

CITY OF MERKEL, TEXAS

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2024

CATHRINE WILKS CPA LLC

**CITY OF MERKEL, TEXAS
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2024**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Merkel, Texas 79536

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Merkel, Texas (City), as of and for the year ended September 30, 2024, 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 my 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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*, I:

- 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 my 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.

I am 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 I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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*, I have also issued my report dated December 31, 2024, on my consideration of the City's internal control over financial reporting and on my 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 my 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 City's internal control over financial reporting and compliance.

Calline Wilts CPA UC

Sweetwater, Texas
January 17, 2025

CITY OF MERKEL, TEXAS

Management's Discussion and Analysis September 30, 2024

This section of the City of Merkel's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2024. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The primary government's combined net position was a little over \$5.9 million as of September 30, 2024.
- During the year, the primary government's combined net position increased \$178,285 from the previous year.
- The general fund reported a fund balance this year of \$2.2 million at year end. Of this amount, \$1,395,836 is available for spending at the government's discretion (unassigned fund balance).

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts—*management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred inflows of resources, and liabilities. All the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—are one way to measure the City's financial health or *position*.

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

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, and interest on long-term debt. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole.

CITY OF MERKEL, TEXAS

**Management’s Discussion and Analysis
September 30, 2024**

Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

The City has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City’s (Primary Government) combined net position was a little over \$5.9 million at September 30, 2024. The components of the City’s net position are shown in the table below. The \$2.6 million of unrestricted net position represents resources available to fund the programs of the City next year. This represents 43% of the total net position of the City.

Statement of Net position

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Current & other assets	\$2,296,144	\$2,214,091	\$ 1,523,048	\$ 2,280,597	\$3,819,192	\$4,494,688
Capital assets	1,500,044	1,447,955	7,445,050	6,243,331	8,995,094	7,691,286
Total assets	<u>3,796,188</u>	<u>3,662,046</u>	<u>8,968,098</u>	<u>8,523,928</u>	<u>12,764,286</u>	<u>12,185,974</u>
Deferred outflows	206,302	231,331	113,740	127,310	320,042	358,641
Current liabilities	29,349	26,276	120,599	542,901	149,948	569,177
Long-term liabilities	1,300,489	1,396,850	5,546,565	4,709,576	6,847,054	6,106,426
Total Liabilities	<u>1,329,838</u>	<u>1,423,126</u>	<u>5,667,164</u>	<u>5,252,477</u>	<u>6,997,002</u>	<u>6,675,603</u>
Deferred pension inflow	99,823	73,923	46,846	32,715	146,669	106,638
Net position:						
Net investment in						
Capital assets	473,016	351,016	2,091,842	1,741,043	2,564,858	2,092,059
Restricted	316,184	356,929	476,166	630,227	792,350	987,156
Unrestricted	1,783,629	1,688,383	799,820	994,774	2,583,449	2,683,157
Total Net position	<u>\$2,572,829</u>	<u>\$2,396,328</u>	<u>\$3,367,828</u>	<u>\$3,366,044</u>	<u>\$5,940,657</u>	<u>\$5,762,372</u>

CITY OF MERKEL, TEXAS

Management's Discussion and Analysis September 30, 2024

As the above table shows, current and other assets decreased \$675,496, and current liabilities decreased by \$419,229. Cash in the general fund increased mainly due to an increase in revenues in nearly all areas. The cash in the enterprise fund decreased \$952,457, the details of which can be seen on page 21 on the Statement of Cash Flows. Investments in the enterprise fund increased \$302,576 due to the City transferring funds into TexSTAR. Current and other assets in the enterprise fund increased due to prepaid items decreasing \$87,989. This was due to capital assets that had to be prepaid before 2023 year-end yet not received until this fiscal year.

Deferred pension outflows decreased \$38,599 and deferred pension inflows increased \$40,031, both related to TMRS investment changes for the year.

The City had \$1,014,928 in current year long-term debt additions and \$274,299 in long-term debt reductions. All scheduled debt service payments were timely made, and all debt covenants have been complied with. Details of the City's debt can be found on pages 32 through 34 in the notes to the financial statements.

Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Program Revenues:						
Charges for services	\$ 138,278	\$ 68,826	\$2,000,137	\$1,980,764	\$2,138,415	\$2,049,590
Operating grants, contributions	1,789	3,611	-	-	1,789	3,611
Capital grants, contributions	-	-	71,050	256,850	71,050	256,850
General Revenues:						
Taxes	1,478,333	1,366,137	-	-	1,478,333	1,366,137
Grants and contributions not restricted to specific programs	83,632	26,312	210,145	141,985	293,777	168,297
Other	101,097	42,776	42,698	15,013	143,795	57,789
Total Revenues	<u>1,803,129</u>	<u>1,507,662</u>	<u>2,324,030</u>	<u>2,394,612</u>	<u>4,127,159</u>	<u>3,902,274</u>
Program Expenses						
General government	311,232	235,458	-	-	311,232	235,458
Public safety	778,761	633,715	-	-	778,761	633,715
Streets	389,635	376,247	-	-	389,635	376,247
Culture and recreation	124,175	112,587	-	-	124,175	112,587
Interest on long-term debt	22,825	23,773	-	-	22,825	23,773
Water and sewer	-	-	2,047,003	1,639,839	2,047,003	1,639,839
Sanitation	-	-	275,243	262,426	275,243	262,426
Total Program Expenses	<u>1,626,628</u>	<u>1,381,780</u>	<u>2,322,246</u>	<u>1,902,265</u>	<u>3,948,874</u>	<u>3,284,045</u>
Increase (decrease) in net position	176,501	125,882	1,784	492,347	178,285	618,229
Beginning net position	<u>2,396,328</u>	<u>2,270,446</u>	<u>3,366,044</u>	<u>2,873,697</u>	<u>5,762,372</u>	<u>5,144,143</u>
Ending net position	<u>\$2,572,829</u>	<u>\$2,396,328</u>	<u>\$3,367,828</u>	<u>\$3,366,044</u>	<u>\$5,940,657</u>	<u>\$5,762,372</u>

Total revenues increased from \$3,902,274 to \$4,127,159. This \$224,885 is a 5.76% increase. As indicated in the table above, the main decrease is in capital grants. The decrease was mainly due to a community development block grant received for infrastructure improvements in 2023 that was completed at the beginning of this fiscal year. The increase in grants and contributions not restricted to specific programs was due to CLFRF grant expenditures

CITY OF MERKEL, TEXAS

Management's Discussion and Analysis September 30, 2024

for various improvements in the City. Taxes increased due to an increase in the taxable values of the City as well as increased sales tax revenue.

Total program expenses increased \$664,829. The main increase in governmental activities was in public safety with the increase in salaries with an additional school resource officer. The main increases in the water and sewer program were related to the cost of water and payroll costs. Depreciation and interest expense saw significant increases as well. Depreciation increased due to the various capital projects being completed. Interest expense increased with the additional bond issuance. At the end of the current fiscal year, the City of Merkel is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Activities

The focus of the City's general fund is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The general fund has several categories of restricted and assigned fund balances as seen on page 14. The unassigned fund balance in the general fund of \$1,395,836 represents approximately 10 months of operating costs.

The City's total general fund revenues were up \$291,859 from the previous year mostly due to an increase in charges for services and intergovernmental revenues. Other significant changes included a sales tax revenue increase of \$46,430 and a property tax revenue increase of \$52,796. A significant portion, 82%, of the City's revenue in 2024 came from taxes that include property, sales, franchise taxes, and other taxes.

The total cost of all governmental activities program expenses was \$1,724,314 as seen on page 16. This amounts to an increase of \$394,295 from the previous fiscal year. Public safety saw the largest increase in expenditures due to a \$62,000 increase in salaries and \$48,510 increase in software costs. General government had a \$85,110 increase with \$46,558 coming from additional salaries and \$35,000 in a SWOT analysis performed last year. The City was also able to make major renovations in the parks department with the use of grant funds.

Business-type Activities

The City's business-type program revenue charges for services increased from \$1,980,764 to \$2,000,137. This increase is mainly attributable to an increase in water rates. Capital grants decreased due to the CDBG program being completed mostly in the prior year. Additional CLFRF grant funds were expended in 2024 in the amount of \$210,145 which is an increase from the \$141,985 expended last year. Interest income increased from \$15,013 to \$42,698 with the increase in interest rates.

General Fund Budgetary Highlights

The City had no budget amendments during the year as discussed on page 25 of the notes. Actual general fund expenditures were \$90,249 over budgeted amounts mainly due to the negative variance in the parks department. Revenues were \$238,200 more than budgeted in nearly all areas. Other financing sources had a negative variance of \$48,947 because the City didn't receive the seizure funds anticipated nor had a debt advance. The net result was a positive budget variance of \$99,004 in the net change in fund balance of the general fund.

CITY OF MERKEL, TEXAS

**Management's Discussion and Analysis
September 30, 2024**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2024, the City had invested a little over \$16.5 million in a broad range of capital assets including land, equipment, buildings, and vehicles. The general fund purchased equipment and made park improvements for \$199,149. The enterprise fund purchased equipment and made other additions for \$1,866,601. More details on capital assets are in the notes to the financial statements. The Merkel Volunteer Fire Department and Merkel Economic Development Corporation (discretely presented component units) capital asset information is presented in the notes as well.

Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Land	\$ 12,500	\$ 12,500	\$ 72,080	\$ 72,080	\$ 84,580	\$ 84,580
Construction in-progress	-	-	-	345,851	-	345,851
Buildings	151,116	151,116	1,975	1,975	153,091	153,091
Water system Infrastructure	-	-	11,111,929	9,547,703	11,111,929	9,547,703
	1,935,484	1,912,060	-	-	1,935,484	1,912,060
Machinery and equipment	1,230,459	1,291,328	936,308	640,750	2,166,767	1,932,078
Vehicles	1,163,391	1,302,109	35,730	58,296	1,199,121	1,360,405
Total at historical cost	<u>4,492,950</u>	<u>4,669,113</u>	<u>12,158,022</u>	<u>10,666,655</u>	<u>16,650,972</u>	<u>15,335,768</u>
Total accumulated Depreciation	<u>(2,992,906)</u>	<u>(3,221,161)</u>	<u>(4,712,972)</u>	<u>(4,423,324)</u>	<u>(7,705,878)</u>	<u>(7,644,485)</u>
Net capital assets	<u>\$ 1,500,044</u>	<u>\$ 1,447,952</u>	<u>\$7,445,050</u>	<u>\$6,243,331</u>	<u>\$8,945,094</u>	<u>\$7,691,283</u>

Long-Term Obligations

At year-end the City had nearly \$7 million in outstanding obligations as shown in the following table. More detailed information about the City's debt is presented in the notes to the financial statements on pages 32 through 34. All debt payments were made, and all debt covenants have been satisfied for the year. Net pension liability increased \$347,622 and total OPEB liability decreased \$12,559. Details of the pension and OPEB plans are on pages 34 through 42 of the notes to the financial statements.

City's Long-Term Obligations

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Notes	\$ 128,170	\$ 141,589	\$ -	\$ -	\$ 128,170	\$ 141,589
Bonds	898,858	955,350	5,353,208	4,502,287	6,252,066	5,457,637
Compensated absences	21,305	16,706	9,969	6,961	31,274	23,667
Net Pension liability	227,201	262,986	170,832	190,357	398,033	453,343
Total OPEB liability	<u>24,955</u>	<u>20,219</u>	<u>12,556</u>	<u>9,971</u>	<u>37,511</u>	<u>30,190</u>
Total Long-Term Obligations	<u>\$1,300,489</u>	<u>\$1,396,850</u>	<u>\$5,546,565</u>	<u>\$4,709,576</u>	<u>\$6,847,054</u>	<u>\$6,106,426</u>

CITY OF MERKEL, TEXAS

Management's Discussion and Analysis September 30, 2024

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund will increase approximately \$200,000 next year with the largest increase in the general administration department. Ad valorem tax rate will increase from .5568 to .5600 which is lower than the voter approved tax rate.

Neither the general fund nor the water sewer fund is expected to see significant changes in economic factors next year. Expenditures will be based upon required timelines and allowable categories of projects. Proposed projects will be evaluated, prioritized, and will require engineering and approval prior to expenditure of funds.

The City will also continue with the implementation of their 5-year water rate increase plan.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Administrative Office at (325) 928-4911 or by mail at 100 Kent Street, Merkel, Texas 79536.

Government-wide Financial Statements

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CITY OF MERKEL, TEXAS

Statement of Net Position September 30, 2024

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Current cash and cash equivalents	\$ 1,111,911	\$ 743,843	\$ 1,855,754	\$ 684,762
Investments	510,261	302,576	812,837	732,064
Receivables (net of allowance for uncollectibles)	164,710	171,833	336,543	194,442
Inventory	-	21,708	21,708	-
Internal balances	193,078	(193,078)	-	-
Cash - restricted	316,184	476,166	792,350	-
Capital assets (net of accumulated depreciation):				
Land	12,500	72,080	84,580	54,202
Buildings and improvements	21,245	-	21,245	-
Utility system	-	6,826,891	6,826,891	-
Machinery and equipment	203,172	529,141	732,313	239,106
Furniture and fixtures	39,457	-	39,457	-
Vehicles	218,398	16,938	235,336	-
Infrastructure	1,005,272	-	1,005,272	-
Total assets	<u>3,796,188</u>	<u>8,968,098</u>	<u>12,764,286</u>	<u>1,904,576</u>
Deferred Outflows of Resources				
Deferred pension outflow	204,863	113,250	318,113	-
Deferred OPEB outflow	1,439	490	1,929	-
Total deferred outflows of resources	<u>206,302</u>	<u>113,740</u>	<u>320,042</u>	<u>-</u>
Liabilities				
Accounts payable	24,036	68,901	92,937	-
Customer deposits	-	26,670	26,670	-
Accrued liabilities	5,313	15,526	20,839	-
Unearned revenue	-	9,502	9,502	-
Long-term Liabilities:				
Due Within one year	75,619	178,570	254,189	-
Due in More than one year	1,224,870	5,367,995	6,592,865	-
Total liabilities	<u>1,329,838</u>	<u>5,667,164</u>	<u>6,997,002</u>	<u>-</u>
Deferred Inflows of Resources				
Deferred pension inflow	94,743	44,342	139,085	-
Deferred OPEB inflow	5,080	2,504	7,584	-
Total deferred inflows of resources	<u>99,823</u>	<u>46,846</u>	<u>146,669</u>	<u>-</u>
Net Position				
Net Investment in Capital Assets	473,016	2,091,842	2,564,858	293,308
Restricted for Debt service	175,827	465,403	641,230	-
Restricted for Public safety	388	-	388	-
Restricted for Tourism development	114,009	-	114,009	-
Restricted for Court Technology and Security	25,960	-	25,960	-
Restricted for CSLFRF projects	-	10,763	10,763	-
Restricted for Economic development	-	-	-	1,545,985
Unrestricted	1,783,629	799,820	2,583,449	65,283
Total Net Position	<u>\$ 2,572,829</u>	<u>\$ 3,367,828</u>	<u>\$ 5,940,657</u>	<u>\$ 1,904,576</u>

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

CITY OF MERKEL, TEXAS

Statement of Activities
For the Year Ended September 30, 2024

Function/Program Activities	Net (Expenses) Revenues and Changes in Net Position							Component Units
	Program Revenues			Primary Government				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government:								
General government	\$ 311,232	\$ -	\$ -	\$ -	\$ (311,232)	\$ -	\$ (311,232)	\$ -
Public safety	778,761	133,500	-	-	(645,261)	-	(645,261)	-
Streets	389,635	-	-	-	(389,635)	-	(389,635)	-
Culture and recreation	124,175	4,778	1,789	-	(117,608)	-	(117,608)	-
Interest on long-term debt	22,825	-	-	-	(22,825)	-	(22,825)	-
Total governmental activities	1,626,628	138,278	1,789	-	(1,486,561)	-	(1,486,561)	-
Business-type Activities:								
Water and sewer	2,047,003	1,650,034	-	71,050	-	(325,919)	(325,919)	-
Sanitation	275,243	350,103	-	-	-	74,860	74,860	-
Total business-type activities	2,322,246	2,000,137	-	71,050	-	(251,059)	(251,059)	-
Total Primary Government	\$ 3,948,874	\$ 2,138,415	\$ 1,789	\$ 71,050	\$ (1,486,561)	\$ (251,059)	\$ (1,737,620)	\$ -
Component Units:								
Volunteer Fire Department	76,222	-	78,432	18,725	-	-	-	20,935
Merkel Economic Development Corporation	89,001	-	-	-	-	-	-	(89,001)
Total Component Units	\$ 165,223	\$ -	\$ 78,432	\$ 18,725	\$ -	\$ -	\$ -	\$ (68,066)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					770,843	-	770,843	-
Sales tax					629,104	-	629,104	207,618
Occupancy					6,902	-	6,902	-
Franchise tax					71,484	-	71,484	-
Grants and contributions not restricted to specific programs					83,632	210,145	293,777	-
Investment earnings					28,526	42,698	71,224	37,512
Miscellaneous income					72,571	-	72,571	6,530
Total general revenues					1,663,062	252,843	1,915,905	251,660
Change in net position					176,501	1,784	178,285	183,594
Net Position - beginning					2,396,328	3,366,044	5,762,372	1,720,982
Net Position - ending					\$ 2,572,829	\$ 3,367,828	\$ 5,940,657	\$ 1,904,576

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

Fund Financial Statements

CITY OF MERKEL, TEXAS

Balance Sheet Governmental Funds September 30, 2024

	General	Non-Major Governmental	Total Governmental Funds
Assets			
Current cash and cash equivalents	\$ 1,060,891	\$ 51,020	\$ 1,111,911
Investments	510,261	-	510,261
Receivables, net of allowance for uncollectibles	164,710	-	164,710
Due from other funds	193,078	-	193,078
Cash - restricted	316,184	-	316,184
	<u>\$ 2,245,124</u>	<u>\$ 51,020</u>	<u>\$ 2,296,144</u>
Total Assets	<u>\$ 2,245,124</u>	<u>\$ 51,020</u>	<u>\$ 2,296,144</u>
Liabilities			
Accounts payable	23,651	384	24,034
Total Liabilities	<u>23,651</u>	<u>384</u>	<u>24,034</u>
Deferred Inflows of Resources			
Unavailable revenue - property taxes	68,902	-	68,902
Total Deferred Inflows of Resources	<u>68,902</u>	<u>-</u>	<u>68,902</u>
Fund Balances:			
Restricted	316,184	50,636	366,820
Assigned	440,550	-	440,550
Unassigned	1,395,836	-	1,395,836
Total fund balances	<u>2,152,571</u>	<u>50,636</u>	<u>2,203,207</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,245,124</u>	<u>\$ 51,020</u>	<u>\$ 2,296,144</u>

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

CITY OF MERKEL, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position September 30, 2024

Total Fund Balances - Governmental Funds	\$ 2,203,207
Capital assets, receivables and deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,669,104 and accumulated depreciation was (\$3,221,159). Also included is deferred outflow of resources of \$231,331.	1,679,276
In addition, long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. At the beginning of the year, this balance was (\$1,396,850). Also added is (\$5,468) of accrued interest payable and (\$73,923) of deferred inflows of resources.	(1,476,241)
Current year capital outlays of \$199,148, and long-term debt reductions of \$63,419 and debt additions of (\$4,599), are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions/additions in long-term debt in the government-wide financial statements along with changes in other liabilities of \$6,492. The net effect of including these changes is to increase (decrease) net position.	264,460
Included in the items related to debt is the recognition of the City's proportionate share of the net pension and total OPEB liabilities required by GASB 68 and 75 in the amount of \$31,049, a deferred resource outflow related to pensions in the amount of (\$25,029), and a deferred resource inflow related to pensions in the amount of (\$25,900). This amounted to a change in Net Position in the amount of (\$31,966).	(19,880)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(147,057)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis accounting. These include recognizing deferred revenue as revenue, and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	<u>69,064</u>
Net Position of Governmental Activities	<u>\$ 2,572,829</u>

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

CITY OF MERKEL, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2024

	General	Non-Major Governmental	Total Governmental Funds
Revenues			
Taxes:			
Property	\$ 758,393	\$ -	\$ 758,393
Sales	629,104	-	629,104
Occupancy	6,902	-	6,902
Franchise Fees	71,484	-	71,484
Licenses and permits	18,349	-	18,349
Charges for services	92,665	-	92,665
Fines	27,264	-	27,264
Contributions and donations	1,789	-	1,789
Intergovernmental	83,633	-	83,633
Rents and royalties	6,575	-	6,575
Investment earnings	28,428	98	28,526
Other	65,996	-	65,996
Total revenues	1,790,582	98	1,790,680
Expenditures			
Current:			
General government	301,431	-	301,431
Public safety	705,403	-	705,403
Streets	318,459	-	318,459
Culture and recreation	106,982	-	106,982
Debt Service:			
Principal	63,419	-	63,419
Interest	29,472	-	29,472
Capital outlay:			
Administration	11,190	-	11,190
Public safety	56,809	-	56,809
Streets	48,252	-	48,252
Culture and recreation	82,897	-	82,897
Total expenditures	1,724,314	-	1,724,314
Excess (deficiency) of revenues over (under) expenditures	66,268	98	66,366
Net change in fund balances	66,268	98	66,366
Fund balances - beginning	2,086,303	50,538	2,136,841
Fund balances - ending	\$ 2,152,571	\$ 50,636	\$ 2,203,207

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

CITY OF MERKEL, TEXAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds To the Statement of Activities For the Year Ended September 30, 2024

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances - total governmental funds (page 16)	\$ 66,366
Current year capital outlays of \$199,148 and long-term debt net reductions of \$69,911 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions/additions in long-term debt in the government-wide financial statements along with changes in other liabilities. Also shown as increases in debt are changes in compensated absences of (\$4,599).	264,460
Included in the items related to debt is the recognition of the City's proportionate share of the net pension and OPEB expenses required by GASB 68 and 75	(19,880)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(147,057)
Reclassification entries to convert modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, and adjusting current year revenue to show revenue earned from the current year's tax levy, as well as revenue earned on a current year contract yet not available in the current year.	<u>12,612</u>
Change in net position of governmental activities (page 12)	<u><u>\$ 176,501</u></u>

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

CITY OF MERKEL, TEXAS

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual For the Year Ended September 30, 2024

	Budgeted Amounts		Actual Amounts	Variance with Final budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property	\$ 749,192	\$ 749,192	\$ 758,393	\$ 9,201
Sales	550,500	550,500	629,104	78,604
Occupancy	6,400	6,400	6,902	502
Franchise tax	60,000	60,000	71,484	11,484
Licenses and permits	5,000	5,000	18,349	13,349
Charges for services	130,968	130,968	92,665	(38,303)
Fines	22,322	22,322	27,264	4,942
Contributions and donations	-	-	1,789	1,789
Intergovernmental	2,000	2,000	83,633	81,633
Rents and royalties	4,200	4,200	6,575	2,375
Investment earnings	5,300	5,300	28,428	23,128
Other	16,500	16,500	65,996	49,496
Total revenues	1,552,382	1,552,382	1,790,582	238,200
Expenditures				
Current:				
General government	257,328	257,328	312,621	(55,293)
Public safety:				
Fire department	34,792	34,792	54,642	(19,851)
Police department	707,370	707,370	651,550	55,820
Municipal Court	55,762	55,762	56,020	(258)
Streets	402,485	402,485	366,711	35,774
Culture and Recreation:				
Heritage Hall	21,835	21,835	31,068	(9,233)
Library	38,162	38,162	40,210	(2,048)
Parks	19,362	19,362	118,601	(99,239)
Debt Service:				
Principal	63,475	63,475	63,419	56
Interest	33,495	33,495	29,472	4,023
Total expenditures	1,634,066	1,634,066	1,724,314	(90,249)
Excess (deficiency) of revenues over (under) expenditures	(81,684)	(81,684)	66,268	147,951
Other financing sources (uses)				
Debt Advance	26,400	26,400	-	(26,400)
Drug Seizure funds received	22,547	22,547	-	(22,547)
Total other financing sources and uses	48,947	48,947	-	(48,947)
Net change in fund balances	(32,737)	(32,737)	66,268	99,004
Fund balances - beginning	2,086,303	2,086,303	2,086,303	-
Fund balances - ending	\$ 2,053,566	\$ 2,053,567	\$ 2,152,571	\$ 99,004

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

CITY OF MERKEL, TEXAS

Statement of Net Position
Proprietary Funds
September 30, 2024

	Business-type Activities- Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 743,843
Investments	302,576
Accounts receivable (net of allowance for uncollectibles)	171,833
Prepaid items	-
Inventories	21,708
Restricted cash	476,166
Total current assets	<u>1,716,126</u>
Capital assets:	
Land	72,080
Construction in-progress	-
Buildings	1,975
Machinery and equipment	936,308
Vehicles	35,731
Utility system	11,111,928
Less accumulated depreciation	<u>(4,712,972)</u>
Total capital assets (net of accumulated depreciation)	<u>7,445,050</u>
Total assets	<u>9,161,176</u>
Deferred Outflows of Resources	
Deferred pension outflow	113,250
Deferred OPEB outflow	490
Total deferred outflows of resources	<u>113,740</u>
Liabilities	
Current Liabilities:	
Accounts payable	68,901
Due to other funds	193,078
Accrued expenses	15,526
Customer deposits	26,670
Unearned revenue	9,502
Compensated absences	2,492
Bonds payable - current	176,078
Total current liabilities	<u>492,247</u>
Noncurrent liabilities:	
Compensated absences	7,477
Net pension liability	170,832
Total OPEB liability	12,556
Bonds payable	5,177,130
Total noncurrent liabilities	<u>5,367,995</u>
Total liabilities	<u>5,860,242</u>
Deferred Inflow of Resources	
Deferred pension inflow	44,342
Deferred OPEB inflow	2,504
Total deferred inflows of resources	<u>46,846</u>
Net Position	
Net investment in capital assets	2,091,842
Restricted for debt service	465,403
Restricted for CSLFRF projects	10,763
Restricted for capital project	-
Unrestricted	799,820
Total net position	<u>\$ 3,367,828</u>

CITY OF MERKEL, TEXAS

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Proprietary Funds
 For the Year Ended September 30, 2024

	Business-type Activities- Enterprise Fund
Operating revenues:	
Charges for sales and services:	
Water	\$ 1,244,980
Sewer	356,680
Sanitation	350,103
Other operating revenue	48,374
Total operating revenue	2,000,137
Operating expenses:	
Personal services	458,170
Maintenance and supplies	221,131
Other services and charges	1,166,177
Depreciation	316,006
Total operating expenses	2,161,484
Operating income (loss)	(161,347)
Nonoperating revenues (expenses):	
Intergovernmental	281,195
Interest income	42,698
Interest expense	(160,762)
Total nonoperating revenue (expense)	163,131
Change in net position	1,784
Total net position - beginning	3,366,044
Total net position - ending	\$ 3,367,828

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

CITY OF MERKEL, TEXAS

Statement of Cash Flows Proprietary Funds For the Year Ended September 30, 2024

	Business-type Activities- Enterprise Fund
Cash Flows From Operating Activities	
Receipts from customers and users	\$ 2,023,262
Payments to suppliers	1,727,492
Payments to employees	444,401
Net cash provided (used) by operating activities	(148,631)
Cash Flows From Capital and Related Financing Activities	
Proceeds from certificates of obligation	1,000,000
Capital grants	281,195
Acquisition and construction of capital assets	(1,517,724)
Principal paid on debt	(130,000)
Interest paid on debt	(177,419)
Net cash provided (used) by capital and related financing activities	(543,948)
Cash Flows From Investing Activities	
Purchase of investments	(300,000)
Interest received	40,122
Net cash provided (used) by investing activities	(259,878)
Net decrease in cash and cash equivalents	(952,457)
Cash and cash equivalents at beginning of year	2,172,466
Cash and cash equivalents at end of year	\$ 1,220,009
As reported on the balance sheet:	
Cash and cash equivalents	743,843
Restricted cash	476,166
Total cash and equivalents at end of year	\$ 1,220,009
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	(161,347)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	316,006
(Increase) decrease in accounts receivable	23,272
(Increase) decrease in prepaid items	87,989
(Increase) decrease in inventory	(169)
(Increase) decrease in deferred outflows of resources	13,570
Increase (decrease) in accounts payable	(130,800)
Increase (decrease) in due to other funds	(3,426)
Increase (decrease) in customer deposits	(147)
Increase (decrease) in compensated absences	3,008
Increase (decrease) in unearned revenue	(293,778)
Increase (decrease) in pension and OPEB liability	(16,940)
Increase (decrease) in deferred inflows of resources	14,131
Total adjustments	12,716
Net cash provided (used) by operating activities	\$ (148,631)

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

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CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

(1) Summary of Significant Accounting Policies

A. General Statement

The City of Merkel, Texas, is a Type A General Law City with a council-manager form of government and provides the following services: Police and Fire, Streets, Sanitation, Water, Sewer, Social Services, Recreation, Public Improvements, and General Administrative Services.

B. Financial Reporting Entity

The governmental reporting entity consists of the City (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the City are such that exclusion would cause the City's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the City's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the City. Organizations for which the City is not financially accountable are also included when doing so is necessary in order to prevent the City's financial statements from being misleading.

The basic financial statements include both blended and discretely presented component units. The blended component unit, although a legally separate entity is, in substance, part of the City's operations and so data from this unit is combined with data of the primary government. The discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government.

Discretely presented component units.

Based on these criteria, Merkel Economic Development Corporation is reported as a discretely presented component unit of the City. The corporation is fiscally dependent upon the City and the City is able to impose its will on the organization. The EDC does not have separately issued financial statements.

The Merkel Volunteer Fire Department is reported as a discretely presented component unit of the City. They are fiscally dependent on the City and a financial benefit exists. The Volunteer Firemen provide services to the City as well as the surrounding area. They do not prepare separate financial statements.

Blended component unit.

The Emergency Medical Services, Inc. is reported as a blended component unit of the City. They are fiscally dependent upon the City, the City is able to impose its will on the organization, and they are nearly exclusively funded by the City. Exclusion of the organization would result in misleading or incomplete financial statements. The funds of the Emergency Medical Services, Inc. have been included in the Governmental Activities in the financial statements. They do not prepare separate financial statements.

Resource flows (except those affecting the statement of net assets/balance sheet only) between a primary government and its discretely presented component unit are reported as external transactions – that is, as revenues and expenses. Resource flows between the primary government and blended component units are classified as interfund transactions in the financial statements.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of Interfund activity has been removed from these statements. *Governmental activities*, which normally 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 support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

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 fund financial statements are provided for governmental funds and proprietary funds.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *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 fund:

The *water, sewer and sanitation fund* accounts for the activities of the City. The City of Merkel supplies water to city residents, disposal of wastewater is primarily limited to the citizens of Merkel. The City also provides for solid waste collection and disposal within the City.

The City has one non-major governmental fund. The Emergency Medical Services is a blended component unit; therefore, it is a special revenue fund.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 fund's principal ongoing operations. The principal operating revenues of the City enterprise fund and the government's internal service funds are charges to customers for sales

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

E. Budgetary Control

The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 15. The City has one governmental fund with a legally adopted budget and it is the General Operating fund.

Upon receipt of the budget estimates, the Council holds a first reading on the Budget Ordinance and Tax Rate Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City. The Council is precluded from passing the Budget Ordinance (second reading) until ten days have passed after the Ordinance Publication and after the first Monday in September.

Prior to October 1, the budget is legally adopted or is amended by the City Council on a basis consistent with generally accepted accounting principles. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The City did not have any budget amendments for the year ending September 30, 2024.

F. Cash and Investments

Cash and cash equivalents reflected in the financial statements includes petty cash and cash in banks.

For purposes of reporting cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents.

In accordance with GASB Statement No. 72 *Fair Value Measurement and Application*, investments are recorded at fair value. Consistent with GASB Statement No. 72, the City categorizes its fair value measurements within the fair value hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. A detail of the fair value hierarchy of investments held by the City are disclosed in Note (3) to the financial statements.

G. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

H. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Unbilled utility services receivables are recorded when earned. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

I. Inventory

Inventories are valued at cost using the first in/first-out (FIFO) method. The costs of inventories are recorded as expenditures when purchased.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

J. Restricted Assets

Certain cash balances in the water sewer and sanitation fund are set aside for the repayment of debt. They are maintained in separate bank accounts and their use is limited by applicable bond or lending covenants. The general fund has cash that is restricted for debt service and restricted by legislative mandates such as hotel/motel tax monies, drug seizure monies, and court security and technology monies. The general fund restricted cash is \$316,184. Of this amount, \$140,357 is restricted by legislative mandates and \$175,827 is restricted for debt through debt covenants. The water sewer and sanitation fund has \$465,403 restricted cash for debt service. This fund also has restricted CSLFRF funds in the amount of \$10,763 for a total restricted cash in the water sewer sanitation fund of \$476,166.

K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), 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 \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, infrastructure, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles	3 – 5
Machinery and Equipment	6 – 30
Buildings	40 – 60
Infrastructure	40 – 60
Improvements	27.5 – 60

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualifies for reporting in this category; the deferred outflow related to pensions and also OPEB reported in the government-wide Statement of Net Position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types which arise only under a modified accrual basis of accounting that qualifies for reporting in this category.

Accordingly, the item, unavailable revenue, is reported only in the fund balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

M. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation, sick, and comp pay benefits. Employees are allowed to carryover 5 days for unused vacation time. Employees are allowed to accumulate 30 days of sick time. However, no payment for unused sick pay would be made in the event of termination or death. The estimated liability for accumulated time as of September 30, 2024 is recorded as an accrued payable in the appropriate fund. Governmental fund liabilities are paid by the general fund. Business-type compensated absences are paid by the water, sewer and sanitation fund.

N. 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 statement of fund net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

O. Fund Balance

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – amounts that are either not in a spendable form or are legally or contractually required to remain intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of City Charter, City Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Assigned - amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or the City Manager when the City Council has delegated that authority. Modifications or rescissions of the constraints can also be removed by the same action that limited the funds.

Unassigned - all other spendable amounts.

As of September 30, 2024, fund balances are composed of the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Restricted:			
Public Safety	\$ 388	\$ 50,636	\$ 51,025
Tourism Development	114,009	-	114,009
Court Technology and Security	25,960	-	25,960
Debt	175,827	-	175,827
Assigned:			
Street Improvements	332,349	-	332,349
Debt	94,135	-	94,135
Senior Nutrition	14,066	-	14,066
Unassigned Fund Balances	1,395,836	-	1,395,836
Total Fund Balances	\$ 2,152,571	\$ 50,636	\$ 2,203,207

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

the City Council has provided otherwise in its commitment or assignment actions.

Net Position

In the government-wide financial statements and proprietary fund financial statements, the net position is reported in three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted. Net investment in capital assets represents the City's total investment in capital assets, net of depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restriction imposed by creditors, grantors or laws or regulations of other governments. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied. The government-wide statement of net position of the primary government reported restricted net position of \$792,350 of which, \$140,357 is restricted by enabling legislation.

Net Investment in Capital Assets

Net investment in capital assets is composed of the following:

	Capital Assets - Net	Related Debt	Unspent Debt Proceeds	Total
Governmental Activities	\$ 1,500,044	\$ 1,027,028	\$ -	\$ 473,016
Business-type Activities	\$ 7,445,050	\$ 5,353,208	\$ -	\$ 2,091,842

P. Use of Estimates

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

(3) Deposits and Investments

As of September 30, 2024, the Primary Government had investments in TexSTAR, and one discretely presented component unit had investments in certificates of deposit.

Interest rate risk. This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by keeping its investment portfolio sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.

Credit risk. This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the City's policy to limit its investments to those investments that are fully insured or collateralized from a bank in the State of Texas and under the term of written depository agreement, obligations of the United States government, its agencies and instrumentalities and government sponsoring enterprises, or Texas Local Government Investment Pools.

Foreign Currency Risk. This is the risk that exchange rates will adversely affect the fair value of an investment. The City is not exposed to foreign currency risk.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
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CITY OF MERKEL, TEXAS
Notes to the Financial Statements
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At year end, the City's and its component unit's investment balances were as follows:

	Fair Value	Weighted Average Maturity (months)
Primary Government:		
TexSTAR	\$ 812,837	<1
Component Units:		
EDC – Certificates of Deposit	\$ 732,064	13.79

For short-term liquidity requirements, the City utilizes a local government investment pool. Texas Short Term Asset Reserve Fund (TexSTAR) is managed by JP Morgan Asset Management and Hilltop Securities. As of September 30, 2024, Tex Star's portfolio maintained a weighted average maturity of approximately 26 days.

The investments of the City are in compliance with the Council's investment policy and with the Public Funds Investment Act (Government Code Chapter 2256). The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year. Investments at year-end are representative of the types of investments maintained by the City during the year. The certificates of deposit of the primary government and the two discretely presented component unit are considered a level 1 of the fair value hierarchy as explained in note F.

(4) Receivables

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

	General Fund	Water, Sewer Sanitation Fund	Total
Accounts	\$ -	\$ 193,068	\$ 193,068
Taxes	172,366	-	172,366
Gross Receivables	172,366	193,068	365,434
Less: allowance for Uncollectibles	(7,656)	(21,235)	(28,891)
Net total receivables	\$ 164,710	\$ 171,833	\$ 336,543

The City's component unit, Merkel Economic Development Corporation, had taxes receivable of \$29,442. Receivables are expected to be collected within one year.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

(5) Capital Assets

Capital asset activity for the year ended September 30, 2024 was as follows:

Primary Government

Governmental activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 12,500	\$ -	\$ -	\$ 12,500
Total capital assets not being depreciated	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>12,500</u>
Capital assets, being depreciated:				
Buildings and improvements	151,116	-	-	151,116
Equipment	1,195,267	155,986	209,042	1,142,211
Infrastructure	1,912,060	23,424	-	1,935,484
Motor vehicles	1,302,109	19,739	158,459	1,163,391
Furniture and fixtures	96,061	-	7,811	88,248
Total capital assets being depreciated	<u>4,656,613</u>	<u>199,149</u>	<u>375,312</u>	<u>4,480,450</u>
Less accumulated depreciation for:				
Buildings and improvements	126,821	3,049	-	129,871
Equipment	1,112,967	35,113	209,042	939,039
Infrastructure	868,401	61,811	-	930,212
Motor vehicles	1,064,804	38,649	158,459	944,993
Furniture and fixtures	48,167	8,435	7,811	48,791
Total accumulated depreciation	<u>3,221,161</u>	<u>147,057</u>	<u>375,312</u>	<u>2,992,906</u>
Total capital assets, being depreciated, net	<u>1,435,452</u>	<u>52,092</u>	<u>-</u>	<u>1,487,544</u>
Governmental activities capital assets, net	<u>\$ 1,447,952</u>	<u>\$ 52,092</u>	<u>\$ -</u>	<u>\$ 1,500,044</u>

Business-type activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 72,080	\$ -	\$ -	\$ 72,080
Construction in-progress	345,851	3,025	348,876	-
Total capital assets not being depreciated	<u>417,931</u>	<u>3,025</u>	<u>348,876</u>	<u>72,080</u>
Capital assets, being depreciated:				
Buildings	1,975	-	-	1,975
Equipment	640,750	299,350	3,792	936,308
Motor vehicles	58,296	-	22,566	35,730
Water system	9,547,703	1,564,226	-	11,111,929
Total capital assets being depreciated	<u>10,248,724</u>	<u>1,863,576</u>	<u>26,358</u>	<u>12,085,942</u>
Less accumulated depreciation for:				
Buildings	1,975	-	-	1,975
Equipment	350,337	60,622	3,792	407,167
Motor vehicles	37,987	3,371	22,566	18,792
Water system	4,033,025	252,013	-	4,285,038
	<u>4,423,325</u>	<u>316,006</u>	<u>26,358</u>	<u>4,712,972</u>
Total capital assets, being depreciated, net	<u>5,825,400</u>	<u>1,547,570</u>	<u>-</u>	<u>7,372,970</u>
Business-type activities capital assets, net	<u>\$ 6,243,331</u>	<u>\$ 1,550,595</u>	<u>\$ 348,876</u>	<u>\$ 7,445,050</u>

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government	\$	7,463
Public safety		59,326
Streets		64,448
Culture and recreation		15,820
Total depreciation expense – governmental activities		\$147,057

Component Units

	Beginning			Ending
Merkel Volunteer Fire Department	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, being depreciated:				
Equipment	\$ 507,168	\$ 94,800	\$ -	\$ 601,968
Total capital assets being depreciated	507,168	94,800	-	601,968
Less accumulated depreciation for:				
Total accumulated depreciation	327,436	35,426	-	362,862
Total accumulated depreciation	327,436	35,426	-	362,862
Total capital assets being depreciated, net	179,732	59,374	-	239,106
capital assets, net	\$ 179,732	\$ 59,374	\$ -	\$ 239,106

	Beginning			Ending
Merkel Economic Development Corporation	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 54,202	\$ -	\$ -	\$ 54,202
Total capital assets not being depreciated	54,202	-	-	54,202
capital assets, net	\$ 54,202	\$ -	\$ -	\$ 54,202

(6) Long-Term Notes and Certificates of Obligation

At September 30, 2024, long-term debt consisted of the following:

Governmental Activities:

A Government Capital Corporation loan for \$154,638 bearing an interest rate of 2.84% payable in 10 annual installments of \$17,441. This note is for the purchase of a rescue pumper and is secured by the equipment. \$ 128,170

General Obligation Refunding Bonds, Series 2021 in the amount of \$965,000. The certificates bear interest of 2% to 3% and have a final maturity in 2037. The Bonds are payable from ad valorem taxes. This bond issue refunds a bond issue that was for street and pavement improvements. This issue includes \$550,000 in Serial Bonds and \$415,000 in 3% Term Bonds. \$ 815,000

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

Business-Type Activities:

General Obligation Refunding Bonds, Series 2020, dated March 31, 2020 in the original amount of \$4,380,000 due in annual installments through September 2048, bearing interest from 3% to 4% increasing in fiscal year 2031. Property taxes secure the obligations and surplus revenues of the City's waterworks and sewer system are used for payment of the obligations. \$ 3,885,000

Certificates of Obligation, Series 2024 dated January 5, 2024 in the original amount of \$1,000,000 due in annual installments through January 2039, bearing interest of 4.75%. Property taxes secure the obligations and surplus revenues of the City's waterworks and sewer system are used for payment of the obligations. \$1,000,000

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for the years subsequent to September 30, 2024 are as follows:

Governmental Activities:

Year Ending September 30	Principal	Interest	Total Obligation
2025	\$ 63,801	\$ 28,090	\$ 91,891
2026	69,193	26,198	95,391
2027	69,596	24,145	93,741
2028	70,011	22,080	92,091
2029	75,437	20,004	95,441
2030-2034	380,132	65,606	445,738
2035-2037	215,000	12,900	227,900
Total	<u>\$ 943,170</u>	<u>\$ 199,023</u>	<u>\$ 1,142,193</u>

Business-Type Activities:

Year Ending September 30	Principal	Interest	Total Obligation
2025	\$ 110,000	\$ 173,519	\$ 283,519
2026	157,000	238,534	395,534
2027	164,000	234,954	398,954
2028	167,000	232,105	399,105
2029	174,000	228,138	402,138
2030-2034	986,000	1,074,674	2,060,674
2035-2039	1,226,000	930,443	2,156,443
2040-2044	1,086,000	378,761	1,464,761
2045-2048	815,000	75,600	890,600
Total	<u>\$ 4,885,000</u>	<u>\$ 3,566,727</u>	<u>\$ 8,451,727</u>

The note payable is not paid from any one governmental revenue source. Repayment of principal and interest of the General Obligation Bond governmental debt is principally made from M&O property taxes. Also, for governmental activities, compensated absences, pension obligations, and other postemployment benefit obligations are liquidated by the general fund.

The General Obligation bonds are Refunding Bonds, Series 2021. The bond sale was used to refund Certificates of Obligation Series 2011 which were for street and pavement improvements.

The Certificates of Obligation Series 2024 were issued for waterworks and sewer system improvements.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

Changes in Outstanding Long-Term Obligations

The following is a summary of the changes in noncurrent liabilities reported in Statement of Net Position for the year ended September 30, 2024:

	Balance September 30, 2023	Issues or Additions	Payments or Expenditures	Balance September 30, 2024	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds 2021	\$ 865,000	\$ -	\$ 50,000	\$ 815,000	\$ 50,000
Premium	90,350	-	6,492	83,858	6,492
Total Bonds	955,350		56,492	898,858	56,492
Notes Payable	141,589	-	13,419	128,170	13,801
Compensated Absences	16,706	4,599	-	21,305	5,326
Net Pension Liability	262,986	-	35,785	227,201	-
Total OPEB Liability	20,219	4,736	-	24,955	-
Total Governmental	\$ 1,396,850	\$ 9,335	\$ 105,696	\$ 1,300,489	\$ 75,619

	Balance September 30, 2023	Issues or Additions	Payments or Expenditures	Balance September 30, 2024	Due Within One Year
<u>Business-type Activities</u>					
General Obligation bonds	\$ 4,015,000	\$ -	\$ 130,000	\$ 3,885,000	\$ 110,000
Certificates of Obligation	-	1,000,000	-	1,000,000	47,000
Premium	487,287	-	19,078	468,208	19,078
Total Bonds	4,502,287	1,000,000	149,078	5,353,208	176,078
Compensated Absences	6,961	3,008	-	9,969	2,492
Net Pension Liability	190,357	-	19,525	170,832	-
Total OPEB Liability	9,971	2,585	-	12,556	-
Total Business-type Activities	\$ 4,709,576	\$ 1,005,593	\$ 168,603	\$ 5,546,565	\$ 178,570

Default Provisions

The governmental activities note is payable to First Financial Bank for a rescue pumper. The default provisions are that upon default, First Financial Bank may proceed against the City by mandamus or other suit, action, or special proceeding in equity or at law. No party shall have the right to declare the balance of the contract payments to be immediately due and payable nor is there a right to accelerate the debt.

Direct Interest

The debt listed for business-type activities above was issued for the creation or continuing existence of specific programs for the City's water and sewer system. Interest on the debt is reported in the water and sewer fund as direct expenses on the Statement of Activities. In governmental fund financial statements, interest is reported by the department responsible for the debt and making the payment.

(7) Property Tax

The City's property tax is levied each October 1, on 100 percent of assessed value listed for all real and personal property located in the City as of the prior January 1. Assessed values are established by the Taylor County Central Appraisal District and certified by the Board of Review. Taxes are due by January 31 following the October 1 levy date. A tax lien attaches to property on January 1 of each year to secure the payment of

CITY OF MERKEL, TEXAS
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September 30, 2024

all taxes, penalties, and interest ultimately imposed on the property. The lien attaches whether or not the taxes were imposed in the year in which the lien attached.

The City is permitted by Article II, Section 5 of the State of Texas constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. Taxes are due on the levy date and are delinquent on January 31, following the October 1, levy date. Current tax collections for the year ended September 30, 2024 were 96 percent of the tax levy.

Property tax revenues are recognized when they become available. Available means collected within the current period and the amount expected to be collected soon after year-end to pay liabilities of the current period not to exceed 60 days. The amount of taxes collected in the balance of taxes receivable, net of allowance, is recorded as unavailable revenue.

(8) Employee Retirement Systems
Texas Municipal Retirement System (TMRS)

A. Plan Description

The City participates as one of 936 member cities 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 the System 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 www.tmr.com.

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

B. Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payments 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.

TMRS members vest after 5 years of service. If a vested member leaves covered employment before reaching retirement eligibility, the member may leave his or her deposits with TMRS, earn interest on the deposits, and, upon reaching age 60, apply for and receive a monthly retirement payment. A member becomes eligible for service retirement based on various combinations of age and service, depending on which provisions have been adopted by the employing municipality. The City of Merkel has adopted a 5 yrs/age 60, 25 yrs/any age provision for their service retirement eligibilities.

A member city may elect to increase the annuities of its retirees (grant a cost-of-living adjustment, or COLA), either annually or on an annually repeating basis, effective January 1 of a calendar year. For cities that adopted annuity increases since January 1, 2000, the adjustment is either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index - All Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December 13 months before the effective date of the increase, applied to the original monthly annuity.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

Employees covered by benefit terms.

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	18
Active employees	<u>16</u>
	44

C. Contributions

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

Employees for the City of Merkel were required to contribute 7% of their annual gross compensation during the fiscal year. The contribution rates for the City were 12.82% and 13.75% in calendar years 2023 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2024, were \$113,937 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2023, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2023, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for 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 is 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 the most recent Scale UMP-2021(with immediate convergence) to account for future mortality improvements subject to the 3.5% and 3% floor.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation.

For calculating the actuarial liability and the retirement contribution rates for pre-retirement mortality, the PUB(10) mortality tables, with 110% of the Public Safety table being used for males and 100% of the General Employee table being used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements.

Effective December 31, 2015, the long-term expected rate of return on TMRS pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation and the production of income in order to satisfy the short-term and long-term funding needs of TMRS. The long-term expected rate of return on pension plan investments is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of arithmetic rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	35.0%	6.7%
Core Fixed Income	6.0%	4.7%
Non-Core Fixed Income	20.0%	8.0%
Other Markets	12.0%	8.0%
Real Estate	12.0%	7.6%
Hedge Funds	5.0%	6.4%
Private Equity	<u>10.0%</u>	11.6%
Total	<u>100.0%</u>	

Discount Rate

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

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total	Plan Fiduciary	Net Pension
	Pension Liability [a]	Net Position [b]	Liability [a] – [b]
Balance at 12/31/2022	\$ 2,314,621	\$ 1,861,278	\$ 453,343
Changes for the year:			
Service cost	115,995	-	115,995
Interest	155,106	-	155,106
Change in current period benefits	-	-	-
Difference between expected and actual experience	59,500	-	59,500
Changes in assumptions	(32,915)	-	(32,915)
Contributions – employer	-	89,743	(89,743)
Contributions – employee	-	49,002	(49,002)
Net investment income	-	215,630	(215,630)
Benefit payments, including refunds of employee contributions	(149,518)	(149,518)	-
Administrative expense	-	(1,370)	1,370
Other changes	-	(10)	10
Net changes	\$ 148,168	\$ 203,478	\$ (55,310)
Balance at 12/31/2023	\$ 2,462,789	\$ 2,064,756	\$ 398,033

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	Discount rate	Net pension liability
1% decrease	5.75%	\$ 746,184
Current discount rate	6.75%	\$ 398,033
1% increase	7.75%	\$ 113,571

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

E. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2024, the city recognized pension expense of \$144,138.

At September 30, 2024, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 66,241	\$ -
Changes in actuarial assumptions	-	21,365
Difference between projected and actual investment earnings	164,508	117,720
Contributions subsequent to the measurement date	87,364	-
Total	<u>\$ 318,113</u>	<u>\$ 139,085</u>

\$87,364 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, 2025. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan year ending Dec 31:	
2024	\$ 49,611
2025	23,214
2026	36,837
2027	(17,998)
2028	-
Thereafter	-
Total	<u>\$ 91,664</u>

**(9) Employee Retirement Systems - Volunteer Fire Department
Texas Emergency Services Retirement System (TESRS)**

A. Plan Description

The Texas Emergency Services Retirement System is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine Board of Trustees, appointed by the Governor, establishes policy for the administration of the Texas Emergency Services Retirement System.

The TESRS was created as a standalone agency by the 83rd Legislature via the passage of SB 220, effective September 1, 2013, to assume the related functions of the abolished Office of the Fire Fighters' Pension Commissioner. While the agency is new, the System has been in existence since 1977. TESRS, which is under the authority of Title 8, Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fire fighters and first responders, and a pension to members with vested service, as well as to their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link. Information that is available in the annual financial report is not repeated in the allocation schedules and related notes.

The preparation of the schedules of participating department allocations and collective pension amounts in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates and assumptions that affect the reporting amounts during the reporting period. Actual results could differ from those estimates.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

B. Benefits Provided

The benefit provision include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's year of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

C. Contributions

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the system, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities. The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The contributions to TESRS for the year ended September 30, 2024 were \$2,160 and were equal to the required contributions.

D. Net Pension Liability

The Volunteer Fire Department's Net Pension obligations are not recorded on the financial statements because of their materiality.

(10) Other Post-Employment Benefits

A. Plan Description

The City also participates in an optional death benefit plan, the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide supplemental death benefits for their active Members with optional coverage for their retirees. A supplemental death contribution rates is determined annually for each participating municipality as a percentage of that city's covered payroll. The contribution rate finances the expected benefit payments each year on a pay-as-you-go basis.

As stated in the previous paragraph, the SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB no. 75, paragraph 4b, (i.e., no assets are accumulated for OPEB). As such the SDBF is considered to be a single-employer unfunded OPEB plan (and not a cost sharing plan) with benefit payments treated as being equal to the employer's yearly contributions for retirees. In accordance with paragraph 155, the applicable discount rate for an unfunded OPEB is based on an index of tax exempt 20-year municipal bond rates rated as AA or higher.

As of December 31, 2023, the discount rate used in the development of the Total OPEB Liability was 3.77% compared to 4.05% as of December 31, 2022.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

B. Benefits Provided

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

Employees covered by benefit terms.

At the December 31, 2023 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>16</u>
	24

C. Contributions

The participating city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. 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. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

D. Total OPEB Liability

Actuarial assumptions:

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS as of December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected beefier payments during the upcoming year divided by the annualized pay of current active members, and it is calculated separately for actives and retirees. The 2025 SDB rate for retiree coverage is equal to 110% of the expected term cost. The SDB rate for active coverage is equal to 150% of the expected term cost.

General Inflation	2.50%
Salary increases	3.6% to 11.85% including inflation.
Discount Rate*	3.77%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expense 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
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 MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2023.

The actuarial assumptions used in the December 31, 2023 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Changes in the Total OPEB Liability

Total OPEB Liability – beginning of year	\$30,190
Changes for the year:	
Service cost	2,100
Interest	1,250
Changes in benefit terms	-
Differences between expected and actual experience	3,293
Changes in assumptions or other inputs	1,448
Benefit payments**	(770)
Net changes	7,321
Total OPEB Liability - end of year	\$ 37,511

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

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

The following presents the net OPEB liability of the City, calculated using the discount rate of 3.77%, 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 (2.77%) or 1-percentage-point higher (4.77%) than the current rate:

	Discount rate	Total OPEB liability
1% decrease	2.77%	\$ 45,136
Current discount rate	3.77%	\$ 37,511
1% increase	4.77%	\$ 31,527

E. OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2024 the city recognized OPEB expense of \$1,304. At September 30, 2024, 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 experience	\$ 1,294	\$ -
Changes in assumptions and other inputs	-	7,584
Contributions subsequent to the measurement date	635	-
Total	\$ 1,929	\$ 7,584

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

The \$635 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending September 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Plan Year ending Dec 31:	
2024	\$ (1,831)
2025	(1,967)
2026	(1,955)
2027	(828)
2028	291
Thereafter	-
Total	<u>\$ (6,290)</u>

(11) Individual Fund Disclosures

For fiscal year ended September 30, 2024, the City has expended funds in excess of appropriations at the level of control in the following areas:

Fund	Excess Amount
General Government	\$ 55,293
Fire Department	19,851
Municipal Court	258
Heritage Hall	9,233
Library	2,048
Parks	99,239

These over-expenditures were funded by greater than anticipated revenues and under-budget expenditures in other departments.

(12) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2024, is as follows:

	Due From	Due To
General fund	\$ 193,078	\$ -
Major business-type fund	-	193,078
	<u>\$ 193,078</u>	<u>\$ 193,078</u>

The general fund pays all city employees and the water sewer fund reimburses the general fund. This balance due is scheduled to be collected in the subsequent year.

(13) Health Care Coverage

During the year ended September 30, 2024, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums for full time employee to the Plan. Employees at their option, authorized payroll withholdings to pay premiums for dependents. TX Health Benefits Pool (formerly TML Health Benefits Pool) is a non-profit trust organization created by political subdivisions to provide group benefits services to participating political subdivisions and is not an insurance company. The contract is renewable October 1, and terms of coverage and premium costs are included in the contractual provisions.

CITY OF MERKEL, TEXAS
Notes to the Financial Statements
September 30, 2024

(14) Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2024, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TMLIRP"). TMLIRP is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TMLIRP for its above insurance coverage.

The City also obtained general liability coverage through United Fire Group. UFG is a publicly traded company and has been listed on the Nasdaq Stock Market under UFSC for more than three decades. They hold a financial strength rating of "A-" (Excellent) from AM Best.

During the last three years, no program has had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in coverage from coverage in the prior years.

(15) Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Required Supplementary Information

CITY OF MERKEL, TEXAS

Schedule of Changes in Net Pension Liability and Related Ratios - TMRS
Last 10 years

	Measurement Year 2023	Measurement Year 2022	Measurement Year 2021	Measurement Year 2020
Total pension liability				
Service Cost	\$ 115,995	\$ 118,317	\$ 94,182	\$ 96,516
Interest (on the Total Pension Liability)	155,106	139,852	126,169	124,122
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	59,500	87,665	64,549	(99,134)
Change of assumptions	(32,915)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(149,518)</u>	<u>(87,867)</u>	<u>(100,661)</u>	<u>(79,350)</u>
Net Change in Total Pension Liability	148,168	257,967	184,239	42,154
Total Pension Liability - Beginning	<u>2,314,621</u>	<u>2,056,654</u>	<u>1,872,415</u>	<u>1,830,261</u>
Total Pension Liability - Ending (a)	<u>\$ 2,462,789</u>	<u>\$ 2,314,621</u>	<u>\$ 2,056,654</u>	<u>\$ 1,872,415</u>
Plan Fiduciary Net Position				
Contributions - Employer	\$ 89,743	\$ 90,149	\$ 77,526	\$ 77,683
Contributions - Employee	49,002	50,317	39,126	40,191
Net Investment Income	215,630	(142,492)	223,361	118,178
Benefit payments, including refunds of employee contributions	(149,518)	(87,867)	(100,661)	(79,350)
Administrative Expense	(1,370)	(1,232)	(1,033)	(765)
Other	<u>(10)</u>	<u>1,471</u>	<u>7</u>	<u>(30)</u>
Net change in Plan Fiduciary Net Position	203,478	(89,655)	238,326	155,908
Plan Fiduciary Net Position - Beginning	<u>1,861,278</u>	<u>1,950,933</u>	<u>1,712,607</u>	<u>1,556,699</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,064,756</u>	<u>\$ 1,861,278</u>	<u>\$ 1,950,933</u>	<u>\$ 1,712,607</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 398,033</u>	<u>\$ 453,343</u>	<u>\$ 105,721</u>	<u>\$ 159,808</u>
Plan Fiduciary Net Position as a % of Total Pension Liability	83.84%	80.41%	94.86%	91.47%
Covered Employee Payroll	\$ 700,028	\$ 718,813	\$ 558,944	\$ 574,156
Net Pension Liability as a % of Covered Employee Payroll	56.86%	63.07%	18.91%	27.83%

Notes to Schedule:

N/A

Measurement Year 2019	Measurement Year 2018	Measurement Year 2017	Measurement Year 2016	Measurement Year 2015	Measurement Year 2014
\$ 83,870	\$ 71,058	\$ 65,072	\$ 70,767	\$ 66,494	\$ 64,854
118,305	108,857	120,182	113,433	111,355	106,830
49,271	-	-	-	-	-
(46,504)	(9,178)	(243,261)	31,577	(37,710)	(27,992)
14,048	-	-	-	21,935	-
<u>(100,383)</u>	<u>(72,512)</u>	<u>(152,995)</u>	<u>(72,913)</u>	<u>(76,096)</u>	<u>(83,630)</u>
118,607	98,225	(211,002)	142,864	85,978	60,062
<u>1,711,654</u>	<u>1,613,429</u>	<u>1,824,431</u>	<u>1,681,567</u>	<u>1,595,589</u>	<u>1,535,527</u>
<u>\$ 1,830,261</u>	<u>\$ 1,711,654</u>	<u>\$ 1,613,429</u>	<u>\$ 1,824,431</u>	<u>\$ 1,681,567</u>	<u>\$ 1,595,589</u>
\$ 59,930	\$ 68,889	\$ 61,935	\$ 68,655	\$ 68,792	\$ 63,243
30,554	30,259	28,129	30,903	30,043	28,408
209,967	(41,129)	175,007	78,295	1,674	61,010
(100,383)	(72,512)	(152,995)	(72,913)	(76,096)	(83,630)
(1,186)	(795)	(906)	(884)	(1,020)	(637)
<u>(36)</u>	<u>(42)</u>	<u>(46)</u>	<u>(48)</u>	<u>(50)</u>	<u>(52)</u>
198,846	(15,330)	111,124	104,008	23,342	68,342
<u>1,357,853</u>	<u>1,373,183</u>	<u>1,262,059</u>	<u>1,158,051</u>	<u>1,134,709</u>	<u>1,066,367</u>
<u>\$ 1,556,699</u>	<u>\$ 1,357,853</u>	<u>\$ 1,373,183</u>	<u>\$ 1,262,059</u>	<u>\$ 1,158,051</u>	<u>\$ 1,134,709</u>
<u>\$ 273,562</u>	<u>\$ 353,801</u>	<u>\$ 240,246</u>	<u>\$ 562,372</u>	<u>\$ 523,516</u>	<u>\$ 460,880</u>
85.05%	79.33%	85.11%	69.18%	68.87%	71.12%
\$ 509,229	\$ 504,314	\$ 468,821	\$ 515,044	\$ 500,712	\$ 473,464
53.72%	70.16%	51.24%	109.19%	104.55%	97.34%

CITY OF MERKEL, TEXAS

Schedule of Contributions - TMRS
Last 10 years

	<u>9/30/2024</u>	<u>9/30/2023</u>	<u>9/30/2022</u>
Actuarially Determined Contribution	\$ 113,937	\$ 83,948	\$ 92,855
Contributions in relation to the actuarially determined contribution	\$ 113,937	\$ 83,948	\$ 92,855
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$ 842,656	\$ 658,439	\$ 722,431
Contributions as a percentage of covered employee payroll	13.52%	12.75%	12.85%

Notes to Schedule of Contributions

Valuation Date:

Notes 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	20 years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.60% to 11.85% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Males are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB (10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other information:

Notes There were no benefit changes during the year.

<u>9/30/2021</u>	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>
\$ 75,237	\$ 71,513	\$ 60,515	\$ 70,824	\$ 63,574	\$ 69,196	\$ 66,909
<u>\$ 75,237</u>	<u>\$ 71,513</u>	<u>\$ 60,515</u>	<u>\$ 70,824</u>	<u>\$ 63,574</u>	<u>\$ 69,196</u>	<u>\$ 66,909</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 546,285	\$ 546,028	\$ 494,788	\$ 523,392	\$ 479,127	\$ 514,947	\$ 490,528
13.77%	13.10%	12.23%	13.53%	13.27%	13.44%	13.64%

CITY OF MERKEL, TEXAS

Schedule of Changes in Total OPEB Liability and Related Ratios - TMRS
Last 10 years (will ultimately be displayed)

	Measurement Year 2023	Measurement Year 2022	Measurement Year 2021
Total OPEB liability			
Service Cost	\$ 2,100	\$ 3,810	\$ 3,018
Interest (on the Total OPEB Liability)	1,250	816	786
Changes of benefit terms	-	-	-
Difference between expected and actual experience	3,293	1,845	63
Change of assumptions	1,448	(18,383)	1,556
Benefit payments **	<u>(770)</u>	<u>(647)</u>	<u>(894)</u>
Net Change	7,321	(12,559)	4,529
Total OPEB Liability - Beginning	<u>30,190</u>	<u>42,749</u>	<u>38,220</u>
Total OPEB Liability - Ending (a)	<u><u>\$ 37,511</u></u>	<u><u>\$ 30,190</u></u>	<u><u>\$ 42,749</u></u>
Covered employee payroll	\$ 700,028	\$ 718,813	\$ 558,944
Total OPEB Liability as a percentage of covered payroll	5.36%	4.20%	7.65%

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

Notes to RSI:

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

Notes to Schedule:

- ¹ No assets are accumulated in a trust meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits
- ² Mortality assumptions and premium calculation methods were modified as of the December 31, 2019 valuation.

Measurement Year 2020	Measurement Year 2019	Measurement Year 2018	Measurement Year 2017
\$ 2,756	\$ 1,324	\$ 1,362	\$ 1,125
1,113	1,164	1,065	1,036
-	-	-	-
(10,402)	(1,075)	(671)	-
5,819	7,222	(2,321)	2,663
(287)	(255)	(202)	(141)
(1,001)	8,380	(767)	4,683
39,221	30,841	31,608	26,925
<u>\$ 38,220</u>	<u>\$ 39,221</u>	<u>\$ 30,841</u>	<u>\$ 31,608</u>
\$ 574,156	\$ 509,229	\$ 504,314	\$ 523,392
6.66%	7.77%	6.12%	6.74%

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**Other Information Required by
Government Auditing Standards**

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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
Merkel, TX 79536

I 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, business-type activities, aggregate discretely presented component units, and the aggregate remaining funds of the City of Merkel, Texas ("City"), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated January 17, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

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

My consideration of internal control was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during the audit I did not identify any deficiency in internal control that I consider to be a material weakness. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Merkel's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2024-001.

City of Merkel, Texas' Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's responses to the findings identified in my audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, I 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.

Cathrine Wilks CPA LLC

Sweetwater, Texas
January 17, 2025

CITY OF MERKEL, TEXAS

Schedule of Findings and Responses For the Year Ended September 30, 2024

I. Summary of the Auditor's Results:

- a. The type of report issued on the general-purpose financial statements of the City of Merkel was an unmodified opinion.
- b. There were no significant deficiencies in internal control.
- c. There were no significant deficiencies that were material weaknesses in internal control.
- d. The audit disclosed one instance of noncompliance which would be material to the financial statements.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Compliance Finding

2024-001

Criteria: in accordance with Texas Government code Title 10, Subtitle F, chapter 2257, a deposit of public funds shall be secure by eligible security to the extent and in the manner required by Government Code.

Condition: During the fiscal year 2024 audit of cash balances, instances of uncollateralized deposits were discovered as stated in Note (3) of the Notes to Financial Statements. Upon inquiry of management and during the confirmation process, it was discovered that the City did not have any of their funds secured with the new depository bank from June to September 30, 2024 beyond the \$250,000 FDIC insurance coverage.

Effect: Public funds were not collateralized due to an error that occurred when the City changed depository institutions in June of 2024.

Cause: The depository bank failed to pledge assets for the City when the City moved their deposits in June of 2024. This failure to pledge assets went undetected by the bank and the City staff until October of 2024. The depository bank is unsure why the City's accounts were not showing up on their reports.

Recommendation: I recommend the City review bank balances and monitor the pledged asset reports obtained from the bank on a monthly basis and document this monitoring.

Views of responsible official and planned corrective actions: To address and correct this issue, the City Secretary and Interim City Manger have begun monitoring the pledge reports each month beginning with October of 2024. The City Secretary/Investment Officer will review a monthly recap of all bank balances and pledge reports in order to confirm that all funds are property collateralized at all times.

CITY OF MERKEL, TEXAS

Summary Schedule of Prior Audit Findings For the Year Ended September 30, 2024

Finding/Recommendation	Current Status	Management's Explanation If not Implemented
None		