

City of Holland, Texas

September 30, 2023

Financial Statements



CITY OF HOLLAND, TEXAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT THEREON
AND SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the City Council
City of Holland, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Holland, Texas (the City), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, of the City of Holland, Texas, as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City 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's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2025, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Temple, Texas
February 2, 2025

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MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF HOLLAND, TEXAS
September 30, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of City of Holland, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2023. Please read it in conjunction with the Independent Auditor's Report on pages 1 through 3, and the City's Basic Financial Statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The City's net position increased by \$ 89,162 as a result of this year's operations.
- The General Fund ended the year with a fund balance of \$ 555,574.
- During the year, the City had governmental expenses that were \$ 130,715 less than the \$ 830,255 generated in tax and other revenues for governmental programs.
- The total cost of all the City's programs was \$ 1,481,955. Of this amount, \$ 375,661 and \$ 789,812 were directly attributed to public safety (Police Department) and water and sewer services, respectively. The remainder of the cost was mainly for general government activities and payroll expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 through 15). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to financial statements (starting on page 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the City is better or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF HOLLAND, TEXAS
September 30, 2023

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

These two statements report the City's net position and the changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as changes in the property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City is divided into two kinds of activities.

Governmental activities – Most of the City's basic services are reported here, including the police, streets, parks, and general government. Property taxes, sales taxes and franchise fees finance most of these activities.

Business-type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water and sewer system activities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. The City's two kinds of funds - governmental and proprietary - utilize different accounting approaches.

Governmental funds –The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

Proprietary funds –The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF HOLLAND, TEXAS
September 30, 2023**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$ 3,510,676 as of September 30, 2023. After analyzing the net position and net expenses of governmental and business-type activities separately, the business-type activities net position was \$ 2,376,251, and the governmental activities net position was \$ 1,134,425.

The following analysis focuses on the Net Position (Table I) and Change in Net Position (Table II) of general revenues and significant expenses of the City's governmental and business-type activities.

**Table I
NET POSITION**

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---------------------------------------|--------------|-----------------------------|--------------|--------------------------------|--------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| | Current and other assets, as restated | \$ 878,464 | \$ 964,482 | \$ 615,369 | \$ 579,717 | \$ 1,493,833 |
| Noncurrent and capital assets | 539,005 | 235,038 | 2,722,861 | 2,819,756 | 3,261,866 | 3,054,794 |
| Total assets | 1,417,469 | 1,199,520 | 3,338,230 | 3,399,473 | 4,755,699 | 4,598,993 |
| Deferred outflows | 46,208 | 8,130 | 54,478 | 8,172 | 100,686 | 16,302 |
| Total assets and deferred outflows of resources | 1,463,677 | 1,207,650 | 3,392,708 | 3,407,645 | 4,856,385 | 4,615,295 |
| Other liabilities | 287,120 | 101,132 | 340,183 | 314,131 | 627,303 | 415,263 |
| Long-term liabilities, as restated | 6,218 | 42,404 | 629,837 | 614,209 | 636,055 | 656,613 |
| Total Liabilities | 293,338 | 143,536 | 970,020 | 928,340 | 1,263,358 | 1,071,876 |
| Deferred Inflows | 35,914 | 60,404 | 46,437 | 61,501 | 82,351 | 121,905 |
| Total liabilities and deferred inflows of resources | 329,252 | 203,940 | 1,016,457 | 989,841 | 1,345,709 | 1,193,781 |
| Net Position: | | | | | | |
| Invested in capital assets, net of related debt | 515,319 | 188,376 | 2,007,966 | 2,073,141 | 2,523,285 | 2,261,517 |
| Restricted | 137,306 | 96,951 | 57,760 | 57,760 | 195,066 | 154,711 |
| Unrestricted | 481,800 | 718,383 | 310,525 | 286,903 | 792,325 | 1,005,286 |
| Total Net Position | \$ 1,134,425 | \$ 1,003,710 | \$ 2,376,251 | \$ 2,417,804 | \$ 3,510,676 | \$ 3,421,514 |

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF HOLLAND, TEXAS
September 30, 2023**

**Table II
CHANGE IN NET POSITION**

| | Governmental | | Business-Type | | Total | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Activities | | Activities | | Primary | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Revenues: | | | | | | |
| Program Revenues | | | | | | |
| Charges for services, as restated | \$ 317,295 | \$ 225,630 | \$ 736,233 | \$ 744,252 | \$ 1,053,528 | \$ 969,882 |
| Operating grants and contributions, as restated | 13,800 | - | 6,957 | 91,147 | 20,757 | 91,147 |
| General Revenues: | | | | | | |
| Property tax | 243,580 | 216,675 | - | - | 243,580 | 216,675 |
| Sales tax, as restated | 168,457 | 144,676 | - | - | 168,457 | 144,676 |
| Other taxes | 60,695 | 61,764 | - | - | 60,695 | 61,764 |
| Investment earnings | 5,971 | 3,287 | 5,069 | 29,925 | 11,040 | 33,212 |
| Miscellaneous and other | 20,457 | 39,759 | - | - | 20,457 | 39,759 |
| Total Revenues | 830,255 | 691,791 | 748,259 | 865,324 | 1,578,514 | 1,557,115 |
| Expenses: | | | | | | |
| General government, as restated | 293,853 | 199,434 | - | - | 293,853 | 199,434 |
| Public safety | 375,661 | 214,053 | - | - | 375,661 | 214,053 |
| Public works | 16,276 | 56,545 | - | - | 16,276 | 56,545 |
| Civic center and other | 3,063 | 13,045 | - | - | 3,063 | 13,045 |
| Interest on long-term debt | 3,290 | 1,498 | - | - | 3,290 | 1,498 |
| Water and sewer | - | - | 789,812 | 808,604 | 789,812 | 808,604 |
| Total Expenses | 692,143 | 484,575 | 789,812 | 808,604 | 1,481,955 | 1,293,179 |
| Change in net position before transfers | 138,112 | 207,216 | (41,553) | 56,720 | 96,559 | 263,936 |
| Extraordinary items | (7,397) | (13,000) | - | - | (7,397) | (13,000) |
| Change in net position | 130,715 | 194,216 | (41,553) | 56,720 | 89,162 | 250,936 |
| Net position - beginning | 1,003,710 | 809,494 | 2,417,804 | 2,361,084 | 3,421,514 | 3,170,578 |
| Net position - ending | <u>\$ 1,134,425</u> | <u>\$ 1,003,710</u> | <u>\$ 2,376,251</u> | <u>\$ 2,417,804</u> | <u>\$ 3,510,676</u> | <u>\$ 3,421,514</u> |

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF HOLLAND, TEXAS
September 30, 2023**

A large portion of the City's net position (72%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets still outstanding. The City uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed 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 (6%) represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position*, \$ 792,325, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the City is able to report positive balances in all three categories of net position for the government as a whole.

For fiscal year 2023, revenues from governmental activities totaled \$ 830,255. Property taxes were the largest component of those revenues (29%).

For fiscal year 2023, expenses for governmental activities totaled \$ 692,143. The City's two largest funded programs were for public safety and general government.

Revenues of the City's business-type activities were \$ 748,259 for the fiscal year ended September 30, 2023. Expenses for the City's business-type activities were \$ 789,812. The City's largest business-type activities expense was personnel services.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$ 555,574, which was lower than last year's total of \$ 787,931.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the City had \$ 6,434,844 invested in a broad range of capital assets, including facilities and equipment, and land. This amount represents a net increase of \$ 419,321 due to current year purchases being greater than depreciation. This year's major additions included:

| | |
|--------------------------|-------------------|
| Equipment | \$ 143,364 |
| Infrastructure | - |
| Construction in progress | 275,957 |
| | <u>\$ 419,321</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF HOLLAND, TEXAS
September 30, 2023

Debt

At year-end, the City had \$ 695,032 in bonds and notes outstanding versus \$ 699,612 last year, which is a decrease.

More detailed information about the City's long-term liabilities is presented in the Notes to Financial Statements starting on page 38.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered population growth and available resources from state revenues and tax revenues when setting the fiscal year 2024 budget and tax rate.

The City adopted a \$ 1,649,756 combined budget for fiscal year 2024, which is \$ 174,346 less than last year's budget. It will be funded through property taxes, water and sewer charges and other local revenues.

Based on the City's budgeted revenues and expenses, the City anticipates an decrease in the general fund balance of \$ 115,460 and an increase in the proprietary fund net position of \$ 81,134.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at (254) 938-2505 or City of Holland, 201 E. Main, Holland, Texas 76579.

BASIC FINANCIAL STATEMENTS

CITY OF HOLLAND, TEXAS
STATEMENT OF NET POSITION
September 30, 2023

| <u>ASSETS</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|------------------|
| Cash and cash equivalents | \$ 715,222 | \$ 292,780 | \$ 1,008,002 |
| Property taxes receivable, net | 20,682 | - | 20,682 |
| Sales tax receivable | 29,029 | - | 29,029 |
| Accounts receivable, net | 32,881 | 63,368 | 96,249 |
| Cash and cash equivalents - restricted | 60,920 | 240,177 | 301,097 |
| Capital assets, not being depreciated: | | | |
| Land | - | 207,724 | 207,724 |
| Construction in progress | 269,000 | 100,355 | 369,355 |
| Capital assets, net of accumulated depreciation: | | | |
| Buildings | 53,540 | - | 53,540 |
| Equipment | 141,522 | 80,484 | 222,006 |
| Infrastructure | 74,943 | 2,290,750 | 2,365,693 |
| Total capital assets | <u>539,005</u> | <u>2,679,313</u> | <u>3,218,318</u> |
| Net pension asset | 38,774 | 43,548 | 82,322 |
| Internal balances | (19,044) | 19,044 | - |
| Total Assets | <u>1,417,469</u> | <u>3,338,230</u> | <u>4,755,699</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Deferred amounts related to pensions | 44,577 | 50,067 | 94,644 |
| Deferred amounts related to OPEB | 1,631 | 4,411 | 6,042 |
| Total Deferred Outflows of Resources | <u>46,208</u> | <u>54,478</u> | <u>100,686</u> |

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

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|---------------------|
| <u>LIABILITIES</u> | | | |
| Accounts payable | 261,777 | 26,840 | 288,617 |
| Other accrued liabilities | 1,657 | 11,078 | 12,735 |
| Grant advance | - | 190,089 | 190,089 |
| Customer deposits | - | 50,088 | 50,088 |
| Compensated absences | - | 3,767 | 3,767 |
| Current portion of long-term liabilities | 23,686 | 58,321 | 82,007 |
| Non-current liabilities: | | | |
| Total OPEB liability | 6,218 | 16,812 | 23,030 |
| Long-term liabilities | - | 613,025 | 613,025 |
| Total Liabilities | <u>293,338</u> | <u>970,020</u> | <u>1,263,358</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Deferred amounts related to pensions | 32,054 | 36,001 | 68,055 |
| Deferred amounts related to OPEB | 3,860 | 10,436 | 14,296 |
| Total Deferred Inflows of Resources | <u>35,914</u> | <u>46,437</u> | <u>82,351</u> |
| <u>NET POSITION</u> | | | |
| Invested in capital assets, net of related debt | 515,319 | 2,007,966 | 2,523,285 |
| Restricted for: | | | |
| Court technology and building security | 52,700 | - | 52,700 |
| Municipal Development District | 60,920 | - | 60,920 |
| Debt service | 23,686 | 57,760 | 81,446 |
| Unrestricted | 481,800 | 310,525 | 792,325 |
| Total Net Position | <u>\$ 1,134,425</u> | <u>\$ 2,376,251</u> | <u>\$ 3,510,676</u> |

CITY OF HOLLAND, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2023

| | Program Revenues | | |
|--------------------------------|-------------------------|--|---------------|
| Expenses | Charges for Services | Operating Grants and Contributions | |
| <u>Functions/Programs</u> | | | |
| Primary government: | | | |
| Governmental activities: | | | |
| General government | \$ 293,853 | \$ 99,852 | \$ - |
| Public safety | 375,661 | 217,443 | 13,800 |
| Public works | 16,276 | - | - |
| Civic center and other | 3,063 | - | - |
| Interest on long-term debt | 3,290 | - | - |
| Total governmental activities | 692,143 | 317,295 | 13,800 |
| Business-type activities: | | | |
| Water and Sewer | 789,812 | 736,233 | 6,957 |
| Total business-type activities | 789,812 | 736,233 | 6,957 |
| Total Primary Government | \$ 1,481,955 | \$ 1,053,528 | \$ 20,757 |

General revenues:

Property taxes

Sales taxes

Franchise fees

Investment income

Miscellaneous

Extraordinary items

Total General Revenues and Extraordinary items

Change in net position

Net Position - beginning

Net Position - ending

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

Net (Expense) Revenue and
Changes in Net Position

| Governmental Activities | Business-Type Activities | Total |
|----------------------------|-----------------------------|---------------------|
| \$ (194,001) | \$ - | \$ (194,001) |
| (144,418) | - | (144,418) |
| (16,276) | - | (16,276) |
| (3,063) | - | (3,063) |
| (3,290) | - | (3,290) |
| <u>(361,048)</u> | <u>-</u> | <u>(361,048)</u> |
| - | (46,622) | (46,622) |
| <u>-</u> | <u>(46,622)</u> | <u>(46,622)</u> |
| (361,048) | (46,622) | (407,670) |
| 243,580 | - | 243,580 |
| 168,457 | - | 168,457 |
| 60,695 | - | 60,695 |
| 5,971 | 5,069 | 11,040 |
| 20,457 | - | 20,457 |
| (7,397) | - | (7,397) |
| <u>491,763</u> | <u>5,069</u> | <u>496,832</u> |
| 130,715 | (41,553) | 89,162 |
| <u>1,003,710</u> | <u>2,417,804</u> | <u>3,421,514</u> |
| <u>\$ 1,134,425</u> | <u>\$ 2,376,251</u> | <u>\$ 3,510,676</u> |

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

| | <u>General Fund</u> |
|---|---------------------|
| <u>ASSETS</u> | |
| Cash | \$ 715,222 |
| Cash - restricted | 60,920 |
| Property taxes receivable, net | 20,682 |
| Sales tax receivable | 29,029 |
| Accounts receivable | 32,881 |
| Total Assets | \$ 858,734 |
| <u>LIABILITIES AND FUND BALANCES</u> | |
| Liabilities: | |
| Accounts payable | \$ 261,777 |
| Accrued expenses | 1,657 |
| Due to other funds | 19,044 |
| Unearned revenues - property taxes | 20,682 |
| Total Liabilities | 303,160 |
| Fund Balances: | |
| Restricted | |
| Court technology and building security | 52,700 |
| Municipal Development District | 60,920 |
| Assigned | |
| Road repair | 119,667 |
| Unassigned | 322,287 |
| Total Fund Balances | 555,574 |
| Total Liabilities and Fund Balances | \$ 858,734 |

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

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

Total Fund Balances - Governmental Funds (Page 16) \$ 555,574

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

| | | |
|---|-----------------------|---------|
| Buildings | 98,960 | |
| Equipment | 365,447 | |
| Infrastructure | 355,025 | |
| Construction in progress | 269,000 | |
| Accumulated depreciation and amortization | <u>(549,427)</u> | |
| Total Capital Assets | <u><u>539,005</u></u> | 539,005 |

Deferred outflows and inflows related to pension activity are not required to be reported in the funds but are required to be reported at the government-wide level.

| | | |
|---------------------------------------|----------------------|--------|
| Deferred outflows related to pensions | 44,577 | |
| Deferred inflows related to pensions | <u>(32,054)</u> | |
| Total deferred outflows and inflows | <u><u>12,523</u></u> | 12,523 |

Deferred outflows and inflows related to OPEB activity are not required to be reported in the funds but are required to be reported at the government-wide level.

| | | |
|-------------------------------------|-----------------------|---------|
| Deferred outflows related to OPEB | 1,631 | |
| Deferred inflows related to OPEB | <u>(3,860)</u> | |
| Total deferred outflows and inflows | <u><u>(2,229)</u></u> | (2,229) |

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected.

| | | |
|------------------------------|--|--------|
| Property taxes not collected | | 20,682 |
|------------------------------|--|--------|

Some long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|--|------------------------|----------|
| Due within one year | (23,686) | |
| Long-term debt, including premium/discount | <u>-</u> | |
| Total long-term liabilities | <u><u>(23,686)</u></u> | (23,686) |

Net pension liability (asset) is not due and payable in the current period and therefore is not reported in the funds.

| | | |
|-------------------|--|--------|
| Net pension asset | | 38,774 |
|-------------------|--|--------|

Total OPEB liability is not due and payable in the current period and therefore is not reported in the funds.

| | | |
|----------------------|--|----------------|
| Total OPEB liability | | <u>(6,218)</u> |
|----------------------|--|----------------|

Net Position of Governmental Activities (Page 13) \$ 1,134,425

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

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

| | <u>General Fund</u> |
|---------------------------------------|---------------------|
| <u>Revenues</u> | |
| Property tax | \$ 237,898 |
| Sales tax | 168,457 |
| Franchise fees | 60,695 |
| Fine and forfeitures | 217,443 |
| Licenses and permits | 99,852 |
| Grant Revenue | 13,800 |
| Interest income | 5,971 |
| Miscellaneous | 20,458 |
| Total Revenues | 824,574 |
| <u>Expenditures</u> | |
| Current: | |
| General government | 308,122 |
| Public safety | 360,211 |
| Public works | 13,383 |
| Civic center and other | 1,794 |
| Debt service: | |
| Principal | 24,679 |
| Interest and fiscal charges | 1,593 |
| Capital outlay | 339,752 |
| Total Expenditures | 1,049,534 |
| Deficit of revenues over expenditures | (224,960) |
| <u>Extraordinary Items</u> | |
| Loss due to asset misappropriation | (7,397) |
| Total Extraordinary Items | (7,397) |
| Net Change in Fund Balances | (232,357) |
| Fund Balances - beginning of year | 787,931 |
| Fund Balances - end of year | \$ 555,574 |

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

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

Net Change in Fund Balances - Total Governmental Funds (Page 18) \$ (232,357)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | | |
|----------------------|-------------------|---------|
| Capital outlay | \$ 339,752 | |
| Depreciation expense | <u>(35,785)</u> | |
| Net adjustment | <u>\$ 303,967</u> | 303,967 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This adjustment is to recognize the net change in "unavailable" revenues. Under the modified accrual basis of accounting, revenues are not recognized unless they are deemed "available" to finance the expenditures of the current period; accrual-basis recognition is not limited to availability, so certain revenues need to be reduced by the amounts that were unavailable at the beginning of the year and increased by the amounts that were unavailable at the end of the year.

| | | |
|------------------------------|--|-------|
| Property taxes not collected | | 5,682 |
|------------------------------|--|-------|

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 governmental funds.

Certain pension expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB 68.

| | | |
|------------------|--|--------|
| Pension expenses | | 15,049 |
|------------------|--|--------|

Certain OPEB expenses in the statement of activities are recognized on the accrual basis of accounting in accordance with GASB 75.

| | | |
|---------------|--|--------|
| OPEB expenses | | 15,393 |
|---------------|--|--------|

Bond and other debt proceeds current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | | |
|--------------------------|--|---------------|
| Debt service - principal | | <u>22,981</u> |
|--------------------------|--|---------------|

Change in Net Position of Governmental Activities (Page 15) \$ 130,715

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

CITY OF HOLLAND, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUND
September 30, 2023

| | Business-Type Activities |
|---|-----------------------------|
| | Water and Sewer Fund |
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and cash equivalents | \$ 292,780 |
| Cash and cash equivalents, restricted | 240,177 |
| Accounts receivable, net of allowance | 63,368 |
| Due from other funds | 19,044 |
| Total current assets | 615,369 |
| Noncurrent assets: | |
| Capital assets, net | 2,679,313 |
| Net pension asset | 43,548 |
| Total Assets | 3,338,230 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| Deferred outflows of resources: | |
| Deferred amounts related to pensions | 50,067 |
| Deferred amounts related to OPEB | 4,411 |
| Total Deferred Outflows of Resources | 54,478 |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable | 26,840 |
| Customer deposits | 50,088 |
| Compensated absences | 3,767 |
| Other accrued liabilities | 11,078 |
| Grant advance | 190,089 |
| Current portion of long-term liabilities | 58,321 |
| Total current liabilities | 340,183 |
| Non-current liabilities: | |
| Total OPEB liability | 16,812 |
| Long-term liabilities | 613,025 |
| Total Liabilities | 970,020 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Deferred inflows of resources: | |
| Deferred amounts related to pensions | 36,001 |
| Deferred amounts related to OPEB | 10,436 |
| Total Deferred Inflows of Resources | 46,437 |
| <u>NET POSITION</u> | |
| Invested in capital assets, net of related debt | 2,007,966 |
| Restricted for debt service | 57,760 |
| Unrestricted net position | 310,525 |
| Total Net Position | \$ 2,376,251 |

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

CITY OF HOLLAND, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUND
For the Year Ended September 30, 2023

| | Business-Type Activities Water and Sewer Fund |
|---|--|
| <u>Operating Revenues</u> | |
| Water | \$ 372,039 |
| Garbage | 165,015 |
| Sewer | 167,645 |
| Other | 31,534 |
| Total Operating Revenues | 736,233 |
| <u>Operating Expenses</u> | |
| Personnel services | 186,784 |
| Materials and supplies | 34,715 |
| Repairs and maintenance | 55,195 |
| Water purchases | 157,979 |
| Trash services | 122,383 |
| Other | 93,084 |
| Depreciation | 126,342 |
| Total Operating Expenses | 776,482 |
| Operating Loss | (40,249) |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Interest and miscellaneous income | 5,069 |
| Grant income | 6,957 |
| Interest expense | (13,330) |
| Total Nonoperating Revenues (Expenses) | (1,304) |
| Change in Net Position | (41,553) |
| Net Position - beginning | 2,417,804 |
| Net Position - ending | \$ 2,376,251 |

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

**CITY OF HOLLAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2023**

| | Business-Type Activities |
|---|-----------------------------|
| | Water and Sewer Fund |
| <u>Cash Flows from Operating Activities</u> | |
| Cash received from customers | \$ 729,389 |
| Cash paid to suppliers | (455,137) |
| Cash paid to employees | (188,269) |
| Net Cash Provided by Operating Activities | 85,983 |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| Grants | 6,957 |
| Miscellaneous income | 5,069 |
| Net Cash Provided by Noncapital Financing Activities | 12,026 |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Acquisition of capital assets | (79,569) |
| Interest paid | (13,330) |
| Payments on capital debt | 18,401 |
| Net Cash Used by Capital and Related Financing Activities | (74,498) |
| Net Increase in Cash and Cash Equivalents | 23,511 |
| Cash and Cash Equivalents - beginning of year | 509,446 |
| Cash and Cash Equivalents - end of year | \$ 532,957 |

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

| | Business-Type Activities |
|--|---------------------------------|
| | <u>Water and Sewer Fund</u> |
| <u>Reconciliation of Operating Loss to Net Cash Provided</u> | |
| <u>by Operating Activities:</u> | |
| Operating loss | \$ (40,249) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 126,342 |
| Changes in assets and liabilities: | |
| Accounts receivable | (11,204) |
| Net pension asset | 50,122 |
| Due from other funds | (937) |
| Deferred outflows | (75,826) |
| Accounts payable | 9,834 |
| Accrued liabilities | (678) |
| Customer deposits | 4,360 |
| OPEB liability | 9,763 |
| Deferred inflows | 14,456 |
| | <u>126,232</u> |
| Total Adjustments | <u>126,232</u> |
| Net Cash Provided by Operating Activities | <u>\$ 85,983</u> |

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CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING MODEL AND ENTITY

Financial Reporting Entity

The City of Holland, Texas (the "City"), was incorporated in 1890. The City operates under a Council-Mayor form of government and provides the following services: public safety, public works, parks, sanitation, sewer, and waterworks. The City reports in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth in Section 2100 of the Government Accounting Standards Boards (GASB) *Codification of Government Account and Financial Reporting Standards*. In fiscal year 2021, voters approved the creation of the Holland Municipal Development District (MDD). The MDD is a legally separate entity from the City created for the benefit of the citizens in and around the City by assisting in further City development. Funding for the MDD comes from an additional ¼ cent sales tax. The City Council has imposition of will over the MDD and appoints the board of directors for the MDD. Therefore, the MDD has been included in the reporting as a non-major blended component unit of the City. Separate financial statements are not issued for the MDD.

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of a "management's discussion and analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. The City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group (such as building and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

The government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure. In addition to the government-wide financial statements, the City has prepared governmental fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, the City's major governmental fund, is similar to that previously presented in the City's financial statements, although the format of the financial statements has been modified by GASB Statement No. 34.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - in the Statement of Activities. The net position of the government will be broken down into three categories - 1) net investment in capital assets, 2) restricted and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

B. BASIS OF PRESENTATION

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the activities of the primary government with most of the interfund activities removed. Governmental activities which are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Interfund services provided to the Utility Fund and used are not eliminated in the process of consolidating for entity-wide reporting.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In applying the susceptible to accrual concept under 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.

Property taxes, sales taxes, franchise taxes, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. FUND ACCOUNTING

The government reports the following major governmental fund:

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

The government reports the following major proprietary funds:

Water and Sewer Fund - to account for the water, sewer and sanitation services provided to residents of the City.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures, changes in fund balances and change in net position for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Cash, Cash Equivalents and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

Receivables are presented net of allowances for doubtful accounts. The amounts of these allowances by fund are as follows:

| | |
|----------------------|-----------|
| General Fund | \$ 25,166 |
| Water and Sewer Fund | \$ 264 |

Interfund Transactions

During the course of normal business operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Subsidies between funds are recorded as transfers.

Restricted Assets

Restricted assets represent cash that has been set aside in the Water and Sewer Fund for future and capital improvements and customer deposits or in the general fund for court technology and building improvements MDD activities and debt service.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Category</u> | <u>Life</u> |
|----------------------------|---------------|
| Buildings and improvements | 20 - 40 years |
| Machinery and equipment | 5 - 10 years |
| Infrastructure | 20 years |

Compensated Absences

Full-time employees earn vacation leave time at a rate base on years of service. For employees with 5 or more years of service, fifteen days (120 hours) accrues each year. Vacation time that can be carried over is limited to 192 hours and every December 31st any excess is lost. A maximum of 192 hours accrued leave can be paid upon separation from service. No payment is made for accumulated sick leave upon separation from service.

All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations or retirements.

Other Post-Employment Benefits

For purposes of measuring the Other Post-Employment Benefits (OPEB) liability, OPEB related deferred outflows and inflows of resources, and OPEB expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) Supplemental Death Benefit Plan and additions to/deductions from the City'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.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, 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 issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Leases

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets would be reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category:

- Pension and OPEB contributions after measurement date - These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets - This difference is deferred and amortized over a closed five-year period.
- Changes in assumptions - The result of changes in actuarial assumptions used to measure the total OPEB liability. The change is deferred and amortized over the average of the remaining service lives.
- Differences in expected and actual experience - The change is deferred and amortized over the average of the remaining service lives.

In addition to liabilities, the statement of financial position and/or balance sheet 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Difference in projected and actual investment earnings - The difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension experience - The difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension liability - This difference is deferred and amortized over the estimated average remaining lives of all members determined as at the measurement date.

Net Position

Net Position in government-wide and proprietary financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Equity

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the specific purposes for which amounts in those funds can be spent. The City uses the following classifications:

Nonspendable Fund Balance are amounts that are not in spendable form or are required to be maintained intact.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Restricted Fund Balance is reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. These committed amounts cannot be used for any other purpose unless the Council removes or changes the constraint through passage of another ordinance.

Assigned Fund Balance includes amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself or a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Assignments may not result in a deficit in Unassigned Fund Balance.

Unassigned Fund Balance is the residual classification for the General Fund. This classification represents 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. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance, the highest level of action. Assigned fund balance is established by City Council by passage of a resolution either through adoption or amendment of the budget as intended for specific purposes.

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

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Specifically, the actuarial calculations used to determine the annual required contribution and related liability of the City's retirement and other post-employment benefits are based on assumptions about events far into the future. Accordingly, actual results could differ from those estimates.

Pensions

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

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New and Future Financial Reporting Requirements

The GASB has issued the following statements which become effective in the current year.

Statement No. 96, *Subscription-Based Information Technology Arrangements* – This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and requires note disclosures regarding a SBITA. This statement has been implemented in fiscal year 2023. However, the impact on the financial statements is immaterial and subscription - related assets and liabilities have been excluded from the statements.

The City has reviewed GASB pronouncements which become effective in future years, and notes the following statements are applicable to the City:

GASB Statement No. 101, *Compensated Absences*, requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The City of Holland, Texas adopts its annual budget on a basis consistent with accounting principles generally accepted in the United States of America (GAAP basis) for the General Fund. The Water and Sewer Fund budget is prepared on a basis (budget basis) which differs from a GAAP basis. All annual appropriations lapse at fiscal year-end. The appropriated budget is prepared by fund and function. The legal level of budgetary control is the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of each fiscal year, the Mayor submits to the City Council a proposed budget for the fiscal year beginning on the following September 1. The operating budget includes proposed expenditures and the means of financing those expenditures.

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2. Public hearings are conducted at which all interested persons' comments concerning the budget are heard.
3. The budget is legally enacted by the City Council.
4. Budget revisions may be made during the year.

The Water and Sewer Fund budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenses and Changes in Net Position - Budget and Actual – Proprietary Fund to provide a meaningful comparison of actual results with the budget. Adjustments necessary to convert the Income on a GAAP basis to a Budget basis for the Water and Sewer Fund are provided as follows:

| | Water and Sewer Fund |
|---------------------------------|-------------------------|
| Income - GAAP Basis | \$ (41,553) |
| Adjustments: | |
| Eliminate non-cash depreciation | 126,342 |
| Reflect capital outlay | 79,569 |
| Income - Budgetary Basis | \$ 164,358 |

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

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Additional Contractual Provisions governing deposits and investments are as follows:

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the depository contract law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City's funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The City does not have policies governing deposits and investments. However, the results of the City's activities resulted in the following risk exposures:

1. Foreign Currency Risk – The City's deposits are not exposed to foreign currency risk.
2. Custodial Credit Risk – The City's policy is to be collateralized. The City was fully collateralized of year-end.
3. Interest Rate Risk – The City has no debt securities, which have interest rate risk.
4. Credit Risk – The City is not exposed to credit risks.
5. Concentration Risk – The City's deposits are not exposed to concentration risk.

Deposits are stated at cost plus accrued interest and the carrying amounts are displayed on the balance sheet as "Cash and Cash Equivalents." Following is a summary of the City's deposits, by category:

| | | |
|------------------------|--|----------------------------|
| 1. | Insured by FDIC | \$ 250,000 |
| 2. | Collateralized by pledged securities | <u>2,490,689</u> |
| Total Bank Balance | | <u><u>\$ 2,740,689</u></u> |
| Carrying Balance | | |
| | Cash and cash equivalents | \$ 1,008,002 |
| | Cash and cash equivalents - restricted | <u>301,097</u> |
| Total Carrying Balance | | <u><u>\$ 1,309,099</u></u> |

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B. RECEIVABLES

Receivables at year-end for the government's individual major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General Fund</u> | <u>Water and Sewer Fund</u> |
|------------------------------------|---------------------|---------------------------------|
| Receivables: | | |
| Property taxes | \$ 25,451 | \$ - |
| Less: allowance for uncollectibles | (4,769) | - |
| Property taxes, net | <u>20,682</u> | <u>-</u> |
| Sales tax - General Fund | 23,855 | - |
| Sales tax - MDD | 5,174 | - |
| Accounts receivable - employee | 20,397 | - |
| Other accounts receivable | 32,881 | - |
| Utility service charges | - | 63,632 |
| Less: allowance for uncollectibles | (20,397) | (264) |
| | <u>61,910</u> | <u>63,368</u> |
| Net total receivables | <u>\$ 82,592</u> | <u>\$ 63,368</u> |

C. CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ - | \$ 269,000 | \$ - | \$ 269,000 |
| Total capital assets, not being depreciated | <u>-</u> | <u>269,000</u> | <u>-</u> | <u>269,000</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 98,960 | - | - | 98,960 |
| Equipment | 294,695 | 70,752 | - | 365,447 |
| Infrastructure | 355,025 | - | - | 355,025 |
| Total capital assets, being depreciated | <u>748,680</u> | <u>70,752</u> | <u>-</u> | <u>819,432</u> |
| Less accumulated depreciation | (513,642) | (35,785) | - | (549,427) |
| Total capital assets, being depreciated, net | <u>235,038</u> | <u>34,967</u> | <u>-</u> | <u>270,005</u> |
| Governmental activities capital assets, net | <u>\$ 235,038</u> | <u>\$ 303,967</u> | <u>\$ -</u> | <u>\$ 539,005</u> |

CITY OF HOLLAND, TEXAS
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| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Business-type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 207,724 | \$ - | \$ - | \$ 207,724 |
| Construction in progress | 93,398 | 6,957 | - | 100,355 |
| Total capital assets, not being depreciated | <u>301,122</u> | <u>6,957</u> | <u>-</u> | <u>308,079</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 4,900 | - | - | 4,900 |
| Equipment | 324,977 | 72,612 | - | 397,589 |
| Infrastructure | 4,635,844 | - | - | 4,635,844 |
| Total capital assets, being depreciated | <u>4,965,721</u> | <u>72,612</u> | <u>-</u> | <u>5,038,333</u> |
| Less accumulated depreciation | <u>(2,540,757)</u> | <u>(126,342)</u> | <u>-</u> | <u>(2,667,099)</u> |
| Total capital assets, being depreciated, net | <u>2,424,964</u> | <u>(53,730)</u> | <u>-</u> | <u>2,371,234</u> |
| Business-type activities capital assets, net | <u>\$ 2,726,086</u> | <u>\$ (46,773)</u> | <u>\$ -</u> | <u>\$ 2,679,313</u> |

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

Governmental activities:

| | |
|--|------------------|
| General government | \$ 5,367 |
| Public safety | 29,149 |
| Other | 1,269 |
| Total depreciation expense - governmental activities | <u>\$ 35,785</u> |

Business-type activities:

| | |
|---|-------------------|
| Water and sewer | \$ 126,342 |
| Total depreciation expense - business-type activities | <u>\$ 126,342</u> |

CITY OF HOLLAND, TEXAS
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D. LONG-TERM DEBT

The following is a summary of long-term debt transactions, including the current position of the City for the year ended September 30, 2023:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due within One Year |
|----------------------------------|----------------------|------------------|--------------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| Note payable | \$ 46,667 | \$ - | \$ (22,981) | \$ 23,686 | \$ 23,686 |
| Total OPEB liability | 18,718 | - | (12,500) | 6,218 | - |
| Governmental activity | | | | | |
| Total long-term liabilities | <u>\$ 65,385</u> | <u>\$ -</u> | <u>\$ (35,481)</u> | <u>\$ 29,904</u> | <u>\$ 23,686</u> |
| Business-type activities: | | | | | |
| Revenue bonds payable | \$ 572,000 | \$ - | \$ (14,000) | \$ 558,000 | \$ 14,000 |
| Notes payable | 80,945 | 48,854 | (16,453) | 113,346 | 44,321 |
| Total OPEB liability | 7,049 | 9,763 | - | 16,812 | - |
| Business-type activity | | | | | |
| Total long-term liabilities | <u>\$ 659,994</u> | <u>\$ 58,617</u> | <u>\$ (30,453)</u> | <u>\$ 688,158</u> | <u>\$ 58,321</u> |

Compensated Absences –

Full-time employees accumulate approximately 7 to 13 hours per month for vacation, and can accumulate a maximum credit of 40 to 80 hours. Sick leave benefits are earned by full-time employees at a rate of approximately 7 hours per month and may be accumulated up to 720 hours. In the event of resignation from the City, an employee that submits resignation with proper notice will be reimbursed for all accumulated vacation hours up to a maximum of 120 to 160 hours of accrued credit.

All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations or retirements.

Other Post-Employment Benefits Obligation –

The other post-employment benefits (OPEB) obligation represents a liability for the amount of actuarially required contribution for retiree health care benefits in excess of the actual contributions made. The General Fund and Water and Sewer Fund is responsible for liquidating the net OPEB liability for all employees.

Net OPEB Liability –

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

CITY OF HOLLAND, TEXAS
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Long-term debt at September 30, 2023 is comprised of the following:

| | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| <u>Revenue Bonds:</u> | | |
| \$ 663,000 Series 2015 USDA Revenue Bonds, maturing September 1, 2056; payable \$ 13,000 to \$ 21,000 annually; interest at 1.375%, secured by net revenues of the City's water and sewer system. | \$ - | \$ 558,000 |
| <u>Contractual Obligations:</u> | | |
| \$ 40,000 in a 2021 note payable due in monthly installments of \$ 8,936 through 2026, interest at 0.035%, secured with equipment. | - | 25,036 |
| \$ 124,210 in a 2018 note payable due in monthly installments of \$ 20,789 through 2025, interest at 4.088%; secured with equipment. | - | 39,221 |
| \$ 16,700 in a 2021 note payable due in monthly installments of \$ 5,994 through 2024, interest at 3.79%; secured with a vehicle. | - | 5,783 |
| \$ 46,500 in a 2023 note payable due in monthly installments of \$ 941 through 2028, interest at 7.75%; secured with equipment. | - | 43,306 |
| \$ 69,695 in a 2021 note payable due in annual installments of \$ 23,033 through 2024, interest at 3.348%; secured with a vehicle. | 23,686 | - |
| Total long-term debt | 23,686 | 671,346 |
| Less current portion | (23,686) | (58,321) |
| Long-Term Debt Net of Current Portion | \$ - | \$ 613,025 |

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The annual requirements to amortize debt outstanding as of September 30, 2023 follow. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable and have not been included in the following summary.

| <u>USDA Revenue Bonds</u> Year Ending September 30, | <u>Business-Type Activities</u> | | |
|---|---------------------------------|-------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 14,000 | \$ 7,851 | \$ 21,851 |
| 2025 | 14,000 | 7,659 | 21,659 |
| 2026 | 14,000 | 7,466 | 21,466 |
| 2027 | 14,000 | 7,274 | 21,274 |
| 2028 | 15,000 | 7,081 | 22,081 |
| 2029-2033 | 76,000 | 32,313 | 108,313 |
| 2034-2038 | 81,000 | 26,950 | 107,950 |
| 2039-2043 | 87,000 | 21,230 | 108,230 |
| 2044-2048 | 93,000 | 15,085 | 108,085 |
| 2049-2053 | 100,000 | 8,511 | 108,511 |
| 2054-2056 | 50,000 | 1,733 | 51,733 |
| Total | <u>\$ 558,000</u> | <u>\$ 143,153</u> | <u>\$ 701,153</u> |

| <u>Contractual Obligations</u> Year Ending September 30, | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | |
|--|--------------------------------|-----------------|---------------------------------|------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2024 | \$ 23,686 | \$ 795 | \$ 44,321 | \$ 5,767 | \$ 74,569 |
| 2025 | - | - | 37,260 | 3,817 | 41,077 |
| 2026 | - | - | 18,231 | 1,995 | 20,226 |
| 2027-2028 | - | - | 13,534 | 1,082 | 14,616 |
| Total | <u>\$ 23,686</u> | <u>\$ 795</u> | <u>\$ 113,346</u> | <u>\$ 12,661</u> | <u>\$ 150,488</u> |

E. PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the City. The assessed value at January 1, 2022, upon which the fiscal year 2023 levy was based, was \$ 90,435,169. The total levy assessed was \$ 260,868. The tax assessment of October 1, 2022 set a tax levy at \$ 0.3243 per \$ 100 of assessed valuation at 100% of assumed market value.

Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property. Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue. At September 30, 2023, delinquent property taxes receivable are \$ 20,682, net of an allowance for doubtful accounts of \$ 4,769.

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Legislation was passed in 1979 and amended in 1981 by the Texas Legislature, which affects the method of property assessment and tax collection in the City. This legislation, with certain exceptions, exempts intangible personal property and household goods. In addition, this legislation creates a "Property Tax Code" and provides, among other things, for the establishment of countywide appraisal districts and for a State Property Tax Board, which commenced operations in January 1980. Since 1982, the appraisal of property within the City has been the responsibility of the Tax Appraisal District of Bell County. The Appraisal District is required under the Property Tax Code to assess all property within the appraisal district based on 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the Appraisal District must be reviewed at least every five years. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements and revaluation, exceeds the rate of the previous year by more than eight percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the rate of the previous year.

The Tax Appraisal District of Bell County was created by authority of Senate Bill 621 known as the Property Tax Code, of the 66th Legislature of the State of Texas. The District is controlled by a Board of Directors whose members are elected by the governing bodies of various taxing units within Bell County. Under the Property Tax Code, the Appraisal District is required to appraise all real and personal property in Bell County and may provide other services such as preparation of tax rolls and billings and tax collection services. A taxing unit may assess and collect taxes only from the appraisal roll prepared by the Appraisal District. Taxing units are charged a proportionate amount of the District's budget for services rendered the taxing units.

F. DEFINED BENEFIT PENSION PLANS

Plan Description

The City participates as one of 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees 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*.

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

Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

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A summary of plan provisions for the City are as follows:

| | |
|---|---------------------------|
| Employee deposit rate | 6.00% |
| Matching ratio (city to employee) | 1.5 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/25 |
| Updated service credit | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 0.00% of CPI Repeating |
| Supplemental Death Benefit to Active Employees | Yes |
| Supplemental Death Benefit to 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 or beneficiaries currently receiving benefits | 4 |
| Inactive employees entitled to but not yet receiving benefits | 7 |
| Active employees | 6 |
| Total | <u>17</u> |

Contributions

Member contribution rates in TMRS are either 5.00%, 6.00%, or 7.00% of the Member's total compensation, and the city matching percentages are either 100%, 150%, or 200%, 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 of the City were required to contribute 6.00% of their annual compensation during the fiscal year. The contribution rates for the City were 4.80% and 5.45% in calendar years 2023 and 2022, respectively. The City's contributions to TMRS for the year ended September 30, 2023 were \$ 19,209 and were equal to the required contributions.

Net Pension Liability (Asset)

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.

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Actuarial Assumptions:

The Total Pension Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions.

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Salary increases | 2.75% per year, adjusted down for population densities, if any |
| Investment rate of return | 6.75% |

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2012. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, 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 2023 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|----------------------------------|----------------------|--|
| Global Public Equity | 35.0% | 7.7% |
| Core Fixed Income | 6.0% | 4.9% |
| Non-Core Fixed Income | 20.0% | 8.7% |
| Other Public and Private Markets | 12.0% | 8.1% |
| Real Estate | 12.0% | 5.8% |
| Hedge Funds | 5.0% | 6.9% |
| Private Equity | 10.0% | 11.8% |
| Total | 100.0% | |

Discount Rate

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

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Changes in the Net Pension Liability (Asset)

| | Increase (Decrease) | | |
|--|--|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balance at December 31, 2021 | \$ 533,463 | \$ 710,533 | \$ (177,070) |
| Changes for the year: | | | |
| Service cost | 35,272 | - | 35,272 |
| Interest | 36,128 | - | 36,128 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | 3,655 | - | 3,655 |
| Changes of assumptions | - | - | - |
| Contributions - employer | - | 13,788 | (13,788) |
| Contributions - employee | - | 18,275 | (18,275) |
| Net investment income | - | (51,844) | 51,844 |
| Benefit payments, including refunds of employee contributions | (31,746) | (31,746) | - |
| Administrative expense | - | (449) | 449 |
| Other | - | 537 | (537) |
| Net changes | 43,309 | (51,439) | 94,748 |
| Balance at December 31, 2022 | <u>\$ 576,772</u> | <u>\$ 659,094</u> | <u>\$ (82,322)</u> |

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

| | 1% Decrease 5.75% | Current Single Rate Assumption 6.75% | 1% Increase 7.75% |
|--------------------------------------|------------------------------|---|------------------------------|
| City's Net Pension Liability (Asset) | \$ (22,391) | \$ (82,322) | \$ (133,008) |

Pension Plan Fiduciary Net Position

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

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

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 \$ 15,049. At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual economic experience | \$ 2,710 | \$ 31,876 |
| Differences in assumptions | - | 509 |
| Difference between projected and actual investment earnings | 79,844 | 35,670 |
| Contributions subsequent to the measurement date | 12,090 | - |
| Total | \$ 94,644 | \$ 68,055 |

The \$ 12,090 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Measurement Year Ended December 31, | Net Deferred Outflows (Inflows) of Resources |
|--|---|
| 2023 | \$ (25,764) |
| 2024 | 7,418 |
| 2025 | 12,884 |
| 2026 | 19,961 |
| Total | \$ 14,499 |

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

G. SUPPLEMENTAL DEATH BENEFITS FUND

Plan Description

The City also participates in the single-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in this fund by adopting an ordinance before November 1, of any year to be effective the following January 1. The SDBF does not meet the definition of a trust under GASB No. 75 since it does not accumulate assets in a trust, and as such is considered to be a single-employer unfunded OPEB plan.

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 “other postemployment benefit and is a fixed amount of \$ 7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). The City offers supplemental death benefit to both active employees and retirees for plan years 2023 and 2022.

Employees Covered by Benefit Terms

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

| | |
|---|----|
| Inactive employees currently receiving benefits | 4 |
| Inactive employees entitled to but not yet receiving benefits | 1 |
| Active employees | 6 |
| Total | 11 |

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.92% for 2023 and 0.99% for 2022, of which 0.49% and 0.27%, respectively, represented the retiree-only portion, as a percentage of annual covered payroll. 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 prefund retiree term life insurance during employees’ entire careers. The City’s contributions to the SDBF for the years ended September 30, 2023 and 2022 were \$ 2,867 and \$ 2,243, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Total Other Post Employment Benefits Liability

Actuarial Assumptions

Actuarial assumptions were developed from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. These assumptions were adopted in 2019 and first used in the December 31, 2019 valuation.

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

The Mortality Experience Investigation Study covering 2009 through 2011 is used as the basis for the post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs). Mortality rates for service employees uses the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

| | |
|------------------|---|
| Inflation | 2.50% per year |
| Salary increases | 3.50 to 11.50% per year including inflation |
| Discount rate | 4.05% |

Changes in the Total Other Post Employment Benefits Liability

| | Increase (Decrease) |
|---|-----------------------------|
| | Total OPEB Liability |
| Balance at December 31, 2021 | \$ 25,767 |
| Changes for the year: | |
| Service cost | 6,427 |
| Interest on Total OPEB Liability | 520 |
| Changes of benefit terms | - |
| Difference between expected and actual experience | 1,040 |
| Changes of assumptions | (9,232) |
| Benefit payments, including refunds of employee contributions | (1,492) |
| Net changes | (2,737) |
| Balance at December 31, 2022 | \$ 23,030 |

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the current discount rate of 4.05% 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. Because the SDBF is considered an unfunded trust, the relevant discount rate to calculate the total OPEB liability is based on the Fidelity’s Index’s “20-Year Municipal GO AA Index”.

| | 1% Decrease 3.05% | Current Discount Rate 4.05% | 1% Increase 5.05% |
|----------------------|------------------------------|--|------------------------------|
| Total OPEB liability | \$ 26,647 | \$ 23,030 | \$ 20,103 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2023, the City recognized OPEB expense of \$ 15,393. At September 30, 2023 the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference in expected and actual experience | \$ 829 | \$ 6,799 |
| Differences in assumptions | 2,346 | 7,497 |
| Contributions subsequent to the measurement date | 2,867 | - |
| Total | \$ 6,042 | \$ 14,296 |

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$ 2,867 will be recognized as a reduction of the total OPEB liability for the measurement year ending December 31, 2023 (i.e., recognized in the City’s financial statement September 30, 2024). Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Measurement Year Ended December 31, | Net Deferred Outflows (Inflows) of Resources |
|--|---|
| 2023 | \$ (5,051) |
| 2024 | (2,864) |
| 2025 | (1,662) |
| 2026 | (1,544) |
| Total | \$ (11,121) |

CITY OF HOLLAND, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2023

H. RISK MANAGEMENT

Health Insurance Coverage

During the year ended September 30, 2023, employees of the City were offered coverage by a health maintenance organization plan. The City contributed \$ 53,873 for the plan premium. Employees, at their option, authorized payroll withholdings to pay the premium for dependents. All contributions were paid to a health maintenance organization. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

Other

The City has insurable risks in various areas, including property, casualty, automobile, comprehensive liability and workers compensation. The City maintains insurance against risks in all areas. Management believes the amount and types of coverage are adequate to protect the City from losses, which could reasonably be expected to occur.

I. EXTRAORDINARY ITEMS

It became known to management in the prior year that misappropriation of assets involving use of the City's debit cards occurred. The total asset misappropriation known at the time was approximately \$ 13,000. In the current year, management was able to identify additional transactions totaling \$ 7,397. These transactions were reclassified out of public safety expenditures and into an extraordinary loss account. Additionally, the account receivable due from an employee was adjusted to include the additional amount along with the allowance for uncollectable accounts.

J. SUBSEQUENT EVENTS

Management has reviewed and evaluated events and transactions through February 2, 2025, the date of the independent auditor's report.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLLAND, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
(UNAUDITED)

| Measurement Date December 31, | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 21,243 | \$ 24,369 | \$ 29,162 | \$ 28,968 |
| Interest (on the total pension liability) | 30,210 | 33,647 | 36,187 | 39,698 |
| Changes of benefit terms | - | - | - | - |
| Difference between expected and actual experience | 8,795 | (4,663) | (6) | (6,739) |
| Changes of assumptions | - | 12,422 | - | - |
| Benefit payments, including refunds of employee contributions | (13,164) | (12,246) | (13,239) | (13,239) |
| Net Change in Total Pension Liability | <u>47,084</u> | <u>53,529</u> | <u>52,104</u> | <u>48,688</u> |
| Total Pension Liability - Beginning | <u>427,531</u> | <u>474,615</u> | <u>528,144</u> | <u>580,248</u> |
| Total Pension Liability - Ending (a) | <u>\$ 474,615</u> | <u>\$ 528,144</u> | <u>\$ 580,248</u> | <u>\$ 628,936</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | \$ 13,795 | \$ 14,181 | \$ 18,352 | \$ 20,339 |
| Contributions - employee | 12,372 | 12,475 | 14,413 | 14,448 |
| Net investment income | 22,703 | 638 | 30,206 | 68,805 |
| Benefit payments, including refunds of employee contributions | (13,164) | (12,246) | (13,239) | (13,239) |
| Administrative expense | (237) | (388) | (341) | (356) |
| Other | (19) | (19) | (18) | (18) |
| Net Change in Plan Fiduciary Net Position | <u>35,450</u> | <u>14,641</u> | <u>49,373</u> | <u>89,979</u> |
| Plan Fiduciary Net Position - Beginning | <u>396,789</u> | <u>432,239</u> | <u>446,880</u> | <u>496,253</u> |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 432,239</u> | <u>\$ 446,880</u> | <u>\$ 496,253</u> | <u>\$ 586,232</u> |
| Net Pension Liability (Asset) (a)-(b) | \$ 42,376 | \$ 81,264 | \$ 83,995 | \$ 42,704 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 91.07% | 84.61% | 85.52% | 93.21% |
| Covered Employee Payroll | \$ 206,196 | \$ 207,923 | \$ 240,213 | \$ 240,794 |
| Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll | 20.55% | 39.08% | 34.97% | 17.73% |

Notes to Schedule:

This schedule is intended to present information for ten years. The City is required to build this schedule over a ten year period for as many years as are available.

See independent auditor's report.

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|----|-----------------|-------------------|-------------------|-------------------|-------------------|
| \$ | 30,641 | \$ 32,949 | \$ 28,362 | \$ 32,125 | \$ 35,272 |
| | 41,887 | 41,604 | 40,720 | 34,854 | 36,128 |
| | - | - | - | - | - |
| | (47,531) | (16,288) | (81,667) | (17,969) | 3,655 |
| | - | (2,109) | - | - | - |
| | <u>(47,428)</u> | <u>(13,239)</u> | <u>(120,693)</u> | <u>(31,691)</u> | <u>(31,746)</u> |
| | (22,431) | 42,917 | (133,278) | 17,319 | 43,309 |
| | <u>628,936</u> | <u>606,505</u> | <u>649,422</u> | <u>516,144</u> | <u>533,463</u> |
| \$ | <u>606,505</u> | \$ <u>649,422</u> | \$ <u>516,144</u> | \$ <u>533,463</u> | \$ <u>576,772</u> |
| \$ | 20,708 | \$ 21,846 | \$ 16,977 | \$ 15,736 | \$ 13,788 |
| | 15,321 | 16,393 | 14,470 | 16,252 | 18,275 |
| | (17,575) | 86,156 | 50,722 | 81,922 | (51,844) |
| | (47,428) | (13,239) | (120,693) | (31,691) | (31,746) |
| | (339) | (486) | (328) | (379) | (449) |
| | <u>(18)</u> | <u>(16)</u> | <u>(12)</u> | <u>2</u> | <u>537</u> |
| | (29,331) | 110,654 | (38,864) | 81,842 | (51,439) |
| | <u>586,232</u> | <u>556,901</u> | <u>667,555</u> | <u>628,691</u> | <u>710,533</u> |
| \$ | <u>556,901</u> | \$ <u>667,555</u> | \$ <u>628,691</u> | \$ <u>710,533</u> | \$ <u>659,094</u> |
| \$ | 49,604 | \$ (18,133) | \$ (112,547) | \$ (177,070) | \$ (82,322) |
| | 91.82% | 102.79% | 121.81% | 133.19% | 114.27% |
| \$ | 255,344 | \$ 273,210 | \$ 241,170 | \$ 270,872 | \$ 304,590 |
| | 19.43% | -6.64% | -46.67% | -65.37% | -27.03% |

**CITY OF HOLLAND, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
(UNAUDITED)**

| Fiscal Year Ended September 30, | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|---------------|---------------|---------------|---------------|---------------|
| Actuarially determined contribution | \$ 35,918 | \$ 13,864 | \$ 17,626 | \$ 18,891 | \$ 19,238 |
| Contributions in relation to the actuarially determined contribution | <u>35,918</u> | <u>13,864</u> | <u>17,626</u> | <u>18,891</u> | <u>19,238</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered employee payroll | \$ 459,048 | \$ 199,424 | \$ 237,349 | \$ 239,807 | \$245,648 |
| Contributions as a percentage of covered employee payroll | 7.82% | 6.95% | 7.43% | 7.88% | 7.83% |

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | N/A |
| Asset valuation method | 10 year smoothed market; 12% soft corridor |
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% 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. 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.

See independent auditor's report.

| <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---------------|---------------|---------------|---------------|
| \$ 21,425 | \$ 11,323 | \$ 10,105 | \$ 12,090 |
| <u>21,425</u> | <u>11,323</u> | <u>10,105</u> | <u>12,090</u> |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$279,479 | \$264,913 | \$ 303,309 | \$ 311,605 |
| 7.67% | 4.27% | 3.33% | 3.88% |

CITY OF HOLLAND, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND
RELATED RATIOS – TEXAS MUNICIPAL RETIREMENT
SYSTEM – SUPPLEMENTAL DEATH BENEFIT FUND
(UNAUDITED)

| Measurement date December 31, | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Service cost | \$ 1,637 | \$ 1,915 | \$ 2,158 | \$ 3,618 | \$ 6,095 | \$ 6,427 |
| Interest (on the total OPEB liability) | 722 | 754 | 883 | 806 | 689 | 520 |
| Changes of benefit terms | - | - | - | - | - | - |
| Difference between expected and actual experience | - | (235) | (1,994) | (3,251) | (12,684) | 1,040 |
| Changes of assumptions | 1,404 | (1,288) | 3,956 | 3,156 | 648 | (9,232) |
| Benefit payments, including refunds of employee contributions | (193) | (230) | (246) | (193) | (731) | (1,492) |
| Net Change in Total OPEB Liability | 3,570 | 916 | 4,757 | 4,136 | (5,983) | (2,737) |
| Total OPEB Liability - Beginning | 18,371 | 21,941 | 22,857 | 27,614 | 31,750 | 25,767 |
| Total OPEB Liability - Ending (a) | \$ 21,941 | \$ 22,857 | \$ 27,614 | \$ 31,750 | \$ 25,767 | \$ 23,030 |
| Covered Employee Payroll | \$ 240,794 | \$ 255,344 | \$ 273,210 | \$ 241,170 | \$ 270,872 | \$ 304,590 |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 9.11% | 8.95% | 10.11% | 13.16% | 9.51% | 7.56% |

Notes to Schedule:

- 1) This schedule is intended to present information for ten years. The City is required to build this schedule over a ten year period for as many years as are available.
- 2) No significant methods and assumptions to disclose.
- 3) No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

CITY OF HOLLAND, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS – SUPPLEMENTAL DEATH BENEFIT FUND
(UNAUDITED)

| Fiscal Year Ended September 30, | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|------------|------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 849 | \$ 907 | \$ 1,080 | \$ 1,260 | \$ 2,243 | \$ 2,867 |
| Contributions in relation to the actuarially determined contribution | 849 | 907 | 1,080 | 1,260 | 2,243 | 2,867 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,734 |
| Covered employee payroll | \$ 239,807 | \$ 245,648 | \$ 279,479 | \$ 264,913 | \$ 303,309 | \$ 311,605 |
| Contributions as a percentage of covered employee payroll | 0.35% | 0.37% | 0.39% | 0.48% | 0.74% | 1.84% |

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

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|--|--|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Investment rate of return | 4.05% |
| Retiree's 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. |

Other Information:

Notes: 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 HOLLAND, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND
For the Year Ended September 30, 2023 with Comparative Totals
For the Year Ended September 30, 2022

| | 2023 | | | | 2022 Actual |
|--|-------------------|-------------------|-------------------|-------------------------------|-------------------|
| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget | |
| | Original | Final | | | |
| <u>Revenues</u> | | | | | |
| Property tax | \$ 253,000 | \$ 253,000 | \$ 237,898 | \$ (15,102) | \$ 218,257 |
| Sales tax | 115,000 | 115,000 | 168,457 | 53,457 | 144,676 |
| Franchise fees | 62,500 | 62,500 | 60,695 | (1,805) | 61,764 |
| Fine and forfeitures | 269,560 | 269,560 | 217,443 | (52,117) | 201,843 |
| Licenses and permits | 32,000 | 32,000 | 99,852 | 67,852 | 23,787 |
| Grant Revenue | - | - | 13,800 | 13,800 | - |
| Interest income | 2,000 | 2,000 | 5,971 | 3,971 | 3,287 |
| Miscellaneous | 3,950 | 3,950 | 20,458 | 16,508 | 39,759 |
| Total Revenues | 738,010 | 738,010 | 824,574 | 86,564 | 693,373 |
| <u>Expenditures</u> | | | | | |
| Current | | | | | |
| General government | 225,250 | 225,250 | 308,122 | (82,872) | 204,004 |
| Public safety | 390,165 | 390,165 | 360,211 | 29,954 | 211,734 |
| Public works | 88,700 | 88,700 | 13,383 | 75,317 | 53,652 |
| Civic center and other | 1,400 | 1,400 | 1,794 | (394) | 12,720 |
| Debt service: | | | | | |
| Principal | 23,500 | 23,500 | 24,679 | (1,179) | 23,028 |
| Interest and fiscal charges | 1,500 | 1,500 | 1,593 | (93) | 1,497 |
| Capital outlay | 71,500 | 71,500 | 339,752 | (268,252) | 62,573 |
| Total Expenditures | 802,015 | 802,015 | 1,049,534 | (247,519) | 569,208 |
| Excess (deficiency) of revenues over (under) expenditures | (64,005) | (64,005) | (224,960) | 334,083 | 124,165 |
| <u>Extraordinary Items</u> | | | | | |
| Loss due to asset misappropriation | - | - | (7,397) | (7,397) | (13,000) |
| Total Extraordinary Items | - | - | (7,397) | (7,397) | (13,000) |
| Net Change in Fund Balance | (64,005) | (64,005) | (232,357) | 326,686 | 111,165 |
| Fund Balance - beginning of year | 787,931 | 787,931 | 787,931 | - | 676,766 |
| Fund Balance - end of year | \$ 723,926 | \$ 723,926 | \$ 555,574 | \$ 326,686 | \$ 787,931 |

See independent auditor's report.

COMPLIANCE SECTION

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

Honorable Mayor and
Members of the City Council
City of Holland, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Holland, Texas ("the City"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise City of Holland, Texas' basic financial statements, and have issued our report thereon dated February 2, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies labeled as items 2022-001, 2022-002, 2022-004, 2022-006, 2023-001, 2023-002, and 2023-003 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies labeled as items 2022-008, and 2022-009 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Holland, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Holland, Texas' Response to Findings

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

Purpose of This Report

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



Temple, Texas
February 2, 2025

CITY OF HOLLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2023

Section I – Summary of Auditor’s Report

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

None

Section II – Financial Statement Findings

Material Weaknesses

Finding 2022-001:

| | |
|-----------------------------|---|
| <u>Condition:</u> | Bank reconciliations - Bank reconciliations contain several invalid or erroneous items. |
| <u>Criteria:</u> | Reconciliations of cash balances per the bank and per Quickbooks should only include legitimate reconciling items that are clearly supported. |
| <u>Cause of Condition:</u> | Adjusting cash balances with manual journal entries and voiding transactions incorrectly appears to be the cause. |
| <u>Effect of Condition:</u> | Cash balances may be materially misstated. Misappropriation of cash may be concealed by these causes. |
| <u>Recommendation:</u> | Refrain from posting manual adjustments to cash balances. Verify that reconciling items are supported by appropriate documentation. |

CITY OF HOLLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended September 30, 2023

Finding 2022-002:

- Condition: **Water & Sewer Fund revenue and receivables** - Utility billing revenue and accounts receivable per RVS are not reconciled to Quickbooks.
- Criteria: Reconciliations of revenues and receivables balances tracked in RVS should be reflected in Quickbooks.
- Cause of Condition: Adjustments posted to either RVS or Quickbooks will cause differences to arise. RVS account changes (payments, new billings, manual adjustments) flow into the monthly Quickbooks entry to record RVS activity however the entry may include errors causing unreconciled conditions or entries posted to Quickbooks may not be reflective of transactions posted in RVS.
- Effect of Condition: Revenues and receivables may be materially misstated. Misappropriation of cash may be concealed by these causes.
- Recommendation: After each utility billing cycle is posted to Quickbooks, reconcile revenue and receivables and determine the appropriateness of variances.

Finding 2022-004:

- Condition: **Water & Sewer Fund customer deposits** - Customer deposits for utility accounts are not accurately tracked.
- Criteria: Customer deposits paid at the time of account creation in RVS should be accurately reflected in Quickbooks as a customer deposit liability and corresponding restricted cash balance.
- Cause of Condition: Adjustments to customer deposits in RVS without corresponding adjustments to the liability account in Quickbooks creates variances in the liability balance. This issue may be compounded by receipting new deposits to or disbursing refunded deposits from the utility fund operating account rather than the customer deposit bank account.
- Effect of Condition: Potential unauthorized deposit refunds to the customer or others may occur. The customer liability deposit balance and the restricted cash balance may be materially misstated.

CITY OF HOLLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended September 30, 2023

Recommendation: RVS should be the system of record for maintaining and tracking customer deposits. Customer deposit balance per RVS should be reconciled to the customer deposit liability and restricted cash balance in Quickbooks on a monthly basis.

Finding 2022-006:

Condition: **Payroll** - Payroll documentation and review of transactions is not performed in a way that will allow for the timely identification and correction of payroll errors.

Criteria: Appropriate documentation should exist to substantiate all financial transactions and sufficient review procedure should exist to prevent misstatement of payroll expense.

Cause of Condition: It was noted that employee pay rates are not documented in personnel files and review and approval of payroll transactions are not performed by personnel at a level of authority beyond the staff assigned to process payroll.

Effect of Condition: Errors in pay rates and other gross payroll items may be overstated resulting in excess payroll expense incurred by the City.

Recommendation: 1) Document all payroll changes in employee personnel files, 2) assign appropriate personnel (possibly Council member) to review payroll run each period prior to processing.

Finding 2023-001:

Condition: **Recording Revenue** – Revenue transactions are not being properly recorded.

Criteria: Revenue should be recorded into the correct account when received.

Cause of Condition: It was noted that several transactions in relation to tax revenue were not being recorded into the correct revenue account.

Effect of Condition: When analyzing budgets, inaccurate revenue balances can cause differences in the financials and do not accurately portray the city's financial position.

Recommendation: When posting entries, verify that transactions are being properly recorded into the correct account.

CITY OF HOLLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended September 30, 2023

Finding 2023-002:

Condition: **Recording Expenses** – Expense transactions are not being properly recorded.

Criteria: Expenses should be recorded into the correct account when received.

Cause of Condition: It was noted that several transactions were not being recorded into the correct account.

Effect of Condition: When analyzing budgets, inaccurate expense balances can cause differences in the financials and do not accurately portray the city’s financial position.

Recommendation: When posting entries, verify that transactions are being properly recorded into the correct account.

Finding 2023-003:

Condition: **Recording Accruals** – Expense and Revenue transactions are not being properly recorded.

Criteria: All transactions should be recorded in the correct period.

Cause of Condition: It was noted that several transactions were not recorded in the correct period. Specifically, regarding expenses and accounts payable.

Effect of Condition: Transactions incurred in the current year will not be accurately reflected in the financials.

Recommendation: When posting an expense or revenue, verify what period it is for. If it’s for the current year but has not been paid/received, make sure the entry is recorded into the accounts payable/receivable account.

Significant Deficiencies

Finding 2022-008:

Condition: **Court fines and fees** - Collection of fines and fees from court transactions are fully recorded as revenue however a material portion of these collections are amounts due to the state. Amount remitted to the state comptroller may be underpaid.

Criteria: Revenue should be recognized when these transactions are measurable and available. However, because the state’s portion of cash collected is not available to the City, it should not be recorded as revenue. All amounts due to the state should be remitted to the comptroller each quarter.

CITY OF HOLLAND, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended September 30, 2023

Cause of Condition: Procedures are not in place to classify collections on behalf of other entities as liabilities. Amounts remitted to the state comptroller do not always tie to iCon court system reports nor are they reconciled to ensure all funds collected on behalf of the state are remitted.

Effect of Condition: Overstatement of revenue and corresponding overstatement of expenditures in the General Fund. Underpayment of amounts collected on behalf of the state may be significant resulting in a large cash outflow to rectify the underpayment to the state.

Recommendation: Create procedures to recognize revenue only the City's portion of court-related collections and recognize liabilities for the remaining amount. Reconcile iCon system reports to amounts paid and recorded in Quickbooks.

Finding 2022-009:

Condition: **Financial Statements & Account Balances** - Monthly financial statements are not reviewed for errors.

Criteria: Financial records should be prepared and reviewed for errors on a timely basis for use by management and City Council.

Cause of Condition: Procedures are not in place to prepare and review financial statements or elements of financial statements.

Effect of Condition: Material errors may arise, persist through several periods and compound over time resulting in financial statements that are not usable to management or Council.

Recommendation: Develop procedures for the creation, review and possible correction of financial statements for use by management.