

**PALACIOS SEAWALL
COMMISSION**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2021



**8 WEST WAY COURT
LAKE JACKSON, TEXAS**

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PALACIOS SEAWALL COMMISSION

*Annual Financial Report
Year Ended December 31, 2021*

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Commissioners
Palacios Seawall Commission
P.O. Box 779
Palacios, Texas 77465-0779

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of the Palacios Seawall Commission (the "Commission"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Commission'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.

Auditor's 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Commission, as of December 31, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 9 through 12 and page 37 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2022, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

KM&L, LLC

Lake Jackson, Texas
April 13, 2022

PALACIOS SEAWALL COMMISSION

*Management's Discussion and Analysis
Year Ended December 31, 2021*

As commissioners of the Palacios Seawall Commission (the "Commission"), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended December 31, 2021. We encourage readers to consider this information presented here in conjunction with the Commission's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 15,454,171 (net position). Of this total amount, \$ 4,334,025 (unrestricted net position) may be used to meet the Commission's ongoing obligations to citizens and creditors within the Commission's fund designation.
- The Commission's total net position decreased by \$ 323,331.
- As of the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$ 4,328,749 or 683.95% of the total general fund expenditures. The amount of \$ 1,828,749 (unassigned fund balance) is available for use within the Commission's fund designation.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the Commission as being principally supported by taxes (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The Commission has no business-type activities and no component units for which it is financially accountable. The *governmental activities* of the Commission include general government and administration and flood control.

The government-wide financial statements can be found on pages 14 and 15 of this report.

PALACIOS SEAWALL COMMISSION

*Management's Discussion and Analysis
Year Ended December 31, 2021*

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Commission has only one major fund, which is the general fund, and is reported as a governmental fund.

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

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

The fund financial statements can be found on pages 18 through 21 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 34 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Commission's budget and actual schedule for the General Fund. Required supplementary information can be found on page 37 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 15,454,171 as of December 31, 2021. Net position of the Commission's governmental activities decreased by \$ 323,331 from \$ 15,777,502 to \$ 15,454,171.

PALACIOS SEAWALL COMMISSION*Management's Discussion and Analysis**Year Ended December 31, 2021***The Commission's Net Position**

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 4,577,945	\$ 4,868,557
Capital assets (net of accumulated depreciation)	<u>11,120,146</u>	<u>11,132,012</u>
Total assets	<u>15,698,091</u>	<u>16,000,569</u>
Current and other liabilities	<u>5,210</u>	<u>2,553</u>
Total liabilities	<u>5,210</u>	<u>2,553</u>
Total deferred inflows of resources	<u>238,710</u>	<u>220,514</u>
Net Position:		
Net investment in capital assets	11,120,146	11,132,012
Unrestricted	<u>4,334,025</u>	<u>4,645,490</u>
Total net position	<u>\$ 15,454,171</u>	<u>\$ 15,777,502</u>

Governmental activities. Governmental activities decreased the Commission's net position by \$ 323,331. Total revenues for governmental activities amounted to \$ 321,443, of which property taxes amounted to 69.08%. The following table provides a summary of the Commission's operations for the years ended December 31, 2021 and 2020.

The Commission's Activities

	<u>2021</u>	<u>2020</u>
Revenues:		
Program Revenues:		
Operating grants and contributions	\$ 85,335	\$ -
Capital grants and contributions	-	174,315
General Revenues:		
Tax revenues	222,065	221,147
Investment income	5,018	99,138
Miscellaneous	<u>9,025</u>	<u>-</u>
Total revenues	<u>321,443</u>	<u>494,600</u>
Expenses:		
Flood Control:		
Personnel	11,362	11,046
Professional fees	34,114	36,114
Contracted services	10,195	10,722
Utilities	18,446	19,399
Repairs and maintenance	115,196	81,016
Operating expenses	3,916	4,409
Administrative costs	10,380	10,382
Depreciation	<u>441,165</u>	<u>432,668</u>
Total expenses	<u>644,774</u>	<u>605,756</u>
Change in net position	(323,331)	(111,156)
Net position - beginning	<u>15,777,502</u>	<u>15,888,658</u>
Net position - ending	<u>\$ 15,454,171</u>	<u>\$ 15,777,502</u>

PALACIOS SEAWALL COMMISSION

Management's Discussion and Analysis

Year Ended December 31, 2021

Financial Analysis of the Commission's Funds

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

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

As of the end of the current fiscal year, the Commission's governmental fund reported a fund balance of \$ 4,328,749. 42.25% of this total amount constitutes unassigned fund balance and 57.75% of this amount constitutes committed fund balance for risk management.

The governmental fund balance decreased by \$ 311,459 primarily due to a decrease in investment income and an increase in capital outlay expenditures.

General Fund Budgetary Highlights

The Commission did not amend the budget in the year ending December 31, 2021. Budgeted revenues exceeded actual revenues by \$ 35,127, due to a decrease in investment income. Actual expenditures exceeded budgeted expenditures by \$ 346,808, primarily due to more capital outlay expenditures than expected.

Capital Assets. The Commission's investment in capital assets for its governmental activities as of December 31, 2021, amounts to \$ 11,120,146 (net of accumulated depreciation). This investment in capital assets includes the seawall.

Additional information on the Commission's capital assets can be found in Note 5 on page 34.

Economic Factors and Next Year's Budgets and Rates

The Commission's 2022 budget was adopted at \$ 291,100, an increase of \$ 5,000 from the 2021 budget. The tax rate of \$ 0.019440 for each \$ 100 was set for 2022 operations.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Palacios Seawall Commission, P.O. Box 779, Palacios, Texas, 77465-0779.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

PALACIOS SEAWALL COMMISSION*STATEMENT OF NET POSITION*

December 31, 2021

	<u>Total Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,134,477
Investments	3,205,943
Receivables, Net:	
Taxes	217,829
Due from other governments	13,608
Accrued interest	6,088
Capital Assets (Net of Accumulated Depreciation):	
Seawall	<u>11,120,146</u>
Total assets	<u>15,698,091</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>5,210</u>
Total liabilities	<u>5,210</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources	<u>238,710</u>
Total deferred inflows of resources	<u>238,710</u>
NET POSITION	
Net investment in capital assets	11,120,146
Unrestricted	<u>4,334,025</u>
Total net position	<u>\$ 15,454,171</u>

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

PALACIOS SEAWALL COMMISSION**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2021

<u>Functions/Programs</u>	<u>Program Revenues</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Primary Government Total Governmental Activities</u>
<u>Expenses</u>			
GOVERNMENTAL ACTIVITIES			
Flood Control:			
Personnel	\$ 11,362	\$ -	\$(11,362)
Professional fees	34,114	-	(34,114)
Contracted services	10,195	-	(10,195)
Utilities	18,446	-	(18,446)
Repairs and maintenance	115,196	-	(115,196)
Operating costs	3,916	-	(3,916)
Administrative costs	10,380	85,335	74,955
Depreciation	<u>441,165</u>	<u>-</u>	<u>(441,165)</u>
Total governmental activities	<u>\$ 644,774</u>	<u>\$ 85,335</u>	<u>(559,439)</u>
GENERAL REVENUES			
Tax revenue			222,065
Investment income			5,018
Miscellaneous			<u>9,025</u>
Total general revenues			<u>236,108</u>
Change in net position			(323,331)
Net position - beginning			<u>15,777,502</u>
Net position - ending			<u>\$ 15,454,171</u>

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

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FUND FINANCIAL STATEMENTS

PALACIOS SEAWALL COMMISSION
BALANCE SHEET - GENERAL FUND
December 31, 2021

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,134,477
Investments	3,205,943
Receivables, net:	
Taxes	217,829
Due from other governments	13,608
Accrued interest	<u>6,088</u>
 Total assets	 \$ <u><u>4,577,945</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ <u>5,210</u>
 Total liabilities	 <u>5,210</u>
Deferred Inflows Of Resources:	
Deferred inflows of resources	<u>243,986</u>
 Total deferred inflows of resources	 <u>243,986</u>
Fund Balance:	
Committed	2,500,000
Unassigned	<u>1,828,749</u>
 Total fund balance	 <u>4,328,749</u>
 Total liabilities, deferred inflows of resources and fund balance	 \$ <u><u>4,577,945</u></u>

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

PALACIOS SEAWALL COMMISSION

*RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
December 31, 2021*

Total fund balance - general fund balance sheet \$ 4,328,749

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 22,062,706 in assets less \$ 10,942,560 in accumulated depreciation 11,120,146

Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund amounted to \$ 5,276. 5,276

Net position of governmental activities - statement of net position \$ 15,454,171

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

PALACIOS SEAWALL COMMISSION**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -
GENERAL FUND**

Year Ended December 31, 2021

	<u>General Fund</u>
REVENUES	
Tax revenue	\$ 222,071
Intergovernmental revenue	85,335
Investment income	5,018
Miscellaneous	<u>9,025</u>
Total revenues	<u>321,449</u>
EXPENDITURES	
Current:	
Flood Control:	
Personnel	11,362
Professional fees	34,114
Contracted services	10,195
Utilities	18,446
Repairs and maintenance	115,196
Operating costs	3,916
Administrative costs	10,380
Capital outlay	<u>429,299</u>
Total expenditures	<u>632,908</u>
Change in fund balance	(311,459)
Fund balance - beginning	<u>4,640,208</u>
Fund balance - ending	<u>\$ 4,328,749</u>

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

PALACIOS SEAWALL COMMISSION

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF THE GENERAL FUND TO THE
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
Year Ended December 31, 2021*

Change in fund balance - general fund \$(311,459)

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

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. The amount by which depreciation \$ 441,165 exceeded capital outlay \$ 429,299 in the current period. (11,866)

Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund decreased by \$ 6. (6)

Change in net position of governmental activities \$(323,331)

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

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PALACIOS SEAWALL COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
Year Ended December 31, 2021

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PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In 1983, the legislature enacted a law permitting the Matagorda County Commissioners Court to create a Seawall Commission. This legislation was codified in the Civil Statutes as Article 6830a, and was codified into the Local Government Code in 1987 as subchapter B, Seawall Commission in Matagorda County, of Local Government Code, Chapter 421 VTCA Local Government Code Section 422.021 et seq.

The accounting and reporting policies of the Commission relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

Reporting Entity

The Board of the Commission is elected by the public; has the authority to make decisions, appoint administrators and managers; significantly influence operations; and has the primary accountability for fiscal matters. Therefore, the Commission is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 61, "*The Financial Reporting Entity*." There are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenue. The Commission has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include operating and capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. The Commission does not have any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase.

The Commission reports the following major governmental fund:

The *General Fund* is the Commission's only fund. It accounts for all financial resources of the Commission. The major revenue source includes property taxes and investment income. Expenditures include all costs associated with the daily operations of the Commission.

Budgetary data

The original annual appropriated budget is adopted by the Board of Commissioners in August of the preceding year. Expenses are budgeted substantially on the modified accrual basis of accounting. Tax collections are budgeted based upon 100% of the tax levied in October of the year preceding the budget year (i.e. 2021 budgeted tax revenue is based upon the October, 2020 tax levy). Accordingly, there is no material difference between the financial reporting and budget basis of accounting.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Board. Line items may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Appropriations not exercised in the current year lapse at the end of the year.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Encumbrance Accounting

The Commission does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations generally lapse at the end of the year.

Cash and Investments

The Commission considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the Commission in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the Commission is the responsibility of the Matagorda County Appraisal District (MCAD), an independent governmental unit with a board of commissioners appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. MCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the Commission, may challenge orders of the MCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on October 1, 2021, upon which the levy for the 2022 year was based, was \$ 1,229,434,197. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and interest charges plus 20 % delinquent collection fees for attorney costs

The tax rates assessed for the year ended December 31, 2021, to finance general fund operations was \$ 0.01944 per \$ 100 valuation.

As of December 31, 2021, the Commission had collected \$ 26,157 of the 2021 levy (levied October 1, 2021), which is deferred and set aside for 2022 operations. Additionally, property taxes receivable of \$ 212,553 and \$ 7,630 from the 2021 levy and prior year levies, respectively, are recorded as deferred inflows of resources, net of allowance for uncollectible taxes of \$ 2,354. Allowances for uncollectible taxes are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the Commission is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which include equipment and infrastructure, are reported in the governmental activities columns in the government-wide financial statement. The Commission started capitalizing infrastructure expenditures beginning during the year ended December 31, 2004. Infrastructure assets acquired prior to January 1, 2004 have not been reported. The Commission chose not to capitalize any assets before that time period. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets are being depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Seawall	50

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net asset by the government that is applicable to a future reporting period, and an acquisition of net asset by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Fund Balance

The Board of Commissioners meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The Commission's Unassigned General Fund Balance is maintained to provide the Commission with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board. Fund Balance of the Commission may be committed for a specific source by formal action of the Board of Commissioners. Amendments or modifications of the committed fund balance must also be approved by formal action by the Board. When it is appropriate for fund balance to be assigned, the Board has delegated authority to the Commissioners. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Balance - Continued

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors, grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a board resolution by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the Commission's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the Board of Commissioners or by the chairman. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

As of December 31, 2021, committed fund balance related to risk management includes \$ 2,500,000 and unassigned fund balance includes \$ 1,828,749 in the general fund.

Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consist of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Restricted net position, as presented in the government-wide statement of net position, is reported when constraints placed on the use of net position are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation. The Commission has no restricted net position for the year ended December 31, 2021.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 2. NEW PRONOUNCEMENTS

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 87 “Leases” was issued in June 2017. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statements of the Commission. The requirements of this Statement are effective for periods beginning after June 15, 2021.

GASB No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period” was issued in June 2018. The statement was implemented and did not have a material effect on the financial statements of the Commission. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

GASB No. 91 “Conduit Debt Obligations” was issued in May 2019. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statements of the Commission. The requirements of this statement are effective for reporting periods beginning after December 15, 2021.

GASB No. 92 “Omnibus 2020” was issued in January 2020. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statements of the Commission. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 93 “Replacement of Interbank Offered Rates” was issued in March 2020. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statement of the Commission. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 94 “Public-Private and Public-Public Partnerships and Availability Payment Arrangements” was issued in March 2020. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statements of the Commission. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB No. 95 “Postponement of the Effective Dates of Certain Authoritative Guidance” was issued in May 2020. The statement was implemented and did not have a material effect on the financial statements of the Commission. The requirements of this statement are effective immediately.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 2. NEW PRONOUNCEMENTS - Continued

GASB No. 96 "Subscription-Based Information Technology Arrangements" was issued in May 2020. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statements of the Commission. The requirements of this statement are effective for reporting periods beginning after June 15, 2022.

GASB No. 97 "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" was issued in June 2020. The management of the Commission does not expect the implementation of this standard to have a material effect on the financial statements of the Commission. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

NOTE 3. DEPOSITS AND INVESTMENTS

The Commission classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents, current investments, and non-current investments as reported on the statement of net position at December 31, 2021 are as follows:

	<u>Total</u>
Cash and Cash Equivalents:	
Cash (petty cash)	\$ 50
Financial Institution Deposits:	
Demand deposits	<u>1,134,427</u>
	1,134,477
Investments:	
Certificates of deposit	<u>3,205,943</u>
Total	<u>\$ 4,340,420</u>

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the Commission's deposits may not be returned to them. The Commission requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the Commission's depository must have a bond or in lieu thereof, deposited or pledged securities with the Commission or an independent third party agent, an amount equal to the highest daily balance of all deposits the Commission may have during the term of the depository contract, less any applicable FDIC insurance.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 3. DEPOSITS AND INVESTMENTS - Continued

Deposits - Continued

At December 31, 2021, the carrying amount of the Commission's cash, savings, and time deposits was \$ 4,340,420. The financial institution balance was \$ 4,351,012 at December 31, 2021. Bank balances of \$ 991,962 were covered by federal depository insurance and \$ 3,359,050 were covered by securities pledges in the Commission's name.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the Commission to invest its funds in areas that primarily emphasizes the safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. The Commission's investment compliance requirements and types of investments are governed by the Public Funds Investment Act (PFIA) and the Texas Commission on Environmental Quality (TCEQ). The Commission believes it has complied with the requirements of the PFIA and the TCEQ.

Weighted Average - As of December 31, 2021, the Commission held certificates of deposit totaling \$ 3,205,943 with a weighted average maturity of 1,164 days.

Credit Risk - As of December 31, 2021, the certificates of deposit (which represent 100.00% of the investment portfolio) are fully covered.

Interest Rate Risk - The District limits its exposure to interest rate risk by diversifying its investments by security type and institution. District policy will be that the maximum allowable stated maturity of an individual investment for operating funds shall not exceed five years, unless a temporary extension of maturities is approved by the Board of Commissioners.

Fair Value Measures

Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurements and Application*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 3. DEPOSITS AND INVESTMENTS - Continued

Fair Value Measures - Continued

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As of December 31, 2021, the Commission did not have any assets or liabilities measured at fair value.

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of December 31, 2021, for the Commission's general fund, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>
Receivables:	
Property taxes	\$ 220,183
Due from other governments	13,608
Accrued interest	<u>6,088</u>
Gross receivables	239,879
Less: Allowance for Uncollectible	<u>2,354</u>
Net total receivables	<u>\$ 237,525</u>

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES, AND UNEARNED REVENUES - Continued

Deferred Inflows of Resources and Unearned Revenues

Governmental funds defer the recognition of revenue in connection with receivables for revenues that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of December 31, 2021, the deferred inflows of resources reported in the governmental funds were as follows:

	<u>Deferred Inflows of Resources</u>
Current property taxes collected (October 1, 2021 Levy)	\$ 26,157
Current property taxes receivable (October 1, 2021 Levy)	212,553
Delinquent property taxes receivable (October 1, 2020 and prior)	<u>5,276</u>
Total deferred inflows of resources from governmental funds	<u>\$ 243,986</u>

Governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. As of December 31, 2021, deferred inflows of resources reported on the governmental activities were as follows:

	<u>Deferred Inflows of Resources</u>
Current property taxes collected (October 1, 2021 Levy)	\$ 26,157
Current property taxes receivable (October 1, 2021 Levy)	<u>212,553</u>
Total deferred inflows of resources from governmental activities	<u>\$ 238,710</u>

As of December 31, 2021, there were no unearned revenues reported.

PALACIOS SEAWALL COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2021

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021, was as follows:

	Balance January 1, 2021	Additions	Retirements	Balance December 31, 2021
Capital Assets, Not Being Depreciated:				
Construction in progress	\$ -	\$ 4,475	\$ -	\$ 4,475
Capital Assets, Being Depreciated:				
Seawall	<u>21,633,407</u>	<u>424,824</u>	<u>-</u>	<u>22,058,231</u>
Total capital assets	<u>21,633,407</u>	<u>429,299</u>	<u>-</u>	<u>22,062,706</u>
Accumulated Depreciation:				
Seawall	<u>10,501,395</u>	<u>441,165</u>	<u>-</u>	<u>10,942,560</u>
Total accumulated depreciation	<u>10,501,395</u>	<u>441,165</u>	<u>-</u>	<u>10,942,560</u>
Governmental activities capital assets, net	<u>\$ 11,132,012</u>	<u>\$ (11,866)</u>	<u>\$ -</u>	<u>\$ 11,120,146</u>

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

Governmental Activities:	
Flood control	\$ <u>441,165</u>
Total depreciation expense-governmental activities	\$ <u>441,165</u>

See Note 1 for additional information regarding capital assets.

NOTE 6. RISK MANAGEMENT

The Commission is exposed to all the normally expected risks of a public entity of its size and nature. Management is unaware of any unusual or unexpected types of risk. There has been no significant reduction in bond coverage during the year ended December 31, 2021. As of December 31, 2021 management is unaware of any material liability for unpaid claims or unasserted claims.

NOTE 7. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended December 31, 2021, the Commission incurred expenditures in excess of appropriations in the general fund of \$ 346,808.

NOTE 8. EVALUATION OF SUBSEQUENT EVENTS

The Commission has evaluated subsequent events through April 13, 2022, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

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PALACIOS SEAWALL COMMISSION**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND**

Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax revenue	\$ 221,576	\$ 221,576	\$ 222,071	\$ 495
Intergovernmental revenue	85,000	85,000	85,335	335
Investment income	50,000	50,000	5,018	(44,982)
Miscellaneous	-	-	9,025	9,025
Total revenues	<u>356,576</u>	<u>356,576</u>	<u>321,449</u>	<u>(35,127)</u>
EXPENDITURES				
Current:				
Flood Control:				
Personnel	11,500	11,500	11,362	138
Professional fees	26,000	26,000	34,114	(8,114)
Contracted services	10,400	10,400	10,195	205
Utilities	20,000	20,000	18,446	1,554
Repairs and maintenance	125,000	125,000	115,196	9,804
Operating costs	3,500	3,500	3,916	(416)
Administrative costs	9,700	9,700	10,380	(680)
Capital outlay	<u>80,000</u>	<u>80,000</u>	<u>429,299</u>	<u>(349,299)</u>
Total expenditures	<u>286,100</u>	<u>286,100</u>	<u>632,908</u>	<u>(346,808)</u>
Change in fund balance	70,476	70,476	(311,459)	(381,935)
Fund balance - beginning	<u>4,640,208</u>	<u>4,640,208</u>	<u>4,640,208</u>	-
Fund balance - ending	<u>\$ 4,710,684</u>	<u>\$ 4,710,684</u>	<u>\$ 4,328,749</u>	<u>\$ (381,935)</u>

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