

CITY OF TOLAR

ANNUAL FINANCIAL AND COMPLIANCE REPORT

• **YEAR ENDED SEPTEMBER 30, 2022**

CITY OF TOLAR
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Tolar, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Tolar, Texas' basic financial statements as listed in the table of contents.

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, and each major fund of the City of Tolar, Texas, as of September 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of City of Tolar, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and required TMRS information, on pages 4 through 10 and 41 through 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tolar, Texas' basic financial statements. The budgetary comparison – utility fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison – utility fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2023, on our consideration of the City of Tolar, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Tolar, Texas' internal control over financial reporting and compliance.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
April 5, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Tolar's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on September 30, 2022. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net position increased \$690,817 from prior year. Net Position of our business-type activities increased \$232,625 (13.7%). Net position of our governmental activities increased \$458,192 (or 28.8%)
- During the year, the City's expenses were \$458,192 less than the \$1,128,161 generated in taxes, and other revenues for governmental programs.
- In the City's business-type activities, revenues were \$743,004, including transfers, while expenses were \$510,379.
- The total cost of the City's programs was \$1,173,500.
- The general fund reported fund balance of \$1,142,232.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, and public service. Business-type activities include water and sewer activities.

The City's financial reporting entity does not include the funds for which the City is not accountable (component units). These organizations, such as the Tolar Economic Development Corporation are reported separately from the primary government though included in the City's overall reporting entity. This entity operates more independently or provides services directly to the citizens though the City remains accountable for their activities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has two kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

A budgetary comparison schedule for the general fund can be found in required supplementary information. This statement demonstrates compliance with the City's adopted and final revised budget. In addition, a budgetary comparison schedule for the proprietary fund can be found in other supplementary information.

Proprietary funds are required in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water and sewer. Internal service funds provide services and charge fees to customers within the City organization such as equipment services (repair and maintenance of City vehicles) and the print shop (mail and printing services for City departments). The City has no internal service funds.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements, but with more detail for major enterprise funds.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, other supplementary information, and other information required by Government Accounting Office (GAO).

Financial Analysis of the City as a Whole

Net Position. As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$3,981,990. This is a \$690,817 increase over last year's net position of \$3,291,173. The following Table A-1 provides a summary of the City's net position at September 30, 2022.

Table A-1
City of Tolar's Net Position

	Governmental		Business-type		Totals	
	Activities		Activities			
	2022	2021	2022	2021	2022	2021
Current and Other Assets	1,480,223	997,514	815,561	619,615	2,295,784	1,617,129
Capital and Non-Current Assets	1,492,760	1,560,247	1,213,501	1,173,774	2,706,261	2,734,021
Total Assets	2,972,983	2,557,761	2,029,062	1,793,389	5,002,045	4,351,150
Deferred Outflows of Resources	12,014	9,976	18,020	14,964	30,034	24,940
Current Liabilities	88,958	76,341	9,163	21,026	98,121	97,367
Long Term Liabilities	827,865	888,509	77,395	70,072	905,260	958,581
Total Liabilities	916,823	964,850	86,558	91,098	1,003,381	1,055,948
Deferred Inflows of Resources	18,683	11,588	28,025	17,381	46,708	28,969
Net Position						
Net investment in capital assets	594,273	620,813	1,213,501	1,173,774	1,807,774	1,794,587
Restricted	507,704	458,532			507,704	458,532
Unrestricted	947,514	511,954	718,998	526,100	1,666,512	1,038,054
Total Net Position	2,049,491	1,591,299	1,932,499	1,699,874	3,981,990	3,291,173

Net Position in the City's governmental activities increased 28.8% to \$2,049,491. Net Position increased 13.7% to \$1,932,499 in business-type activities of the government. \$1,807,774 of total net position is invested in capital assets (distribution and collection system, equipment, etc) and \$507,704 is restricted for economic development and construction. Consequently, unrestricted net position showed a \$1,666,512 balance at the end of this year.

Changes in Net Position. The City's total revenues were \$1,864,317. Over half (55%) of the City's revenue comes from fees charged for services, and 31 cents of every dollar raised comes from some type of tax. (See Figure A-1)

The total cost of all programs and services was \$1,173,500. The City's expenses cover a range of services, with nearly half (43%) related to business-type activities. (See Figure A-2).

Figure A-1
City Sources of Revenue for Fiscal Year 2022

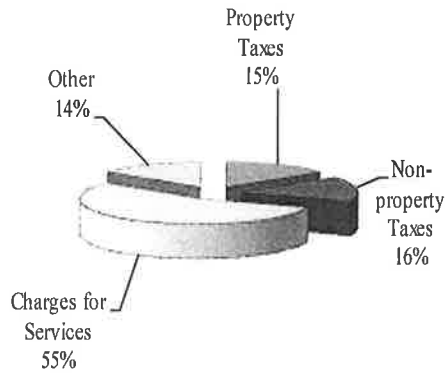
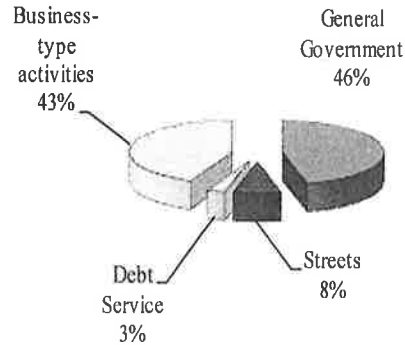


Figure A-2
City Functional Expenses for Fiscal Year 2022



Governmental Activities

Revenues for the City's governmental activities were \$1,128,161 while total expenses were \$669,969, including transfers. The City is increasing its tax base by bringing in new businesses and homes. The increase of new business adds revenue through two avenues; 1) property tax, and 2) sales tax.

Table A-2
Changes in City of Tolar, Texas' Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
<u>Program Revenues</u>						
Charges for Services	\$ 289,352	\$ 109,643	\$ 731,831	\$ 477,521	\$ 1,021,183	\$ 587,164
Capital grants and contributions	249,269				249,269	
<u>General Revenues</u>						
Sales tax	264,419	219,461			264,419	219,461
Property tax	275,584	256,589			275,584	256,589
Right of way fees	33,052	32,576			33,052	32,576
Investment Earnings	8,214	458	4,325	264	12,539	722
Other income	8,271	9,709			8,271	9,709
Total Revenues	<u>1,128,161</u>	<u>628,436</u>	<u>736,156</u>	<u>477,785</u>	<u>1,864,317</u>	<u>1,106,221</u>
Expenses						
General government	542,263	385,430			542,263	385,430
Streets	89,431	75,220			89,431	75,220
Debt service	31,427	32,478			31,427	32,478
Water utilities			510,379	522,824	510,379	522,824
Total Expenses	<u>663,121</u>	<u>493,128</u>	<u>510,379</u>	<u>522,824</u>	<u>1,173,500</u>	<u>1,015,952</u>
Excess (deficiency) before transfers	465,040	135,308	225,777	(45,039)	690,817	90,269
Transfers	(6,848)	(13,320)	6,848	13,320		
Increase (decrease) in net position	<u>\$ 458,192</u>	<u>\$ 121,988</u>	<u>\$ 232,625</u>	<u>\$ (31,719)</u>	<u>\$ 690,817</u>	<u>\$ 90,269</u>

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financial requirements. Governmental funds reported ending fund balances of \$1,448,479.

The total ending fund balances of governmental funds show an increase of \$478,238 over the prior year. This increase is primarily the result of increases in property tax revenue, sales tax revenue, license and fees, and grant income.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund increased to \$1,142,232.

Proprietary Funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status.

Major Proprietary Funds

The City's major proprietary fund is the Water Fund. Total net position at the end of the year was \$1,932,499. The Water Fund had an increase in net position of \$232,625.

General Fund Budgetary Highlights

The General Fund Budget for fiscal year 2022 was approximately \$689,000. This was an increase of approximately \$311,000 from the previous year's actual expenditures.

The City amended the budget during the fiscal year, with a total increase of \$3,600. Several line items were adjusted to better reflect the actual expenditures including increases in insurance, contract sanitation, economic development, miscellaneous, payroll, health insurance, printing & copies, reference books, and software, and decreases in capital outlay, professional services, repair & maintenance, and travel. Actual expenditures were \$172,224 under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of September 30, 2022, were \$1,460,382 and \$1,164,933, respectively. The total change in net capital assets was a decrease of 5.5% in the governmental and an increase of 1.1% for business-type activities. The overall decrease was 2.7% for the City as a whole. The major capital addition in the current year was equipment in the general fund and equipment and construction for the water treatment plant in the water fund. See Table A-3 for additional information about changes in capital assets during the fiscal year.

**City of Tolar
City's Capital Assets**

	Governmental		Business-type		Total	
	Activities		Activities			
	\$ 2022	\$ 2021	\$ 2022	\$ 2021	\$ 2022	\$ 2021
Land	58,837	58,837	71,605	71,605	130,442	130,442
Construction in progress			70,061		70,061	
Buildings and improvements	734,642	734,642			734,642	734,642
Distribution and collection system			2,954,138	2,918,878	2,954,138	2,918,878
Furniture and equipment	63,944	53,248	283,941	267,861	347,885	321,109
Infrastructure	1,350,199	1,350,199			1,350,199	1,350,199
Total at historical cost	<u>2,207,622</u>	<u>2,196,926</u>	<u>3,379,745</u>	<u>3,258,344</u>	<u>5,587,367</u>	<u>5,455,270</u>
Total accumulated depreciation	747,240	651,299	2,214,812	2,106,500	2,962,052	2,757,799
Net capital assets	<u>\$ 1,460,382</u>	<u>\$ 1,545,627</u>	<u>\$ 1,164,933</u>	<u>\$ 1,151,844</u>	<u>\$ 2,625,315</u>	<u>\$ 2,697,471</u>

Long-term Debt

At year-end, the City had \$858,000 in bonds payable and \$8,109 in notes payable. See Table A-4.

**Table A-4
City's Outstanding Debt**

	Governmental		Business-type		Total	
	Activities		Activities			
	2022	2021	2022	2021	2022	2021
Note payable	\$ 8,109	\$ 9,814	\$	\$	\$ 8,109	\$ 9,814
Bonds payable	<u>858,000</u>	<u>915,000</u>	<u></u>	<u></u>	<u>858,000</u>	<u>915,000</u>
	<u>\$ 866,109</u>	<u>\$ 924,814</u>	<u>\$</u>	<u>\$</u>	<u>\$ 866,109</u>	<u>\$ 924,814</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City is working on bringing residents into the City of Tolar by adding residential areas. By bringing in new residents, revenue of the City is increased through sales tax revenues and property tax revenues.

- Appraised property value used for the 2022-2023 budget preparation decreased approximately \$183,000, or less than 1.0% from the previous year.
- Water rates increased in the year ended September 30, 2023 by approximately 20%. Sewer sales are expected to remain substantially the same for the fiscal year 2023.

These indicators were taken into account when adopting the general fund and water fund budgets for 2023.

The general funds expenditures are budgeted at \$898,899, which is an increase of approximately \$378,000 from prior year expenditures. The City has added no major new programs or initiative to the 2023 budget. If these estimates are realized, the City's budgetary general fund fund balance is expected to increase approximately \$474,500 by the end of fiscal year 2023.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Tolar's Mayor, 8712 W. Hwy 377, Tolar, Texas 76476.

BASIC FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 683,729	\$ 726,693	\$ 1,410,422
Restricted cash	745,280		745,280
Receivables:			
Property tax	6,082		6,082
Allowance for uncollectible tax	(1,268)		(1,268)
Accounts receivable, net		50,277	50,277
Right of way	7,122		7,122
Sales tax	39,278		39,278
Inventory		38,591	38,591
Total current assets	<u>1,480,223</u>	<u>815,561</u>	<u>2,295,784</u>
Non-current Assets			
Net pension asset	32,378	48,568	80,946
Capital assets:			
Land	58,837	71,605	130,442
Construction in progress		70,061	70,061
Buildings and improvements	504,399		504,399
Distribution and collection system		972,207	972,207
Furniture and equipment	19,605	51,060	70,665
Infrastructure	877,541		877,541
Total non-current assets	<u>1,492,760</u>	<u>1,213,501</u>	<u>2,706,261</u>
Total Assets	<u>2,972,983</u>	<u>2,029,062</u>	<u>5,002,045</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to TMRS	9,687	14,531	24,218
Deferred outflows related to OPEB	2,327	3,489	5,816
Total Deferred Outflows of Resources	<u>12,014</u>	<u>18,020</u>	<u>30,034</u>

The accompanying notes are an integral part of this statement.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities			
Accounts payable	14,178	8,597	22,775
Sales tax payable	950		950
Accrued liabilities	10,402	566	10,968
Deposits	1,400		1,400
Notes payable - current	2,028		2,028
Bonds payable - current	60,000		60,000
Total current liabilities	<u>88,958</u>	<u>9,163</u>	<u>98,121</u>
Non-current Liabilities			
Utility deposits		45,985	45,985
Accrued vacation	8,467	8,435	16,902
Net OPEB Liability	15,317	22,975	38,292
Notes payable - noncurrent	6,081		6,081
Bonds payable - noncurrent	798,000		798,000
Total non-current liabilities	<u>827,865</u>	<u>77,395</u>	<u>905,260</u>
Total Liabilities	<u>916,823</u>	<u>86,558</u>	<u>1,003,381</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to TMRS	18,414	27,621	46,035
Deferred inflows related to OPEB	269	404	673
Total Deferred Inflows of Resources	<u>18,683</u>	<u>28,025</u>	<u>46,708</u>
NET POSITION			
Net investment in capital assets	594,273	1,213,501	1,807,774
Restricted	507,704		507,704
Unrestricted	947,514	718,998	1,666,512
Total Net Position	<u>\$ 2,049,491</u>	<u>\$ 1,932,499</u>	<u>\$ 3,981,990</u>

CITY OF TOLAR, TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2022

<u>Functions/Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
Primary Government			
Governmental Activities:			
General government	\$ 542,263	\$ 289,352	\$ 249,269
Public service			
Streets	89,431		
Debt service	31,427		
Total governmental activities	<u>663,121</u>	<u>289,352</u>	<u>249,269</u>
Business-type Activities:			
Water utilities	510,379	731,831	
Total business-type activities	<u>510,379</u>	<u>731,831</u>	
Total Primary Government	<u>\$ 1,173,500</u>	<u>\$ 1,021,183</u>	<u>\$ 249,269</u>

General Revenues:

Taxes:

 Sales tax

 Property tax

 Right of way

Investment Earnings

Miscellaneous Income

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (3,642)	\$	\$ (3,642)
(89,431)		(89,431)
(31,427)		(31,427)
<u>(124,500)</u>		<u>(124,500)</u>
	221,452	221,452
	<u>221,452</u>	<u>221,452</u>
<u>(124,500)</u>	<u>221,452</u>	<u>96,952</u>
264,419		264,419
275,584		275,584
33,052		33,052
8,214	4,325	12,539
8,271		8,271
<u>(6,848)</u>	<u>6,848</u>	
<u>582,692</u>	<u>11,173</u>	<u>593,865</u>
458,192	232,625	690,817
<u>1,591,299</u>	<u>1,699,874</u>	<u>3,291,173</u>
<u>\$ 2,049,491</u>	<u>\$ 1,932,499</u>	<u>\$ 3,981,990</u>

GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Economic Development Corporation</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:				
Current:				
Cash and cash equivalents	\$ 683,729	\$	\$	\$ 683,729
Restricted cash	450,726	294,554		745,280
Receivables:				
Property tax	4,323		1,759	6,082
Allowance for uncollectible tax	(860)		(408)	(1,268)
Right of way	7,122			7,122
Sales tax	39,278			39,278
Due from other funds		13,093		13,093
Total Assets	<u>\$ 1,184,318</u>	<u>\$ 307,647</u>	<u>\$ 1,351</u>	<u>\$ 1,493,316</u>
LIABILITIES:				
Current Liabilities				
Accounts payable	\$ 14,178	\$	\$	\$ 14,178
Sales tax payable	950			950
Accrued liabilities	10,402			10,402
Deposits		1,400		1,400
Due to EDC	13,093			13,093
Total Liabilities	<u>38,623</u>	<u>1,400</u>		<u>40,023</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - property tax	<u>3,463</u>		<u>1,351</u>	<u>4,814</u>
Total Deferred Inflows of Resources	<u>3,463</u>		<u>1,351</u>	<u>4,814</u>
FUND BALANCE:				
Restricted:				
Economic Development		306,247		306,247
Construction	201,457			201,457
Federal grant	249,269			249,269
Unassigned	691,506			691,506
Total Fund Balance	<u>1,142,232</u>	<u>306,247</u>		<u>1,448,479</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,184,318</u>	<u>\$ 307,647</u>	<u>\$ 1,351</u>	<u>\$ 1,493,316</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

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

Total fund balances - governmental funds balance sheet	\$ 1,448,479
Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,196,926 and the accumulated depreciation was \$651,299.	1,545,627
Depreciation expense decreases net position in SNP,	(95,941)
Capital outlay is recorded as expenditures in the fund financial statements, but as an increase in capital assets in the government wide statements.	10,696
Long-term debt, including bonds payable of \$915,000, are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds balance sheet.	(924,814)
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	58,705
Included in the noncurrent assets is the recognition of the city's net pension asset required by GASB 68 in the amount of \$32,378, a deferred resource inflow in the amount of \$18,414, and a deferred resource outflow in the amount of \$9,687. This resulted in an increase in net position of \$23,651.	23,651
Included in the noncurrent liabilities is the recognition of the city's net OPEB liability required by GASB 75 in the amount of \$15,317, a deferred resource inflow in the amount of \$269, and a deferred resource outflow in the amount of \$2,327. This resulted in a decrease in net position of \$13,259.	(13,259)
Vacation accrual is recorded in the statement of net position. The balance decreases net position	(8,467)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	<u>4,814</u>
Net position of governmental activities - statement of net position	\$ <u><u>2,049,491</u></u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUNDS
 YEAR ENDED SEPTEMBER 30, 2022

	General Fund	Economic Development Corporation	Debt Service Fund	Total Governmental Funds
REVENUES				
Sales tax	\$ 198,314	\$ 66,105	\$	\$ 264,419
Property tax	190,601		89,806	280,407
Right of way	33,052			33,052
License and permits	226,139			226,139
Garbage collection income	55,213			55,213
Fines and forfeitures	8,000			8,000
Investment income	6,418	1,796		8,214
Miscellaneous income	8,271			8,271
Total Revenues	<u>726,008</u>	<u>67,901</u>	<u>89,806</u>	<u>883,715</u>
EXPENDITURES				
Current:				
General government	493,403	42,263		535,666
Public service				
Streets	23,805			23,805
Debt service	3,290		85,137	88,427
Total Expenditures	<u>520,498</u>	<u>42,263</u>	<u>85,137</u>	<u>647,898</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>205,510</u>	<u>25,638</u>	<u>4,669</u>	<u>235,817</u>
Other Financing Uses				
Grant income	249,269			249,269
Operating transfers	(34,005)	31,826	(4,669)	(6,848)
Total Other Financing Uses	<u>215,264</u>	<u>31,826</u>	<u>(4,669)</u>	<u>242,421</u>
Net Change in Fund Balances	420,774	57,464		478,238
Fund Balance - Beginning	<u>721,458</u>	<u>248,783</u>		<u>970,241</u>
Fund Balance - Ending	<u>\$ 1,142,232</u>	<u>\$ 306,247</u>	<u>\$</u>	<u>\$ 1,448,479</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED SEPTEMBER 30, 2022

Total change in fund balances - total governmental funds	\$ 478,238
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Depreciation expense decreases net position in SNP.	(95,941)
Capital outlay is recorded as expenditures in the fund financial statements, but as an increase in capital assets in the government wide statements.	10,696
Long-term debt principal payments are expenditures in the fund financial statements but they should be shown as reductions in long-term debt in the government-wide financial statements.	58,705
The implementation of GASB No. 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. The contributions made after the measurement date of December 31, 2021, caused the change in the ending net position to increase in the amount of \$8,650. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$7,117. The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by \$11,265. The result of these changes is to increase the change in net position by \$20,798.	12,798
The implementation of GASB No. 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. The contributions made after the measurement date of December 31, 2021, caused the change in the ending net position to increase in the amount of \$195. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$87. The City's reported TMRS net OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by \$1,278. The result of these changes is to decrease the change in net position by \$1,170.	(1,170)
Vacation accrual is recorded in the statement of net position. The decrease in the balance increases net position.	(311)
Various other reclassifications and eliminations including recognizing unavailable revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	<u>(4,823)</u>
Total change in net position of governmental activities - statement of activities	\$ <u><u>458,192</u></u>

The accompanying notes are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF TOLAR, TEXAS

STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Water	Total Proprietary Funds
ASSETS		
Current:		
Cash and cash equivalents	\$ 726,693	\$ 726,693
Receivables, net	50,277	50,277
Inventory	38,591	38,591
Total current	815,561	815,561
Non current:		
Net pension asset	48,568	48,568
Land	71,605	71,605
Construction in progress	70,061	70,061
Distribution and collection system, net of depreciation	972,207	972,207
Equipment, net of depreciation	51,060	51,060
Total non current	1,213,501	1,213,501
TOTAL ASSETS	2,029,062	2,029,062
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to TMRS	14,531	14,531
Deferred outflows related to OPEB	3,489	3,489
Total Deferred Outflows of Resources	18,020	18,020
LIABILITIES		
Current		
Accounts payable	8,597	8,597
Accrued expenses	566	566
Total current	9,163	9,163
Non current:		
Utility deposits	45,985	45,985
Accrued vacation	8,435	8,435
Net OPEB liability	22,975	22,975
Total non current	77,395	77,395
TOTAL LIABILITIES	86,558	86,558
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to TMRS	27,621	27,621
Deferred inflows related to OPEB	404	404
Total Deferred Inflows of Resources	28,025	28,025
NET POSITION		
Net investment in capital assets	1,213,501	1,213,501
Unrestricted	718,998	718,998
TOTAL NET POSITION	\$ 1,932,499	\$ 1,932,499

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
 YEAR ENDED SEPTEMBER 30, 2022

	<u>Water</u>	<u>Total Proprietary Funds</u>
Operating Revenues:		
Charges for services		
Water sales and fees	\$ 731,831	\$ 731,831
Total operating revenues	<u>731,831</u>	<u>731,831</u>
Operating Expenses:		
Water department	510,379	510,379
Total operating expenses	<u>510,379</u>	<u>510,379</u>
Net operating income	<u>221,452</u>	<u>221,452</u>
Nonoperating revenues (expenses):		
Interest income	4,325	4,325
Transfers	6,848	6,848
Total nonoperating revenues (expenses)	<u>11,173</u>	<u>11,173</u>
Change in Net Position	232,625	232,625
Net Position - Beginning of Year	<u>1,699,874</u>	<u>1,699,874</u>
Net Position - End of Year	<u>\$ 1,932,499</u>	<u>\$ 1,932,499</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2022

	<u>Water</u>	<u>Total Enterprise Funds</u>
<u>Cash flows from operating activities:</u>		
Cash received from customers	\$ 730,334	\$ 730,334
Cash payments for salary and related expenses	(184,068)	(184,068)
Cash payments to suppliers for goods and services	(238,119)	(238,119)
Net cash provided by operating activities	<u>308,147</u>	<u>308,147</u>
<u>Cash flows from noncapital financing activities:</u>		
Transfers from/to other funds	6,848	6,848
Pension funding	(17,440)	(17,440)
Net cash used by noncapital financing activities	<u>(10,592)</u>	<u>(10,592)</u>
<u>Cash flows from capital and related financing activities:</u>		
Acquisition of property and equipment	(121,401)	(121,401)
Net cash used in capital and related financing activities	<u>(121,401)</u>	<u>(121,401)</u>
<u>Cash flows from investing activities</u>		
Interest income	4,325	4,325
Net cash provided from investing activities	<u>4,325</u>	<u>4,325</u>
Net Increase in Cash	180,479	180,479
Cash at Beginning of Year	546,214	546,214
Cash at End of Year	<u>\$ 726,693</u>	<u>\$ 726,693</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 221,452	\$ 221,452
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	108,312	108,312
(Increase) decrease in operating assets		
Receivables	(1,497)	(1,497)
Inventory	(13,970)	(13,970)
Increase (decrease) in operating liabilities		
Accounts payable	(3,754)	(3,754)
Utility deposits	5,280	5,280
Accrued expenses	(7,676)	(7,676)
Net cash provided by operating activities	<u>\$ 308,147</u>	<u>\$ 308,147</u>

The accompanying notes are an integral part of this statement.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tolar, Texas (City) are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2022.

Financial Reporting Entity

The City is a Type A "general law" municipality and operates under a Mayor-Council form of government. The City provides the following services as authorized by its charter: public safety, public works, waterworks, and general government.

As required by the accounting principles generally accepted in the United States of America, these financial statements present the primary government and its component unit, an entity for which the government is considered to be financially accountable. The blended component unit is reported in a separate column in the governmental funds financial statements.

Component Unit:

The Tolar Economic Development Corporation was incorporated in the State of Texas on November 18, 2013. The Corporation was organized exclusively for the purpose of benefiting and accomplishing public purposes of the City of Tolar, Texas, by promoting, assisting, and enhancing economic development activities for the city as provided under Section 4A of the Texas Development Corporation Act of 1979, and as authorized by the governing body of the City of Tolar, Texas. The Corporation receives its primary funding from a local sales tax approved by the voters. A Board of Directors manages the affairs of the Corporation. The fiscal year of the Corporation is the same as the City of Tolar, Texas.

Government-wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges and uses of the City's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied, while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, right of way (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

Governmental funds

The City reports the following major governmental fund:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

In addition, the City reports the following as a fund, not considered to be a major fund:

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Special Revenue Fund – accounts for resources accumulated and payments made for the purpose of economic development.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Proprietary funds

The City reports the following major enterprise fund:

Water Fund – reports for revenues and expenses associated with water services for the citizens of the City.

Assets, Liabilities, and Net Position or Equity

Cash and cash equivalents

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

Inventory

Inventory is valued at cost which approximates market, using the first-in-first-out (FIFO) method. The cost of inventory is recorded as expenditures when used (consumption method).

Capital assets, depreciation, and amortization

The City's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund's financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with costs of \$5,000 or more, as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in non-operating revenues and expenses in the proprietary fund statements and on general revenues in the government-wide statements.

Estimated useful lives for depreciable assets are as follows:

Water and sewer lines	40 years
Buildings	30 years
Equipment	10 years
Vehicles	5 years

Long-term debt

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds for debt as other financing sources of the current period. Issuance costs and debt payments are reported as expenditures.

Compensated absences

The City's policy permits employees to accumulate up to 128 hours of earned but unused vacation benefits. Upon termination of employment, employees will be paid for any unused vacation benefits that have been earned through the last day of work.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred Outflows / Inflows of Resources

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The City has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and \$30,034 and \$18,020 of deferred outflows related to TMRS in the government-wide financial statements and the proprietary fund statements, respectively.

Deferred inflows of resources refer to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. For the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes of \$4,814 is considered a deferred inflow of resources in the governmental fund financial statements, while \$46,708 and \$28,025 of deferred inflows related to TMRS is considered deferred inflow of resources in the government-wide financial statements and the proprietary fund statements, respectively.

Pensions

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

Other Post Employment Benefits

The fiduciary net position of the Texas Municipal Retirement System (TMRS) has been determined using the flow of economic resource measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefit, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

Fund balance classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) are legally or contractually required to be maintained intact. The City has no amounts classified as nonspendable at September 30, 2022.

Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the revenue note and are restricted through

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

debt covenants. The City classified \$306,247 restricted for economic development, \$201,457 restricted for street construction, and \$249,269 restricted for covid relief spending at September 30, 2022.

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The City had no amounts classified as committed funds at September 30, 2022.

Assigned – This classification includes amounts that are constrained by the Council’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the Council delegating this responsibility to the City Secretary through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has no amounts classified as assigned at September 30, 2022.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City would typically use restricted fund balances first, followed by committed fund balances, and then assigned fund balances, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balances first to defer the use of these other classified funds.

Estimates

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Budget policy and practice

The City Secretary submits an annual budget to the City Council in accordance with the requirements of the State of Texas. The budget is presented to the City Council for review, and public hearings are held to address citizen concerns. In September, the City Council adopts the annual fiscal year budgets for City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – continued

Basis of budgeting

Each fund's appropriated budget is prepared on a detailed line-item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: general governmental services, public service – highways and streets, and debt service. Budget revisions at this level are subject to final review by the City Council.

Budgets for the governmental funds and proprietary fund operations are budgeted on the modified accrual basis of accounting. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the expenditure is incurred. The budget and actual financial statements are reported on this basis. Budgets for the proprietary fund are prepared on the accrual basis of accounting with the exception of depreciation expense and capital outlay. The budget and actual statements are reported on this basis. The budget for the general fund is presented as required supplementary information and the budget for the water fund is presented as supplementary information.

None of the City's departments had negative budget variance, however there were several line-items with negative budget variances. The City had adequate funds to cover the variances.

NOTE 3: 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.

Cash Deposits

The City's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name at September 30, 2022.

Tolar Economic Development Corporation's cash deposits were entirely covered by FDIC insurance at September 30, 2022.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act ("ACT"), to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The ACT requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general-purpose financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the City adhered to the requirements of the ACT. Additionally, investment practices of the City were in accordance with local policies.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 3: DEPOSITS AND INVESTMENTS - continued

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

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Analysis of Specific Deposit and Investment Risks

- Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.
- Custodial Credit Risk – Deposits and investments 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. At September 30, 2022, the City's deposits were entirely collateralized and therefore, not exposed to custodial credit risk.
- Concentration of Credit Risk – the risk of loss attributed to the magnitude of a government's investment in a single issuer. At September 30, 2022, since the City has no investments, the City was not exposed to concentration of credit risk.
- Interest Rate Risk – the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of investments to less than one year. The City monitors the interest rates to minimize the exposure to interest rate risk.
- Foreign Currency Risk – the risk that exchange rates will adversely affect the fair value of an investment. As of September 30, 2022, the City was not exposed to foreign currency risk.

NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE

Enterprise Receivables

Significant receivables include amounts due from customers primarily for utility services. These receivables are due within one year. The City estimates an allowance for uncollectible accounts which represent the City's estimate of the amount of accounts receivable that are

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 4: RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND UNAVAILABLE REVENUE - continued

uncollectible based on collection history and individual specific circumstances. As of September 30, 2022, the City had recorded an allowance for uncollectible accounts of \$19,309.

Receivables at September 30, 2022 are shown as follows:

Primary government:	
Water fund	\$ <u>50,277</u>
Total primary government	\$ <u>50,277</u>

Property Taxes Receivable, Unavailable Revenue and Property Tax Calendar

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

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

In the governmental fund financial statements, property tax receivables are recorded in the General Fund. At fiscal year-end, the receivables represent delinquent tax receivables. If the receivables are not paid within 60 days of year-end, they are recorded as unavailable revenue.

In the government-wide financial statements, property tax receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTE 5: CAPITAL ASSETS

The following schedule provides a summary of changes in capital assets:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ <u>58,837</u>	\$ _____	\$ _____	\$ <u>58,837</u>
Total capital assets not being depreciated	58,837			58,837
Capital assets being depreciated				
Buildings	734,642			734,642
Equipment	53,248	10,696		63,944
Infrastructure	<u>1,350,199</u>			<u>1,350,199</u>
Total capital assets being depreciated	2,138,089	10,696		2,148,785

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 5: CAPITAL ASSETS - continued

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	(209,789)	(20,454)		(230,243)
Equipment	(38,509)	(5,830)		(44,339)
Infrastructure	<u>(403,001)</u>	<u>(69,657)</u>		<u>(472,658)</u>
Total accumulated depreciation	(651,299)	(95,941)		(747,240)
Total capital assets being depreciated, net	<u>1,486,790</u>	<u>(85,245)</u>		<u>1,401,545</u>
Governmental activities capital assets, net	<u>1,545,627</u>	<u>(85,245)</u>		<u>1,460,382</u>

Depreciation was charged to functions as follows:

Governmental activities:

General government	\$ 30,315
Streets	65,626
Total depreciation expense - governmental activities	<u>\$ 95,941</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	71,605			71,605
Construction in progress		70,061		70,061
Total capital assets not being depreciated	<u>71,605</u>	<u>70,061</u>		<u>141,666</u>
Capital assets being depreciated				
Distribution and collection system	2,918,878	35,260		2,954,138
Equipment	267,861	16,080		283,941
Total capital assets being depreciated	<u>3,186,739</u>	<u>51,340</u>		<u>3,238,079</u>
Less accumulated depreciation for:				
Distribution and collection system	(1,880,566)	(101,365)		(1,981,931)
Equipment	<u>(225,934)</u>	<u>(6,947)</u>		<u>(232,881)</u>
Total accumulated depreciation	(2,106,500)	(108,312)		(2,214,812)
Total capital assets being depreciated, net	<u>1,080,239</u>	<u>(56,972)</u>		<u>1,023,267</u>
Business-type activities, net	<u>1,151,844</u>	<u>13,089</u>		<u>1,164,933</u>
Total Primary Government	<u>\$ 2,697,471</u>	<u>\$ (72,156)</u>		<u>\$ 2,625,315</u>

NOTE 6: LONG-TERM DEBT

Certificate of Obligation Bonds, Series 2019

City of Tolar, Texas Certificate of Obligations Bonds, Series 2019, were issued on October 1, 2018, in the amount of \$1,025,000, to finance the cost of city-wide road improvements and for payment of professional services related thereto. The interest rate is 3.17% and due on each April 15th and October 15th. Bond principal payments are due on October 15th of each year. The bonds mature October 15, 2033.

The City entered into a note agreement with Marlin Business Bank in December 2020 in the amount of \$10,912 for the purchase and installation of a security system. The loan is due in monthly payments of \$274, including interest at 17.5%. The note matures on December 5, 2025.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT - continued

The following provides a summary of changes in long-term debt:

	Balance at 9/30/2021	Additions	Retirements	Balance at 9/30/2022	Due Within One Year
<i>Governmental Activities</i>					
Security system note	\$ 9,814	\$	\$ 1,705	\$ 8,109	\$ 2,028
Certificate of Obligations Series 2019	915,000		57,000	858,000	60,000
	\$ 924,814	\$ -	\$ 58,705	\$ 866,109	\$ 62,028
 <i>Other Long-term Debt</i>					
<i>Governmental Activities</i>					
Compensated absences	\$ 8,156	\$ 311	\$	\$ 8,467	
<i>Business-type Activities</i>					
Compensated absences	8,002	433		8,435	
	\$ 16,158	\$ 744	\$ -	\$ 16,902	

The following shows the maturity of the bonds.

<i>Governmental Activities</i>			
Bonds	Interest	Principal	Total
2023	\$ 60,000	\$ 26,248	\$ 86,248
2024	62,000	24,314	86,314
2025	64,000	22,317	86,317
2026	66,000	20,256	86,256
2027	68,000	18,132	86,132
2028-2032	372,000	56,521	428,521
2033-2034	166,000	5,294	171,294
	\$ 858,000	\$ 173,082	\$ 1,031,082
 <i>Notes</i>			
2023	\$ 2,028	\$ 1,262	\$ 3,290
2024	2,413	877	3,290
2025	2,871	419	3,290
2026	797	23	820
	\$ 8,109	\$ 2,581	\$ 10,690

The amount of interest cost charged to expenses during the year ended September 30, 2022, was \$29,722.

NOTE 7: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of 2,800 individual governmental units located within the state. TML Intergovernmental Risk Pool (Pool) is considered a self-sustaining risk pool that provides coverage for its members. The City's contributions to the Pool are limited to the amount of

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 7: RISK MANAGEMENT – CLAIMS AND JUDGEMENTS - continued

premiums as calculated at the beginning of each fund year. The Pool's liability is limited to the coverage that the City elects as stated in the Pool's Declaration of Coverage for that fund year. Settled claims have not exceeded insurance coverage limits for the past three years.

NOTE 8: TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions.

The following schedule reports transfers and payments within the reporting entity:

	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General fund	\$ 31,826	\$ (34,005)	\$ (34,005)
Economic development fund	6,848	(4,669)	31,826
Debt service fund	38,674	(38,674)	(4,669)
Water fund	6,848	6,848	6,848
	\$ 38,674	\$ (38,674)	\$ 6,848

The following schedule reports payables and receivables with funds.

<u>Due To</u>	<u>Due From</u>	
Economic Development Corporation	General Fund	\$ 13,093
		\$ 13,093

NOTE 9: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of Tolar participates as one of 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (Annual Report) that can be obtained at tmrs.com.

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

Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

12, 24, or 36 monthly payments, which cannot exceed 75% of the total member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year	
	2022	2021
Employee deposit rate	7.0%	7.0%
Matching portion (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service).	60/5, 0/25	60/5, 0/25
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms.

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

	2021	2020
Inactive employees or beneficiaries currently receiving benefits	4	4
Inactive employees entitled to but not yet receiving benefits	8	8
Active employees	6	5
	18	17

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the Member's total compensation, and the city matching percentages are either 1:1 (1 to 1), 1.5:1 (1 ½ to 1), or 2:1 (2 to 1), both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City of Tolar were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City of Tolar were 8.89% and 8.87% in calendar years 2021 and 2022, respectively. The city's contributions to TMRS for the year ended September 30, 2022, were \$29,101, and were equal to the required contributions.

Net Pension Liability

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

Actuarial Assumptions

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

Inflation	2.5% per year
Overall payroll growth declines, if any	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension investment expense, including inflation

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for the time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Minimum %</u>	<u>Target %</u>	<u>Maximum %</u>
Core Fixed Income	1%	6%	11%
Non-Core Fixed Income	15%	20%	25%
Global Public Equity	25%	35%	45%
Real Estate	7%	12%	17%
Other Public & Private Mkts	7%	12%	17%
Hedge Funds	0%	5%	10%
Private Equity	5%	10%	15%
Cash Equivalents	0%	0%	3%

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN - continued

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balance at 12/31/21	\$ 634,576	\$ 671,126	\$ (36,550)
Changes for the year:			
Service Cost	37,426		37,426
Interest	43,034		43,034
Changes of benefit terms			
Difference between expected and actual experience	3,897		3,897
Changes of assumptions			
Contributions - employer		23,219	(23,219)
Contributions - employee		18,282	(18,282)
Net investment income		87,654	(87,654)
Benefit payments, including refunds of employee contributions	(31,483)	(31,483)	
Administrative expenses		(405)	405
Other charges		3	(3)
Net changes	52,874	97,270	(44,396)
Balance at 12/31/22	\$ 687,450	\$ 768,396	\$ (80,946)

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 6,699	\$ (80,946)	\$ (153,843)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the year ended September 30, 2022, the city recognized pension expense of \$(4,944).

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

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 9: DEFINED BENEFIT PENSION PLAN – continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 2,594	\$ 1,119
Changes in actuarial assumptions		11
Difference between projected and actual investment earnings		44,905
Contributions subsequent to the measurement date	21,624	
Total	\$ 24,218	\$ 46,035

\$21,624 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:			
2023	\$	(7,949)	
2024		(17,495)	
2025		(9,528)	
2026		(8,469)	

NOTE 10: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description

The City participates in a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”) administered by TMRS. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage (Supplemental Death Benefits) for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits Provided

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund.

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 10: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - continued

contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Employees of the City were required to contribute 0.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.18% and 0.20% in calendar years 2021 and 2022, respectively. The City's contributions to OPEB for the year ended September 30, 2022 were \$639 and were equal to the required contributions.

Total OPEB Liability

The actuarial assumptions used in the calculation of the funding valuation for the Supplemental Death Benefits Fund (SDBF) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation. For purposes of developing the SDBF contribution rates, no other demographic assumptions are applicable.

I. Assumptions

- A. Mortality Rates — Same as for the Pension Trust Fund.
- B. Investment Return — A statutory interest credit of 5% is allocated annually and is not dependent on investment earnings.
- C. Actuarial Cost Method — For the purpose of calculating an employer's actuarially determined contribution rate, the one-year term cost is used.
- D. Valuation of Assets — Assets in the SDBF are valued at fund value (or fund balance); however, since the contribution rates are based just on the one-year term cost, assets are not included in developing the rate.
- E. Changes in Actuarial Assumptions and Methods — There were no changes since the prior valuation.

II. Benefit Provisions

- A. Participation in SDBF — Participation in the SDBF is optional and may be rescinded. Each municipality that chooses to participate can elect to cover just active members, or both active and retired members.
- B. Benefit Eligibility — Benefits are payable if the death occurs during the period in which a municipality has elected to participate in the SDBF. For retirees who had service with multiple TMRS employers, benefits are payable only if the municipality from which the member retired participates in the SDBF when the death occurs.
- C. Benefit Amount — The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is a fixed amount of \$7,500.

Discount rate.

The discount rate used to measure the Total OPEB Liability was 1.84%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 10: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - continued

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/20	\$ 35,609
Changes for the year:	
Service cost	888
Interest	718
Change in benefit terms	
Difference between expected/actual experience	88
Changes of assumptions	1,328
Benefit payments	<u>(339)</u>
Net changes	<u>2,683</u>
Balance at 12/31/21	<u>\$ 38,292</u>

Sensitivity of the total OPEB liability to changes in the discount rate

The following shows the total OPEB liability calculated using the discount rate of 1.84%, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower (0.84%) or 1 percentage point higher (2.84%) than the current rate.

	1% Decrease in Discount Rate (0.84%)	Discount Rate (1.84%)	1% Increase in Discount Rate (2.84%)
City of Tolar's net OPEB liability	\$ 47,831	\$ 38,292	\$ 31,032

OPEB Plan Total Liability

Detailed information about the OPEB plan's Total OPEB Liability is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2022, the City recognized OPEB expense in the amount of \$3,537.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 67	\$ 473
Changes in actuarial assumptions	5,261	200
Contributions subsequent to the measurement date	488	
Total	<u>\$ 5,816</u>	<u>\$ 673</u>

\$488 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ended September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 10: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - continued

Year ended December 31:		
2023	\$	2,004
2024		1,443
2025		1,132
2026		76

NOTE 11: HEALTH CARE COVERAGE

The City pays the employee's portion of health coverage. The city's annual cost was \$53,610. Employees are responsible for the cost of dependent coverage and any additional coverage over the basic amount. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

NOTE 12: GARBAGE COLLECTION SERVICE CONTRACT

The City has a sanitation contract with Waste Connection wherein Waste Connection picks up all garbage of the City and disposes of it. The rates charged flow through to the residents and are included in the water billings they receive. Revenue collected for garbage service is recorded in the General Fund. Total collected during the year ended September 30, 2022, was \$55,213.

NOTE 13: SUBSEQUENT EVENT

On December 1, 2022, the City issued Certificate of Obligation Bonds, Series 2022, in the amount of \$8,865,000, to (a) finance repairs and improvements to the City's water and wastewater system, including the construction of a new wastewater treatment facility, a new 44,000 gallon storage tank and well, and (b) pay the costs incurred in connection with the execution and delivery of the Certificates. The interest rates range from 4.5% to 5.0%. Interest is due each May 15 and November 15, beginning May 15, 2023. Bond principal payments are due on November 15 of each year beginning November 15, 2027. The bonds mature on November 15, 2052.

NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS

In June 2017, the GASB issued Statement No. 87 *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. GASB 95 postponed the effective date 18 months. The City implemented this Statement in the current year.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS - continued

In May 2019, the GASB issued Statement No. 91 *Conduit debt obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. GASB 95 postponed the effective date one year. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2020, the GASB issued Statement No. 92 *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Implementation of this standard has been extended until the reporting periods beginning after December 15, 2021. GASB No. 95 postponed the effective date for one year. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2020, the GASB issued Statement No. 93 *Replacement of Interbank Offered Rates*. The objective of the Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this Statement are effective for reporting periods ending after December 15, 2021. Implementation of this standard has been extended until the reporting periods beginning after December 15, 2022. GASB 95 postponed the implementation by one year. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2020, the GASB issued Statement No. 94 *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS - continued

In May 2020, the GASB issued Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The following statements are postponed by one year: Nos. 83, 84, 88, 89, 90, 91, 92 and 93. The following statement is postponed by 18 months: No. 87. The requirements of this Statement are effective immediately. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2020, the GASB issued Statement No 96 *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset- an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for years beginning after June 15, 2022. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2020, the GASB issued Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No 14 and 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements, and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In October 2021, the GASB issued Statement No. 98 *The Annual Comprehensive Financial Report*. This Statement establishes the term *annual comprehensive financial report* and its acronym ACFR. That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Earlier application is encouraged. The City determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In April 2022, the GASB issued Statement No. 99 *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this

CITY OF TOLAR

NOTES TO FINANCIAL STATEMENTS

NOTE 14: NEW ACCOUNTING PRONOUNCEMENTS - continued

Statement are effective as follows: related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges are effective upon issuance; related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022; and related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 are effective for fiscal years beginning after June 15, 2023. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2022, the GASB issued Statement No. 100 *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2022, the GASB issued Statement No. 101 *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
 YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
REVENUES				
Taxes:				
Sales tax	\$ 155,000	155,000	\$ 198,314	\$ 43,314
Property tax	179,320	179,320	190,601	11,281
Right of way	30,000	30,000	33,052	3,052
Total taxes	<u>364,320</u>	<u>364,320</u>	<u>421,967</u>	<u>57,647</u>
License & permits				
License and permits	25,000	25,000	226,139	201,139
Total license & permits	<u>25,000</u>	<u>25,000</u>	<u>226,139</u>	<u>201,139</u>
Fines and forfeitures			8,000	8,000
Investment income	200	200	6,418	6,218
Garbage collection income	49,000	49,000	55,213	6,213
Miscellaneous income	7,010	7,010	8,271	1,261
Total Revenues	<u>445,530</u>	<u>445,530</u>	<u>726,008</u>	<u>280,478</u>
EXPENDITURES				
General government				
General services:				
Insurance	8,600	9,400	7,627	1,773
Building inspection	1,000	1,000		1,000
Capital outlay	27,669	3,669	10,696	(7,027)
Contract sanitation	49,000	49,900	53,572	(3,672)
Election expense				
Economic Development Corporation	50,400	54,000	66,105	(12,105)
Miscellaneous	3,750	4,550	3,091	1,459
Office supplies	9,500	9,500	21,840	(12,340)
Payroll	150,000	186,000	178,373	7,627
Payroll Tax	23,900	23,900	13,680	10,220
Health insurance	29,000	33,300	30,638	2,662
Retirement			12,448	(12,448)
Printing & copies	2,950	3,250	2,883	367
Professional services	42,023	36,573	30,333	6,240
Repair & maintenance	39,000	27,000	24,627	2,373
Postage and delivery	1,000	1,000	16	984
Reference books	600	750	725	25
Software	5,000	6,200	6,148	52
Technical support	3,000	3,000	2,000	1,000
Telephone	6,440	6,440	5,945	495
Travel	6,000	3,000	2,769	231
Utilities	18,000	18,000	19,887	(1,887)
Total general government	<u>476,832</u>	<u>480,432</u>	<u>493,403</u>	<u>(12,971)</u>
Public service:				
Streets				
Repair	209,000	209,000	23,805	185,195
Total public service	<u>209,000</u>	<u>209,000</u>	<u>23,805</u>	<u>185,195</u>
Total expenditures	<u>685,832</u>	<u>689,432</u>	<u>517,208</u>	<u>172,224</u>

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND - CONTINUED
 YEAR ENDED SEPTEMBER 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Excess (Deficiency) of Revenues over (Under)				
Expenditures	<u>(240,302)</u>	<u>(243,902)</u>	<u>208,800</u>	<u>452,702</u>
OTHER FINANCING USES				
Grant income			249,269	249,269
Debt payments	(1,500)	(15,000)	(3,290)	11,710
Transfers in			<u>(34,005)</u>	<u>(34,005)</u>
Total Other Financing Uses	<u>(1,500)</u>	<u>(15,000)</u>	<u>211,974</u>	<u>226,974</u>
Net change in fund balance	(241,802)	(258,902)	420,774	679,676
Fund Balance - Beginning	<u>721,458</u>	<u>721,458</u>	<u>721,458</u>	
Fund Balance - Ending	<u>\$ 479,656</u>	<u>\$ 462,556</u>	<u>\$ 1,142,232</u>	<u>\$ 679,676</u>

CITY OF TOLAR

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEAR ENDED SEPTEMBER 30, 2022

	<u>Plan Year Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total Pension Liability			
Service cost	\$ 37,426	\$ 32,149	\$ 35,850
Interest (on the total pension liability)	43,034	40,152	38,547
Changes of benefit terms			
Difference between expected and actual experience	3,897	(750)	(20,372)
Change of assumptions			(308)
Benefit payments, including refunds of employee contributions	<u>(31,483)</u>	<u>(31,483)</u>	<u>(24,693)</u>
Net Change in Total Pension Liability	52,874	40,068	29,024
Total Pension Liability - Beginning	<u>634,576</u>	<u>594,508</u>	<u>565,484</u>
Total Pension Liability - Ending	<u><u>\$ 687,450</u></u>	<u><u>\$ 634,576</u></u>	<u><u>\$ 594,508</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 23,219	\$ 20,720	\$ 22,797
Contributions - employee	18,282	16,260	17,810
Net investment income	87,654	47,063	80,928
Benefit payments, including refunds of employee contributions	(31,483)	(31,483)	(24,693)
Administrative expense	(405)	(304)	(456)
Other	<u>3</u>	<u>(11)</u>	<u>(14)</u>
Net Change in Plan Fiduciary Net Position	97,270	52,245	96,372
Plan Fiduciary Net Position - Beginning	<u>671,126</u>	<u>618,881</u>	<u>522,509</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 768,396</u></u>	<u><u>\$ 671,126</u></u>	<u><u>\$ 618,881</u></u>
Net Pension Liability - Ending	<u><u>\$ (80,946)</u></u>	<u><u>\$ (36,550)</u></u>	<u><u>\$ (24,373)</u></u>
Plan fiduciary Net Position as a Percentage of Total Pension Liability	111.77%	105.76%	104.10%
Covered Payroll	261,175	232,292	254,434
Net Pension Liability as a Percentage of Covered Payroll	-30.99%	-15.73%	-9.58%

	2018	2017	2016	2015	2014
\$	32,324	\$ 29,899	\$ 31,112	\$ 26,769	\$ 22,156
	36,912	34,152	30,644	26,831	23,895
	(18,152)	(1,109)	(343)	5,248	(6,404)
				11,509	
	<u>(32,564)</u>	<u>(13,971)</u>	<u>(3,699)</u>		
	18,520	48,971	57,714	70,357	39,647
	546,964	497,993	440,279	369,922	330,275
\$	<u><u>565,484</u></u>	<u><u>546,964</u></u>	<u><u>497,993</u></u>	<u><u>440,279</u></u>	<u><u>369,922</u></u>
\$	21,496	\$ 18,690	\$ 15,684	\$ 11,914	\$ 10,360
	15,991	14,345	14,896	13,280	11,641
	(16,020)	62,786	26,988	551	19,038
	(32,564)	(13,971)	(3,699)		
	(309)	(325)	(304)	(336)	(199)
	(17)	(16)	(16)	(17)	(16)
	<u>(11,423)</u>	81,509	53,549	25,392	40,824
	533,932	452,423	398,874	373,481	332,657
\$	<u><u>522,509</u></u>	<u><u>533,932</u></u>	<u><u>452,423</u></u>	<u><u>398,873</u></u>	<u><u>373,481</u></u>
\$	<u><u>42,975</u></u>	<u><u>13,032</u></u>	<u><u>45,570</u></u>	<u><u>41,406</u></u>	<u><u>(3,559)</u></u>
	92.40%	97.62%	90.85%	90.60%	100.96%
	228,438	204,930	212,803	189,713	166,300
	18.81%	6.36%	21.41%	21.83%	-2.14%

CITY OF TOLAR

SCHEDULE OF PENSION CONTRIBUTIONS
YEAR ENDED SEPTEMBER 30, 2022

	Fiscal Year Ended September 30,		
	2022	2021	2020
Actuarially determined contribution	\$ 29,101	\$ 23,738	\$ 21,108
Contributions in relation to actuarially determined contribution	(29,101)	(23,738)	(21,108)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 327,895	\$ 263,595	\$ 236,323
Contributions as a percentage of covered payroll	8.88%	9.01%	8.93%

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year Smoothed Market; 12% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the city's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information	There were no benefit changes during the year.

	2019	2018	2017	2016	2015
\$	22,363	\$ 21,581	\$ 17,488	\$ 14,787	\$ 12,036
	<u>(22,363)</u>	<u>(21,581)</u>	<u>(17,488)</u>	<u>(14,787)</u>	<u>(12,036)</u>
\$	-	\$ -	\$ -	\$ -	-
\$	246,516	\$ 231,307	\$ 199,403	\$ 203,094	185,434
	9.07%	9.33%	8.77%	7.28%	6.49%

CITY OF TOLAR

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
YEAR ENDED SEPTEMBER 30, 2022

	Plan Year Ended December 31,			
	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 888	\$ 627	\$ 585	\$ 617
Interest (on the total OPEB liability)	718	806	898	854
Changes of benefit terms				
Difference between expected and actual experience	88	(72)	(1,514)	(881)
Change of assumptions	1,328	5,301	5,161	(2,136)
Benefit payments, including refunds of employee contributions	(339)	(93)	(25)	(23)
Net Change in Total OPEB Liability	<u>2,683</u>	<u>6,569</u>	<u>5,105</u>	<u>(1,569)</u>
Total OPEB Liability - Beginning	35,609	29,040	23,935	25,504
Total OPEB Liability - Ending	<u>\$ 38,292</u>	<u>\$ 35,609</u>	<u>\$ 29,040</u>	<u>\$ 23,935</u>
Covered Employee Payroll	261,175	232,292	254,434	228,438
Net Pension Liability as a Percentage of Covered Employee Payroll	14.66%	15.33%	11.41%	10.48%

2017

\$ 471
828

2,524

3,823
21,681
\$ 25,504

204,930

12.45%

OTHER SUPPLEMENTAL INFORMATION

CITY OF TOLAR, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
BUDGET AND ACTUAL - WATER FUND
 YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual	Adjustments to Budgetary Basis	Actual Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final				
OPERATING REVENUES:						
Water sales	\$ 694,650	\$ 952,950	\$ 731,831	\$	\$ 731,831	\$ (221,119)
Total Operating Revenues	<u>694,650</u>	<u>952,950</u>	<u>731,831</u>		<u>731,831</u>	<u>(221,119)</u>
OPERATING EXPENSES:						
Contract labor	5,000	2,500	250		250	2,250
Depreciation expense			108,312	(108,312)		
Insurance	11,900	10,400	8,975		8,975	1,425
Lab tests	11,500	12,200	11,950		11,950	250
Office expense	10,500	12,650	3,808		3,808	8,842
Payroll expenses	194,000	248,663	171,847		171,847	76,816
Payroll taxes	28,000	32,000	11,480		11,480	20,520
Retirement			(6,935)		(6,935)	6,935
Permit fees	13,500	14,000	25,513		25,513	(11,513)
Professional services	63,000	89,000	12,293		12,293	76,707
Repairs and maintenance	160,700	131,000	62,191		62,191	68,809
Supplies	29,500	48,500	45,804		45,804	2,696
Telephone	6,400	6,400	5,522		5,522	878
Travel	5,000	6,500	3,732		3,732	2,768
Uniforms	2,700	3,000	989		989	2,011
Utilities	35,000	33,000	31,889		31,889	1,111
Vehicle expense	7,500	1,300	12,759		12,759	(11,459)
Total Operating Expenses	<u>584,200</u>	<u>651,113</u>	<u>510,379</u>	<u>(108,312)</u>	<u>402,067</u>	<u>249,046</u>
Net operating income (loss)	<u>110,450</u>	<u>301,837</u>	<u>221,452</u>	<u>108,312</u>	<u>329,764</u>	<u>27,927</u>
Nonoperating revenues (expenses)						
Interest income	250	1,500	4,325		4,325	2,825
Transfers in			6,848		6,848	6,848
Total nonoperating revenues (expenses)	<u>250</u>	<u>1,500</u>	<u>11,173</u>		<u>11,173</u>	<u>9,673</u>
Net income (loss)	<u>110,700</u>	<u>303,337</u>	<u>232,625</u>	<u>108,312</u>	<u>340,937</u>	<u>37,600</u>
Net Position - Beginning of Year	<u>1,699,874</u>	<u>1,699,874</u>	<u>1,699,874</u>		<u>1,699,874</u>	
Net Position - End of Year	<u>\$ 1,810,574</u>	<u>\$ 2,003,211</u>	<u>\$ 1,932,499</u>	<u>\$ 108,312</u>	<u>\$ 2,040,811</u>	<u>\$ 37,600</u>

OTHER INFORMATION REQUIRED BY GAO

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

To the City Council
City of Tolar, 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, and each major fund of the City of Tolar, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Tolar, Texas' basic financial statements, and have issued our report thereon dated April 5, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Tolar, Texas' 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tolar, Texas' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as identified as 2022-001.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tolar, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 Standard*.

City of Tolar's Response to Findings

The City of Tolar's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Tolar's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
April 5, 2023

CITY OF TOLAR, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED SEPTEMBER 30, 2022

Summary of Auditor's Results:

- a. The type of report issued on the financial statements of the City of Tolar, Texas was an unmodified opinion.
- b. One material weakness was disclosed during the audit of the financial statements, reported as Finding 2022-001. No significant deficiencies were reported
- c. No instances of noncompliance material to the financial statements of the City of Tolar, Texas were disclosed during the audit.

I. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

2022-001 Financial Reporting

Type of Finding:	Material Weakness
Criteria:	Management of the City is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.
Condition:	The City does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In addition, we recorded numerous audit adjustments to the City's recorded account balances, which if not recorded, would have resulted in a material misstatement of the City's financial statements.
Cause:	The City does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures without significant adjustments.
Effect:	Although this circumstance is not unusual for a City of this size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by City personnel. The need for the audit adjustments indicates that the City's interim financial information is not materially correct, which may affect management decisions made during the course of the year.
Recommendation:	Auditing standards require that auditors communicate this deficiency; however, the City prepares budgetary and other financial reports for Board review on a routine basis. It is the responsibility of management and those charged with governance to determine whether to accept the

risk associated with this condition because of cost or other considerations. This finding was included in the audit for 2021.

View of Responsible
Officials:

Management is aware of the noted finding. Management weighed the costs and benefits of preparing its own financial statements; including proposing the adjusting journal entries that would be necessary and found it beneficial to outsource this service.

Contact: Michelle Burdette, City Secretary
254-835-4390

CITY OF TOLAR, TEXAS
SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED SEPTEMBER 30, 2022

PRIOR YEAR

Findings/Noncompliance

2021-001 Financial Reporting

Type of Finding:	Material Weakness
Criteria:	Management of the City is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.
Condition:	The City does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In addition, we recorded numerous audit adjustments to the City's recorded account balances, which if not recorded, would have resulted in a material misstatement of the City's financial statements.
Cause:	The City does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures without significant adjustments.
Effect:	Although this circumstance is not unusual for a City of this size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by City personnel. The need for the audit adjustments indicates that the City's interim financial information is not materially correct, which may affect management decisions made during the course of the year.
Recommendation:	Auditing standards require that auditors communicate this deficiency; however, the City prepares budgetary and other financial reports for Board review on a routine basis. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.
View of Responsible Officials:	Management is aware of the noted finding. Management weighed the costs and benefits of preparing its own financial statements; including proposing the adjusting journal entries that would be necessary and found it beneficial to outsource this service.