

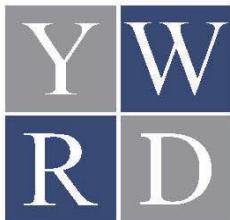
***CITY OF TOOL, TEXAS***

**ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended September 30, 2023

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Tool, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Tool, 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, each major fund, and the aggregate remaining fund information of the City of Tool, Texas, as of September 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis of Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the City of Tool, 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Tool, 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.

Honorable Mayor and City Council  
City of Tool, Texas  
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### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Tool, 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 Tool, 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.

Honorable Mayor and City Council  
City of Tool, Texas  
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### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, net pension liability and total OPEB liability information 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.



YWRD, P.C.  
*Certified Public Accountants*

Ennis, Texas  
May 13, 2025

## **CITY OF TOOL, TEXAS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

As management of the City of Tool, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2023.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,689,865 (net position).
- The City's total net position increased by \$270,605.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$260,204, or 10% of the total general fund expenditures.

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

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

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

The statement of net position presents financial information on all of the City's assets, deferred outflows of resources and liabilities, 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 is improving or deteriorating.

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

The government-wide financial statements distinguish functions of the City that are principally supported by sales and franchise taxes. The governmental activities of the City include general government, public safety, and public works.

The government-wide financial statements can be found on pages 10-11 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City are governmental funds.

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

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

The City maintains two individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund which is considered to be a major fund. Data from the other governmental fund is in a single, aggregate presentation.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-38 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions and the Schedule of Changes in Total OPEB Liability. Required supplementary information can be found on pages 40-43 of this report.

## **Government-wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$3,689,865, at the close of the most recent fiscal year.

## CITY OF TOOL, TEXAS' NET POSITION

|                                             | Governmental Activities |                     | Total               |                     |
|---------------------------------------------|-------------------------|---------------------|---------------------|---------------------|
|                                             | 2023                    | 2022                | 2023                | 2022                |
| Current and other assets                    | \$ 2,684,832            | \$ 2,704,111        | \$ 2,684,832        | \$ 2,704,111        |
| Capital assets                              | 5,656,761               | 5,483,258           | 5,656,761           | 5,483,258           |
| Total assets                                | <u>8,341,593</u>        | <u>8,187,369</u>    | <u>8,341,593</u>    | <u>8,187,369</u>    |
| <br>Total deferred outflows<br>of resources | <br>27,775              | <br>22,817          | <br>27,775          | <br>22,817          |
| <br>Long term liabilities                   | <br>4,600,472           | <br>4,739,864       | <br>4,600,472       | <br>4,739,864       |
| Other liabilities                           | 76,688                  | 51,062              | 76,688              | 51,062              |
| Total liabilities                           | <u>4,677,160</u>        | <u>4,790,926</u>    | <u>4,677,160</u>    | <u>4,790,926</u>    |
| <br>Total deferred inflows<br>of resources  | <br>2,343               | <br>-               | <br>2,343           | <br>-               |
| <br>Net position:                           |                         |                     |                     |                     |
| Net investment in capital assets            | 2,225,970               | 2,010,582           | 2,225,970           | 2,010,582           |
| Restricted                                  | 2,234,348               | 637,289             | 2,234,348           | 637,289             |
| Unrestricted (deficit)                      | (770,453)               | 771,389             | (770,453)           | 771,389             |
| Total net position                          | <u>\$ 3,689,865</u>     | <u>\$ 3,419,260</u> | <u>\$ 3,689,865</u> | <u>\$ 3,419,260</u> |

A portion of the City's net position (60.3%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, infrastructure and machinery and equipment), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (60.6%) represents resources that are subject to external restrictions on how they may be used.

The City's net investment in capital assets increased as a result of current year's capital asset additions exceeding depreciation.

The City's overall net position increased \$270,605 from the prior fiscal year. The reasons for this overall increase are discussed in the following section for governmental activities.

## CITY OF TOOL, TEXAS' CHANGES IN NET POSITION

|                                    | Governmental Activities |                     | Total               |                     |
|------------------------------------|-------------------------|---------------------|---------------------|---------------------|
|                                    | 2023                    | 2022                | 2023                | 2022                |
| <b>Revenues:</b>                   |                         |                     |                     |                     |
| Program revenues:                  |                         |                     |                     |                     |
| Charges for services               | \$ 249,905              | \$ 181,511          | \$ 249,905          | \$ 181,511          |
| Operating grants and contributions | 15,897                  | 303,466             | 15,897              | 303,466             |
| Capital grants and contributions   | -                       | 17,957              | -                   | 17,957              |
| General revenues:                  |                         |                     |                     |                     |
| Property taxes                     | 1,226,667               | 1,200,521           | 1,226,667           | 1,200,521           |
| Sales taxes                        | 379,350                 | 350,080             | 379,350             | 350,080             |
| Franchise taxes                    | 159,264                 | 148,622             | 159,264             | 148,622             |
| Hotel occupancy taxes              | 40,025                  | 11,800              | 40,025              | 11,800              |
| Mixed beverage taxes               | 1,297                   | 1,607               | 1,297               | 1,607               |
| Investment earnings                | 84,573                  | 10,070              | 84,573              | 10,070              |
| Miscellaneous                      | 35,003                  | 20,218              | 35,003              | 20,218              |
| Gain (loss) on disposal of assets  | -                       | (2,195)             | -                   | (2,195)             |
| <b>Total revenues</b>              | <b>2,191,981</b>        | <b>2,243,657</b>    | <b>2,191,981</b>    | <b>2,243,657</b>    |
| <b>Expenses:</b>                   |                         |                     |                     |                     |
| General government                 | 557,278                 | 402,153             | 557,278             | 402,153             |
| Cultural and recreational          | 3,244                   | 22,309              | 3,244               | 22,309              |
| Public safety                      | 824,271                 | 663,526             | 824,271             | 663,526             |
| Public works                       | 447,504                 | 368,872             | 447,504             | 368,872             |
| Interest                           | 89,079                  | 92,849              | 89,079              | 92,849              |
| <b>Total expenses</b>              | <b>1,921,376</b>        | <b>1,549,709</b>    | <b>1,921,376</b>    | <b>1,549,709</b>    |
| Change in net position             | 270,605                 | 693,948             | 270,605             | 693,948             |
| Net position - beginning           | 3,419,260               | 2,725,312           | 3,419,260           | 2,725,312           |
| <b>Net position - ending</b>       | <b>\$ 3,689,865</b>     | <b>\$ 3,419,260</b> | <b>\$ 3,689,865</b> | <b>\$ 3,419,260</b> |

**Governmental Activities.** During the current fiscal year, net position for governmental activities increased \$270,605 from the prior fiscal year for an ending balance of \$3,689,865.

- Charges for services increased by \$68,394 (38%) during the year. The increase is due to an increase in the number of fines issued during the current year.
- Capital Grants and contributions decreased by \$17,957 (100%) during the year.
- Property tax increased by \$26,146 (2%) during the year. The increase is due to an increase in property value during the current year.
- Sales tax increased by \$29,270 (8%) during the year. The increase is due to an increase in economic activity in the current year.
- General government expenses increased by \$155,125 (39%), culture and recreational expenses decreased \$19,065 (85%), public safety expenses increased by \$160,745 (24%), and public works increased by \$78,632 (21%) during the year.

## Financial Analysis of Governmental Funds

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

**Governmental Funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At September 30, 2023, the City's governmental funds reported ending fund balance of \$2,576,738, a decrease of \$43,785 in comparison with the prior year. Approximately 10% of this amount (\$260,204) constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is 1) not in spendable form (\$8,024), 2) restricted for particular purposes (\$2,235,190), or 3) assigned for particular purposes (\$73,320).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$260,204, while total fund balance increased to \$2,570,565. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 10.4% of total general fund expenditures, while total fund balance represents approximately 102.4% of that same amount.

## General Fund Budgetary Highlights

**Final budget compared to actual results.** General fund actual revenues of \$2,170,502 exceeded budgeted revenues of \$1,970,367 by \$200,135. Following are the main components that experienced an increase or decrease of actual revenue compared to budgeted revenue:

- Actual sales tax revenue exceeded budgeted revenue by \$55,189.
- Actual revenues from use of money exceeded budgeted revenue by \$80,871.

Actual general fund expenditures of \$2,435,779 exceeded budgeted expenditures of \$1,903,662 by \$532,117. The excess was funded by greater than anticipated revenues and existing fund balance.

## Capital Assets and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental activities as of September 30, 2023, amounts to \$5,656,761 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure and machinery and equipment. The total increase in capital assets for the current fiscal year was approximately 3%.

**City of Tool, Texas' Capital Assets  
(net of depreciation)**

|                                 | <b>Governmental Activities</b> |                     | <b>Total</b>        |                     |
|---------------------------------|--------------------------------|---------------------|---------------------|---------------------|
|                                 | <b>2023</b>                    | <b>2022</b>         | <b>2023</b>         | <b>2022</b>         |
| Land                            | \$ 259,094                     | \$ 259,094          | \$ 259,094          | \$ 259,094          |
| Construction in progress        | 129,889                        | 129,889             | 129,889             | 129,889             |
| Buildings                       | 113,661                        | 119,325             | 113,661             | 119,325             |
| Infrastructure                  | 4,671,350                      | 4,672,001           | 4,671,350           | 4,672,001           |
| Machinery and equipment         | 416,537                        | 302,949             | 416,537             | 302,949             |
| Right to use subscription asset | 66,230                         | -                   | 66,230              | -                   |
| <b>Total</b>                    | <b>\$ 5,656,761</b>            | <b>\$ 5,483,258</b> | <b>\$ 5,656,761</b> | <b>\$ 5,483,258</b> |

Major capital asset events during the current fiscal year included the following:

- Infrastructure additions of approximately \$131,000.
- Machinery and equipment additions of approximately \$204,000.

Additional information on the City of Tool's capital assets can be found in Note 3.D of this report.

**Long-term Debt.** At the end of the current fiscal year, the City had total long-term debt outstanding of \$4,515,972, a decrease of \$214,028 (4.5%).

**City of Tool, Texas' Long-Term Debt**

|                            | <b>Governmental Activities</b> |                     | <b>Total</b>        |                     |
|----------------------------|--------------------------------|---------------------|---------------------|---------------------|
|                            | <b>2023</b>                    | <b>2022</b>         | <b>2023</b>         | <b>2022</b>         |
| Certificates of obligation | \$ 3,235,000                   | \$ 3,335,000        | \$ 3,235,000        | \$ 3,335,000        |
| General obligation bonds   | 1,125,000                      | 1,395,000           | 1,125,000           | 1,395,000           |
| Notes payable              | 155,972                        | -                   | 155,972             | -                   |
| <b>Total</b>               | <b>\$ 4,515,972</b>            | <b>\$ 4,730,000</b> | <b>\$ 4,515,972</b> | <b>\$ 4,730,000</b> |

Additional information on the City's long term-debt can be found in Note 3.G of this report.

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

In the 2023-24 Budget, General Fund revenues will increase significantly (65%), with property tax making up about 53% of general fund budgeted revenues.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Tool, Texas, 701 N. Tool Drive, Tool, Texas 75143, (903) 432-3522.

**CITY OF TOOL, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2023

|                                                   | <b>Governmental<br/>Activities</b> | <b>Total</b>        |
|---------------------------------------------------|------------------------------------|---------------------|
| <b>ASSETS</b>                                     |                                    |                     |
| Cash and cash equivalents                         | \$ 2,336,006                       | \$ 2,336,006        |
| Cash held in escrow                               | 200,000                            | 200,000             |
| Receivables (net of allowance for uncollectibles) | 140,802                            | 140,802             |
| Prepaid items                                     | 8,024                              | 8,024               |
| Capital assets:                                   |                                    |                     |
| Non-depreciable                                   | 388,983                            | 388,983             |
| Depreciable (net of accumulated depreciation)     | 5,267,778                          | 5,267,778           |
| Total Assets                                      | <u>8,341,593</u>                   | <u>8,341,593</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>             |                                    |                     |
| Deferred charge on refunding                      | 7,321                              | 7,321               |
| Deferred outflows of resources related to pension | 19,115                             | 19,115              |
| Deferred outflows of resources related to OPEB    | 1,339                              | 1,339               |
| Total Deferred Outflows of Resources              | <u>27,775</u>                      | <u>27,775</u>       |
| <b>LIABILITIES</b>                                |                                    |                     |
| Accounts payable and other current liabilities    | 48,063                             | 48,063              |
| Accrued payroll payable                           | 16,540                             | 16,540              |
| Accrued interest payable                          | 12,085                             | 12,085              |
| Noncurrent liabilities:                           |                                    |                     |
| Due within one year                               | 436,979                            | 436,979             |
| Due in more than one year                         | 4,163,493                          | 4,163,493           |
| Total Liabilities                                 | <u>4,677,160</u>                   | <u>4,677,160</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>              |                                    |                     |
| Deferred inflows of resources related to OPEB     | 2,343                              | 2,343               |
| Total Deferred Inflows of Resources               | <u>2,343</u>                       | <u>2,343</u>        |
| <b>NET POSITION</b>                               |                                    |                     |
| Net investment in capital assets                  | 2,225,970                          | 2,225,970           |
| Restricted for:                                   |                                    |                     |
| Cultural and recreational                         | 756,173                            | 756,173             |
| Economic incentive agreement                      | 200,000                            | 200,000             |
| Public safety                                     | 46,430                             | 46,430              |
| Public works                                      | 891,557                            | 891,557             |
| Grants                                            | 340,188                            | 340,188             |
| Unrestricted                                      | <u>(770,453)</u>                   | <u>(770,453)</u>    |
| Total Net Position                                | <u>\$ 3,689,865</u>                | <u>\$ 3,689,865</u> |

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

**CITY OF TOOL, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended September 30, 2023

| <u>Function/Program:</u>      | Program Revenues    |                      |                                    | Net (Expense) Revenue and Changes in Net Position |                     |  |
|-------------------------------|---------------------|----------------------|------------------------------------|---------------------------------------------------|---------------------|--|
|                               | Expenses            | Charges for Services | Operating Grants and Contributions | Governmental Activities                           | Total               |  |
| <b>Primary government:</b>    |                     |                      |                                    |                                                   |                     |  |
| Governmental activities:      |                     |                      |                                    |                                                   |                     |  |
| General government            | \$ 557,278          | \$ 108,756           | \$ 1,440                           | \$ (447,082)                                      | \$ (447,082)        |  |
| Cultural and recreational     | 3,244               | -                    | 9,815                              | 6,571                                             | 6,571               |  |
| Public safety                 | 824,271             | 141,149              | 4,642                              | (678,480)                                         | (678,480)           |  |
| Public works                  | 447,504             | -                    | -                                  | (447,504)                                         | (447,504)           |  |
| Interest                      | 89,079              | -                    | -                                  | (89,079)                                          | (89,079)            |  |
| Total governmental activities | <u>\$ 1,921,376</u> | <u>\$ 249,905</u>    | <u>\$ 15,897</u>                   | <u>(1,655,574)</u>                                | <u>(1,655,574)</u>  |  |
| Total primary government      | <u>\$ 1,921,376</u> | <u>\$ 249,905</u>    | <u>\$ 15,897</u>                   | <u>(1,655,574)</u>                                | <u>(1,655,574)</u>  |  |
| General revenues:             |                     |                      |                                    |                                                   |                     |  |
| Property taxes                |                     |                      | 1,226,667                          | 1,226,667                                         |                     |  |
| Sales taxes                   |                     |                      | 379,350                            | 379,350                                           |                     |  |
| Franchise taxes               |                     |                      | 159,264                            | 159,264                                           |                     |  |
| Hotel occupancy taxes         |                     |                      | 40,025                             | 40,025                                            |                     |  |
| Mixed beverage taxes          |                     |                      | 1,297                              | 1,297                                             |                     |  |
| Investment earnings           |                     |                      | 84,573                             | 84,573                                            |                     |  |
| Miscellaneous                 |                     |                      | 35,003                             | 35,003                                            |                     |  |
| Total general revenues        |                     |                      | <u>1,926,179</u>                   | <u>1,926,179</u>                                  | <u>1,926,179</u>    |  |
| Change in net position        |                     |                      | 270,605                            | 270,605                                           |                     |  |
| Net position - beginning      |                     |                      | <u>3,419,260</u>                   | <u>3,419,260</u>                                  | <u>3,419,260</u>    |  |
| Net position - ending         |                     |                      | <u>\$ 3,689,865</u>                | <u>\$ 3,689,865</u>                               | <u>\$ 3,689,865</u> |  |

**CITY OF TOOL, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2023

|                                                                   | <b>General</b>      | <b>Nonmajor<br/>Fund</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|-------------------------------------------------------------------|---------------------|--------------------------|-----------------------------------------|
| <b>ASSETS</b>                                                     |                     |                          |                                         |
| Cash and cash equivalents                                         | \$ 2,325,997        | \$ 10,009                | \$ 2,336,006                            |
| Cash held in escrow                                               | 200,000             | -                        | 200,000                                 |
| Receivables (net of allowance for uncollectibles)                 | 140,802             | -                        | 140,802                                 |
| Prepaid items                                                     | 8,024               | -                        | 8,024                                   |
| Due from other fund                                               | 2,790               | -                        | 2,790                                   |
| Total assets                                                      | <u>\$ 2,677,613</u> | <u>\$ 10,009</u>         | <u>\$ 2,687,622</u>                     |
| <b>LIABILITIES</b>                                                |                     |                          |                                         |
| Accounts payable and other current liabilities                    | \$ 47,017           | \$ 1,046                 | \$ 48,063                               |
| Accrued payroll payable                                           | 16,540              | -                        | 16,540                                  |
| Due to other fund                                                 | -                   | 2,790                    | 2,790                                   |
| Total liabilities                                                 | <u>63,557</u>       | <u>3,836</u>             | <u>67,393</u>                           |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                              |                     |                          |                                         |
| Unavailable revenue - property taxes                              | 43,491              | -                        | 43,491                                  |
| Total deferred inflows of resources                               | <u>43,491</u>       | <u>-</u>                 | <u>43,491</u>                           |
| <b>FUND BALANCE</b>                                               |                     |                          |                                         |
| <b>Nonspendable:</b>                                              |                     |                          |                                         |
| Prepaid items                                                     | 8,024               | -                        | 8,024                                   |
| <b>Restricted for:</b>                                            |                     |                          |                                         |
| Cultural and recreational                                         | 750,000             | 6,173                    | 756,173                                 |
| Economic incentive agreement                                      | 200,000             | -                        | 200,000                                 |
| Public safety                                                     | 46,430              | -                        | 46,430                                  |
| Public works                                                      | 892,399             | -                        | 892,399                                 |
| Grants                                                            | 340,188             | -                        | 340,188                                 |
| <b>Assigned:</b>                                                  |                     |                          |                                         |
| Capital improvements                                              | 73,320              | -                        | 73,320                                  |
| <b>Unassigned</b>                                                 |                     |                          |                                         |
| Total fund balance                                                | 260,204             | -                        | 260,204                                 |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 2,677,613</u> | <u>\$ 10,009</u>         | <u>2,576,738</u>                        |

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

**CITY OF TOOL, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
September 30, 2023

Amounts reported for governmental activities in the statement of net position (page 10) are different

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,656,761

Other assets (deferred charges) shown in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 7,321

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. 43,491

Deferred outflows of resources are not reported in the governmental funds:

|                                                   |           |        |
|---------------------------------------------------|-----------|--------|
| Deferred outflows of resources related to pension | \$ 19,115 |        |
| Deferred outflows of resources related to OPEB    | 1,339     | 20,454 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

|                           |             |             |
|---------------------------|-------------|-------------|
| Accrued interest payable  | (12,085)    |             |
| Due within one year       | (436,979)   |             |
| Due in more than one year | (4,163,493) | (4,612,557) |

Deferred inflows of resources are not reported in the governmental funds:

|                                               |         |  |
|-----------------------------------------------|---------|--|
| Deferred inflows of resources related to OPEB | (2,343) |  |
|-----------------------------------------------|---------|--|

|                                                   |              |  |
|---------------------------------------------------|--------------|--|
| Net position of governmental activities (page 10) | \$ 3,689,865 |  |
|---------------------------------------------------|--------------|--|

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

**CITY OF TOOL, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
For the Fiscal Year Ended September 30, 2023

|                                                              | <b>General</b>      | <b>Nonmajor<br/>Fund</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|--------------------------------------------------------------|---------------------|--------------------------|-----------------------------------------|
| <b>REVENUES</b>                                              |                     |                          |                                         |
| Property taxes                                               | \$ 1,226,741        | \$ -                     | \$ 1,226,741                            |
| Sales taxes                                                  | 379,350             | -                        | 379,350                                 |
| Franchise taxes                                              | 159,264             | -                        | 159,264                                 |
| Hotel occupancy taxes                                        | 40,025              | -                        | 40,025                                  |
| Alcoholic beverage taxes                                     | 1,297               | -                        | 1,297                                   |
| Licenses and permits                                         | 108,756             | -                        | 108,756                                 |
| Fines and forfeitures                                        | 141,149             | -                        | 141,149                                 |
| Revenue from use of money                                    | 84,571              | 2                        | 84,573                                  |
| Miscellaneous                                                | 35,003              | -                        | 35,003                                  |
| Contributions and donations                                  | 13,582              | 2,315                    | 15,897                                  |
| Total revenues                                               | <u>2,189,738</u>    | <u>2,317</u>             | <u>2,192,055</u>                        |
| <b>EXPENDITURES</b>                                          |                     |                          |                                         |
| Current:                                                     |                     |                          |                                         |
| General government                                           | 715,807             | -                        | 715,807                                 |
| Cultural and recreational                                    | 1,100               | 2,144                    | 3,244                                   |
| Public safety                                                | 1,021,159           | -                        | 1,021,159                               |
| Public works                                                 | 313,789             | -                        | 313,789                                 |
| Debt service:                                                |                     |                          |                                         |
| Principal retirement                                         | 370,000             | -                        | 370,000                                 |
| Interest charges                                             | 85,891              | -                        | 85,891                                  |
| Debt issuance costs                                          | 3,772               | -                        | 3,772                                   |
| Total expenditures                                           | <u>2,511,518</u>    | <u>2,144</u>             | <u>2,513,662</u>                        |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(321,780)</u>    | <u>173</u>               | <u>(321,607)</u>                        |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                          |                                         |
| Note issued                                                  | 155,972             | -                        | 155,972                                 |
| Subscriptions                                                | 78,467              | -                        | 78,467                                  |
| Insurance proceeds                                           | 43,383              | -                        | 43,383                                  |
| Total other financing sources (uses)                         | <u>277,822</u>      | <u>-</u>                 | <u>277,822</u>                          |
| Net change in fund balance                                   | (43,958)            | 173                      | (43,785)                                |
| Fund balance at beginning of year                            | <u>2,614,523</u>    | <u>6,000</u>             | <u>2,620,523</u>                        |
| Fund balance at end of year                                  | <u>\$ 2,570,565</u> | <u>\$ 6,173</u>          | <u>\$ 2,576,738</u>                     |

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

**CITY OF TOOL, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended September 30, 2023

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Net change in fund balances-total governmental funds (page 14) \$ (43,785)

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period.

417,601

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds.

(244,098)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

|                                              |                |
|----------------------------------------------|----------------|
| Note payable issued                          | \$ (155,972)   |
| Proceeds from subscription liability         | (78,467)       |
| Bond principal retirement                    | 370,000        |
| Payment on subscription liability            | 15,557         |
| Amortization of deferred charge on refunding | <u>(2,143)</u> |
|                                              | 148,975        |

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds.

Change in accrued interest. (1,046)

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

(74)

Pension and OPEB contributions are recorded as expenditures in the governmental funds. However, in the statement of activities, these contributions are converted to the full accrual pension and OPEB amounts.

|                                                        |                |
|--------------------------------------------------------|----------------|
| Deferred outflows of resources related to pension      | 6,636          |
| Deferred outflows/inflows of resources related to OPEB | <u>(1,878)</u> |
|                                                        | 4,758          |

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

|                       |                |
|-----------------------|----------------|
| Compensated absences  | (7,451)        |
| Net pension liability | (402)          |
| OPEB liability        | <u>(3,873)</u> |
|                       | (11,726)       |

Change in net position of governmental activities (page 11) \$ 270,605

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

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. *Governmental activities* are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

**B. Reporting entity**

The City of Tool, Texas (the "City") was incorporated March 22, 1969 and is a Type "A" General Law municipality consisting of a Mayor and five City Council members. It provides the following services for its residents: general administrative services, public safety, and public works.

The City applies the criteria set forth in GASB Statement No. 61, The Financial Reporting Entity, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected official's accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes, but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services.

**Blended component unit.** The Eight at Tool, Inc. (the "Organization") is a not-for-profit organization under section 501(c)(3) of the Internal Revenue Code. The Organization was created for the purpose of creating, operating and maintaining a municipal park. The City is the sole member of the Organization. The Organization's operations are reported as a blended special revenue fund (nonmajor).

**C. Basis of presentation - government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**D. Basis of presentation - fund financial statements**

The fund financial statements provide information about the City's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**D. Basis of presentation - fund financial statements (continued)**

The City reports the following major governmental fund:

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

**E. Measurement focus and basis of accounting**

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

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

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

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

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

***1. Cash and cash equivalents***

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

***2. Investments***

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in TexSTAR.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAA by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools.

J.P. Morgan Investment Management Inc. ("JPMIM" or the "investment manager") and Hilltop Securities Inc. ("HTS") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the "Board"). JPMIM provides investment management services, and First Southwest, A Division of HTS, provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. ("BFDS" or the "Transfer Agent"). Each of JPMIM, HTS, BFDS, and JPMorgan Chase Bank, N.A. may provide certain services, including those described herein, through the use of subcontractors or delegates.

***3. Receivables and Allowances for Doubtful Accounts***

All trade and property tax receivables are shown net of an allowance for uncollectibles. All past due trade accounts receivables comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is the lesser of .2 percent of the tax levy for each fiscal year or the outstanding property taxes for each fiscal year at year end.

***4. Prepaid items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)**

**5. Capital assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

As the City constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

| <b>Capital asset class</b> | <b>Lives</b> |
|----------------------------|--------------|
| Buildings                  | 40           |
| Machinery and equipment    | 5            |
| Infrastructure             | 10-15        |

**6. Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources reported in this year's financial statements include a deferred outflow of resources for contributions made to the City's defined benefit and OPEB plans between the measurement date of the net pension liabilities from that plan and the end of the City's fiscal year, and a deferred charge on refunding. Deferred outflows for pension and OPEB contributions will be recognized in the subsequent fiscal year. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. No deferred outflows of resources affect the governmental funds financial statements in the current year.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported in the City's statement of net position includes a deferred inflow of resources related to changes in actuarial assumptions of the City's OPEB plan. Deferred inflows for changes in actuarial assumptions is attributed to OPEB expense over a total of 8.84 years. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The City will not recognize the related revenues until they are available (collected not later than 60 days after the end of the City's fiscal year) under the modified accrual basis of accounting. Accordingly, unavailable revenues from property taxes are reported in the governmental funds balance sheet.

**7. Long-term obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Net position flow assumption**

Net position represent the difference between assets and liabilities on the government-wide financial statements. Net positions are classified in the following categories:

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

*Restricted net position* —This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)**

*Unrestricted net position* —This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

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

**9. Fund balance flow assumption**

The governmental fund financial statements present fund balance categorized based on the nature and extent of the constraints placed on the specific purposes for which a government's funds may be spent. The following classifications describe the relative strength of the spending constraints:

*Nonspendable fund balance*—amounts that are not in spendable form (such as inventory and prepaid items) or are required to be maintained intact.

*Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

*Committed fund balance*—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.

*Assigned fund balance*—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.

*Unassigned fund balance*—amounts that represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned. Positive balances are reported only in the General Fund.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance (continued)**

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

**G. Revenues and expenditures/expenses**

**1. Program revenues**

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property taxes**

Property taxes attach as an enforceable lien on real property and are levied as of October 1st on the assessed value listed as of the prior January 1st for all real and personal property. Appraised values are established by the Henderson County Appraisal District as market value and assessed at 100% of appraised value. The Henderson County Tax Assessor/Collector bills and collects the City's property taxes, which are due October 1st. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Over time, substantially all taxes are collected.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Revenues and expenditures/expenses (continued)**

**3. Compensated absences**

The City's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from City service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Vacation leave shall be taken during the year following its accumulation.

**4. Pensions and Other Post Employment Benefits (OPEB)**

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.

GASB 75 requires recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. For example, changes in the TOL resulting from current-period service cost, interest on the TOL, and changes of benefit terms are required to be included in OPEB expense immediately. Changes in the TOL that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Excess of actual expenditures over budget in individual fund**

The General Fund had an excess of actual expenditures over budget by \$532,117. The excess was funded by greater than anticipated revenues and existing fund balance in the General Fund.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash deposits with financial institutions**

*Custodial credit risk-deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end, the City's bank balance was \$2,549,425. Of the bank balance, \$501,323 was covered by federal depository insurance and the remaining balance, \$2,048,103, was covered by collateral pledged in the City's name. The collateral was held in the City's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately \$2,639,000.

**B. Investments**

*Investments.* State statutes authorize the City to invest in the following: (1) obligations of, or guaranteed by governmental entities, (2) certificates of deposit and share certificates, (3) repurchase agreements, (4) securities lending program, (5) banker's acceptances, (6) commercial paper, (7) mutual funds, (8) guaranteed investment contracts, and (9) investments pools.

TexSTAR operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. The pool seeks to maintain a \$1 value per share as required by the Texas Public Funds Investment Act. The Pool has a credit rating of AAAm from Standard & Poor's Financial Services. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Public Funds Investment Act, and the actual rating as of year end.

| <b>Investment Type</b> | <b>Fair Value</b> | <b>Minimum Legal Rating</b> | <b>Rating as of Year End</b> |
|------------------------|-------------------|-----------------------------|------------------------------|
| TexSTAR                | \$ 842            | N/A                         | AAAm                         |

*Concentration of credit risk.* The City's investment policy contains no limitations on the amount that can be invested in any one issuer.

TexSTAR is considered a cash equivalent on the Government-wide Statement of Net Position and on the Balance Sheet of the Fund Financial Statements.

**CITY OF TOOL, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)**

**C. Receivables**

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line. Below is the detail of receivables for the general fund, including the applicable allowances for uncollectible accounts:

| <b>Receivables:</b>                | <b>General</b>           | <b>Total</b>             |
|------------------------------------|--------------------------|--------------------------|
| Taxes                              | \$ 160,024               | \$ 160,024               |
| Other                              | 4,015                    | 4,015                    |
| Gross receivables                  | 164,039                  | 164,039                  |
| Less: allowance for uncollectibles | (23,237)                 | (23,237)                 |
| Net total receivable               | <u><u>\$ 140,802</u></u> | <u><u>\$ 140,802</u></u> |

**D. Capital assets**

Capital asset activity for the year ended September 30, 2023 was as follows:

**Governmental activities:**

|                                             | <b>Beginning<br/>Balance</b> | <b>Increase</b>          | <b>Decrease</b>    | <b>Ending<br/>Balance</b>  |
|---------------------------------------------|------------------------------|--------------------------|--------------------|----------------------------|
| Capital assets not being depreciated:       |                              |                          |                    |                            |
| Land                                        | \$ 259,094                   | \$ -                     | \$ -               | \$ 259,094                 |
| Construction in progress                    | 129,889                      | -                        | -                  | 129,889                    |
| Total capital assets not being depreciated  | <u><u>388,983</u></u>        | <u><u>-</u></u>          | <u><u>-</u></u>    | <u><u>388,983</u></u>      |
| Capital assets being depreciated:           |                              |                          |                    |                            |
| Buildings                                   | 674,729                      | -                        | -                  | 674,729                    |
| Infrastructure                              | 5,125,364                    | 130,903                  | -                  | 5,256,267                  |
| Machinery and equipment                     | 947,083                      | 204,081                  | -                  | 1,151,164                  |
| Right to use subscription asset             | -                            | 82,617                   | -                  | 82,617                     |
| Total capital assets being depreciated      | <u><u>6,747,176</u></u>      | <u><u>417,601</u></u>    | <u><u>-</u></u>    | <u><u>7,164,777</u></u>    |
| Less accumulated depreciation for:          |                              |                          |                    |                            |
| Buildings                                   | (555,404)                    | (5,664)                  | -                  | (561,068)                  |
| Infrastructure                              | (453,363)                    | (131,554)                | -                  | (584,917)                  |
| Machinery and equipment                     | (644,134)                    | (90,493)                 | -                  | (734,627)                  |
| Right to use subscription asset             | -                            | (16,387)                 | -                  | (16,387)                   |
| Total accumulated depreciation              | <u><u>(1,652,901)</u></u>    | <u><u>(244,098)</u></u>  | <u><u>-</u></u>    | <u><u>(1,896,999)</u></u>  |
| Total capital assets being depreciated, net | <u><u>5,094,275</u></u>      | <u><u>173,503</u></u>    | <u><u>-</u></u>    | <u><u>5,267,778</u></u>    |
| Governmental activities capital assets, net | <u><u>\$ 5,483,258</u></u>   | <u><u>\$ 173,503</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 5,656,761</u></u> |

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

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)**

**D. Capital assets (continued)**

**Governmental activities:**

|                    |                          |
|--------------------|--------------------------|
| General government | \$ 11,316                |
| Public safety      | 81,589                   |
| Public works       | <u>151,193</u>           |
|                    | <u><u>\$ 244,098</u></u> |

**E. Risk management**

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. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**F. Other significant commitment**

On February 16, 2023, the City authorized the execution of an incentive agreement with Cedar Creek LotCO, LLC and The Groves @ Cedar Creek, LLC (“Developers”). Under the agreement, the Developers have agreed to develop 34 residential waterfront lots. The City has agreed to pay \$11,765 per home, up to 34 homes. The City will put \$200,000 in escrow in favor of the developers for a term of five years or the completion of the 34 homes, whichever occurs first. As of September 30, 2023, the City has \$200,000 in cash held in escrow.

**G. Long-term liability**

Subscriptions

For the year ended September 30, 2023, the financial statements include the adoption of GASB Statement No. 96, “Subscription-Based Information Technology Arrangements.” The primary objective of this statement is to enhance the relevance and consistency of information about governments’ subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset.

The City has entered into a Subscription-Based Information Technology Arrangement, expiring in 2027. The subscription requires an annual payment of \$15,900. The required principal and interest payments are as follows:

**CITY OF TOOL, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)**

**G. Long-term liability (continued)**

| Year Ending<br>September 30 | Governmental Activities |               |
|-----------------------------|-------------------------|---------------|
|                             | Subscription Liability  |               |
|                             | Principal               | Interest      |
| 2024                        | \$ 15,625               | \$ 275        |
| 2025                        | 15,693                  | 207           |
| 2026                        | 15,762                  | 138           |
| 2027                        | 15,831                  | 69            |
|                             | <u>\$ 62,910</u>        | <u>\$ 690</u> |

Certificates of Obligation

The City issues certificates of obligation to provide funds for the acquisition, construction and maintenance of major capital facilities. Certificates of obligation have been issued for governmental activities. Certificates of obligation are direct obligations and pledge the full faith and credit of the government. Certificates of obligation outstanding at September 30, 2023 are as follows:

***Governmental Activities:***

| Series | Issue Amount | Maturity Date | Interest Rate | Year-end Balances   |
|--------|--------------|---------------|---------------|---------------------|
| 2020   | \$ 3,500,000 | 2/15/2034     | 2.10%         | <u>\$ 3,235,000</u> |

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition, construction and maintenance of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. General obligation bonds outstanding at September 30, 2023 are as follows:

***Governmental Activities:***

| Series           | Issue Amount | Maturity Date | Interest Rate | Year-end Balances   |
|------------------|--------------|---------------|---------------|---------------------|
| 2020 - Refunding | \$ 1,920,000 | 2/15/2027     | 1.31%         | <u>\$ 1,125,000</u> |

The debt service requirements for the City's certificates of obligation and general obligation refunding are as follows:

**CITY OF TOOL, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)**

**G. Long-term liability (continued)**

| Year Ending<br>September 30 | Governmental Activities    |                   |                          |                  |
|-----------------------------|----------------------------|-------------------|--------------------------|------------------|
|                             | Certificates of Obligation |                   | General Obligation Bonds |                  |
|                             | Principal                  | Interest          | Principal                | Interest         |
| 2024                        | \$ 105,000                 | \$ 66,833         | \$ 275,000               | \$ 12,936        |
| 2025                        | 105,000                    | 64,628            | 280,000                  | 9,301            |
| 2026                        | 110,000                    | 62,370            | 280,000                  | 5,633            |
| 2027                        | 110,000                    | 60,060            | 290,000                  | 1,900            |
| 2028                        | 375,000                    | 54,968            | -                        | -                |
| 2029-2033                   | 2,005,000                  | 151,778           | -                        | -                |
| 2034                        | 425,000                    | 4,463             | -                        | -                |
|                             | <b>\$ 3,235,000</b>        | <b>\$ 465,100</b> | <b>\$ 1,125,000</b>      | <b>\$ 29,770</b> |

Note Payable

Note payable currently outstanding and reported as a liability of the City's governmental activities is as follows:

The City received a loan from Simmons Bank for \$155,972 to fund the purchase of equipment. The loan will be repaid in 60 monthly installments. Interest payments are to be made monthly at an interest rate of 5.25%. The balance due at September 30, 2023 was \$155,972.

The debt service requirements for the City's note payable are as follows:

| Year Ending<br>September 30 | Governmental Activities |                  |
|-----------------------------|-------------------------|------------------|
|                             | Note Payable            |                  |
|                             | Principal               | Interest         |
| 2024                        | \$ 24,039               | \$ 8,930         |
| 2025                        | 29,750                  | 6,217            |
| 2026                        | 31,350                  | 4,617            |
| 2027                        | 33,036                  | 2,931            |
| 2028                        | 34,813                  | 1,155            |
| 2029                        | 2,984                   | 13               |
|                             | <b>\$ 155,972</b>       | <b>\$ 23,863</b> |

Compensated Absences

Compensated absences represent the estimated liability for employees' paid time off benefits for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund.

**CITY OF TOOL, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)**

**G. Long-term liability (continued)**

**Net Pension Liability**

The net pension liability represents the liability for employees' projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the amount of the pension plan's fiduciary net position.

**Other Post-Employment Benefit Liability (OPEB)**

The total OPEB liability represents the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB Statement No. 75.

**Changes in long-term liability**

Changes in the City's long-term liability for the year ended September 30, 2023 are as follows:

|                                 | <b>Beginning<br/>Balance</b> | <b>Additions</b>  | <b>Reductions</b>   | <b>Ending<br/>Balance</b> | <b>Due Within<br/>One Year</b> |
|---------------------------------|------------------------------|-------------------|---------------------|---------------------------|--------------------------------|
| <b>Governmental activities:</b> |                              |                   |                     |                           |                                |
| Bonds payable:                  |                              |                   |                     |                           |                                |
| Certificates of obligation      | \$ 3,335,000                 | \$ -              | \$ (100,000)        | \$ 3,235,000              | \$ 105,000                     |
| General obligation bonds        | 1,395,000                    | -                 | (270,000)           | 1,125,000                 | 275,000                        |
| Total bonds payable             | 4,730,000                    | -                 | (370,000)           | 4,360,000                 | 380,000                        |
| Note payable                    | -                            | 155,972           | -                   | 155,972                   | 24,039                         |
| Subscription liability          | -                            | 78,467            | (15,557)            | 62,910                    | 15,625                         |
| Compensated absences            | 9,864                        | 32,675            | (25,224)            | 17,315                    | 17,315                         |
| Net pension liability           | -                            | 402               | -                   | 402                       | -                              |
| OPEB liability                  | -                            | 3,873             | -                   | 3,873                     | -                              |
| Governmental activity           |                              |                   |                     |                           |                                |
| Long-term liabilities           | <u>\$ 4,739,864</u>          | <u>\$ 271,389</u> | <u>\$ (410,781)</u> | <u>\$ 4,600,472</u>       | <u>\$ 436,979</u>              |

Certificates of obligation, general obligation bonds, and note payable issued for governmental activity purposes are liquidated by the general fund. Governmental compensated absences, net pension liability, and OPEB liability will be liquidated by the general fund. Vacation leave is expected to be taken during the year following its accumulation.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)**

**H. Interfund receivables and payables**

The composition of interfund balances as of September 30, 2023 is as follows:

***Due to/from other funds:***

| <b>Receivable Fund</b> | <b>Payable Fund</b>   | <b>Amount</b> |
|------------------------|-----------------------|---------------|
| General                | Nonmajor governmental | \$ 2,790      |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**I. Subsequent events**

Subsequent to year end, the City:

- Approved the purchase of equipment for approximately \$151,000.
- Approved a contract for constructing a new building for approximately \$1,203,000.

**NOTE 4 – DEFINED BENEFIT PENSION PLANS**

**A. Plan description**

The City of Tool, Texas participates as one of 919 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 of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (Annual Report) that can be obtained at [tmrs.com](http://tmrs.com).

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

**B. 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 Members 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 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 4 – DEFINED BENEFIT PENSION PLANS (continued)**

**B. Benefits provided (continued)**

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

|                                   |                     |
|-----------------------------------|---------------------|
| Employee deposit rate             | 5%                  |
| Matching ratio (City to employee) | 1.5 to 1            |
| Years required for vesting        | 5 years             |
| Service retirement eligibility    | 20 years to any age |
| Updated service credits           | 0%                  |
| Annuity increases to retirees     | 0% of CPI           |
| Supplemental death benefits:      |                     |
| Employees                         | Yes                 |
| Retirees                          | Yes                 |

***Employees covered by benefit terms***

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

|                                                               |          |
|---------------------------------------------------------------|----------|
| Inactive employees entitled to but not yet receiving benefits | 4        |
| Active employees                                              | 18       |
|                                                               | <hr/> 22 |

**C. 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, 1.5:1, or 2:1, 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 Tool, Texas were required to contribute 5% of their annual compensation during the fiscal year. The contribution rate for the City of Tool, Texas was 3.57% in calendar year 2022. The City's contributions to TMRS for the year ended September 30, 2023, were \$24,484, and were equal to the required contributions.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 4 – DEFINED BENEFIT PENSION PLANS (continued)**

**D. Net pension liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2022, 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, 2022 actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-district 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees 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 rates 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 healthy annuitants and Annuity Purchase Rates (APRs) is based on a 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.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 4 – DEFINED BENEFIT PENSION PLANS (continued)**

**D. Net pension liability (continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the following table:

| <b>Asset Class</b>               | <b>Allocation</b> | <b>Long-Term</b> |
|----------------------------------|-------------------|------------------|
| Global Equity                    | 35.0%             | 7.70%            |
| Core Fixed Income                | 6.0%              | 4.90%            |
| Non-Core Fixed Income            | 20.0%             | 8.70%            |
| Other Public and Private Markets | 12.0%             | 8.10%            |
| Real Estate                      | 12.0%             | 5.80%            |
| Absolute Return                  | 5.0%              | 6.90%            |
| Private Equity                   | 10.0%             | 11.80%           |
| Total                            | 100%              |                  |

***Discount Rate***

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

**CITY OF TOOL, TEXAS**  
 NOTES TO THE FINANCIAL STATEMENTS  
 September 30, 2023

**NOTE 4 – DEFINED BENEFIT PENSION PLANS (continued)**

**D. Net pension liability (continued)**

***Changes in the Net Pension Liability***

|                              | Increase (Decrease)     |                         |                      |
|------------------------------|-------------------------|-------------------------|----------------------|
|                              | Total                   | Plan                    | Net                  |
|                              | Pension                 | Fiduciary               | Pension              |
|                              | Liability               | Net Position            | Liability            |
|                              | (a)                     | (b)                     | (a) - (b)            |
| Balance at 12/31/2021        | \$ -                    | \$ -                    | \$ -                 |
| Changes for the year:        |                         |                         |                      |
| Service cost                 | 42,996                  | -                       | 42,996               |
| Interest                     | 1,417                   | -                       | 1,417                |
| Change of benefit terms      | (510)                   | -                       | (510)                |
| Contributions - employer     | -                       | 18,503                  | (18,503)             |
| Contributions - employee     | -                       | 24,998                  | (24,998)             |
| Net Changes                  | <u>\$ 43,903</u>        | <u>\$ 43,501</u>        | <u>\$ 402</u>        |
| <b>Balance at 12/31/2022</b> | <b><u>\$ 43,903</u></b> | <b><u>\$ 43,501</u></b> | <b><u>\$ 402</u></b> |

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

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

|                              | 1.0% Decrease in      | Discount Rate | 1.0% Increase in      |
|------------------------------|-----------------------|---------------|-----------------------|
|                              | Discount Rate (5.75%) | (6.75%)       | Discount Rate (7.75%) |
| City's net pension liability | \$ 7,497              | \$ 402        | \$ (5,272)            |

***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. That report may be obtained at [tmrs.com](http://tmrs.com).

**Payables to the Pension Plan** - Legally required contributions outstanding at the end of the year totaled \$2,080.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 4 – DEFINED BENEFIT PENSION PLANS (continued)**

**E. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions**

For the year ended September 30, 2023, the City recognized pension expense of \$18,250.

At September 30, 2023, the City reported deferred outflows of resources related to pensions from the following sources:

|                                                  | <b>Deferred<br/>Outflows of<br/>Resources</b> |
|--------------------------------------------------|-----------------------------------------------|
| Contributions subsequent to the measurement date | <u>\$ 19,115</u>                              |

\$19,115 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, 2024.

**NOTE 5 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS**

**A. Plan description**

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e. , no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan. TMRS issues a publicly available comprehensive annual financial report (Annual Report) that can be obtained at [tmrs.com](http://tmrs.com).

**B. Benefits provided**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 5 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)**

**C. Employees covered by benefit terms**

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

|                                                               |          |
|---------------------------------------------------------------|----------|
| Inactive employees entitled to but not yet receiving benefits | 1        |
| Active employees                                              | 18       |
|                                                               | <hr/> 19 |

**D. Total OPEB liability**

The City's total OPEB liability of \$3,873 was measured as of December 31, 2022, and was determined by an actuarial valuation as of that date.

***Actuarial assumptions and other inputs***

The total OPEB liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

|                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inflation                                | 2.50%                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Salary increases                         | 3.50% to 11.50%, including inflation                                                                                                                                                                                                                                                                                                                                                                                                       |
| Discount rate*                           | 4.05%                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Retirees' share of benefit-related costs | \$0                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Administrative expenses                  | All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.                                                                                                                                                                                                                                                                                                 |
| Mortality rates - service retirees       | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.                                                                                                                                                                                                                                                                                                                   |
| Mortality rates - disabled retirees      | 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

\* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2022.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

**CITY OF TOOL, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
September 30, 2023

**NOTE 5 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)**

**D. Total OPEB liability (continued)**

***Changes in the Total OPEB Liability***

|                                        | <b>Total OPEB<br/>Liability</b> |
|----------------------------------------|---------------------------------|
| Balance at 12/31/2021                  | \$ -                            |
| Changes for the year:                  |                                 |
| Service cost                           | 5,100                           |
| Interest                               | 72                              |
| Change of benefit terms                | 1,343                           |
| Changes in assumptions or other inputs | (2,642)                         |
| Net Changes                            | \$ 3,873                        |
| <b>Balance at 12/31/2022</b>           | <b>\$ 3,873</b>                 |

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.05%) or 1-percentage-point higher (5.05%) than the current rate:

|                             | <b>1.0% Decrease in<br/>Discount Rate (3.05%)</b> | <b>Discount<br/>Rate (4.05%)</b> | <b>1.0% Increase in<br/>Discount Rate (5.05%)</b> |
|-----------------------------|---------------------------------------------------|----------------------------------|---------------------------------------------------|
| City's total OPEB liability | \$ 4,798                                          | \$ 3,873                         | \$ 3,093                                          |

**E. OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB**

For the year ended September 30, 2023, the City recognized OPEB expense of \$7,466. At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|                                                  | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|--------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Contributions subsequent to the measurement date | \$ 1,339                                      | \$ -                                         |
| Changes in assumptions                           | -                                             | 2,343                                        |
|                                                  | <b>\$ 1,339</b>                               | <b>\$ 2,343</b>                              |

**CITY OF TOOL, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2023

**NOTE 5 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATIONS (continued)**

**E. OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB (continued)**

\$1,339 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 ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <b><u>Year Ended December 31</u></b> |    |                |
|--------------------------------------|----|----------------|
| 2023                                 | \$ | (299)          |
| 2024                                 |    | (299)          |
| 2025                                 |    | (299)          |
| 2026                                 |    | (299)          |
| 2027                                 |    | (299)          |
| Thereafter                           |    | <u>(848)</u>   |
| Total                                | \$ | <u>(2,343)</u> |

**F. Payable to the OPEB plan**

At September 30, 2023, the City reported a payable of \$146 for the outstanding amount of contributions to the Plan required for the year ended September 30, 2023.

## REQUIRED SUPPLEMENTARY INFORMATION

### GENERAL FUND

This supplementary schedule is included to supplement the basic financial statements as required by the Governmental Accounting Standards Board.

**CITY OF TOOL, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
For the Fiscal Year Ended September 30, 2023

|                                                              | Original<br>and Final<br>Budget | Actual<br>GAAP<br>Basis | Adjustments<br>Budget<br>Basis | Actual<br>Budget<br>Basis | Variance<br>with Final<br>Budget |
|--------------------------------------------------------------|---------------------------------|-------------------------|--------------------------------|---------------------------|----------------------------------|
| <b>REVENUES</b>                                              |                                 |                         |                                |                           |                                  |
| Property taxes                                               | \$ 1,247,590                    | \$ 1,226,741            | \$ 2,592                       | \$ 1,229,333              | \$ (18,257)                      |
| Sales taxes                                                  | 309,127                         | 379,350                 | (15,034)                       | 364,316                   | 55,189                           |
| Franchise taxes                                              | 151,600                         | 159,264                 | (2,803)                        | 156,461                   | 4,861                            |
| Hotel occupancy taxes                                        | 15,000                          | 40,025                  | -                              | 40,025                    | 25,025                           |
| Alcoholic beverage taxes                                     | 1,500                           | 1,297                   | 92                             | 1,389                     | (111)                            |
| Licenses and permits                                         | 85,000                          | 108,756                 | -                              | 108,756                   | 23,756                           |
| Fines and forfeitures                                        | 155,624                         | 141,149                 | 28,637                         | 169,786                   | 14,162                           |
| Revenue from use of money                                    | 3,700                           | 84,571                  | -                              | 84,571                    | 80,871                           |
| Miscellaneous                                                | 225                             | 35,003                  | (32,720)                       | 2,283                     | 2,058                            |
| Intergovernmental                                            | 1,000                           | -                       | -                              | -                         | (1,000)                          |
| Contributions and donations                                  | 1                               | 13,582                  | -                              | 13,582                    | 13,581                           |
| Total revenues                                               | <u>1,970,367</u>                | <u>2,189,738</u>        | <u>(19,236)</u>                | <u>2,170,502</u>          | <u>200,135</u>                   |
| <b>EXPENDITURES</b>                                          |                                 |                         |                                |                           |                                  |
| Current:                                                     |                                 |                         |                                |                           |                                  |
| General government                                           | 393,251                         | 715,807                 | 4,548                          | 720,355                   | 327,104                          |
| Cultural and recreational                                    | -                               | 1,100                   | -                              | 1,100                     | 1,100                            |
| Public safety:                                               |                                 |                         |                                |                           |                                  |
| Police                                                       | 630,451                         | 843,853                 | (113,840)                      | 730,013                   | 99,562                           |
| Judicial                                                     | 75,434                          | 89,331                  | 35,329                         | 124,660                   | 49,226                           |
| Code enforcement                                             | 90,371                          | 70,541                  | (1,424)                        | 69,117                    | (21,254)                         |
| Animal control                                               | 12,705                          | 17,434                  | -                              | 17,434                    | 4,729                            |
| Public works                                                 | 245,959                         | 313,789                 | (353)                          | 313,436                   | 67,477                           |
| Debt service:                                                |                                 |                         |                                |                           |                                  |
| Principal retirement                                         | 455,491                         | 370,000                 | 85,892                         | 455,892                   | 401                              |
| Interest charges                                             | -                               | 85,891                  | (85,891)                       | -                         | -                                |
| Debt issuance costs                                          | -                               | 3,772                   | -                              | 3,772                     | 3,772                            |
| Total expenditures                                           | <u>1,903,662</u>                | <u>2,511,518</u>        | <u>(75,739)</u>                | <u>2,435,779</u>          | <u>532,117</u>                   |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>66,705</u>                   | <u>(321,780)</u>        | <u>56,503</u>                  | <u>(265,277)</u>          | <u>(331,982)</u>                 |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                                 |                         |                                |                           |                                  |
| Note payable issued                                          | -                               | 155,972                 | (155,972)                      | -                         | -                                |
| Subscriptions                                                | -                               | 78,467                  | (78,467)                       | -                         | -                                |
| Insurance proceeds                                           | -                               | 43,383                  | (43,383)                       | -                         | -                                |
| Total other financing sources (uses)                         | <u>-</u>                        | <u>277,822</u>          | <u>(277,822)</u>               | <u>-</u>                  | <u>-</u>                         |
| Net change in fund balance                                   | <u>\$ 66,705</u>                | <u>\$ (43,958)</u>      | <u>\$ (221,319)</u>            | <u>\$ (265,277)</u>       | <u>\$ (331,982)</u>              |

**NOTES TO BUDGETARY INFORMATION**

**1. Budgetary basis of accounting**

The annual budget for the general fund is prepared on the budgetary basis of accounting. Appropriations lapse at the end of the fiscal year. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

**2. Excess of actual expenditures over budget in individual fund**

The General Fund had an excess of actual expenditures over budget by \$532,117. The excess was funded by greater than anticipated revenues and existing fund balance in the General Fund.

**CITY OF TOOL, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
Last 10 Calendar Years (will ultimately be displayed)

|                                                                                       | <b>2022</b>             |
|---------------------------------------------------------------------------------------|-------------------------|
| <b>Total pension liability</b>                                                        |                         |
| Service Cost                                                                          | \$ 42,996               |
| Interest (on the Total Pension Liability)                                             | 1,417                   |
| Changes of benefit terms                                                              | <u>(510)</u>            |
| <b>Net Change in Total Pension Liability</b>                                          | <u>43,903</u>           |
| <b>Total Pension Liability - Beginning</b>                                            | -                       |
| <b>Total Pension Liability - Ending (a)</b>                                           | <u><u>\$ 43,903</u></u> |
| <br><b>Plan Fiduciary Net Position</b>                                                |                         |
| Contributions - Employer                                                              | \$ 18,503               |
| Contributions - Employee                                                              | <u>24,998</u>           |
| <b>Net Change in Plan Fiduciary Net Position</b>                                      | <u>43,501</u>           |
| <b>Plan Fiduciary Net Position - Beginning</b>                                        | -                       |
| <b>Plan Fiduciary Net Position - Ending (b)</b>                                       | <u><u>\$ 43,501</u></u> |
| <br><b>Net Pension Liability - Ending (a) - (b)</b>                                   | \$ 402                  |
| <br><b>Plan Fiduciary Net Position as a Percentage<br/>of Total Pension Liability</b> | 99.08%                  |
| <br><b>Covered Payroll</b>                                                            | 499,957                 |
| <br><b>Net Pension Liability as a Percentage<br/>of Covered Payroll</b>               | 0.08%                   |

**Notes to Schedule:**

N/A

**CITY OF TOOL, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
Last 10 Fiscal Years (will ultimately be displayed)

|                                                                         | 2022      | 2023      |
|-------------------------------------------------------------------------|-----------|-----------|
| Actuarially Determined Contribution                                     | \$ 12,479 | \$ 24,484 |
| Contributions in relation to the<br>actuarially determined contribution | 12,479    | 24,484    |
| Contribution deficiency (excess)                                        | -         | -         |
| Covered payroll                                                         | 349,553   | 685,827   |
| Contributions as a percentage of<br>covered payroll                     | 3.57%     | 3.57%     |

## NOTES TO SCHEDULE OF CONTRIBUTIONS

**Valuation Date:**

## 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 11.50% including inflation                                                                                                                                                                                                                                                                                                                           |
| Investment Rate of Return     | 6.75%                                                                                                                                                                                                                                                                                                                                                         |
| Retirement Age                | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.                                                                                                                                                                              |
| Mortality                     | Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.<br><br>Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP. |

### Other Information:

Notes There were no benefit changes during the year.

**CITY OF TOOL, TEXAS**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
Last 10 Calendar Years (will ultimately be displayed)

|                                                 | <b>2022</b>     |
|-------------------------------------------------|-----------------|
| <b>Total OPEB liability</b>                     |                 |
| Service Cost                                    | \$ 5,100        |
| Interest (on the Total Pension Liability)       | 72              |
| Changes of benefit terms                        | 1,343           |
| Changes of assumptions and other inputs         | (2,642)         |
| <b>Net Change in Total OPEB Liability</b>       | <b>3,873</b>    |
| <b>Total OPEB Liability - Beginning</b>         | <b>-</b>        |
| <b>Total OPEB Liability - Ending</b>            | <b>\$ 3,873</b> |
| <br><b>Covered Payroll</b>                      | <br>499,957     |
| <br><b>Total OPEB Liability as a Percentage</b> |                 |
| <b>of Covered Payroll</b>                       | <b>0.77%</b>    |

**Notes to Schedule:**

Note 1 - No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Note 2 - The actuarial assumptions and other inputs used to calculate the total OPEB liability are described in note 4.D to the financial statements.

Note 3 - Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.