

**CITY OF AMES, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**December 31, 2023**

# CITY OF AMES, TEXAS

## For the Year Ended December 31, 2023 Table of Contents

	<u>Page(s)</u>
Independent Auditors' Report	1
<b>Required Supplementary Information (Part I)</b>	
Management's Discussion and Analysis	4
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
Proprietary Funds:	
Statement of Net Position	18
Statement of Revenues, Expenses, and Changes in Fund Net Position	19
Statement of Cash Flows	20
Notes to the Basic Financial Statements	21
<b>Required Supplementary Information (Part II)</b>	
Budgetary Comparison Schedules:	
General Fund	32

# CITY OF AMES, TEXAS

## For the Year Ended December 31, 2023 Table of Contents

### Page(s)

#### **Supplementary Information**

Budgetary Comparison Schedules:

Utility Fund 33

#### **Internal Control, Compliance, and Other Matters**

Independent Auditors Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards 34

Summary of Auditors' Results 36

Schedule of Findings and Responses 37

Schedule of Prior Year Findings 41

## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ames, Texas (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ames, Texas, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule for the general fund 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 the City of Ames, Texas's basic financial statements. The budgetary comparison schedule for the utility fund is presented for the purposes of additional analysis and are not required part of the basic financial statements.

The additional supplementary information listed in the table of contents is 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 budgetary comparison schedule for the utility fund is 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 our report dated November 20, 2024, on our consideration of the City of Ames, 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* and should be considered in assessing the results of our audit.

*Bruno & Tervalon LLP*

Houston, Texas

November 20, 2024

**REQUIRED SUPPLEMENTARY INFORMATION (PART I)**

## CITY OF AMES, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2023

This section of The City of Ames's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2023. Please read in conjunction with the City's financial statements, which follow this section.

#### Financial Highlights

- The City's total combined net position was \$3,625,671 at December 31, 2023, a \$207,195 increase compared to prior year.
- During the year ended December 31, 2023, the City's total expenses of \$1,653,581 were partially offset by \$826,330 in charges for services. Approximately \$662,218 in Liberty County taxes, \$22,125 in sales taxes, \$79,658 in franchise taxes, \$1,289 in interest income, \$36,797 in sewer charges, and \$232,359 in other revenue charges were generated to cover the remaining expenses. This compares to total expenses of \$759,982 and revenues of \$789,347 for the year ended December 31, 2022.
- During 2023, the City did not incur excess wastewater processing fees to the City of Liberty, Texas due to significant rainfall causing additional processing. Fees for 2023 were \$71,151 compared to \$22,585 in 2022. As of December 31, 2023, the City owed \$390,876 for these services.
- The general fund reported a fund balance of \$899,359 at December 31, 2023 compared to \$844,989 at December 31, 2022.

#### Overview of the Financial Statements

In accordance with GASB Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. Additionally, the City implemented GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which amends the net asset reporting requirements of GASB Statement No. 34 by incorporating deferred inflows and outflows of resources into the required components of the residual measure and renaming that measure as net position. The basic financial statements of the City include (a) Management's Discussion and Analysis, (b) Government-wide Financial Statements, (c) Fund Financial Statements, (d) Notes to Financial Statements; and (e) Required Supplementary Information. The basis of presentation and the basis of accounting for the government-wide and fund financial statements is discussed below:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds statements* tell how general government services were financed in the short-term as well as what remains for future spending.
- *Proprietary fund statements* offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows that required parts of this annual report are arranged and relate to one another.



## CITY OF AMES, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) For the Year Ended December 31, 2023

**Figure A-1, Required Components of the  
City's Annual Financial Report**

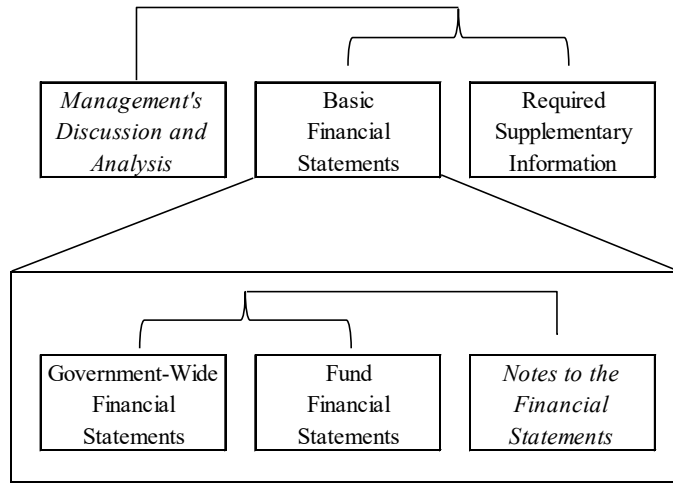


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the city government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of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

<b>Figure A-2. Major Features of the City's Government-wide and Fund Financials Statements</b>			
<b>Type of Statements</b>	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City's government	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses
Required financial statements	- Statement of Net Position - Statement of Activities	- Balance Sheet - Statement of Revenues, Expenses, and Changes in Fund Balances	- Statement of Net Position - Statement of Revenues, Expenses, and Changes in Net Position - Statement of Cash Flows
Accounting basis & measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

### Government-wide Statements

The government wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's financial statement elements. All the current year's revenues and expenses are accounted

## CITY OF AMES, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended December 31, 2023

for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position-the difference between the City's assets, liabilities, and deferred inflows and outflows of resources-is one way to measure the City's financial health or position.

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

The government-wide financial statements of the City include the Governmental activities and Business-type activities. Governmental activities include the City's basic services such as general government, and streets. Property taxes and franchise taxes finance most of these activities. The Business-type activities include sewer and sanitation services and are financed through user charges.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

The City has the following kinds of funds:

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

#### **Financial Analysis of The City as a Whole**

**Net position.** The City's combined net position was \$3,625,671 at December 31, 2023 consistent with December 31, 2022 (See Table A-1):

# CITY OF AMES, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) For the Year Ended December 31, 2023

**Table A-1**  
City's Net Position

	Governmental Activities		Business-type Activities		Total		Percentage Change
	2023	2022	2023	2022	2023	2022	2023-2022
<b>Assets:</b>							
Cash	\$ 423,620	\$ 360,607	\$ 530,124	\$ 135,831	\$ 953,744	\$ 496,438	92%
Accounts receivable, net	-	-	52,103	34,827	52,103	34,827	50%
Taxes receivable, net	253,536	252,792	-	-	253,536	252,792	0%
Due from other funds	390,408	390,408	468	468	390,876	390,876	
Capital assets, net	288,537	289,612	3,097,877	3,320,166	3,386,414	3,609,778	-6%
<b>Total assets</b>	<u>\$ 1,356,101</u>	<u>\$ 1,293,419</u>	<u>\$ 3,680,572</u>	<u>\$ 3,491,292</u>	<u>\$ 5,036,673</u>	<u>\$ 4,393,835</u>	15%
<b>Deferred outflows of resources</b>	-	-	-	-	-	-	0%
<b>Liabilities:</b>							
Accounts payable	\$ 15,235	\$ 7,735	\$ 60,129	\$ 44,430	\$ 75,364	\$ 52,165	44%
Payroll tax payable	1,887	-	119,561	81,554	121,448	81,554	49%
Accrued interest payable	-	-	11,912	11,912	11,912	11,912	0%
Customer deposits	150,615	150,615	17,235	17,235	167,850	167,850	0%
Due to other governments	468	468	390,408	390,408	390,876	390,876	0%
Long-term liabilities:							
Due within one year	-	-	35,473	22,065	35,473	22,065	61%
Due in more than one year	-	-	608,079	639,813	608,079	639,813	-5%
<b>Total liabilities</b>	<u>\$ 168,205</u>	<u>\$ 158,818</u>	<u>\$ 1,242,797</u>	<u>\$ 1,207,417</u>	<u>\$ 1,411,002</u>	<u>\$ 1,366,235</u>	3%
<b>Deferred inflows of resources</b>	-	-	-	-	-	-	0%
<b>Net position:</b>							
Net investment in capital	\$ 288,537	\$ 289,612	\$ 2,454,325	\$ 2,658,288	\$ 2,742,862	\$ 2,947,900	-7%
Unrestricted	899,359	844,989	(16,550)	(374,413)	882,809	470,576	88%
<b>Total net position</b>	<u>\$ 1,187,896</u>	<u>\$ 1,134,601</u>	<u>\$ 2,437,775</u>	<u>\$ 2,283,875</u>	<u>\$ 3,625,671</u>	<u>\$ 3,418,476</u>	6%

At December 31, 2023, the City had invested \$2,742,862 in capital assets, net of related debt. The \$882,809 of unrestricted net position represents resources available to fund the programs of the City next year. This compares to \$2,947,900 in capital assets, net of related debt, and \$470,576 of unrestricted net position at December 31, 2022.

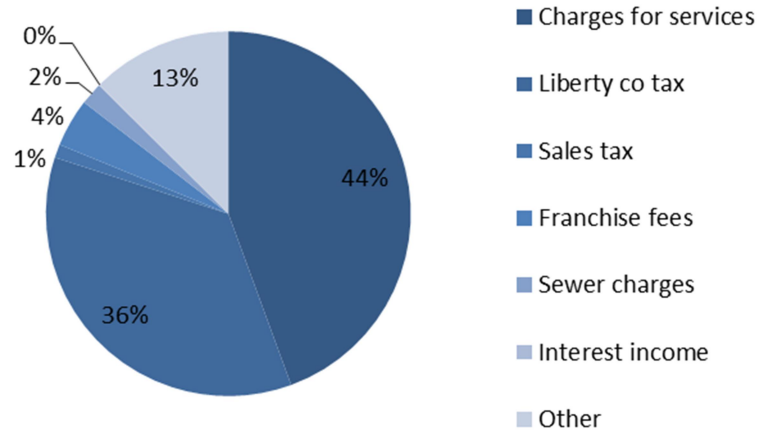
**Changes in net position.** For the year ended December 31, 2023, the City's net position remained relatively consistent to prior year with an overall increase of \$207,195. The City's total revenues were \$1,860,776. A significant portion, 44.41% of the City's revenue came from charges for services. Other revenues were generated by Liberty County taxes (35.59%), sales taxes (1.19%), franchise fees (4.28%), other revenues (12.49%), sewer charges (1.98%), and interest income (0.07%) (See Figure A-3). The total cost of all programs and services was \$1,653,581; 54.72% of these costs were for the utility services, 45.15% of these costs were for the general government, and 0.13% was for the mayor.

This compares to total revenues of \$780,636 for the year ended December 31, 2022. Charges for services accounted for 51.65% of that revenue. Other revenues generated included Liberty County tax (38.07%), sales tax (2.89%), franchise fees (3.15%), other revenues (3.13%), and sewer charges (1.10%). The total costs of all programs and services were \$759,982 for the year ended December 31, 2022; 62.84% of these costs were for the utility services, 36.06% of these costs were for general government expenses, 0.46% was for the mayor, and 0.64% was for the council.

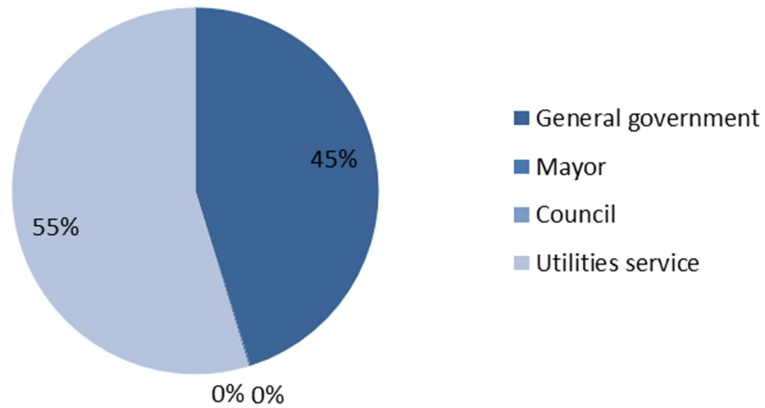
## CITY OF AMES, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) For the Year Ended December 31, 2023

#### 2023 Program Revenues



#### 2023 Program Expense



# CITY OF AMES, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the Year Ended December 31, 2023

**Table A-2**  
Changes in the City's Net Position

	Governmental Activities		Business-type Activities		Total		Percentage Change
	2023	2022	2023	2022	2023	2022	2022-2021
Program revenues:							
Charges for services:							
Utilities	\$ -	\$ -	\$ 826,330	\$ 407,691	\$ 826,330	\$ 407,691	103%
General revenues:							
Liberty co tax	662,218	300,488	-	-	662,218	300,488	120%
Sales tax revenue	22,125	22,838	-	-	22,125	22,838	-3%
Franchise fees	79,658	24,847	-	-	79,658	24,847	221%
Sewer charges	36,797	8,711	-	-	36,797	8,711	322%
Interest income	1,289	39	-	-	1,289	39	3205%
Other	-	24,480	232,359	253	232,359	24,733	100%
Total revenues	<u>\$ 802,087</u>	<u>\$ 381,403</u>	<u>\$ 1,058,689</u>	<u>\$ 407,944</u>	<u>\$ 1,860,776</u>	<u>\$ 789,347</u>	136%
Expenses by functions: programs							
General government	\$ 746,582	\$ 477,535	\$ -	\$ -	\$ 746,582	\$ 477,535	56%
Mayor	2,210	3,488	-	-	2,210	3,488	-37%
Council	-	4,878	-	-	-	4,878	-100%
Utilities services	-	-	904,789	274,081	904,789	274,081	230%
Total expenses	<u>\$ 748,792</u>	<u>\$ 485,901</u>	<u>\$ 904,789</u>	<u>\$ 274,081</u>	<u>\$ 1,653,581</u>	<u>\$ 759,982</u>	118%
Transfers	-	-	-	-	-	-	100%
Change in net position:	\$ 53,295	\$ (104,498)	\$ 153,900	\$ 133,863	\$ 207,195	\$ 29,365	606%
Net position – beginning	<u>1,134,601</u>	<u>1,239,099</u>	<u>2,283,875</u>	<u>2,150,012</u>	<u>3,418,476</u>	<u>3,389,111</u>	1%
Net position – ending	<u>\$ 1,187,896</u>	<u>\$ 1,134,601</u>	<u>\$ 2,437,775</u>	<u>\$ 2,283,875</u>	<u>\$ 3,625,671</u>	<u>\$ 3,418,476</u>	6%

Table A-3 presents the cost of each of the City's largest governmental-type functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what general revenues, such as local tax dollars and franchise fees funded. The cost of all governmental activities for the year ended December 31, 2023 was \$748,792. These costs include \$1,075 of depreciation of the City's capital assets. The governmental activities were paid for through Liberty County taxes \$662,218, franchise fees \$79,658, sales taxes \$22,125, sewer charges \$36,797, and interest income \$1,289. The governmental activities experienced a positive change in net position of \$420,684 for the year ended December 31, 2023, after. This compares to a negative change in net position of \$32,735 for 2022. Total revenues of \$802,087 exceeded the expenses of \$748,792.

## CITY OF AMES, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) For the Year Ended December 31, 2023

**Table A-3**  
**Net Cost of Selected Governmental-Type City Functions**

	Total Cost of Services		% Change
	2023	2022	2023-2022
General government	\$ 746,582	\$ 477,535	56.3%
Mayor	2,210	3,488	-36.6%
Council	-	4,878	-100.0%
Total	<u>\$ 748,792</u>	<u>\$ 485,901</u>	54.1%

#### **Business-type Activities**

Charges for services for the City's business-type activities increased by \$650,745 from prior year at \$407,944 for the year ended December 31, 2023. Expenses increased by \$630,708 from 2022 to 2023 with total expenses of \$904,789 for the year ended December 31, 2023.

#### **Financial Analysis of the City's Funds**

Revenues for the City's governmental fund types (the General Fund) increased by \$420,684 from 2022 to 2023 with total revenues of \$802,087 for the year ended December 31, 2023. The increased revenues were primarily attributable to higher Liberty Co. taxes, franchise fees, and sewer taxes collected. Governmental expenditures increased by \$262,891 from 2022 to 2023 with total expenditures of \$748,792 for the year ended December 31, 2023. The general fund's fund balance increased by \$53,295 from 2022 to 2023 with total fund balance of \$1,187,896 for the year ended December 31, 2023.

#### **General Fund Budgetary Highlights**

The budget included a net excess of \$57,371. Actual revenue amounts were greater than budgeted amounts by \$389,514. Operating expenditures were higher than budgeted by \$332,143 primarily due to professional services and repair and maintenance expenses.

#### **Capital Assets and Debt Administration**

##### **Capital Assets**

At the end of 2023, the City had invested \$5,897,167 in a broad range of capital assets, including land, infrastructure, utility systems, buildings, vehicles, furniture and equipment. (See Table A-4).

## CITY OF AMES, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) For the Year Ended December 31, 2023

**Table A-4**  
City's Capital Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2023-2022
	2023	2022	2023	2022	2023	2022	
Land	\$ 11,740	\$ 11,740	\$ -	\$ -	\$ 11,740	\$ 11,740	0.0%
Infrastructure	270,324	270,324	-	-	270,324	270,324	0.0%
Buildings	87,507	87,507	-	-	87,507	87,507	0.0%
Sewer systems	-	-	5,442,242	5,630,367	5,442,242	5,630,367	-3.3%
Improvements and other assets	85,354	85,354	-	-	85,354	85,354	0.0%
Totals at historical cost	<u>454,925</u>	<u>454,925</u>	<u>5,442,242</u>	<u>5,630,367</u>	<u>5,897,167</u>	<u>6,085,292</u>	-3.1%
Total accumulated depreciation	<u>(166,388)</u>	<u>(165,313)</u>	<u>(2,344,365)</u>	<u>(2,310,201)</u>	<u>(2,510,753)</u>	<u>(2,475,514)</u>	1.4%
Net capital assets	<u>\$ 288,537</u>	<u>\$ 289,612</u>	<u>\$ 3,097,877</u>	<u>\$ 3,320,166</u>	<u>\$ 3,386,414</u>	<u>\$ 3,609,778</u>	-6.2%

### Long Term Debt

At year-end the City had \$643,552 in debt outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements. Due to the limited size of the City's bond issuance, the City did not receive a credit rating by Moody's Investor Services.

**Table A-5**  
City's Long Term Debt

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2023-2022
	2023	2022	2023	2022	2023	2022	
Certificates of obligation, series 2000	\$ -	\$ -	\$ 397,040	\$ 397,620	\$ 397,040	\$ 397,620	-0.1%
Certificates of obligation, series 2001	-	-	246,512	264,258	246,512	264,258	-7.2%
Total Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 643,552</u>	<u>\$ 661,878</u>	<u>\$ 643,552</u>	<u>\$ 661,878</u>	-2.8%

### Economic Factors and Next Year's Budgets and Rates

The budget for 2023 is consistent with the 2022 budget. The maintenance and operations tax rate is projected to be consistent with 2022. The City's does not expect any significant changes in fund balance.

### Contacting the City's Financial Management

This financial report is designed to provide our citizens 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 office.

## **BASIC FINANCIAL STATEMENTS**



**CITY OF AMES, TEXAS**

**STATEMENT OF NET POSITION**

Year Ended December 31, 2023

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 423,620	\$ 530,124	\$ 953,744
Accounts receivable, net	-	52,103	52,103
Taxes receivable, net	253,536	-	253,536
Due from other governmental agencies	390,408	468	390,876
Total current assets	<u>1,067,564</u>	<u>582,695</u>	<u>1,650,259</u>
Noncurrent assets:			
Land	11,740	-	11,740
Buildings and improvements, net	37,883	-	37,883
Capital assets, net	238,914	3,097,877	3,336,791
Total noncurrent assets	<u>288,537</u>	<u>3,097,877</u>	<u>3,386,414</u>
Total assets	<u>\$ 1,356,101</u>	<u>\$ 3,680,572</u>	<u>\$ 5,036,673</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 15,235	\$ 60,129	\$ 75,364
Payroll taxes payable	1,887	119,561	121,448
Accrued liabilities	-	11,912	11,912
Due to other governments	468	390,408	390,876
Total current liabilities	<u>17,590</u>	<u>582,010</u>	<u>599,600</u>
Noncurrent liabilities:			
Customer deposits	150,615	17,235	167,850
Due within one year	-	35,473	35,473
Due in more than one year	-	608,079	608,079
Total noncurrent liabilities	<u>150,615</u>	<u>660,787</u>	<u>811,402</u>
Total liabilities	<u>168,205</u>	<u>1,242,797</u>	<u>1,411,002</u>
<b>NET POSITION</b>			
Net investment in capital assets	288,537	2,454,325	2,742,862
Unrestricted	899,359	(16,550)	882,809
Total net position	<u>1,187,896</u>	<u>2,437,775</u>	<u>3,625,671</u>
Total liabilities and net position	<u>\$ 1,356,101</u>	<u>\$ 3,680,572</u>	<u>\$ 5,036,673</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF AMES, TEXAS

## STATEMENT OF NET POSITION Year Ended December 31, 2023

	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
Functions/Programs							
Governmental activities:							
General government	\$ 746,582	\$ -	\$ -	\$ -	\$ (746,582)	\$ -	\$ (746,582)
Mayor	2,210	-	-	-	(2,210)	-	(2,210)
Council	-	-	-	-	-	-	-
Total governmental activities	748,792	-	-	-	(748,792)	-	(748,792)
Business-type activities:							
Utility services	815,876	1,058,689	-	-	-	242,813	242,813
Garbage services	88,913	-	-	-	-	(88,913)	(88,913)
Total business-type activities	904,789	1,058,689	-	-	-	153,900	153,900
Total primary government	\$ 1,653,581	\$ 1,058,689	\$ -	\$ -	(748,792)	153,900	(594,892)
General revenues:							
Ad valorem					662,218	-	662,218
Sales taxes					22,125	-	22,125
Franchise fees					79,658	-	79,658
Sewer charges					36,797	-	36,797
Interest income					1,289	-	1,289
Total general revenues and transfers					802,087	-	802,087
Transfers					-	-	-
Change in net position					53,295	153,900	207,195
Net position - beginning					1,134,601	2,283,875	3,418,476
Net position - ending					\$ 1,187,896	\$ 2,437,775	\$ 3,625,671

The accompanying notes are an integral part of these financial statements.

**CITY OF AMES, TEXAS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
Year Ended December 31, 2023**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 423,620
Taxes receivable, net	253,536
Due from other governmental agencies	<u>390,408</u>
Total assets	<u>1,067,564</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	 <u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 1,067,564</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>	
 <b>LIABILITIES</b>	
Accounts payable	\$ 15,235
Payroll liabilities	1,887
Due to other governments	<u>468</u>
Total liabilities	17,590
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred revenue - unavailable	<u>150,615</u>
Total deferred inflows of resources	<u>150,615</u>
 <b>FUND BALANCE</b>	
Unassigned	<u>899,359</u>
Total fund balances	<u>899,359</u>
 Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 1,067,564</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AMES, TEXAS**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
Year Ended December 31, 2022**

Total fund balances - governmental funds	\$ 899,359
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	288,537
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	<u>-</u>
Net position of governmental activities	<u>\$ 1,187,896</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AMES, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Year Ended December 31, 2022**

	<u>General Fund</u>
<b>REVENUES</b>	
Ad valorem	\$ 662,218
Sales tax revenue	22,125
Franchise fees	79,658
Sewer charges	36,797
Interest income	<u>1,289</u>
Total revenues	<u>802,087</u>
 <b>EXPENDITURES</b>	
General government	745,507
Mayor	2,210
Council	<u>-</u>
Total expenditures	<u>747,717</u>
 Excess (deficiency) of revenues over (under) expenditures	<u>54,370</u>
 <b>OTHER FINANCING SOURCES (USES)</b>	
Transfers out to other funds	<u>-</u>
Total other financing sources (uses)	<u>-</u>
 Net change in fund balance	54,370
 Fund balances - beginning	<u>844,989</u>
 Fund balances - ending	<u>\$ 899,359</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AMES, TEXAS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2022**

Net changes in fund balances - total governmental funds	\$ 54,370
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOE.	-
The depreciation of capital assets used in the governmental activities is not reported in the funds.	1,075
Certain property taxes are deferred in the funds. This is the change in these amounts this year.	<u>-</u>
Change in net position of governmental activities	<u>\$ 55,445</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AMES, TEXAS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
Year Ended December 31, 2023**

	Business-Type Activities - Enterprise Fund Utilities Fund
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 530,124
Accounts receivable, net	52,103
Due from other governments	468
Total current assets	<u>582,695</u>
Noncurrent Assets:	
Capital assets, net	<u>3,097,877</u>
Total noncurrent assets	<u>3,097,877</u>
Total assets	<u>\$ 3,680,572</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 60,129
Payroll liabilities	119,561
Accrued liabilities	11,912
Due to other governments	390,408
Customer deposits	17,235
Current maturities of long-term debt	<u>35,473</u>
Total current liabilities	<u>634,718</u>
Noncurrent Liabilities:	
Long-term debt (net of current portion)	<u>608,079</u>
Total noncurrent liabilities	<u>608,079</u>
Total liabilities	<u>1,242,797</u>
<b>NET POSITION</b>	
Net investment in capital assets	2,454,325
Unrestricted (Deficit)	<u>(16,550)</u>
Total net position	<u>2,437,775</u>
Total liabilities and net position	<u>\$ 3,680,572</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF AMES, TEXAS**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 Year Ended December 31, 2023

	Business-Type Activities - Enterprise Fund <u>Utilities Fund</u>
<b>Operating Revenues</b>	
Charges for services	\$ 826,330
Other income	<u>232,359</u>
Total operating revenues	<u>1,058,689</u>
<b>Operating Expenses</b>	
Personnel costs	127,380
General and administrative	67,755
Professional fees	315,869
Repairs and maintenance	40,861
Supplies expense	45,892
Computer and internet	31,514
Utilities	26,810
Sewer disposal fees	71,151
Garbage services	88,913
Contracted services	<u>3,500</u>
Total operating expenses	<u>819,645</u>
Operating income (loss)	<u>239,044</u>
<b>Nonoperating Revenues (Expenses)</b>	
Depreciation	(34,164)
Debt service	(21,684)
Interest Expense	<u>(29,296)</u>
Total nonoperating revenues (expenses)	<u>(85,144)</u>
Change in net position	<u>153,900</u>
Net position - beginning	<u>2,283,875</u>
Net position - ending	<u><u>\$ 2,437,775</u></u>

The accompanying notes are an integral part of these financial statements.



**CITY OF AMES, TEXAS**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended December 31, 2023**

	Business-Type Activities - Enterprise Fund <u>Utilities Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,041,413
Payments to employees	(89,373)
Other operating payments	<u>(727,546)</u>
Net cash provided by (used in) operating activities	<u>224,494</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Net cash provided by (used in) noncapital financing activities	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Other capital payments	<u>188,125</u>
Net cash provided by (used in) capital and related financing activities	<u>188,125</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	<u>(18,326)</u>
Net cash provided by (used in) investing activities	(18,326)
Net increase (decrease) In cash and investments	394,293
Cash & investments, beginning of the year	<u>135,831</u>
Cash & investments, end of the year	<u><u>\$ 530,124</u></u>
<b>Reconciliation of operating income (loss) to cash provided by (used in) operating activities</b>	
Operating income	\$ 153,900
Adjustments to reconcile operating income to net cash provided (used by) operating activities:	
Depreciation and amortization	34,164
(Increase) decrease in:	
Receivables, net	(17,276)
Increase (decrease) in:	
Accounts payable	15,699
Other accrued liabilities	<u>38,007</u>
Net cash (used) provided by operating activities	<u><u>\$ 224,494</u></u>

The accompanying notes are an integral part of these financial statements.

## **CITY OF AMES, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year Ended December 31, 2023**

#### **Note 1 – Summary of Significant Accounting Policies**

##### **Financial Reporting Entity**

The City of Ames, Texas was organized under the laws of the State of Texas. The City operates under an elected Mayor/Council form of government. The city is governed by the mayor and a five-member council elected by registered voters of the City. The City's major operations include general administrative services and maintenance of streets. Additionally, the City operates a utility systems fund for the provision of utilities including sewer system services and sanitation services. Following is a summary of the City's more significant account policies.

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

##### **A. Reporting Entity –**

The City's financial statements include the accounts of all City operators. The measure for including organizations as component units of the City was made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criteria for inclusion are the degree of oversight responsibility maintained by the City Council. Examples of oversight responsibility include financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Based on these criteria, there are no component units included in these statements.

##### **B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation –**

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

##### **Government-wide Financial Statements**

The Statement of Position and the Statement of Activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed through user charges.

## CITY OF AMES, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ended December 31, 2023

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, includes property taxes, sales taxes and grants. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statements are prepared using a different measurement focus from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Fund Financial Statements:** Fund financial statements report detailed information about the City. Separate financial statements are provided for governmental funds and proprietary funds. The focus of governmental and proprietary fund financial statements is on the major funds rather than reporting funds by type. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. For fiscal year 2023, the City only has one governmental fund (the General Fund) and one proprietary fund (the Utilities Fund).

**Governmental Funds Types:** All governmental funds are reported using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become 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. Property taxes, franchise fees, and sales taxes associated with the current fiscal year are all considered to be measurable and susceptible to accrual and so have been recognized as revenues of the current fiscal year. For this purpose, the City considers property taxes to be available if they are collected within 60 days of the end of the current fiscal year.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds. The funds included in this category are as follows:

## CITY OF AMES, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ended December 31, 2023

- General Fund - This fund is the general operating fund of the City. It is used to account for all resources and functions traditionally associated with governments that are not required to be accounted for in another fund.
- Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources other than assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes. The City does not have any special revenue funds as of December 31, 2023.
- Debt Service Funds - This fund is used to account for the accumulation of resources for, and the payment of, all general obligation indebtedness not serviced by the proprietary funds. The City attained \$50,980 in debt service funds as of December 31, 2023.
- Capital Projects Funds - These funds are used to account for the financial resources used for the acquisition or construction of major capital facilities. The City did not have any capital projects funds as of December 31, 2023.

**Proprietary Fund:** All proprietary funds are accounted for using the accrual basis of accounting and the economic resources measurement focus. These funds account for operations that are primarily financed by user charges. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating expenses of the City's proprietary fund include the cost of providing services, administrative expenses, maintenance and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City's fund included in this category is the Utilities Fund. The Utilities Fund is used to account for operations financed and operated in a manner similar to private business enterprises, where the intent of the Council is that the cost of providing certain goods or services to the general public on continuing basis should be financed or recovered primarily through user charges for those services.

#### C. Use of Estimates –

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

#### D. Budgets and Budgetary Accounting –

Prior to December 31 of each year, the City adopts a budget for the fiscal year beginning January 1, of that year. The budget, which includes anticipated revenues and expenditures, is adopted for the General Fund and the Utilities Fund. The annual budget for the General Fund is prepared in accordance with the modified accrual basis of accounting. The budgets are amended by the Council as needed throughout the year.

#### E. Interfund Transactions and Balances –

Interfund transactions intended to reflect the transfer of resources between funds are reflected as transfers. Certain transactions representing short-term liabilities between funds are recorded as receivables and payables in the respective funds at the time the transactions are reported on the fund basis statement.

## CITY OF AMES, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ended December 31, 2023

#### **F. Cash and Certificates of Deposits –**

Cash in excess of current operating requirements is invested in certificate of deposits in order to earn a higher rate of interest. The City generally does not invest in any other securities. For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of one year or less when purchased to be cash equivalents. Cash deposits and certificates of deposits are reported at their carrying amounts, which reasonably estimates fair value. For 2023, the City did not invest in any certificates of deposit.

#### **G. Accounts Receivable –**

The Utilities Fund accounts receivable at December 31, 2023 is presented net of an allowance for doubtful accounts of \$14,000.

#### **H. Capital Assets and Depreciation –**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets are being depreciated using the straight-line method when placed into service and depreciation expense for governmental assets is specifically identified by function. Depreciation expense for the proprietary fund is recorded in that fund. The following estimated useful lives are used for calculating depreciation expense:

	<u>Depreciable Life</u>
Sewer System	15-40
Equipment	5-7
Building & Improvements	15-40
Furnitures & Fixtures	5-7
Infrastructure	20-40

#### **I. Deferred Outflows/Inflows of Resources –**

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* adds the financial statement elements of deferred outflows of resources and deferred inflows of resources to the financial statements. Because these financial statement elements are neither assets nor liabilities, previously termed “net assets” are considered “net position”. The statement of financial position includes a separate section for deferred outflows of resources. This separate financial

## CITY OF AMES, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ended December 31, 2023

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.

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 addition to net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

#### **J. Fund Balance –**

Governmental Accounting Standards Board (GASB) Statement No. 54-*Fund Balance Reporting and Government Fund Type Definitions* establishes fund balance classifications based primarily on the extent to which the City is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

In the fund, financial statements, governmental fund balances are classified as non-spendable, restricted, committed, assigned, or unassigned. Non-spendable fund balances cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is limitation imposed by the City Council through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the City Council. Unassigned fund balance in the General Fund is the net resources of what can be properly classified in one of the above four categories. Negative unassigned fund balance in any other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classification can be used.

For the government-wide financial statements, net position is reported as restricted when constraints placed on net position are either: (1) Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

#### **K. Net Position –**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the city-wide financial statements. Net positions are classified in the following categories:

- Net investments in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

## CITY OF AMES, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ended December 31, 2023

- Restricted net position – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

#### Note 2 – Compliance and Accountability

##### A. Finance-Related Legal and Contractual Provisions –

In accordance with GASB Statement No. 38, “Certain Financial Statement Note Disclosure,” violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

##### B. Deficit Fund Balance or Fund Net Position of Individual Funds –

Following are funds having deficit fund balances or fund net position at year-end, if any, along with remarks that address such deficit:

<u>Fund Name</u>	<u>Deficient Amount</u>	<u>Remarks</u>
None	Not applicable	N/A

#### Note 3 – Cash Deposits and Investments

The City’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City’s agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (FDIC) Insurance.

##### A. Cash Deposits –

At December 31, 2023, the carrying amount of the City’s deposits (cash and certificates of deposit included in investments) was \$953,744 and the bank balance was \$953,744. The City’s cash deposits at December 31, 2023, and during the year ended December 31, 2023, were entirely covered by FDIC insurance or by pledged collateral held by the City’s agent bank in the City’s name.

##### B. Investments –

The City is requested by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following area: (1) safely or principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7)

## **CITY OF AMES, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year Ended December 31, 2023

maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishments of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the type of investments that are allowable for the City. These include, with certain restrictions (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

For 2023, the City did not have any investments.

#### **C. Analysis of Specific Deposit and Investment Risks –**

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year-end and if so, the reporting of certain related disclosures:

##### **1. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For fiscal year 2023, the City invested in interest bearing bank accounts at the depository bank which were not exposed to credit risk.

##### **2. Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year-end, the City was not exposed to custodial credit risk.

##### **3. Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City was not exposed to the concentration of credit risk at the end of 2023.

##### **4. Interest Rate Risk**



## CITY OF AMES, TEXAS

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year Ended December 31, 2023

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

#### 5. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At the year-end, the City was not exposed to foreign currency risk.

#### Note 4 – Property Taxes

Taxable property either within the City is subjected to assessment, levy and collection of ad valorem taxes necessary to support the general governmental services provided. The tax rate for the fiscal year ended December 31, 2023, was \$0.50 per \$100 assessed valuation based on the total net assessed value of \$75,398,461.

Property taxes are levied by October 1 based on appraised property values at January 1. 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 tax revenues when levied to the extent that it results in current receivables. Property taxes are collected and remitted to the City by the Liberty County Tax Assessor Collector's office.

Allowance for uncollectible taxes receivable of \$52,103 at December 31, 2023, are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

#### Note 5 – Due From Other Governments

At December 31, 2023, amounts due from other governments consisted of the following:

	Governmental Activities	Business-type Activities
Due from other governments	\$ 390,408	\$ 468
Due to other governments	(468)	(390,408)
Total	<u>\$ 389,940</u>	<u>\$ (389,940)</u>

# CITY OF AMES, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year Ended December 31, 2023

### Note 6 – Capital Assets

Capital asset activity for the year ended December 31, 2023, was as follows:

	Balance 12/31/2022	Increases	Decreases	Balance 12/31/2023
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,740	\$ -	\$ -	\$ 11,740
Other capital assets:				
Infrastructure	270,324	-	-	270,324
Buildings	87,507	-	-	87,507
Improvements and other assets	85,354	-	-	85,354
Totals	454,925	-	-	454,925
Less accumulated depreciation:				
Infrastructure	(31,206)	(203)	-	(31,409)
Buildings	(46,649)	(303)	-	(46,952)
Improvements and other assets	(87,458)	(569)	-	(88,027)
Total accumulated depreciation	(165,313)	(1,075)	-	(166,388)
Governmental activities:				
Capital assets, net	<u>\$ 289,612</u>	<u>\$ (1,075)</u>	<u>\$ -</u>	<u>\$ 288,537</u>

Depreciation expense of \$1,075 was charged to the General Fund and \$872 allocated as a general government function expense and \$203 allocated as infrastructure.

	Balance 12/31/2022	Increases	Decreases	Balance 12/31/2023
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 5,630,367	\$ -	\$ (188,125)	\$ 5,442,242
Construction in progress	-	-	-	-
Totals	5,630,367	-	(188,125)	5,442,242
Less accumulated depreciation:				
Sewer system	(2,310,201)	(34,164)	-	(2,344,365)
Total accumulated depreciation	(2,310,201)	(34,164)	-	(2,344,365)
Business-type activities:				
Capital assets, net	<u>\$ 3,320,166</u>	<u>\$ (34,164)</u>	<u>\$ (188,125)</u>	<u>\$ 3,097,877</u>

Depreciation expense of \$34,164 was reduced in the Utilities Fund.

### Note 7 – Franchise Fees

The City has granted franchise rights and receives franchise fees from Entergy, and various telecommunications companies.

# CITY OF AMES, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year Ended December 31, 2023

### Note 8 – Long-Term Debt

The following is a summary of changes in the City's long-term debt for the year ended December 31, 2023:

	Rate	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Business-type activities:</u>						
Certificates of obligation, series 2000 (maturing 2040)	4.5%	\$ 397,620	\$ -	\$ 580	\$ 397,040	\$ 12,630
Certificates of obligation, series 2001 (maturing 2040)	4.5%	264,258	-	17,746	246,512	778
		<u>\$ 661,878</u>	<u>\$ -</u>	<u>\$ 18,326</u>	<u>\$ 643,552</u>	<u>\$ 13,408</u>

The City issued certificates of obligation to provide funds for the construction and improvement of the City's sanitary sewer system. The City pledges the net revenues of the sanitary sewer system for payment of principal and interest on the certificates of obligation bonds, which are equally secured by a first lien on the City's sanitary sewer system and backed by the full faith and credit of the City. The bonds are issued as 39-40 year current interest bonds. See the applicable future principal and interest payments below.

Fiscal Years Ended December 31,	Interest Rate	Combination Tax & Revenue Certificates of Obligation, Series 2000		Interest Rate	Combination Tax & Revenue Certificates of Obligation, Series 2001		Total Debt Service
		Principal	Interest		Principal	Interest	
2024	4.50%	\$ 13,210	\$ 17,054	4.50%	\$ 9,470	\$ 11,273	\$ 51,007
2025	4.50%	13,817	16,447	4.50%	9,905	10,838	51,007
2026	4.50%	14,452	15,813	4.50%	10,360	10,383	51,008
2027	4.50%	15,116	15,149	4.50%	10,836	9,907	51,008
2028-2032	4.50%	86,656	50,213	4.50%	62,122	44,324	243,315
2033-2037	4.50%	108,476	42,847	4.50%	77,764	29,369	258,456
2038-2041	4.50%	145,313	15,534	4.50%	66,055	10,649	237,551
Total		<u>\$ 397,040</u>	<u>\$ 173,057</u>		<u>\$ 246,512</u>	<u>\$ 126,743</u>	<u>\$ 943,352</u>

## **CITY OF AMES, TEXAS**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year Ended December 31, 2023

#### **Note 9 – Agreement with the City of Liberty**

The City has a wastewater disposal contract with the City of Liberty, Texas under which the City of Liberty provides for the treatment and disposal of waste from the City of Ames's wastewater collection system. During the fiscal year ended December 31, 2023, the City of Ames incurred no extra charges from the City of Liberty for processing of wastewater based on the terms of the contract. As of December 31, 2023, the City's remaining liability for wastewater processing was \$390,876. The City and the City of Liberty are continuing their discussions regarding the best resolution to this liability.

#### **Note 10 – Participation in Public Entity Risk Pool**

The City is a member of the Texas Municipal League Intergovernmental Risk Pool (Pool). The Pool was created to formulate, develop and administer a program of modified self-funding for the Pool's membership. It obtains competitive costs for workers' compensation, provides liability coverage for members and their employees in their official capacities and provides municipal property coverage. The City's agreement provides that the Pool will be self-sustaining through member premiums and reinsurance contracts. There were no significant reductions in insurance coverage's in the past fiscal year and claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

#### **Note 11 – Risk Management and Contingencies**

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets; errors and omissions; 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.

## **REQUIRED SUPPLEMENTARY INFORMATION (PART II)**

**CITY OF AMES, TEXAS**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2023**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive/ (Negative)
<b>REVENUES</b>				
Ad valorem taxes, including penalty & interest	\$ 258,217	\$ 258,217	\$ 662,218	\$ 404,001
Sales taxes	20,037	20,037	22,125	2,088
Franchise fees	24,634	24,634	79,658	55,024
Sewer charges	-	-	36,797	36,797
Other	109,485	109,485	-	(109,485)
Interest income	200	200	1,289	1,089
Total revenues	<u>412,573</u>	<u>412,573</u>	<u>802,087</u>	<u>389,514</u>
<b>EXPENDITURES</b>				
Current Function:				
General government	396,574	396,574	745,507	(348,933)
Mayor	8,000	8,000	2,210	5,790
Council	8,000	8,000	-	8,000
Streets	<u>3,000</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total expenditures	<u>415,574</u>	<u>415,574</u>	<u>747,717</u>	<u>(332,143)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,001)</u>	<u>(3,001)</u>	<u>54,370</u>	<u>(57,371)</u>
Net changes in fund balance	<u>\$ (3,001)</u>	<u>\$ (3,001)</u>	<u>\$ 54,370</u>	<u>\$ 57,371</u>
Fund Balances, Beginning			<u>844,989</u>	
<b>Fund Balances, Ending</b>			<u>\$ 899,359</u>	

## **SUPPLEMENTARY INFORMATION**

**CITY OF AMES, TEXAS**

**UTILITY FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2023**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive/ (Negative)</u>
<b>REVENUES</b>				
Charges for service, net	\$ 293,700	\$ 293,700	\$ 826,330	\$ 532,630
Tap fees & other	<u>10,800</u>	<u>10,800</u>	<u>232,359</u>	<u>221,559</u>
Total revenues	<u>304,500</u>	<u>304,500</u>	<u>1,058,689</u>	<u>754,189</u>
<b>EXPENDITURES</b>				
Personnel costs	120,300	120,300	127,380	(7,080)
Professional fees	-	-	315,869	(315,869)
Contract services	2,500	2,500	3,500	(1,000)
Repair and maintenance	27,000	27,000	40,861	(13,861)
Supplies	-	-	77,406	(77,406)
Utilities	25,300	25,300	26,810	(1,510)
Sewer disposal fees	68,000	68,000	71,151	(3,151)
Garbage collection services	66,000	66,000	88,913	(22,913)
Depreciation	-	-	34,164	(34,164)
Other expenses	<u>-</u>	<u>-</u>	<u>67,755</u>	<u>(67,755)</u>
Total expenditures	<u>309,100</u>	<u>309,100</u>	<u>853,809</u>	<u>(544,709)</u>
<b>NON-OPERATING REVENUES (EXPENDITURES)</b>				
Debt principal	37,000	37,000	21,684	15,316
Debt interest	<u>-</u>	<u>-</u>	<u>29,296</u>	<u>(29,296)</u>
Total non-operating revenues (expenditures)	<u>37,000</u>	<u>37,000</u>	<u>50,980</u>	<u>(13,980)</u>
Excess (deficiency) of revenues over expenditures	<u>32,400</u>	<u>32,400</u>	<u>153,900</u>	<u>(121,500)</u>
Net changes in fund balance	<u>\$ 32,400</u>	<u>\$ 32,400</u>	<u>\$ 153,900</u>	<u>\$ 121,500</u>
Fund Balances, Beginning			<u>2,283,875</u>	
<b>Fund Balances, Ending</b>			<u>\$ 2,437,775</u>	



## **INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS**

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

To the Honorable Mayor and the City Council  
City of Ames, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business- type activities, each major fund, and the aggregate remaining fund information of the City of Ames, Texas, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Ames, Texas's basic financial statements and have issued our report thereon dated November 20, 2024.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Ames, 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 Ames, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Ames, 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. Given these limitations, during our audit we did identified three deficiencies in internal control that we consider to be material weaknesses [2023-001, 2023-002, and 2023-003].

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

As part of obtaining reasonable assurance about whether the City of Ames'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*.

## **City of Ames's Response to Findings**

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

## **Purpose of this Report**

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

*Bruno & Tervalon LLP*

Houston, Texas  
November 20, 2024

## CITY OF AMES, TEXAS

### SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2023

#### **I Summary of Auditors' Results**

##### **a. Financial Statements**

1. The independent auditors' report expresses an unmodified opinion on the financial statements of the City of Ames, Texas.
2. There were three material weaknesses disclosed during the audit of the financial statements and reported in the *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. There were no instances of noncompliance to be reported in the *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

##### **b. Federal Awards**

N/A

##### **c. Management Letter**

1. No management letter was issued in connection with the audit for the year ended December 31, 2023.

## **CITY OF AMES, TEXAS**

### **SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended December 31, 2023

#### **II. Findings – Financial Statement Audit**

##### **INTERNAL CONTROL AND COMPLIANCE FINDINGS**

###### **2023-001 General Accounting**

###### **Condition:**

There is no evidence to indicate that the City has been able to reconcile or address prior audit findings or opening balances. No evidence has been provided to show that current accounting staff was provided with policies and procedures relating to accounting and financial reporting issues. An ongoing control log of journal entries is not maintained noting reason for the journal entries and appropriate supervisor approval.

###### **Criteria:**

Good controls over financial records of the City should include written policies and procedures, segregation of duties, proper reconciliations, approval of manual journal entries, and adequate financial information provided to the City Council and department heads. All payables and receivables should be recorded at year end and prior year receivables and payables reversed.

###### **Cause:**

City was unable to provide written policies and procedures relating to financial reporting. Procedures not enacted to oversee proper recording of transactions into City's accounting records system.

###### **Effect:**

Auditor is unable to perform the work necessary to conduct audit in accordance with the standards applicable to audits and issue an opinion on the financial statements.

Misstatements in the financial statements, related notes, or supplementary information may occur and not be detected within a timely period.

Poor accounting controls, lack of appropriate review and approval, inability to retrieve documents, posting errors and financial statements not being provided to the mayor and aldermen contribute to insufficient information to properly plan and operate the financial activities of the City. Monitoring and managing the day-to-day progress of the City is critical in the management of cash flow to prevent future economic hardships.

###### **Recommendation:**

The City should engage the services of an experienced certified public accountant to ensure among other things, 1.) current transactions are properly recorded and reconciled; 2.) daily and month-end accounting processes and controls are implemented; 3.) bank reconciliations are brought (up-to-date) and prepared each month; 4.) accurate financial statements with budget-to-actual comparisons are prepared monthly; and 5.) prior years' financial records are reviewed and obtained accurate opening balances for upcoming reporting year.

## CITY OF AMES, TEXAS

### SCHEDULE OF FINDINGS AND RESPONSES (Continued) Year Ended December 31, 2023

We also recommend that one employee, independent of the accounting department, such as the receptionist or office manager, open the mail and restrictively endorse all incoming checks. This person should keep a daily log of all incoming checks. Copies of the checks should be forwarded to the appropriate departments for processing and the checks should be forwarded to the accounting department for recording in the accounting system and timely deposit. A third person should periodically compare deposit slips to the daily log of incoming checks to ensure that all receipts were deposited. By segregating the cash handling, recording, and depositing functions, the City will be able to more accurately track all incoming checks and strengthen the system of internal controls over cash receipts.

#### Response:

See management's response letter.

#### **2022-002 Inadequate Controls over Financial Reporting**

##### Condition:

Financial statements are not prepared monthly on funds (e.g., General Fund, Enterprise Fund) of the City. Monthly budget-to-actual comparison schedules are not prepared and presented to the mayor and council for discussion.

##### Criteria:

Adequate internal controls in relation to financial reporting require that specific procedures be in place to ensure that transactions are properly supported and recorded on a timely basis. In addition, controls should be in place to ensure the appropriate oversight of funds and monthly transactions from those charged with governance. Monthly financial statements should be provided to the mayor and City council for their review. The financial activity and comparison to budgeted amounts is necessary for the proper stewardship of the City.

Management is responsible for establishing internal control policies and procedures that provide for proper accounting, reasonable assurance that assets are safeguarded against loss resulting from unauthorized use, and that transactions are executed in accordance with management's authorization.

##### Cause:

The City did not maintain an adequate control environment due to lack of monitoring and oversight by those charged with governance. Monthly financial statements were not prepared for the mayor and City council during the audit period due to the accounting records not being current.

An internal control system was not designed and/or implemented to ensure that adequate controls were in place in all areas to prevent, detect, and correct noncompliance in a timely manner. Management of the City was not seeking advice and reviewing transactions on a regular basis to ensure that financial related matters were in compliance.

## CITY OF AMES, TEXAS

### SCHEDULE OF FINDINGS AND RESPONSES (Continued) Year Ended December 31, 2023

#### Effect:

The lack of adequate internal controls relating to general ledger maintenance significantly increases the risk that material error and irregularities could exist and not be detected. The lack of oversight significantly increases the risk of the misappropriation of assets. Complete accounting records are necessary to prepare financial statements. Management of the City does not have financial information necessary to plan and operate the City effectively. Without complete financial information on all funds on a timely basis, including budget-to actual comparisons, the mayor and council cannot effectively exercise its fiduciary responsibilities of monitoring and managing the City's fiscal affairs.

#### Recommendation:

The organization should review its existing controls over financial reporting and adopt and implement policy and procedures that will ensure the safeguarding of the City's assets, reporting accurate financial data and that personnel comply with policies, procedures and regulations. In addition, the organization should complete its review of the draft "Accounting Policy and Procedures Manual," maintain the general ledger on a timely basis including posting transactions, completing account reconciliations, and preparing monthly financial statements. The organization should develop a written accounting policy manual which includes month-end procedures along with formal approvals and other control procedures. Those in charge of governance should monitor the process to ensure compliance with the policies established. The mayor should ensure that he and the council are presented each month with current financial statements (e.g., Balance Sheet; Statement of Revenue, Expenditures, and Changes in Fund Balance; Cash Flow Statements) for all funds of the City, including budget-to-actual comparisons and warning of any corrective action needed to be taken (e.g., amending the budget).

#### Response:

See management's response letter.

### **2022-003 Preparation of Financial Statements**

#### Condition:

The City's staff responsible for preparation of the financial statements and related footnote disclosure in accordance with generally accepted accounting principles (GAAP) lacks the resources and/or knowledge necessary to internally complete the reporting requirements.

The City relies on its auditors to assist in the preparation of external financial statements and related disclosures.

#### Criteria:

Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 expands management's responsibility to ensure the propriety and completeness of the financial statements and related footnotes. Under the United States generally accepted auditing standards, the auditors cannot be considered part of the City's internal control structure.

## CITY OF AMES, TEXAS

### SCHEDULE OF FINDINGS AND RESPONSES (Continued) Year Ended December 31, 2023

Management of the City should have suitable skill, knowledge, or experience to prepare financial statements, the related notes, and the supplementary information in accordance with accounting principles generally accepted in the United States of America. Internal controls should be adopted and implemented to prevent, detect or correct a misstatement in the financial statements, related notes, or supplementary information.

#### Cause:

Because of limitations of the City's accounting process, the design of the City's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

#### Effect:

City is unable to prepare or assist in the preparation of external financial statements.

City is unable to meet the required standards to ensure completeness of external financial statements and related footnotes.

Misstatements in the external financial statements, related notes, or supplementary information may occur and not be detected within a timely period. The amounts by which not implementing GASB Statement No. 45 would affect the liabilities and net assets of the governmental activities are not known.

#### Recommendation:

City should hire competent staff capable of preparing and maintaining records in a manner to adequately assist in preparation of external financial statements and related disclosures.

Management of the City should make a determination as to whether the cost of correcting the deficiency concerning the expertise of accounting personnel exceeds the expected benefit to be derived from doing such.

#### Response:

See management's response letter.



## **CITY OF AMES, TEXAS**

### **SUMMARY OF THE PRIOR YEAR FINDINGS Year Ended December 31, 2023**

#### **III. Summary of Prior Year Findings**

##### **INTERNAL CONTROL AND COMPLIANCE FINDINGS**

###### **2022-001 General Accounting**

###### **Condition:**

There is no evidence to indicate that the City has been able to reconcile or address prior audit findings or opening balances. No evidence has been provided to show that current accounting staff was provided with policies and procedures relating to accounting and financial reporting issues. An ongoing control log of journal entries is not maintained noting reason for the journal entries and appropriate supervisor approval.

###### **Criteria:**

Good controls over financial records of the City should include written policies and procedures, segregation of duties, proper reconciliations, approval of manual journal entries, and adequate financial information provided to the City Council and department heads. All payables and receivables should be recorded at year end and prior year receivables and payables reversed.

###### **Cause:**

City was unable to provide written policies and procedures relating to financial reporting. Procedures not enacted to oversee proper recording of transactions into City's accounting records system.

###### **Effect:**

Auditor is unable to perform the work necessary to conduct audit in accordance with the standards applicable to audits and issue an opinion on the financial statements.

Misstatements in the financial statements, related notes, or supplementary information may occur and not be detected within a timely period.

Poor accounting controls, lack of appropriate review and approval, inability to retrieve documents, posting errors and financial statements not being provided to the mayor and aldermen contribute to insufficient information to properly plan and operate the financial activities of the City. Monitoring and managing the day-to-day progress of the City is critical in the management of cash flow to prevent future economic hardships.

###### **Recommendation:**

The City should engage the services of an experienced certified public accountant to ensure among other things, 1.) current transactions are properly recorded and reconciled; 2.) daily and month-end accounting processes and controls are implemented; 3.) bank reconciliations are brought (up-to-date) and prepared each month; 4.) accurate financial statements with budget-to-actual comparisons are prepared monthly; and 5.) prior years' financial records are reviewed and obtained accurate opening balances for upcoming reporting year.

## CITY OF AMES, TEXAS

### SUMMARY OF THE PRIOR YEAR FINDINGS (CONTINUED) Year Ended December 31, 2022

We also recommend that one employee, independent of the accounting department, such as the receptionist or office manager, open the mail and restrictively endorse all incoming checks. This person should keep a daily log of all incoming checks. Copies of the checks should be forwarded to the appropriate departments for processing and the checks should be forwarded to the accounting department for recording in the accounting system and timely deposit. A third person should periodically compare deposit slips to the daily log of incoming checks to ensure that all receipts were deposited. By segregating the cash handling, recording, and depositing functions, the City will be able to more accurately track all incoming checks and strengthen the system of internal controls over cash receipts.

#### Status:

Unresolved. See Current Finding 2023-001

#### **2022-002 Inadequate Controls over Financial Reporting**

#### Condition:

Financial statements are not prepared monthly on funds (e.g., General Fund, Enterprise Fund) of the City. Monthly budget-to-actual comparison schedules are not prepared and presented to the mayor and council for discussion.

#### Criteria:

Adequate internal controls in relation to financial reporting require that specific procedures be in place to ensure that transactions are properly supported and recorded on a timely basis. In addition, controls should be in place to ensure the appropriate oversight of funds and monthly transactions from those charged with governance. Monthly financial statements should be provided to the mayor and City council for their review. The financial activity and comparison to budgeted amounts is necessary for the proper stewardship of the City.

Management is responsible for establishing internal control policies and procedures that provide for proper accounting, reasonable assurance that assets are safeguarded against loss resulting from unauthorized use, and that transactions are executed in accordance with management's authorization.

#### Cause:

The City did not maintain an adequate control environment due to lack of monitoring and oversight by those charged with governance. Monthly financial statements were not prepared for the mayor and City council during the audit period due to the accounting records not being current.

An internal control system was not designed and/or implemented to ensure that adequate controls were in place in all areas to prevent, detect, and correct noncompliance in a timely manner. Management of the City was not seeking advice and reviewing transactions on a regular basis to ensure that financial related matters were in compliance.

## CITY OF AMES, TEXAS

### SUMMARY OF THE PRIOR YEAR FINDINGS (CONTINUED) Year Ended December 31, 2022

#### Effect:

The lack of adequate internal controls relating to general ledger maintenance significantly increases the risk that material error and irregularities could exist and not be detected. The lack of oversight significantly increases the risk of the misappropriation of assets. Complete accounting records are necessary to prepare financial statements. Management of the City does not have financial information necessary to plan and operate the City effectively. Without complete financial information on all funds on a timely basis, including budget-to actual comparisons, the mayor and council cannot effectively exercise its fiduciary responsibilities of monitoring and managing the City's fiscal affairs.

#### Recommendation:

The organization should review its existing controls over financial reporting and adopt and implement policy and procedures that will ensure the safeguarding of the City's assets, reporting accurate financial data and that personnel comply with policies, procedures and regulations. In addition, the organization should complete its review of the draft "Accounting Policy and Procedures Manual," maintain the general ledger on a timely basis including posting transactions, completing account reconciliations, and preparing monthly financial statements. The organization should develop a written accounting policy manual which includes month-end procedures along with formal approvals and other control procedures. Those in charge of governance should monitor the process to ensure compliance with the policies established. The mayor should ensure that he and the council are presented each month with current financial statements (e.g., Balance Sheet; Statement of Revenue, Expenditures, and Changes in Fund Balance; Cash Flow Statements) for all funds of the City, including budget-to-actual comparisons and warning of any corrective action needed to be taken (e.g., amending the budget).

#### Status:

Unresolved. See Current Finding 2023-002

### **2022-003 Preparation of Financial Statements**

#### Condition:

The City's staff responsible for preparation of the financial statements and related footnote disclosure in accordance with generally accepted accounting principles (GAAP) lacks the resources and/or knowledge necessary to internally complete the reporting requirements.

The City relies on its auditors to assist in the preparation of external financial statements and related disclosures.

#### Criteria:

Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 expands management's responsibility to ensure the propriety and completeness of the financial statements and related footnotes. Under the United States generally accepted auditing standards, the auditors cannot be considered part of the City's internal control structure.

## CITY OF AMES, TEXAS

### SUMMARY OF THE PRIOR YEAR FINDINGS (CONTINUED) Year Ended December 31, 2022

Management of the City should have suitable skill, knowledge, or experience to prepare financial statements, the related notes, and the supplementary information in accordance with accounting principles generally accepted in the United States of America. Internal controls should be adopted and implemented to prevent, detect or correct a misstatement in the financial statements, related notes, or supplementary information.

#### Cause:

Because of limitations of the City's accounting process, the design of the City's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

#### Effect:

City is unable to prepare or assist in the preparation of external financial statements.

City is unable to meet the required standards to ensure completeness of external financial statements and related footnotes.

Misstatements in the external financial statements, related notes, or supplementary information may occur and not be detected within a timely period. The amounts by which not implementing GASB Statement No. 45 would affect the liabilities and net assets of the governmental activities are not known.

#### Recommendation:

City should hire competent staff capable of preparing and maintaining records in a manner to adequately assist in preparation of external financial statements and related disclosures.

Management of the City should make a determination as to whether the cost of correcting the deficiency concerning the expertise of accounting personnel exceeds the expected benefit to be derived from doing such.

#### Status:

Unresolved. See Current Finding 2023-003