		<u>1,942,227</u>
Total fund balances	<u>2,555,594</u>	<u>78,045</u>	<u>2,633,639</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,949,818</u>	<u>\$ 84,805</u>	<u>\$ 3,034,623</u>

See accompanying notes to financial statements.

The Village of Tiki Island, Texas

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position as of September 30, 2022

Total fund balances, governmental funds	\$ 2,633,639
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources; therefore, are not reported in the fund financial statements. The cost of the assets is \$5,013,754 and the accumulated depreciation is \$1,110,968.	3,902,786
Deferred inflows are not available to pay for current period expenditures; therefore, are reported as unavailable revenue in the governmental funds.	
Unavailable property tax	30,145
Certain assets and deferred outflows of resources included in the statement of net position are not available to pay current period expenditures; therefore, are not reported as assets in the governmental fund financial statements.	
Pension asset	28,635
Deferred OPEB outflows	4,429
Certain liabilities and deferred inflows of resources that are not due and payable in the current period are not reported as liabilities in the governmental fund financial statements, but are reported in the governmental activities of the statement of net position.	
Certificates of Obligation payable	(870,000)
OPEB plan liability	(31,863)
Deferred pension inflows	(58,572)
Net position of governmental activities in the statement of net position	<u>\$ 5,639,199</u>

See accompanying notes to financial statements.

The Village of Tiki Island, Texas

Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds for the year ended September 30, 2022

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:			
Taxes:			
Property	\$ 1,270,384	\$ 197,859	\$ 1,468,243
Franchise	144,559		144,559
Sales	131,820		131,820
Licenses and permits	149,455		149,455
Contributions	23,218		23,218
Rental income	14,519		14,519
Other	<u>26,870</u>		<u>26,870</u>
Total revenue	<u>1,760,825</u>	<u>197,859</u>	<u>1,958,684</u>
EXPENDITURES:			
General government	377,971		377,971
Public safety	609,741		609,741
Neighborhood services	206,138		206,138
Canal and island maintenance	58,926		58,926
Debt service:			
Principal payments on debt		200,000	200,000
Interest and fees		20,417	20,417
Capital outlay	<u>405,924</u>		<u>405,924</u>
Total expenditures	<u>1,658,700</u>	<u>220,417</u>	<u>1,879,117</u>
EXCESS OF REVENUES UNDER EXPENDITURES	102,125	(22,558)	79,567
Fund balance, beginning of year	<u>2,453,469</u>	<u>100,603</u>	<u>2,554,072</u>
Fund balance, end of year	<u>\$ 2,555,594</u>	<u>\$ 78,045</u>	<u>\$ 2,633,639</u>

See accompanying notes to financial statements.

The Village of Tiki Island, Texas

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities for the year ended September 30, 2022

Changes in fund balances \$ 79,567

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. The statement of activities recognizes the cost of outlays allocated over estimated useful lives as depreciation expense.

Capital outlays	405,924
Depreciation expense	(146,294)

Governmental funds do not recognize revenues that are not available to pay current obligations. In contrast, such revenues are reported in the statement of activities when earned.

492

Government funds report repayment of bond principal as an expenditure and bond proceeds as funding sources. The statement of activities treats such repayments as a reduction in long-term liabilities and proceeds as an increase in long-term liabilities.

Principal repayments on debt	200,000
------------------------------	---------

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

Changes in pension liabilities and related deferred outflows and inflows of resources	24,223
Changes in OPEB liabilities and related deferred outflows and inflows of resources and deferred outflows	<u>(4,515)</u>

Change in net position of governmental activities \$ 559,397

See accompanying notes to financial statements.

The Village of Tiki Island, Texas

Notes to Financial Statements for the year ended September 30, 2022

NOTE 1 – ORGANIZATION

The Village of Tiki Island, Texas (the Village) was incorporated on August 14, 1982 by virtue of an election held before its residents. The Village is a Type A-general municipality and operates under the aldermanic plan of government in accordance with statutes applicable to Type A-general law municipalities. The governing body consists of the Mayor and five Aldermen, all elected at large by voters of the Village and holding office for a term of two years.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's significant accounting policies are described below.

As an independent political subdivision of the State of Texas, the Village is considered a Primary Government for financial reporting purposes; its activities are not considered a part of any other governmental or other type of Village. Considerations in determining the Village's financial Village status as a primary government include: a separate elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include a statement of net position and a statement of activities. The government-wide statement of activities demonstrate the degree to which the direct expenses of a given function or activity are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue includes a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or activity, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenue are reported instead as general revenue. These statements present information on all of the activities of the primary government.

The governmental fund financial statements include a balance sheet and a statement of revenue, expenditures and changes in fund balances. Accompanying schedules are presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the donor have been met.

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue susceptible to accrual includes property tax, franchise taxes, sales tax, permit fees and grants. Under the modified accrual basis of accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for debt service expenditures, which are recognized when due. Investment earnings are recorded on the accrual basis of accounting.

Governmental Fund Types

The Village reports the following major governmental funds as separate columns in the fund financial statements:

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

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on the debt of the Village. The primary source of revenue for debt service is property taxes.

ASSETS, LIABILITIES, DEFERRED OUTFLOWS / INFLOWS OF RESOURCES, AND NET POSITION / FUND BALANCES

Cash and Investments

Cash and investments consist of cash on hand, demand deposits, and short-term investments in privately managed public fund investment pools.

Receivables

Receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets

Purchases of capital assets used in governmental activities are recorded as expenditures of the appropriate fund in governmental fund financial statements, and as assets in the government-wide financial statements, to the extent the Village's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. All assets (donated and purchased) are recorded at cost or at the estimated acquisition value at the date of acquisition or donation. Capital assets and improvements are capitalized as constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at the government-wide level.

The Village does not use the modified approach for infrastructure reporting. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and the resulting gain or loss is included in the statement of activities.

The Village’s Board of Aldermen (the Board) has adopted a capitalization policy for reporting capital assets which exceeds \$5,000 in cost and has a useful life greater than one year. The straight-line method of depreciation is applied over the following estimated useful life for the type of asset:

<u>ASSET DESCRIPTION</u>	<u>ESTIMATED USEFUL LIFE</u>
Streets and bridge improvements	25 to 39 years
Canal projects	10 years
Equipment	7 to 15 years
Vehicles	7 years
Land	Not applicable
Construction in progress	Not applicable

Fund Balances and Net Position

Fund balances are classified based upon the relative strength of spending constraints placed upon the purposes for which resources can be used, as follows:

- *Nonspendable fund balance* includes amounts that are either not in spendable form or are legally or contractually required to be maintained intact.
- *Restricted fund balance* includes amounts constrained to specific purposes by resource providers, through constitutional provisions, or by enabling legislation.
- *Committed fund balance* includes amounts constrained to specific purposes by the resolution of its highest level of decision-making authority, which is the Board. Similarly, the Board may modify or rescind by resolution previously committed funds.
- *Assigned fund balance* includes amounts that are set aside by the Village for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance* includes amounts that are available for the Village’s future use for any purpose.

Net position represents the difference between the Village’s total assets and deferred outflows and total liabilities and deferred inflows. Restricted net position can only be used for purposes specified by resource providers. Unrestricted net position is available for general use. When both restricted and unrestricted net position are available for use, it is the Village’s policy to use restricted net position first, and then unrestricted net position. The Village reports three categories of net position, as follows:

- *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.
- *Restricted net position* – Net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the Village’s Certificates of Obligation. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.
- *Unrestricted net position* consists of all other net position that does not meet the definition of the above two categories and is available for general use by the Village.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Village only has two items that qualify for reporting in this category. These are deferred amounts related to pension and other post-employment benefits (OPEB).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future reporting period and thus, will not be recognized as an inflow of resources (revenue) until that time. The Village has three items that qualify for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds reports unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount become available. In the government-wide financial statements the Village reports deferred amounts related to pension and OPEB.

The deferred amounts related to pension and OPEB relate primarily to differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension and OPEB-related charges, and will be amortized over the expected remaining service lives of all employees (active and inactive) that are provided benefits through these plans.

Pension

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, the Village's specific information about its fiduciary net position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the Village'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.

Other Post-Employment Benefits

The Village participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by TMRS. The Village reports the total liability for this plan on the government-wide fund financial statements.

Program Revenue

Program revenue primarily represents fees for services related to the use of the Village's neighborhood services and donations for public safety.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Budgets

The Village legally adopts annual appropriated budgets for its governmental activities. The budget is reviewed by management and the Board throughout the year to control and enhance the Village's operating results. The Village does not utilize encumbrances.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

New Accounting Standards

The Village adopted the following GASB statements during the year ended September 30, 2022:

Statement No. 91, *Conduit Debt Obligations* – the primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

Statement No. 93, *Replacement of Interbank Offered Rates* – the objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* – the primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 Deferred Compensation Plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Statement No. 98, *The Annual Comprehensive Financial Report* – this statement establishes the term *annual comprehensive financial report* and its acronym *ACFR*. The new term and acronym replaces instances of *annual comprehensive financial report* and its acronym in generally accepted accounting principles for state and local governments.

Statement No. 87, *Leases* – the statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The GASB has issued the following statements which will be effective in future years, as described below. The Village has not yet determined the impact of implementing these new statements.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

Statement No. 99, *Omnibus 2022*, is effective for varying periods by topic. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees.

Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, is effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Statement No. 101, *Compensated Absences*, is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

NOTE 4 – CASH AND INVESTMENTS

The Village’s cash and investments at September 30, 2022 consist of the following:

Cash on hand	\$ 1,130
Demand deposits	354,466
Investments:	
LOGIC	2,288,222
TexPool	<u>237,704</u>
Total cash and investments	<u>\$ 2,881,522</u>

Authorization for Deposits and Investments

The Public Funds Investment Act, as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Village. The Village’s Investment Policy addresses safety of principal, liquidity, yield, maturity and legality, with emphasis on safety of principal. In accordance with the Village’s Investment Policy, authorized investments include the following:

- Certificates of deposits issued by state and national banks domiciled in the state that are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by government obligations.
- Texas Local Government Investment Pools (LGIPs) provided that investments are specifically authorized by the Village’s Board.

The Village invests in LOGIC and TexPool, which are LGIPs created under the Interlocal Cooperation Act, Texas Government Code Chapter 791, and the Public Funds Investment Act, Texas Government Code Chapter 2256. These two acts provide for the creation of LGIPs and authorize eligible governmental entities to invest their public funds through the investment pools. The LGIPs follow all requirements of the Public Funds Investment Act, including being rated by a nationally recognized rating agency, using amortized cost valuation, and, to the extent reasonably possible, stabilize at \$1 net asset value.

Local Government Investment Cooperative (LOGIC) is organized and exists as a business trust under the laws of the State of Texas and managed in trust by a Board of Trustees. The Board of Trustees is comprised of employees, and officers or elected officials of participant government entities. LOGIC is administered by Hilltop Securities and JPMorgan Chase. LOGIC's general investment objectives are safety of principal, liquidity in accordance with the operating requirements of the participants, and a competitive rate of return. LOGIC is a "constant dollar" net asset value pool and is rated AAA by Standard & Poor's; however, an investment in LOGIC is not insured or guaranteed by the FDIC or any other government agency. LOGIC units are subject to same day redemption.

The State Comptroller of Public Accounts exercises oversight responsibilities for TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Federated Hermes is the full service provider to the pool managing the assets, providing participant services and arranging all custody and other functions in support of the pool's operations under a contract with the Comptroller. TexPool is managed conservatively to provide a safe, efficient, and liquid investment alternative to Texas governments. The pool seeks to maintain a \$1.00 value per share as required by the Texas Public Funds Investment Act; however, an investment in TexPool is not insured or guaranteed by the FDIC or any other government agency. TexPool investments consist exclusively of U. S. Government securities, and AAA-rated no-load money market mutual funds. TexPool is rated AAAM by Standard & Poor's. The weighted average maturities of the pool cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool has a redemption notice period of one day and may redeem daily.

Deposit and Investment Risk Disclosures

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosure information related to common risks inherent in deposit and investment transactions. Investments are subject to certain types of risks, including custodial credit risk, concentration of credit risk, and interest rate risk. Exposure of deposited funds and invest risks are disclosed in the following sections of this note.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Village will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Village will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Village's policy for deposits requires that they be insured by the FDIC, and to the extent not insured, be secured by collateral pledged to the extent of the fair market value of the amount deposited, plus accrued interest.

The carrying value of demand deposits at September 30, 2022 was \$354,466 and the related bank balances were \$396,236. Securities of the Village’s financial institution have been pledged to the Village as collateral for deposits in excess of FDIC coverage; demand balances are fully collateralized.

Concentration of Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Village’s investment policy does not specifically limit investment in securities based on an NRSRO credit rating, but the policy does designate authorized investments by type.

The following table presents each applicable investment type grouped by rating:

<u>INVESTMENT TYPE</u>	<u>2022</u>	<u>RATING</u>	<u>WEIGHTED AVERAGE MATURITY (DAYS)</u>
Local Government Investment Pools:			
TexPool	\$ 237,704	AAAm	1 day
LOGIC	<u>2,288,222</u>	AAA	1 day
Total investments	<u>\$ 2,525,926</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The table below summarizes the Village’s segmented time distribution of investment maturities in years by investment type.

	<u>SEPTEMBER 30, 2022</u>	<u>YEARS</u>			
		<u>≤ 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>≥ 10</u>
LOGIC Investment Pool	\$ 2,288,222	\$ 2,288,222			
TexPool Investment Pool	<u>237,704</u>	<u>237,704</u>			
Total investments	<u>\$ 2,525,926</u>	<u>\$ 2,525,926</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 5 – PROPERTY TAXES

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Central Appraisal District (CAD) of Galveston County, Texas, establishes appraised values. The Galveston County Tax Office performs billing and collection of the Village’s tax levies. Taxes are levied by the Board based on the appraised values and in accordance with the adopted budget. Property taxes receivable as of September 30, 2022 include penalties and interest totaling \$27,233, net of an allowance for uncollectible receivables of \$1,480. Governmental funds record deferred inflows of resources in the balance sheet related to unavailable revenue, which total \$30,145 as of September 30, 2022.

NOTE 6 – CAPITAL ASSETS

The Village’s investment in capital assets at September 30, 2022 consists of the following:

	<u>BALANCE</u> <u>OCTOBER 1, 2021</u>	<u>ADDITIONS</u>	<u>COMPLETIONS/ DISPOSALS</u>	<u>BALANCE</u> <u>SEPTEMBER 30, 2022</u>
Depreciable capital assets:				
Streets and bridge improvements	\$ 3,137,107	\$ 191,783		\$ 3,328,890
Buildings	1,023,609			1,023,609
Equipment	125,230	18,851		144,081
Vehicles	<u>85,868</u>			<u>85,868</u>
Depreciable capital assets, at cost	<u>4,371,814</u>	<u>210,634</u>		<u>4,582,448</u>
Accumulated depreciation:				
Streets and bridge improvements	505,851	103,205		609,056
Buildings	347,167	26,247		373,414
Equipment	105,639	4,575		110,214
Vehicles	<u>6,017</u>	<u>12,267</u>		<u>18,284</u>
Accumulated depreciation	<u>964,674</u>	<u>146,294</u>		<u>1,110,968</u>
Total depreciable capital assets, net	<u>3,407,140</u>	<u>64,340</u>		<u>3,471,480</u>
Nondepreciable capital assets:				
Land	11,300			11,300
Construction in progress	<u>224,716</u>	<u>195,290</u>		<u>420,006</u>
Total nondepreciable capital assets	<u>236,016</u>	<u>195,290</u>		<u>431,306</u>
Total capital assets, net	<u>\$ 3,643,156</u>	<u>\$ 259,630</u>	<u>\$ 0</u>	<u>\$ 3,902,786</u>

For the year ended September 30, 2022, depreciation expense was charged to the following functions:

General government	\$ 4,575
Public safety	33,178
Canal and island maintenance	<u>108,541</u>
Total depreciation expense	<u>\$ 146,294</u>

In 2019, the Village executed an interlocal agreement with Galveston County to fund street improvement projects in the Village’s jurisdiction. Galveston County allocated up to \$510,000 in road bond funds, with an additional \$510,000 of funding provided the Village matches the additional contribution dollar for dollar up to \$510,000. Through September 30, 2022, Galveston County has contributed \$1,009,084 and the Village has matched \$504,542 related to the aforementioned project agreement.

NOTE 7 – CAPITAL PROJECTS AND COMMITMENTS

As of September 30, 2022, the Village had the following commitments:

<u>PROJECT AUTHORIZED</u>	<u>COMMITMENT</u>	<u>AMOUNT SPENT TO DATE</u>	<u>REMAINING COMMITMENT</u>
Canal dredging project	\$453,194	\$420,009	\$33,185

Subsequent to year-end, the Village entered into commitments of 6,534,802 relating to the canal dredging project.

NOTE 8 – LONG-TERM LIABILITIES

The following is a summary of the Village’s long-term liabilities for the year ended September 30, 2022:

	BALANCE SEPTEMBER 30, 2021	INCREASES	DECREASES	BALANCE SEPTEMBER 30, 2022	PAYABLE WITHIN ONE YEAR
OPEB liabilities	\$ 28,894	\$ 2,969		\$ 31,863	
Pension liabilities	27,742		\$ (27,742)		
Certificates of Obligation	<u>1,070,000</u>		<u>(200,000)</u>	<u>870,000</u>	<u>\$ 210,000</u>
Total	<u>\$ 1,126,636</u>	<u>\$ 2,969</u>	<u>\$ (227,742)</u>	<u>\$ 901,863</u>	<u>\$ 210,000</u>

The following table displays the total principal debt outstanding by issuance as of September 30, 2022:

DESCRIPTION	ISSUANCE DATE	INTEREST RATE	FINAL MATURITY DATE	OUTSTANDING PRINCIPAL AMOUNT
Series 2016 Certificate of Obligation	July 19, 2016	1.81%	August 15, 2026	\$870,000

Annual debt service requirements to maturity are as follows:

	PRINCIPAL	INTEREST	TOTAL
2023	\$ 210,000	\$ 15,747	\$ 225,747
2024	215,000	11,946	226,946
2025	220,000	8,055	228,055
2026	<u>225,000</u>	<u>4,073</u>	<u>229,073</u>
Total	<u>\$ 870,000</u>	<u>\$ 39,821</u>	<u>\$ 909,821</u>

Subsequent to September 30, 2022, the Village entered into Certificate of Obligation agreements in the amount of \$8.0 million. The agreement requires interest of 3.045% and principal and interest payments are due annually.

NOTE 9 – ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

Texas Municipal Retirement System

Plan Description and Provisions

The Village participates in the defined benefit cash-balance pension plan administered by TMRS. TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report that can be obtained at www.tmr.com. All eligible employees of the Village 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 Village, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated based on the sum of the employee's contributions, with interest, and the Village-financed monetary credits with interest. Members may choose to receive their retirement benefit in one of seven monthly benefit payment options. Members also may choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's total contributions and interest. On the date the plan began, the Village granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

A summary of plan provisions for the Village is as follows:

Employee deposit rate	6%
Matching ratio (Village to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	Any/20, 60/5
Updated service credit	0% repeating, transfers
Annuity increase (to retirees)	0% of CPI
Supplemental death benefit active employees and retirees	Yes

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

Retirees or beneficiaries currently receiving benefits	1
Inactive employees entitled to, but not yet receiving benefits	1
Active employees	<u>8</u>
Total	<u>10</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Village matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Village. Under the State law governing TMRS, the contribution rate for each municipality is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The Village's contribution rate is based on the liabilities created from the benefit plan options selected by the Village and any changes in benefits or actual experience over time. Employees for the Village were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the Village was 4% in the calendar year 2021. For fiscal year 2022, the Village made contributions of \$20,068, which were equal to the required contributions.

Net Pension Liability

The Village's net pension liability was measured as of December 31, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation:	2.50%
Overall payroll growth:	2.75% per year
Investment rate of return:	6.75%, net of pension plan investment and administrative expenses, 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 active, 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 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 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining its best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuarial approach 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 for each major asset class is summarized in the following table:

<u>ASSET CLASS</u>	<u>TARGET ALLOCATION</u>	<u>LONG-TERM EXPECTED REAL RATE OF RETURN (ARITHMETIC)</u>
Global equity	35.0%	7.55%
Non-core fixed income	20.0%	5.68%
Other public and private markets	12.0%	7.22%
Real estate	12.0%	6.85%
Private equity	10.0%	10.0%
Core fixed income	6.0%	2.00%
Hedge funds	5.0%	5.35%
Total	<u>100.0%</u>	

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.

	<u>2022</u>
Changes in the net pension liability:	
Interest	\$ 57,948
Service costs	44,202
Differences between expected and actual experience	(968)
Benefit payments, including refunds of employee contributions	<u>(8,631)</u>
Net change in total pension liability	<u>92,551</u>
Total pension liability – beginning	<u>840,699</u>
Total pension liability – ending	<u>\$ 933,250</u>
Plan fiduciary net position:	
Employer contributions	\$ 20,068
Employee contributions	31,686
Net investment return	106,292
Benefit payments, including refunds of employee contributions	(8,625)
Administrative expense	(490)
Other	<u>(3)</u>
Net changes in plan fiduciary net position	<u>148,928</u>
Plan fiduciary net position – beginning	<u>812,957</u>
Plan fiduciary net position – ending	<u>\$ 961,885</u>
Net pension (asset) – ending	<u>\$ (28,635)</u>

Sensitivity of the Net Pension Liability

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

	1% DECREASE <u>5.75%</u>	CURRENT DISCOUNT RATE <u>6.75%</u>	1% INCREASE <u>7.75%</u>
Net pension liability	\$89,755	(\$28,635)	(\$127,847)

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 at www.tmr.com.

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

For the year ended September 30, 2022, the Village recognized an increase in net pension liability of \$56,377. At September 30, 2022, the Village reported deferred inflows of resources of \$58,572, for the net difference in experiences and changes in assumptions.

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense in the Village’s fiscal years:

2023	\$ 13,710
2024	23,017
2025	11,564
2026	<u>10,281</u>
Total	<u>\$ 58,572</u>

NOTE 10 – OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions

The Village offers other post-employment benefits through a cost sharing, multiple-employer, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The Village elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Village may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. Contributions are made monthly based on the covered payroll of the participating municipalities. The contractually required contribution rate is determined annually. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the Village. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments become net position available for benefits. There were no required retiree contributions to the SDBF in calendar year 2022 or 2021.

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

At the December 31, 2021 plan valuation date, the number of employees covered by the benefit terms were as follows:

Retirees or beneficiaries currently receiving benefits	1
Inactive employees entitled to, but not yet receiving benefits	1
Active employees	<u>8</u>
Total	<u>10</u>

Actuarial Assumptions

The total OPEB liability at December 31, 2021 was determined using the following actuarial assumptions:

Inflation:	2.50%
Overall payroll growth:	3.50% to 11.50% per year
Discount rate:	1.84% – based on the Fidelity Index’s “20-Year Municipal GO AA Index” rate as of December 31, 2021.
Retirees’ share of benefit-related cost:	\$0

The actuarial assumptions were developed primarily from an actuarial experience study of the four-year period from December 31, 2014 through December 31, 2018. 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 are based on a 4-year set-forward for males and a 3-year set-forward for females, with a 3.5% and 3% minimum mortality rate applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. The Entry Age Normal actuarial cost method is used.

Changes in Total OPEB Liability:

	<u>2022</u>
Total OPEB liability – December 31, 2020	\$ 29,044
Service costs	2,641
Interest on total OPEB liability	605
Differences between expected and actual experience	(1,226)
Changes in assumptions or other inputs	1,010
Benefit payments, including refunds of employee contributions	<u>(211)</u>
Total OPEB liability – December 31, 2021	<u>\$ 31,863</u>

Sensitivity of the Total OPEB Liability

The following presents the total OPEB liability if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

	1% DECREASE	CURRENT DISCOUNT RATE	1% INCREASE
	<u>0.84%</u>	<u>1.84%</u>	<u>2.84%</u>
Total OPEB liability	\$39,088	\$31,863	\$26,235

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2022, the Village reported deferred outflows of resources of \$4,429, for the net difference in experiences and changes in assumptions.

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense for the year in the Village's fiscal years:

2023	\$	1,330
2024		1,199
2025		1,212
2026		<u>688</u>
Total	\$	<u><u>4,429</u></u>

NOTE 11 – SUBSEQUENT EVENTS

Subsequent to September 30, 2022, the Village passed a resolution authorizing issuance of \$9.75 million in Certificates of Obligation to fund continuation of the canal dredging project disclosed in Note 7; projected costs are \$8 million. Additionally, subsequent to September 30, 2022, the Village entered into Certificate of Obligation agreements in the amount of \$8 million and construction commitments of \$6.5 million as disclosed in Notes 7 and 8, respectively. The Certificate of Obligations require interest of 3.045% and principal and interest payments are due annually.

The Village of Tiki Island, Texas

Required Supplementary Information
 Schedule of Changes in Net Pension Liability and Related Ratios –
 Texas Municipal Retirement System
 Year Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Pension liability:					
Service cost	\$ 44,202	\$ 43,859	\$ 44,027	\$ 39,606	\$ 37,447
Interest	57,948	52,140	47,276	42,095	38,030
Changes in benefit terms	(968)				
Difference between expected and actual experience		(1,497)	(2,603)	7,661	(2,244)
Changes in assumptions			(4,511)		
Benefit payments, including refunds of employees' contributions	<u>(8,631)</u>	<u>(8,625)</u>	<u>(15,479)</u>	<u>(14,163)</u>	<u>(14,006)</u>
Net change in pension liability	92,551	85,877	68,710	75,199	59,227
Pension liability, beginning of year	<u>840,699</u>	<u>754,822</u>	<u>686,112</u>	<u>610,913</u>	<u>551,686</u>
Pension liability, end of year	<u>\$ 933,250</u>	<u>\$ 840,699</u>	<u>\$ 754,822</u>	<u>\$ 686,112</u>	<u>\$ 610,913</u>
Plan fiduciary net position:					
Contributions – employer	\$ 20,068	\$ 20,237	\$ 18,825	\$ 17,256	\$ 16,223
Contributions – employee	31,686	32,288	31,560	28,840	27,334
Net investment income	106,292	54,413	91,330	(17,079)	65,859
Benefit payments, including refunds of employees' contributions	(8,625)	(8,625)	(15,479)	(14,163)	(14,006)
Administrative expense	(490)	(351)	(515)	(333)	(345)
Other	<u>(3)</u>	<u>(14)</u>	<u>(14)</u>	<u>(18)</u>	<u>(18)</u>
Net change in plan fiduciary net position	148,928	97,948	125,707	14,503	95,047
Plan net position, beginning of year	<u>812,957</u>	<u>715,009</u>	<u>589,302</u>	<u>574,799</u>	<u>479,752</u>
Plan net position, end of year	<u>\$ 961,885</u>	<u>\$ 812,957</u>	<u>\$ 715,009</u>	<u>\$ 589,302</u>	<u>\$ 574,799</u>
Net pension (asset) liability	<u>\$ (28,635)</u>	<u>\$ 27,742</u>	<u>\$ 39,813</u>	<u>\$ 96,810</u>	<u>\$ 36,114</u>
Plan net position as a percentage of total pension (asset) liability	103.07%	96.70%	94.73%	85.89%	94.09%
Covered payroll	\$528,106	\$538,142	\$526,004	\$480,659	\$455,565
Net pension (asset) liability as a percentage of covered payroll	5.42%	5.16%	7.57%	20.14%	7.93%

(continued)

The Village of Tiki Island, Texas

Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios –
Texas Municipal Retirement System
Year Ended December 31, 2022

(continued)

Notes to Schedule:

Valuation Date – Actuarially determined contribution rates are calculated at December 31 and become effective January 13 months later.

Methods and Assumptions Used:

Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	16 years
Asset Valuation Method:	10-year smoothed market, 15.0% soft corridor
Inflation:	2.5%
Salary Increases:	3.5% to 11.5%, including inflation
Investment Rate of Return:	6.75%
Retirement Age:	Experience based table of rates that are specific to the Village plan of benefits. Updated for the 2019 valuation pursuant to experience study of the period from 2014-2018.
Mortality:	Post retirement: 2019 Municipal Retirees of Texas Mortality Tables. 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 Generational Employment table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information:	There were no benefit changes during the year.

The schedule is intended to provide information for 10 years and will be built as the information becomes available.

The Village of Tiki Island, Texas

Required Supplementary Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual –
 Major Fund – General Fund
 For the Fiscal Year Ended September 30, 2022

	BUDGET		ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Taxes	\$ 1,445,484	\$ 1,445,484	\$ 1,270,384	\$ (175,100)
Franchise	125,000	125,000	144,559	19,559
Sales	80,000	80,000	131,820	51,820
Licenses and permits	104,780	104,780	149,455	44,675
Contributions	25,000	25,000	23,218	(1,782)
Rental income	12,600	12,600	14,519	1,919
Other	<u>4,000</u>	<u>4,000</u>	<u>26,870</u>	<u>22,870</u>
Total revenues	<u>1,796,864</u>	<u>1,796,864</u>	<u>1,760,825</u>	<u>(36,039)</u>
EXPENDITURES:				
General government	338,229	338,229	377,971	(39,742)
Public safety	613,982	613,982	609,741	4,241
Neighborhood services	210,464	210,464	206,138	4,326
Canal and island maintenance	31,700	31,700	58,926	(27,226)
Capital outlay	<u>545,767</u>	<u>545,767</u>	<u>405,924</u>	<u>139,843</u>
Total expenditures	<u>1,740,142</u>	<u>1,740,142</u>	<u>1,658,700</u>	<u>81,442</u>
Excess of revenues over expenditures	56,722	56,722	102,125	45,403
Fund balance, beginning of year	<u>2,453,469</u>	<u>2,453,469</u>	<u>2,453,469</u>	
Fund balance, end of year	<u>\$ 2,510,191</u>	<u>\$ 2,510,191</u>	<u>\$ 2,555,594</u>	<u>\$ 45,403</u>

The Notes to the Required Supplementary Information are an integral part of this schedule.

The Village of Tiki Island, Texas

Notes to Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

Budgetary Compliance:

The Village of Tiki Island, Texas (the Village) has complied with all material budget requirements for the year ended September 30, 2022.

Annual appropriated budgets are adopted for the General Fund using a budgetary basis of accounting consistent with the modified accrual basis of accounting, which is the basis used for financial reporting for these funds. All annual appropriations lapse at fiscal year end.

Expenditures may not legally exceed budgeted appropriations at the fund level. Expenditure requests that require an increase in total budgeted appropriation must be approved by Village Council (the Council) through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public safety.

The annual budget process for the Village begins in June of each year. An Aldermen, who has been assigned by the Mayor to be the budget representative for the Village, and the Tiki Island Secretary/Administrator are responsible for determining the baseline for the next fiscal year's budget. The process begins by conducting a detail review of the current year income and expenditures which becomes the basis, along with known projects or changes, for the proposed upcoming year's budget. The preliminary budget is presented to the Aldermen at the July budget workshop meeting. At this meeting, each line item is reviewed and compared to the previous years' budget. Each Aldermen has an opportunity to request changes, additions, or deletions to the budget. After the meeting, all changes are incorporated into the budget and presented at a subsequent budget workshop for final approval. Once the budget is approved, the Village determines the maintenance and operation and debt tax rate for the next fiscal year. Once the fiscal year begins, the Tiki Island Secretary/Administrator provides the Aldermen with regular monthly statements of revenues and expenditures for the previous month and major budget deviations are discussed.

Amounts reported in the accompanying schedule represent the original budgeted amount plus all supplemental appropriations.