

CITY OF HALLETTSVILLE, TEXAS

ANNUAL FINANCIAL REPORT

For the fiscal year ended December 31, 2025

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FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallettsville, Texas (the "City") as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2025 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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

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

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

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

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

Required Supplementary Information

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

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual major and nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual major and nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants
Victoria, Texas

May 13, 2026

The discussion and analysis of the City of Hallettsville's (the "City") financial performance provides an overview of the City's financial activities for the year ended December 31, 2025. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the year ended December 31, 2025 by \$41,450,308. Of this amount, \$5,720,336 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$9,603,505 for the year which is an increase of \$121,110 or 1% from the prior year.
- During the year, the City's general revenues exceeded net expenses and transfers of the governmental activities by \$5,436,978. This represents a 28% increase in net position from the previous year as a result of operations.
- At December 31, 2025, the City's governmental funds reported combined ending fund balances of \$11,700,482, an increase of \$698,492 or 6% in comparison with prior year.
- At December 31, 2025, unassigned fund balance for the General Fund was \$2,849,294 or 100% of total General Fund expenditures.
- The City's net capital assets as of December 31, 2025 was \$29,674,700, which is a net increase of \$5,892,608 or 25% from prior year, primarily due to the City's drainage and street improvement projects.
- The City's outstanding debt for governmental and business-type activities had a net decrease of \$512,809 or 7% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization and Flow of Financial Section Information

Independent Auditors' Report <i>Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.</i>	
Management's Discussion and Analysis <i>This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.</i> Pages 4 to 12	
Government-wide Financial Statements <i>Provides information on governmental and business-type activities of the primary government.</i> Pages 13 to 16	Fund Financial Statements <i>Provides information on the financial position of specific funds of the primary governments.</i> Pages 17 to 28
Notes to Financial Statements <i>Provides a summary of significant accounting policies and related disclosures.</i> Pages 29 to 59	

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The government-wide financial statements, which consist of the following two statements, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

Both of these financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include utilities. The government-wide financial statements can be found immediately following the Management's Discussion and Analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Sales Tax 4A Manufacturing Development Corporation, Sales Tax 4B Business Development Corporation, Grant Fund, and 2024 Capital Projects Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements following the required supplementary information.

The City adopts an annual appropriated budget for its General Fund, Sales Tax 4A Manufacturing Development Corporation, Sales Tax 4B Business Development Corporation, and Debt Service Funds. Budgetary comparison schedules have been provided to demonstrate compliance.

The basic governmental fund financial statements may be found immediately following the government-wide financial statements.

The City maintains one type of *proprietary fund* known as an enterprise fund which is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for the fiscal activities relating to electric, water, sewer, and solid waste services.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, and solid waste services, which is considered to be a major fund.

The basic proprietary fund financial statements follow the governmental fund financial statements.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 29 through 59 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, required supplementary information is included which presents a budgetary comparison schedule for the City's General, Sales Tax 4A Manufacturing Development Corporation, and Sales Tax 4B Business Development Corporation. The required supplementary information also presents a schedule of changes in net pension liability and related ratios, a schedule of changes in OPEB liability and related ratios, and schedules of employer contributions. Required supplementary information can be found on pages 60 through 73 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 74 through 88 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$41,450,308 at the close of the year ended December 31, 2025.

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

City of Hallettsville, Texas						
Net Position						
	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
ASSETS						
Current and other assets	\$ 14,023,670	\$ 13,427,089	\$ 8,065,343	\$ 7,595,750	\$ 22,089,013	\$ 21,022,839
Capital assets (net)	18,674,784	14,057,114	10,999,916	9,724,978	29,674,700	23,782,092
Other noncurrent assets	14,963	74,260	-	-	14,963	74,260
Total assets	<u>32,713,417</u>	<u>27,558,463</u>	<u>19,065,259</u>	<u>17,320,728</u>	<u>51,778,676</u>	<u>44,879,191</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>181,082</u>	<u>381,942</u>	<u>130,574</u>	<u>256,527</u>	<u>311,656</u>	<u>638,469</u>
LIABILITIES						
Long-term liabilities	5,717,019	6,072,543	1,249,648	1,406,933	6,966,667	7,479,476
Other liabilities	1,304,540	1,438,216	1,270,088	422,149	2,574,628	1,860,365
Total liabilities	<u>7,021,559</u>	<u>7,510,759</u>	<u>2,519,736</u>	<u>1,829,082</u>	<u>9,541,295</u>	<u>9,339,841</u>
DEFERRED INFLOWS OF RESOURCES	<u>1,025,767</u>	<u>1,019,451</u>	<u>72,962</u>	<u>40,401</u>	<u>1,098,729</u>	<u>1,059,852</u>
NET POSITION						
Net investment in capital assets	16,722,144	12,559,449	9,960,611	9,656,227	26,682,755	22,215,676
Restricted	9,047,217	8,643,606	-	-	9,047,217	8,643,606
Unrestricted	(922,188)	(1,792,860)	6,642,524	6,051,545	5,720,336	4,258,685
Total net position	<u>\$ 24,847,173</u>	<u>\$ 19,410,195</u>	<u>\$ 16,603,135</u>	<u>\$ 15,707,772</u>	<u>\$ 41,450,308</u>	<u>\$ 35,117,967</u>

The largest portion of the City's net position (64%) reflects its investment in capital assets (e.g., land, buildings, streets, equipment, and infrastructure), less any related outstanding debt used to acquire those assets that is still outstanding as well as any outstanding payables. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt and payables, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The next largest portion of the City's net position (22%) is restricted for debt service and special projects. The remaining balance of \$5,720,336 is unrestricted and may be used to meet the City's ongoing obligations to its citizens.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Hallettsville, Texas						
Changes in Net Position						
	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
REVENUES						
Program revenues:						
Charges for services	\$ 387,043	\$ 403,411	\$ 7,009,126	\$ 6,590,651	\$ 7,396,169	\$ 6,994,062
Operating grants and contributions	294,495	817,627	-	-	294,495	817,627
Capital grants and contributions	4,446,877	2,632,769	78,557	-	4,525,434	2,632,769
General revenues:						
Property taxes	858,388	522,673	-	-	858,388	522,673
Sales taxes	1,797,645	1,542,959	-	-	1,797,645	1,542,959
Franchise taxes	40,626	42,822	-	-	40,626	42,822
Other taxes	114,453	93,681	-	-	114,453	93,681
Unrestricted investment earnings	503,580	325,011	247,208	264,135	750,788	589,146
Miscellaneous	157,848	199,818	-	-	157,848	199,818
Total revenues	<u>8,600,955</u>	<u>6,580,771</u>	<u>7,334,891</u>	<u>6,854,786</u>	<u>15,935,846</u>	<u>13,435,557</u>
EXPENSES						
General government	1,039,999	1,387,954	-	-	1,039,999	1,387,954
Public safety	1,303,867	1,267,717	-	-	1,303,867	1,267,717
Public works	385,062	352,557	-	-	385,062	352,557
Culture and recreation	842,776	807,615	-	-	842,776	807,615
Interest on long-term debt	195,151	129,336	-	-	195,151	129,336
Utilities	-	-	5,836,650	5,537,216	5,836,650	5,537,216
Total expenses	<u>3,766,855</u>	<u>3,945,179</u>	<u>5,836,650</u>	<u>5,537,216</u>	<u>9,603,505</u>	<u>9,482,395</u>
Change in net position before transfers	4,834,100	2,635,592	1,498,241	1,317,570	6,332,341	3,953,162
Transfers	602,878	430,181	(602,878)	(430,181)	-	-
Change in net position	5,436,978	3,065,773	895,363	887,389	6,332,341	3,953,162
Net position - beginning	<u>19,410,195</u>	<u>16,344,422</u>	<u>15,707,772</u>	<u>14,820,383</u>	<u>35,117,967</u>	<u>31,164,805</u>
Net position - ending	<u>\$ 24,847,173</u>	<u>\$ 19,410,195</u>	<u>\$ 16,603,135</u>	<u>\$ 15,707,772</u>	<u>\$ 41,450,308</u>	<u>\$ 35,117,967</u>

The overall increase in the City's net position is \$6,332,341, which consists of an increase of \$5,436,978 in governmental activities and an increase of \$895,363 in business-type activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**Governmental Activities**

Governmental activities increased the City's net position by \$5,436,978. Total revenues increased \$2,020,184 or 31% primarily due to a \$1,814,108 increase in capital grants and contributions, mostly relating to the General Land Office CDBG-Mitigation Program. In addition, property tax revenues increased \$335,715 or 64% primarily due to the addition of the interest and sinking tax rate; sales tax revenues increased \$254,686 or 17% due to increased consumer activity; and unrestricted investment earnings increased \$178,569 or 55% due to investing additional funds. Operating grants and contributions decreased \$523,132 or 64% due to less housing grant activity in the current year. Total expenses decreased \$178,324 or 5% primarily due to a \$347,955 or 25% decrease in general government expenses relating to less housing program expenses incurred in the current year. In addition, net transfers in from business-type activities increased \$172,697 or 40% as a result of a decrease in capital contributions for various utility projects.

City of Hallettsville, Texas**Expenses and Program Revenues - Governmental Activities**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>	<u>Net (Expense) Revenue</u>
General government	\$ 1,039,999	27.61%	\$ 421,804	8.22%	\$ (618,195)
Public safety	1,303,867	34.62%	123,870	2.42%	(1,179,997)
Public works	385,062	10.22%	4,346,509	84.75%	3,961,447
Culture and recreation	842,776	22.37%	236,232	4.61%	(606,544)
Interest on long-term debt	195,151	5.18%	-	0.00%	(195,151)
Total	<u>\$ 3,766,855</u>		<u>\$ 5,128,415</u>		<u>\$ 1,361,560</u>

City of Hallettsville, Texas**Revenue by Source - Governmental Activities**

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 387,043	4.21%
Operating grants and contributions	294,495	3.20%
Capital grants and contributions	4,446,877	48.32%
Property taxes	858,388	9.33%
Sales taxes	1,797,645	19.52%
Franchise taxes	40,626	0.44%
Other taxes	114,453	1.24%
Unrestricted investment earnings	503,580	5.47%
Miscellaneous	157,848	1.72%
Net transfers	602,878	6.55%
Total	<u>\$ 9,203,833</u>	

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type Activities

Business-type activities increased the City's net position by \$895,363. Total revenues increased \$480,105 or 7%, primarily relating to a \$418,475 or 6% increase in charges for services resulting from increases in utility rates. Total expenses increased \$299,434 or 5% from prior year. There was a \$179,977 increase in electric expenses mainly due to usage expense increases, which was offset by various fluctuations in other departments. In addition, net transfers out to governmental activities increased \$172,697 or 40% as a result of a decrease in capital contributions for various utility projects.

City of Hallettsville, Texas **Revenue by Source - Business-type Activities**

<u>Description</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 7,009,126	104.12%
Unrestricted investment earnings	247,208	3.67%
Capital contributions	78,557	1.17%
Transfers in	(602,878)	-8.96%
Total	<u>\$ 6,732,013</u>	

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

As of the end of the year, the City's governmental funds reported combined ending fund balances of \$11,700,482, a net increase of \$698,492 or 6% in comparison with the prior year. Approximately 24% of this total amount or \$2,849,294 constitutes unassigned fund balance, which is available for spending at the City's discretion.

The net increase in fund balance was made up of an increase of \$277,386 in the General Fund, a \$250,028 increase in the Sales Tax 4A Manufacturing Development Corporation, a \$335,999 increase in the Sales Tax 4B Business Development Corporation, a \$73,083 decrease in the Grant Fund, a \$122,674 decrease in the 2024 Capital Projects Fund, and a \$30,836 increase in the Nonmajor Funds. General Fund revenues increased \$39,002 or 2% primarily due to an increase in sales tax revenues. General Fund expenditures increased \$101,239 or 4% primarily due to a \$49,672 increase in the culture and recreation department, relating to more capital outlay expenditures for parks projects compared to prior year. This increase was offset by various fluctuations in other department expenditures. The increase in the Sales Tax 4A Manufacturing Development Corporation fund balance was driven by an increase in sales tax revenues as well as a decrease in capital outlay expenditures compared to the prior year. The increase in the Sales Tax 4B Business Development Corporation fund balance was driven by an excess of sales tax revenues over expenditures. The decrease in the 2024 Capital Projects Fund fund balance was due to spending of funds from the issuance of the 2024 General Obligation Bonds.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS - (Continued)

Governmental Funds - (Continued)

The General Fund is the chief operating fund of the City. At the end of the year, unassigned fund balance of the General Fund was \$2,849,294, while total fund balance was \$3,000,446. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 100% of the total General Fund expenditures, while total fund balance represents 105% of that same amount.

Proprietary Fund

The City's proprietary fund, the Utility Fund, provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at December 31, 2025 was \$6,642,524, which is an increase of \$590,979 or 10% from the prior year.

Factors concerning the finances of this fund have been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues earned were less than budgetary expectations by \$11,195. The negative variance in actual revenues compared to the budget is primarily due to \$91,338 less in intergovernmental revenues, offset by \$98,823 more in sales tax revenues than expected. Actual expenditures were \$287,888 less than budget due mainly to less capital outlay costs incurred in the police, fire, library and streets departments than expected.

Differences between the General Fund's original budget and final amended budget was a net decrease of \$133,072 to revenues and transfers in and a net decrease of \$367,895 to expenditures and transfers out. A few of the changes are summarized as follows:

- \$65,000 increase in sales tax revenues based on the City's expectations and observed trends.
- \$90,918 decrease in intergovernmental revenues due to decreases expected in grant and contribution revenues.
- \$185,641 decrease in public safety expenditures, primarily due to decreases in expected police department personnel and capital outlay expenditures.
- \$287,635 decrease in culture and recreation expenditures, primarily due to decreases expected in parks, library, and golf course department personnel expenditures, as well as parks capital outlay expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2025, amounts to \$29,674,700 (net of accumulated depreciation and amortization). This investment in capital assets includes land, machinery and equipment, buildings, infrastructure, right-to-use leases, and subscriptions. The total net increase in the City's investment in capital assets for the current year was 25% (a 33% increase for governmental activities and a 13% increase for business-type activities). Major capital asset events during the current year included the following:

- Acquisition of various police, parks, and utility equipment.
- Various improvements to buildings and infrastructure.
- Continuation of drainage and street improvement projects in governmental activities.
- Continuation of various projects in business-type activities, including improvements to the wastewater treatment plant.
- Completion of the reconductor project in business-type activities.

Additional information on the City's capital assets can be found in Note 7 of this report.

Long-term Debt

At the end of the current year, the City had total bonded debt outstanding of \$5,922,759 (including unamortized deferred issuance premiums) of which 100% is backed by the full faith and credit of the government. In addition, the City had outstanding \$58,953 in right-to-use leases, \$39,406 in subscription liability, \$534,192 in net pension liability, \$141,812 in OPEB liability, \$254,500 in compensated absences, and \$15,045 in accrued closure and post-closure care liability as of December 31, 2025.

Additional information on the City's debt can be found in Note 11 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the City's budget for 2026.

The Maintenance & Operating (M&O) ad valorem tax rate increased from \$0.2537 to \$0.2683 for 2025, and the City adopted an Interest & Sinking (I&S) tax rate of \$0.1859 for 2025, a decrease of \$0.0185 from 2024, for a total ad valorem tax rate of \$0.4542.

The City is continuing the General Land Office CDBG-Mitigation Program project (\$10M) to address the City's drainage infrastructure, the GCRPC/General Land Office (\$1.397M) water well project, and the Texas Department of Agriculture CDBG Program (\$500K) water line replacement project. The City was awarded \$2.1M from the Texas Department of Transportation T-A Program for a sidewalk project that connects all of the schools.

The City has completed the emergency repair of the Waste Water Treatment Plant Clarifier, and will complete the re-roofing project to the Friench-Simpson Memorial Library.

New commercial activity is expected on the Hallettsville Economic Development Corporations' property in the next two years.

Requests for Information

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions concerning any of the information provided in this report or need additional financial information, contact the Office of the Finance Department, 101 North Main, Hallettsville, Texas 77964.

Basic Financial Statements

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF NET POSITION**

December 31, 2025

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 10,418,580	\$ 4,050,856	\$ 14,469,436
Investments	2,060,904	2,142,285	4,203,189
Receivables (net)	490,262	660,708	1,150,970
Lease receivable - current portion	59,297	-	59,297
Due from other governments	1,412,171	-	1,412,171
Interfund balances	(570,768)	570,768	-
Inventory	21,857	612,909	634,766
Prepaid items	131,367	27,817	159,184
Total current assets	14,023,670	8,065,343	22,089,013
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	10,872,241	1,460,703	12,332,944
Buildings, infrastructure, and equipment (net)	7,802,543	9,539,213	17,341,756
Net capital assets	18,674,784	10,999,916	29,674,700
Lease receivable - noncurrent portion	14,963	-	14,963
Total noncurrent assets	18,689,747	10,999,916	29,689,663
Total assets	32,713,417	19,065,259	51,778,676
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow related to pension	172,638	125,047	297,685
Deferred outflow related to OPEB	8,444	5,527	13,971
Total deferred outflows of resources	181,082	130,574	311,656
LIABILITIES			
Current liabilities			
Accounts payable	1,206,517	984,489	2,191,006
Accrued expenses	66,135	46,554	112,689
Accrued interest payable	17,601	2,865	20,466
Deposits	-	225,888	225,888
Due to other governments	14,287	10,292	24,579
Accrued compensated absences	34,941	28,684	63,625
Current portion of long-term obligations	181,860	26,600	208,460
Total current liabilities	1,521,341	1,325,372	2,846,713
Noncurrent liabilities			
Accrued compensated absences	104,824	86,051	190,875
Net pension liability	304,489	229,703	534,192
OPEB liability	80,833	60,979	141,812
Accrued closure and post-closure care	-	15,045	15,045
Noncurrent portion of long-term obligations	5,010,072	802,586	5,812,658
Total noncurrent liabilities	5,500,218	1,194,364	6,694,582
Total liabilities	7,021,559	2,519,736	9,541,295

The accompanying notes are an integral part of this statement.

	Primary Government		
	Governmental Activities	Business-type Activities	Total
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to property taxes	\$ 859,882	\$ -	\$ 859,882
Deferred inflow related to right-to-use lease receivable	78,712	-	78,712
Deferred inflow related to pension	65,886	58,992	124,878
Deferred inflow related to OPEB	21,287	13,970	35,257
Total deferred inflows of resources	<u>1,025,767</u>	<u>72,962</u>	<u>1,098,729</u>
NET POSITION			
Net investment in capital assets	16,722,144	9,960,611	26,682,755
Restricted for:			
Debt service	457,003	-	457,003
Various capital projects	4,932,812	-	4,932,812
Other	3,657,402	-	3,657,402
Unrestricted	(922,188)	6,642,524	5,720,336
Total net position	<u>\$ 24,847,173</u>	<u>\$ 16,603,135</u>	<u>\$ 41,450,308</u>

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF ACTIVITIES***For the year ended December 31, 2025*

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 1,039,999	\$ 324,221	\$ 6,245	\$ 91,338
Public safety	1,303,867	-	123,870	-
Public works	385,062	-	-	4,346,509
Culture and recreation	842,776	62,822	164,380	9,030
Interest on long-term debt	195,151	-	-	-
Total governmental activities	<u>3,766,855</u>	<u>387,043</u>	<u>294,495</u>	<u>4,446,877</u>
Business-type activities				
Utilities	5,836,650	7,009,126	-	78,557
Total business-type activities	<u>5,836,650</u>	<u>7,009,126</u>	<u>-</u>	<u>78,557</u>
Total primary government	<u>\$ 9,603,505</u>	<u>\$ 7,396,169</u>	<u>\$ 294,495</u>	<u>\$ 4,525,434</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Sales taxes

Franchise taxes

Other taxes

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business- type Activities	Total
\$ (618,195)	\$ -	\$ (618,195)
(1,179,997)	-	(1,179,997)
3,961,447	-	3,961,447
(606,544)	-	(606,544)
(195,151)	-	(195,151)
<u>1,361,560</u>	<u>-</u>	<u>1,361,560</u>
<u>-</u>	<u>1,251,033</u>	<u>1,251,033</u>
<u>-</u>	<u>1,251,033</u>	<u>1,251,033</u>
<u>1,361,560</u>	<u>1,251,033</u>	<u>2,612,593</u>
858,388	-	858,388
1,797,645	-	1,797,645
40,626	-	40,626
114,453	-	114,453
503,580	247,208	750,788
157,848	-	157,848
602,878	(602,878)	-
<u>4,075,418</u>	<u>(355,670)</u>	<u>3,719,748</u>
5,436,978	895,363	6,332,341
<u>19,410,195</u>	<u>15,707,772</u>	<u>35,117,967</u>
<u>\$ 24,847,173</u>	<u>\$ 16,603,135</u>	<u>\$ 41,450,308</u>

CITY OF HALLETTSVILLE, TEXAS**BALANCE SHEET****GOVERNMENTAL FUNDS**

December 31, 2025

	General	Sales Tax 4A Mft. Dev. Corp.	Sales Tax 4B Bus. Dev. Corp.	Grant
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,173,565	\$ 1,017,988	\$ 835,475	\$ 32,188
Investments	1,060,904	500,000	500,000	-
Receivables (net)	343,551	-	-	-
Lease receivable - current portion	59,297	-	-	-
Due from other governments	138,856	31,791	31,791	1,164,566
Due from other funds	7,613	119,234	755,220	1,290
Inventory	21,857	-	-	-
Prepaid items	129,295	1,036	1,036	-
Total current assets	<u>3,934,938</u>	<u>1,670,049</u>	<u>2,123,522</u>	<u>1,198,044</u>
Noncurrent assets				
Lease receivable - noncurrent portion	14,963	-	-	-
Total assets	<u>\$ 3,949,901</u>	<u>\$ 1,670,049</u>	<u>\$ 2,123,522</u>	<u>\$ 1,198,044</u>
LIABILITIES				
Accounts payable	\$ 37,498	\$ 843	\$ 21	\$ 1,168,154
Accrued expenditures	66,135	-	-	-
Due to other funds	145,104	636,426	440	-
Due to other governments	14,287	-	-	-
Total liabilities	<u>263,024</u>	<u>637,269</u>	<u>461</u>	<u>1,168,154</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	612,171	-	-	-
Deferred inflows related to right-to-use lease receivable	74,260	-	-	-
Total deferred inflows	<u>686,431</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	151,152	1,036	1,036	-
Restricted	-	1,031,744	2,122,025	29,890
Unassigned	2,849,294	-	-	-
Total fund balances	<u>3,000,446</u>	<u>1,032,780</u>	<u>2,123,061</u>	<u>29,890</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,949,901</u>	<u>\$ 1,670,049</u>	<u>\$ 2,123,522</u>	<u>\$ 1,198,044</u>

The accompanying notes are an integral part of this statement.

2024 Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 5,708,957	\$ 650,407	\$ 10,418,580
-	-	2,060,904
-	146,711	490,262
-	-	59,297
-	45,167	1,412,171
-	110,723	994,080
-	-	21,857
-	-	131,367
<u>5,708,957</u>	<u>953,008</u>	<u>15,588,518</u>
-	-	14,963
<u>\$ 5,708,957</u>	<u>\$ 953,008</u>	<u>\$ 15,603,481</u>
\$ -	\$ -	\$ 1,206,516
-	-	66,135
776,145	6,733	1,564,848
-	-	14,287
<u>776,145</u>	<u>6,733</u>	<u>2,851,786</u>
-	364,782	976,953
-	-	74,260
-	<u>364,782</u>	<u>1,051,213</u>
-	-	153,224
4,932,812	581,493	8,697,964
-	-	2,849,294
<u>4,932,812</u>	<u>581,493</u>	<u>11,700,482</u>
<u>\$ 5,708,957</u>	<u>\$ 953,008</u>	<u>\$ 15,603,481</u>

CITY OF HALLETTSVILLE, TEXAS**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET POSITION
OF GOVERNMENTAL ACTIVITIES**

December 31, 2025

Total governmental fund balances	\$ 11,700,482
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Amounts reported for governmental activities in the statement of net position are different because:

Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.

63,043

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by unavailable revenues in the governmental funds and thus are not included in fund balance.

54,027

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 27,383,960	
Accumulated depreciation and amortization of governmental capital assets	<u>(8,709,176)</u>	18,674,784

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

Deferred amount on pension	172,638	
Deferred amount on OPEB	<u>8,444</u>	181,082

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(4,833,200)	
Premium on bonds payable	(260,373)	
Right-to-Use lease	(58,953)	
Subscription liability	(39,406)	
Accrued interest on long-term debt	(17,601)	
Net pension liability	(304,489)	
OPEB liability	(80,833)	
Compensated absences	<u>(139,765)</u>	(5,734,620)

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

Deferred amount on pension	(65,886)	
Deferred amount on OPEB	<u>(21,287)</u>	(87,173)

Deferred inflows related to right-to-use lease receivable are amortized based on reduction of right-to-use lease receivable in the fund financial statements, but are amortized over the lease term in the statement of net position.

(4,452)

Net position of governmental activities	<u>\$ 24,847,173</u>
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The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended December 31, 2025*

	General	Sales Tax 4A Mft. Dev. Corp.	Sales Tax 4B Bus. Dev. Corp.	Grant
REVENUES				
Taxes	\$ 1,439,159	\$ 449,411	\$ 449,411	\$ -
Licenses and permits	89,420	-	-	-
Intergovernmental	122,400	-	-	4,555,792
Charges for services	139,768	-	-	-
Fines and forfeitures	147,981	-	-	-
Investment income	130,848	62,063	46,454	1,283
Miscellaneous	167,015	3,177	-	-
Total revenues	<u>2,236,591</u>	<u>514,651</u>	<u>495,865</u>	<u>4,557,075</u>
EXPENDITURES				
Current				
General government	474,863	264,623	159,866	117,824
Public safety	1,261,373	-	-	-
Public works	241,168	-	-	-
Culture and recreation	755,211	-	-	-
Capital outlay	120,022	-	-	4,502,333
Debt service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>2,852,637</u>	<u>264,623</u>	<u>159,866</u>	<u>4,620,157</u>
Excess (deficiency) of revenues over expenditures	(616,046)	250,028	335,999	(63,082)
OTHER FINANCING SOURCES (USES)				
Debt issued	120,022	-	-	-
Transfers in	783,410	-	-	13,500
Transfers out	(10,000)	-	-	(23,501)
Total other financing sources (uses)	<u>893,432</u>	<u>-</u>	<u>-</u>	<u>(10,001)</u>
Net change in fund balances	277,386	250,028	335,999	(73,083)
Fund balances at beginning of year	<u>2,723,060</u>	<u>782,752</u>	<u>1,787,062</u>	<u>102,973</u>
Fund balances at end of year	<u>\$ 3,000,446</u>	<u>\$ 1,032,780</u>	<u>\$ 2,123,061</u>	<u>\$ 29,890</u>

The accompanying notes are an integral part of this statement.

2024 Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 486,625	\$ 2,824,606
-	-	89,420
-	-	4,678,192
-	-	139,768
-	9,608	157,589
248,987	13,945	503,580
-	33,229	203,421
<u>248,987</u>	<u>543,407</u>	<u>8,596,576</u>
-	-	1,017,176
-	200	1,261,573
-	-	241,168
-	148,365	903,576
371,661	-	4,994,016
-	176,300	176,300
-	197,013	197,013
<u>371,661</u>	<u>521,878</u>	<u>8,790,822</u>
(122,674)	21,529	(194,246)
-	-	120,022
-	10,000	806,910
-	(693)	(34,194)
-	9,307	892,738
(122,674)	30,836	698,492
<u>5,055,486</u>	<u>550,657</u>	<u>11,001,990</u>
<u>\$ 4,932,812</u>	<u>\$ 581,493</u>	<u>\$ 11,700,482</u>

CITY OF HALLETTSVILLE, TEXAS

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the year ended December 31, 2025*

Total net change in fund balances - governmental funds	\$ 698,492
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Amounts reported for governmental activities in the statement of activities are different because:

The net effect of various transactions involving capital assets (i.e., transfers, contributions, adjustments and dispositions) is to increase (decrease) net position.

9,030

Capital outlays, including leases and subscriptions, are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.

Increase in capital assets	\$ 5,076,462	
Depreciation and amortization expense	<u>(467,822)</u>	4,608,640

Issuance of debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Right-to-Use lease	(66,616)	
Subscription liability	<u>(53,406)</u>	(120,022)

Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.

Property taxes	(464)	
Other revenues	<u>266</u>	(198)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in bonds payable	176,300	
Decrease in right-to-use lease	7,663	
Decrease in subscription liability	14,000	
Increase in accrued interest	(2,627)	
Decrease in bond premium	4,489	
Decrease in compensated absences	16,575	
Net pension costs	21,620	
Net OPEB costs	<u>7,468</u>	245,488

Some items reported in the statement of activities do not result from current financial resources and therefore are not reported as revenues in governmental funds. These activities consist of:

Increase in deferred inflows related to right-to-use lease receivable	<u>(4,452)</u>
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Change in net position of governmental activities	<u>\$ 5,436,978</u>
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The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF NET POSITION****PROPRIETARY FUND**

December 31, 2025

	Business-type Activities
	Utility Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 4,050,856
Investments	2,142,285
Receivables (net)	660,708
Due from other funds	871,044
Inventory	612,909
Prepaid items	27,817
Total current assets	8,365,619
Noncurrent assets	
Capital assets	
Land and other assets not being depreciated	1,460,703
Buildings, improvements, and equipment (net)	9,539,213
Total noncurrent assets	10,999,916
Total assets	19,365,535
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow related to pension	125,047
Deferred outflow related to OPEB	5,527
Total deferred outflows of resources	130,574
LIABILITIES	
Current liabilities	
Accounts payable	984,489
Accrued expenses	46,554
Accrued interest payable	2,865
Deposits	225,888
Due to other governments	10,292
Due to other funds	300,276
Accrued compensated absences	28,684
Current portion of long-term obligations	26,600
Total current liabilities	1,625,648
Noncurrent liabilities	
Accrued compensated absences	86,051
Net pension liability	229,703
OPEB liability	60,979
Accrued closure and post-closure care	15,045
Noncurrent portion of long-term obligations	802,586
Total noncurrent liabilities	1,194,364
Total liabilities	2,820,012
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow related to pension	58,992
Deferred inflow related to OPEB	13,970
Total deferred inflows of resources	72,962
NET POSITION	
Net investment in capital assets	9,960,611
Unrestricted net position	6,642,524
Total net position	\$ 16,603,135

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUND***For the year ended December 31, 2025*

	<u>Business-type Activities</u> <u>Utility Fund</u>
OPERATING REVENUES	
Charges for services	\$ 7,009,126
Total operating revenues	<u>7,009,126</u>
OPERATING EXPENSES	
Administration / Directors	680,395
Electric	3,202,300
Water	337,713
Sanitary sewer	292,152
Solid waste	749,966
Depreciation	542,610
Total operating expenses	<u>5,805,136</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	1,203,990
NONOPERATING REVENUES (EXPENSES)	
Investment income	247,208
Interest and fiscal charges	(31,514)
Total nonoperating revenues (expenses)	<u>215,694</u>
Income before contributions and transfers	1,419,684
Contributions and transfers	
Capital grants and contributions	248,395
Transfers in	23,501
Transfers out	(796,217)
Total contributions and transfers	<u>(524,321)</u>
Change in net position	895,363
Total net position at beginning of year	<u>15,707,772</u>
Total net position at end of year	<u>\$ 16,603,135</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF CASH FLOWS****PROPRIETARY FUND***For the year ended December 31, 2025*

	<u>Business-type Activities</u> <u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 6,963,659
Cash paid to suppliers for goods and services	(4,302,655)
Cash paid to employees for services	(1,061,087)
Net cash provided (used) by operating activities	<u>1,599,917</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Borrowing (repayments) to other funds	140,961
Transfers (to) from other funds	(772,716)
Increase (decrease) in customer deposits	10,653
Net cash provided (used) by noncapital financing activities	<u>(621,102)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(768,831)
Capital grants and contributions	78,557
Net cash provided (used) by capital and related financing activities	<u>(690,274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	150,964
Net cash provided (used) by investing activities	<u>150,964</u>
Net increase (decrease) in cash and cash equivalents	439,505
Cash and cash equivalents at beginning of year	<u>3,611,351</u>
Cash and cash equivalents at end of year	<u>\$ 4,050,856</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS**STATEMENT OF CASH FLOWS****PROPRIETARY FUND***For the year ended December 31, 2025*

	<u>Business-type Activities</u>
	<u>Utility Fund</u>
RECONCILIATION OF OPERATING INCOME TO	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ 1,203,990
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	542,610
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(45,467)
(Increase) decrease in inventory	(78,310)
(Increase) decrease in prepaid expenses	(11,546)
(Increase) decrease in deferred outflow related to pension	122,550
(Increase) decrease in deferred outflow related to OPEB	3,403
Increase (decrease) in accounts payable	(50,749)
Increase (decrease) in accrued expenses	6,907
Increase (decrease) in due to other governments	1,822
Increase (decrease) in compensated absences	8,948
Increase (decrease) in net pension liability	(137,704)
Increase (decrease) in OPEB liability	492
Increase (decrease) in accrued closure and post-closure care	410
Increase (decrease) in deferred inflow related to pension	34,463
Increase (decrease) in deferred inflow related to OPEB	(1,902)
Total adjustments	<u>395,927</u>
Net cash provided (used) by operating activities	<u>\$ 1,599,917</u>
Noncash capital and related financing activities	
Assets acquired from contributions	\$ 169,838
Capital asset related accounts and retainage payables	<u>919,113</u>
	<u>\$ 1,088,951</u>

CITY OF HALLETTSVILLE, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
December 31, 2025

	<u>Library Endowment</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 211,595
Investments	<u>103,313</u>
Total assets	<u>314,908</u>
LIABILITIES	
Accounts payable	19
Due to others	<u>16,951</u>
Total liabilities	<u>16,970</u>
NET POSITION	
Restricted for library purposes	<u>297,938</u>
Total net position	<u>\$ 297,938</u>

The accompanying notes are an integral part of this statement.

CITY OF HALLETTSVILLE, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the year ended December 31, 2024

	Library Endowment
ADDITIONS	
Contributions	
Private donations	\$ 1,983
Investment income	12,900
Total additions	<u>14,883</u>
DEDUCTIONS	
Library expenses	<u>10,613</u>
Total deductions	<u>10,613</u>
Change in net position	4,270
Net position - beginning	<u>293,668</u>
Net position - ending	<u>\$ 297,938</u>

The accompanying notes are an integral part of this statement.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hallettsville, Texas (the "City") was incorporated by an election and operates under a council-manager form of government. The City Council is the principal legislative body of the City. The City Administrator is appointed by a majority vote of the City Council and is responsible to the City Council for the administration of all the affairs of the City. The City Administrator is responsible for the supervision and control of all City departments and preparation of the annual budget. The City Council is responsible for the appointment and removal of all City employees. The Mayor presides at meetings of the City Council. The City provides the following services: police, municipal court, streets, water and wastewater, electric, sanitation, recreation, library, public improvements, planning, and general administration.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units.

In accordance with GASB Codification, the City's financial statements include the Hallettsville Economic Development Corporation as a blended component unit. The Hallettsville Economic Development Corporation is made up of two separate corporations, the 4A Manufacturing Development Corporation and the 4B Business Development Corporation. Their purpose is to promote development in the City. The City has operational responsibility for them and manages their activities. They are reported as special revenue funds in the City's financial statements for the year ended December 31, 2025.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the City 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. Likewise, the primary government is reported separately from its legally separate component units.

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 specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the 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 City considers revenues to be available if they are collected within 120 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, fines, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The 2025 tax levy is dedicated to pay for expenditures of the 2026 budget. The entire 2025 tax levy has either been recorded as unearned revenue or unavailable revenue as of December 31, 2025.

The City reports the following major governmental funds:

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

The Special Revenue Funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The Sales Tax 4A Manufacturing Development Corporation and the Sales Tax 4B Business Development Corporation are reported as major special revenue funds. The funds are used to collect sales taxes to help with tourism and community development. The Grant Fund is also reported as a major special revenue fund and is used to administer various grant funds received and expended by the City.

The Capital Project Funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities or other capital assets. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments. The 2024 Capital Projects Fund is reported as a major capital project fund and is used to account for the use of the proceeds from the City's 2024 General Obligation Bonds.

The City reports the following major proprietary funds:

The Utility Fund, an enterprise fund, accounts for the activities of the City related to its electric, water, sewer, and solid waste operations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – (Continued)

Enterprise funds are used to account for operations: 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or 2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Additionally, the City reports the following fund types:

The Debt Service Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for general government debt principal and interest.

The Fiduciary Fund accounts for assets held by the City in a trustee capacity or as an agent on behalf of others. As such, the fiduciary fund is not reported in the government-wide statements. The City's fiduciary fund includes the Library Endowment Fund which is accounted for as a trust fund and is used to help defray the costs of the local public library.

The proprietary fund is accounted for on a flow of *economic resources measurement focus* and utilizes the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 non-operating 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's enterprise fund are charges to customers for sales and services. The Utility Fund 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 the enterprise fund 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 non-operating revenues and expenses.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**D. Budgets and Budgetary Accounting**

The City Administrator has been authorized by the City Council to prepare the budgets. Annual budgets are adopted for the General Fund, Sales Tax 4A Manufacturing Development Corporation, Sales Tax 4B Business Development Corporation, Debt Service Fund, and the Utility Fund. The budgets for governmental funds are adopted on a budgetary basis of accounting consistent with the modified accrual basis of accounting, which is the basis used for financial reporting, with the exception that the City budgets for lease and subscription revenues and expenditures only to the extent expected to be collected or paid, respectively, rather than on a modified accrual basis. The annual budget for the Utility Fund is adopted on a non-GAAP budgetary basis. After the budgets are prepared, they are reviewed by the City Council and adjusted if desired. A final budget is then prepared by the City Administrator. A public hearing is held on the budget by the City Council and department heads may be in attendance. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. The final budget amounts may not exceed the estimate of revenues and cash available.

When the budget is adopted by the City Council, the City Administrator is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. Expenditures can exceed appropriations if they do not exceed available revenues and cash balances.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within their department. Any revisions that alter the total departmental expenditures of any fund must be approved by the City Council. Therefore, the level of control (level at which expenditures may not exceed budget) is the departmental level.

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restricted fund balance and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at December 31, 2025.

E. Deposits and Investments

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

The City may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The City Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**F. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in the fund financial statements as well as in the government-wide statements. Prepaid items are recorded when purchased rather than when consumed.

H. Inventories

Inventories of materials and supplies held by the General Fund and the Utility Fund are valued at cost (first-in, first-out). Estimated cost is used when actual cost figures are not available.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset 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 not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-50
Public domain infrastructure	50
System infrastructure	30-33
Machinery and equipment	5-10

Right-to-use leased equipment and subscription assets are initially recognized at the present value of contractual payments expected to be made during the term of the lease or subscription agreement, plus any payments made to the vendor before commencement of the term and capitalizable implementation costs, less any incentives received from the vendor at or before the commencement of the term (if applicable). Right-to-use leased equipment and subscription assets are amortized using the straight-line method over the life of the associated contract, unless the useful life is less than the term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**J. Leases****City as Lessee**

With the exception of short-term leases, when the City is a lessee in noncancellable lease arrangements the City recognizes a right-to-use lease liability (lease liability) and an intangible right-to-use lease asset (lease asset) in the government-wide and proprietary fund financial statements. The City recognizes lease liabilities with an initial, individual value that would be material to the government-wide financial statements. For leases not meeting these criteria, lease payments are recognized as outflows of resources based on the payment provisions of the contract. See Note 11 for details of the City's leasing arrangements as lessee.

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

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

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position. The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

City as Lessor

With the exception of short-term leases and certain regulated leases, when the City is a lessor in noncancellable lease arrangements the City recognizes a right-to-use lease receivable (lease receivable) and a deferred inflow of resources in the government-wide and governmental fund financial statements. The City recognizes lease receivables with an initial, individual value that would be material to the governmental financial statements. For leases not meeting these criteria, lease revenues are recognized as inflows of resources based on the payment provisions of the contract. See Note 6 for details of the City's leasing arrangements as lessor.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Leases

City as Lessor - (Continued)

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

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

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

K. Subscription-Based Information Technology Arrangements

The City reports a subscription liability and an intangible right-to-use capital asset (known as the subscription asset) on the government-wide and proprietary fund financial statements for a subscription-based information technology arrangement (SBITA). The City's policy is to recognize subscription liabilities with an initial, individual value that would be material to the government-wide financial statements.

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

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

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for SBITAs.
- The SBITA term includes the noncancellable period of the SBITA and any extensions that are deemed certain to be exercised. Subscription payments included in the measurement of the subscription liability are composed of fixed payments to the SBITA vendor.

The City monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure subscription assets and liabilities if certain changes occur that are expected to significantly affect the amount of the subscription liabilities.

Subscription assets are reported with other capital assets and subscription liabilities are reported with long-term liabilities on the statement of net position

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**L. Compensated Absences**

All full-time employees, except temporary or part time employees shall earn vacation leave for each month of service. Full time employees, scheduled more than 40 hours per work week and 32 hours a work week for library employees, shall earn vacation leave on a prorated basis to be computed in direct ratio to the hours employed to work in relation to the normal work week for the City (i.e., 40 hours per week = standard work week).

Employees are not eligible to take vacation leave until they have worked for six continuous months nor within the same pay period that leave is accrued. Unused vacation time can be accumulated up to a maximum of 100 hours unless approved by the City Administrator. Each year on January 1, any balance in excess of the appropriate maximum will be lost. In the event of termination (after employed for one full year and evaluation period), an employee is reimbursed for all accumulated vacation days up to the maximum accrued time.

Sick leave benefits are earned by all full-time employees at a rate of 6.67 hours for each month of continuous employment, for a total of 80 hours per year. Employees scheduled more or less than 40 hours per week shall earn sick leave on the same prorated basis as vacation leave. Sick leave will begin to accrue from the date of employment and may be accumulated up to 60 days. After each calendar year and at termination, employees will be paid for sick leave accumulated in excess of 60 days or 480 hours, whichever is greater, at a rate equal to one-half of regular pay.

The City recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability for compensated absences includes salary-related benefits, where applicable.

M. Long-term Obligations

In the government-wide financial statements, and in proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Losses on refunding are capitalized and amortized over the shorter of the life of the new issuance or the life on existing debt.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**N. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet reports 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 the following items that qualify for reporting in this category.

- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This year, the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.
- Deferred amounts relating to leases represent future inflows of resources which will be recognized as revenue over the life of the lease term.

O. Pensions and OPEB

For purposes of measuring the net pension liability, OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEBs, and pension and OPEB expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's pension and OPEB liability is obtained from TMRS through reports prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company (GRS), in compliance with GASB No. 68 and No. 75.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Fund Balances

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Council through formal action. Once passed, the commitment remains in place until a two-thirds majority vote is made by Council to remove or revise the commitment.

Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. The Council has by resolution authorized the City Administrator or his/her designee to assign fund balance. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund. Unlike commitments, assignments generally only exist temporarily and a formal action by the Council does not have to occur in order to remove the assignment.

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

Q. Minimum Fund Balance Policy

The Council has adopted a financial policy to maintain a minimum level of unassigned fund balance in the General Fund. The required range of minimum unassigned fund balance is 25 to 33 percent of the subsequent year's budgeted expenditures and outgoing transfers. If it is determined that the City is below this minimum established fund balance level, the Council will be informed of this condition and take necessary budgetary steps to bring the fund balance level into compliance with this policy through budgetary actions.

R. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Compliance**

Budgetary compliance is monitored at the departmental level. See table below for expenditures exceeding the amount appropriated for the year ended December 31, 2025:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Administration	\$ 373,425	\$ 376,245	\$ (2,820)

NOTE 3: DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas Public Funds Investment Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the City's and the depository bank's agent bank. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of FDIC insurance.

As of December 31, 2025, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>	<u>Credit Risk</u>	<u>Portfolio %age</u>
Public Funds Investment Pool				
TexPool	\$ 1,219,641	1.2	AAAm	7%
LoneStar	12,311,609	0.9	AAAm	69%
Certificates of Deposit	<u>4,306,502</u>	38.1	N/A	24%
	<u>\$ 17,837,752</u>			

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool uses amortized cost and LoneStar uses the fair value method to value portfolio assets. The pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but are not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The investment pools transact at a net asset value of \$1.00 per share and are classified as cash and cash equivalents for reporting purposes.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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.

As of December 31, 2025, the City has certificates of deposit valued using quoted prices for similar assets in active markets (Level 2 inputs).

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**Interest Rate Risk**

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturities of its investments within its investment portfolio. As of December 31, 2025, and for the year then ended, the City's investments did not exceed the maximum maturities as specified in the investment policy. The weighted average maturities of its investment pools did not exceed one year. Also, investments in certificates of deposit did not exceed five years to maturity.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. As of December 31, 2025, and for the year then ended, the City was not exposed to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of December 31, 2025, and for the year then ended, the City was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 100% of the carrying value of deposits held. As of December 31, 2025, the City's deposits were fully collateralized or insured and therefore the City was not exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City or held on behalf of the City and that all securities are purchased using the delivery versus payment method. As of December 31, 2025, and for the year then ended, the City was not exposed to any custodial credit risk.

NOTE 4: RECEIVABLES

Receivables at December 31, 2025, consist of the following:

	<u>General</u>	<u>Utility</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Gross receivables:				
Accounts	\$ 50,548	\$ 660,708	\$ -	\$ 711,256
Ad valorem taxes	250,605	-	145,407	396,012
Franchise taxes	8,803	-	-	8,803
Occupancy taxes	-	-	8,574	8,574
Fines	1,080,545	-	-	1,080,545
Other	651	-	-	651
Total gross receivables	1,391,152	660,708	153,981	2,205,841
Less: Allowances	<u>1,047,601</u>	<u>-</u>	<u>7,270</u>	<u>1,054,871</u>
Total net receivables	<u>\$ 343,551</u>	<u>\$ 660,708</u>	<u>\$ 146,711</u>	<u>\$ 1,150,970</u>

The City's governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current year, the various components of unavailable revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 558,144	\$ -	\$ 558,144
Fines	54,027	-	54,027
Nonmajor Funds			
Ad valorem taxes	<u>364,782</u>	<u>-</u>	<u>364,782</u>
	<u>\$ 976,953</u>	<u>\$ -</u>	<u>\$ 976,953</u>

Property taxes attach as an enforceable lien on property as of January 1. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value. Taxes are levied on October 1st and payable by the following January 31st, which comprise the collection dates for the current tax roll. The Lavaca County Tax Assessor and Collector bills, collects, and remits all ad valorem taxes.

For the 2025 tax year, the City levied property taxes of \$0.4581 per \$100 of assessed valuation, for maintenance and operations, \$0.2537 and interest and sinking, \$0.2044. The total net taxable valuation (after freeze) was \$179,774,822.

NOTE 5: DUE FROM OTHER GOVERNMENTS

The City reported amounts due from other governments as of the end of the current year. These amounts are comprised of the following at December 31, 2025:

	General	Sales Tax 4A Mft. Dev. Corp.	Sales Tax 4B Bus. Dev. Corp.	Grant	Nonmajor Funds	Total
Property taxes	\$ 66,459	\$ -	\$ -	\$ -	\$ 45,167	\$ 111,626
Sales taxes	63,583	31,791	31,791	-	-	127,165
Grants	8,814	-	-	1,164,566	-	1,173,380
	<u>\$ 138,856</u>	<u>\$ 31,791</u>	<u>\$ 31,791</u>	<u>\$ 1,164,566</u>	<u>\$ 45,167</u>	<u>\$ 1,412,171</u>

NOTE 6: LEASE RECEIVABLE

Lease receivable at December 31, 2025 for which the City is a lessor, is comprised of the following individual noncancelable lease agreement:

Building lease with United States Postal Service recorded in the General Fund. The final renewal option began in March 2020 and continues through March 2025, with an extension through March 2027. Rent is payable in annual installments of \$49,356 through March 2025, then \$60,000 through March 2027.

The present value of future minimum lease payments as of December 31, 2025 for governmental leases of \$74,260 is recorded as a right-to-use lease receivable in the government-wide and fund financial statements. The related deferred inflow of resources as of December 31, 2025 of \$74,260 is recorded in the fund financial statements.

Governmental fund inflows of resources during the current year include \$55,767 in base lease revenues and \$1,572 in lease interest revenues. No variable payments were recorded.

NOTE 7: CAPITAL ASSETS

The City's capital asset activity for the year ended December 31, 2025, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 2,027,351	\$ -	\$ -	\$ 2,027,351
Construction in progress	<u>4,116,951</u>	<u>4,735,699</u>	<u>7,760</u>	<u>8,844,890</u>
Total capital assets not being depreciated	<u>6,144,302</u>	<u>4,735,699</u>	<u>7,760</u>	<u>10,872,241</u>
Capital assets, being depreciated				
Machinery and equipment	2,292,226	151,928	-	2,444,154
Buildings and improvements	4,644,548	85,603	-	4,730,151
Infrastructure	<u>9,217,392</u>	<u>-</u>	<u>-</u>	<u>9,217,392</u>
Total capital assets being depreciated	<u>16,154,166</u>	<u>237,531</u>	<u>-</u>	<u>16,391,697</u>
Capital assets, being amortized				
Right to use lease - machinery and equipment	-	66,616	-	66,616
Subscription assets	<u>-</u>	<u>53,406</u>	<u>-</u>	<u>53,406</u>
Total right-to-use assets being amortized	<u>-</u>	<u>120,022</u>	<u>-</u>	<u>120,022</u>
Total capital assets, being depreciated and amortized	<u>16,154,166</u>	<u>357,553</u>	<u>-</u>	<u>16,511,719</u>
Less accumulated depreciation and amortization for				
Capital assets, being depreciated				
Machinery and equipment	1,685,941	239,361	-	1,925,302
Buildings and improvements	1,663,860	109,661	-	1,773,521
Infrastructure	<u>4,891,553</u>	<u>113,689</u>	<u>-</u>	<u>5,005,242</u>
Capital assets, being amortized				
Right to use lease - machinery and equipment	-	3,331	-	3,331
Subscription assets	<u>-</u>	<u>1,780</u>	<u>-</u>	<u>1,780</u>
Total accumulated depreciation and amortization	<u>8,241,354</u>	<u>467,822</u>	<u>-</u>	<u>8,709,176</u>
Total capital assets being depreciated and amortized, net	<u>7,912,812</u>	<u>(110,269)</u>	<u>-</u>	<u>7,802,543</u>
Governmental activities capital assets, net	<u>\$14,057,114</u>	<u>\$ 4,625,430</u>	<u>\$ 7,760</u>	<u>\$18,674,784</u>

NOTE 7: CAPITAL ASSETS - (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 37,611	\$ -	\$ -	\$ 37,611
Construction in progress	<u>227,025</u>	<u>1,711,897</u>	<u>515,830</u>	<u>1,423,092</u>
Total capital assets not being depreciated	<u>264,636</u>	<u>1,711,897</u>	<u>515,830</u>	<u>1,460,703</u>
Capital assets, being depreciated				
Machinery and equipment	2,923,294	43,906	-	2,967,200
Buildings and improvements	66,132	-	-	66,132
Infrastructure	<u>24,334,963</u>	<u>577,576</u>	<u>-</u>	<u>24,912,539</u>
Total capital assets being depreciated	<u>27,324,389</u>	<u>621,482</u>	<u>-</u>	<u>27,945,871</u>
Less accumulated depreciation for				
Machinery and equipment	2,665,822	70,946	-	2,736,768
Buildings and improvements	66,132	-	-	66,132
Infrastructure	<u>15,132,093</u>	<u>471,665</u>	<u>-</u>	<u>15,603,758</u>
Total accumulated depreciation	<u>17,864,047</u>	<u>542,611</u>	<u>-</u>	<u>18,406,658</u>
Total capital assets being depreciated, net	<u>9,460,342</u>	<u>78,871</u>	<u>-</u>	<u>9,539,213</u>
Business-type activities capital assets, net	<u>\$ 9,724,978</u>	<u>\$ 1,790,768</u>	<u>\$ 515,830</u>	<u>\$ 10,999,916</u>

Depreciation and amortization expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 23,031
Public safety	181,189
Public works	147,455
Culture and recreation	<u>116,147</u>
Total depreciation and amortization expense - governmental activities	<u>\$ 467,822</u>
Business-type activities	
Utilities	<u>\$ 542,611</u>
Total depreciation expense - business-type activities	<u>\$ 542,611</u>

NOTE 8: DEFINED BENEFIT PENSION PLAN**Plan Description**

The City participates as one of 938 plans in the defined benefit cash-balance plan administered by the 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 TMRS with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available annual comprehensive financial report (Annual report) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions of the City for plan year 2025 were as follows:

Employee deposit rate	5.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25
Updated service credit	100% repeating transfers
COLA (for retirees)	70% of CPI repeating
Military service credit	Yes, adopted 12-2003
Restricted prior service credit	Yes, adopted 10-2000

At the December 31, 2024 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	25
Active employees	<u>32</u>
	<u>88</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of the member's total compensation, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**Contributions - (Continued)**

Employees for the City were required to contribute 5.00% of their annual compensation during the year. The contribution rates for the City were 13.82% and 13.67% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended December 31, 2025 were \$248,477, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2024, 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, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	2.55% 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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale MP-2021 to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 through December 31, 2022. The assumptions were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rate (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income to satisfy the short-term and long-term funding needs of TMRS.

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability** - (Continued)***Actuarial Assumptions - (Continued)***

The long-term expected rate of return on pension plan investments was determined by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return 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 the expected return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Public Equity	35.00%	7.10%
Core Fixed Income	6.00%	5.00%
Non-Core Fixed Income	6.00%	6.80%
Hedge Funds	5.00%	6.40%
Private Equity	13.00%	8.50%
Private Debt	13.00%	8.20%
Real Estate	12.00%	6.70%
Infrastructure	6.00%	6.00%
Other Public and Private Markets	<u>4.00%</u>	7.30%
Total	<u>100.00%</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.

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)**Net Pension Liability - (Continued)***Changes in the Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2023	\$ 9,965,876	\$ 9,047,359	\$ 918,517
Changes for the year:			
Service cost	216,058	-	216,058
Interest	664,282	-	664,282
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(2,536)	-	(2,536)
Change of assumptions	-	-	-
Contributions - Employer	-	241,775	(241,775)
Contributions - Employee	-	87,473	(87,473)
Net investment income	-	939,052	(939,052)
Benefit payments, including refunds of employee contributions	(465,389)	(465,389)	-
Administrative expense	-	(6,029)	6,029
Other changes	-	(142)	142
Net changes	412,415	796,740	(384,325)
Balance at 12/31/2024	<u>\$ 10,378,291</u>	<u>\$ 9,844,099</u>	<u>\$ 534,192</u>

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

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

	1.0% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1.0% Increase in Discount Rate (7.75%)
City's Net Pension Liability:	\$1,805,702	\$534,192	\$(527,374)

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.tmr.com.

NOTE 8: DEFINED BENEFIT PENSION PLAN - (Continued)Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2025 the City recognized pension expense of \$246,163.

At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 49,207	\$ 2,871
Changes in actuarial assumptions	-	34,078
Difference between projected and actual investment earnings	-	87,929
Contributions subsequent to the measurement date	248,478	-
Total	\$ 297,685	\$ 124,878

\$248,478 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 December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2025	\$ 19,808
2026	117,295
2027	(147,103)
2028	(65,671)
2029	-
Thereafter	-
Total	\$ (75,671)

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB)**Plan Description and Benefits Provided**

TMRS administers an optional death benefit plan known as the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This voluntary program allows participating cities to provide supplemental death benefits for their active members, with optional coverage for their retirees. A City may terminate coverage in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF had 818 participating cities on December 31, 2024.

Benefits payable from SDBF become due after the death of a covered active member or retiree and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active members provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the member's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated).

Membership

At the December 31, 2024 valuation and measurement date, the following is the number of members in the plan:

Inactive employees currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>32</u>
Total	<u>65</u>

Contributions

Contributions to the SDBF are made monthly based on the payroll of covered members of the cities participating in the SDBF. The required contribution rate is actuarially determined annually for each City participating in the SDBF. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the City's contribution rate and the calendar year when the rate goes into effect. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retired term life insurance during employees' entire careers. Therefore, there are no assets that are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. The SDBF is considered an unfunded OPEB plan and benefit payments made by the City are treated as being equal to the City's yearly contribution for retirees.

The City's contribution rates for the program are as follows:

Plan/Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2021	0.39%	0.28%
2022	0.39%	0.29%
2023	0.58%	0.34%
2024	0.61%	0.36%
2025	0.58%	0.39%

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**Total OPEB Liability**

The City's total OPEB liability and the OPEB expense is recognized on the City's financial statements. The OPEB expense recognized each fiscal year is equal to the change in the total OPEB liability from the beginning of the year to the end of the year, adjusted for deferred recognition of certain changes in the liability.

Actuarial Assumptions

The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Inflation	2.5%
Salary increases	3.6% to 11.85% including inflation
Discount rate	4.08%*
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates-service retirees	2019 Municipal Retirees of Texas Mortality Tables. 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.

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2024.

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**Total OPEB Liability** - (Continued)***Changes in Total OPEB Liability***

The following details the changes in the Total OPEB liability:

Balance at 12/31/23	\$ 151,218
Changes for the year:	
Service cost	4,549
Interest	5,668
Change of benefit terms	-
Difference between expected and actual experience	(6,383)
Change of assumptions	(6,942)
Benefit payments	(6,298)
Net changes	(9,406)
Balance at 12/31/24	\$ 141,812

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

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 4.08%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.08%) or 1-percentage-point higher (5.08%) than the current rate:

	1.0% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1.0% Increase in Discount Rate (5.08%)
City's Total OPEB Liability:	\$166,082	\$141,812	\$122,524

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

For the year ended December 31, 2025, the City recognized OPEB expense of \$1,612.

At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,396	\$ 6,068
Changes in actuarial assumptions	4,487	29,189
Contributions subsequent to the measurement date	7,088	-
Total	\$ 13,971	\$ 35,257

NOTE 9: SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) - (Continued)**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - (Continued)**

\$7,088 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 OPEB liability for the year ending December 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	OPEB Expense Amount
2025	\$ (13,225)
2026	(12,578)
2027	(2,343)
2028	(228)
2029	-
Thereafter	-
Total	\$ (28,374)

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss encompassed in the areas of general liabilities and workers compensation claims. The City has purchased commercial insurance to cover potential losses in those areas. The City has entered into interlocal agreements with the Texas Municipal League Intergovernmental Risk Pool coverage. Through the payment of contributions to the Texas Municipal League Intergovernmental Risk Pool, the City has transferred these risks to the pool. The City has not retained any risks other than the deductibles and is covered up to the limits of coverage after the deductible. There were no significant reductions in coverage in the past year, and there were no settlements exceeding insurance coverage for each of the past three years.

The City has also entered into an interlocal agreement with the Texas Municipal League Intergovernmental Employees Benefit Pool for health benefits coverage for its employees. The City pays the premiums for full-time employees. Dependent coverage is available at additional premiums paid by the employee.

NOTE 11: LONG-TERM DEBT**Changes In Long-term Liabilities**

Long-term liability activity for the year ended December 31, 2025, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Bonds payable					
General obligation bonds	\$ 5,009,500	\$ -	\$ 176,300	\$ 4,833,200	\$ 163,400
Less deferred amounts:					
Issuance premiums	264,862	-	4,489	260,373	-
Net bonds payable	<u>5,274,362</u>	<u>-</u>	<u>180,789</u>	<u>5,093,573</u>	<u>163,400</u>
Right-to-Use leases	-	66,616	7,663	58,953	5,743
Subscriptions	-	53,406	14,000	39,406	12,717
Net pension liability	551,110	-	246,621	304,489	-
OPEB liability	90,731	-	9,898	80,833	-
Compensated absences*	<u>156,340</u>	<u>-</u>	<u>16,575</u>	<u>139,765</u>	<u>34,941</u>
Total governmental activity					
long-term liabilities	<u>\$ 6,072,543</u>	<u>\$ 120,022</u>	<u>\$ 475,546</u>	<u>\$ 5,717,019</u>	<u>\$ 216,801</u>
Business-type activities					
Bonds payable					
General obligation bonds	\$ 815,500	\$ -	\$ 28,700	\$ 786,800	\$ 26,600
Less deferred amounts:					
Issuance premiums	43,117	-	731	42,386	-
Net bonds payable	<u>858,617</u>	<u>-</u>	<u>29,431</u>	<u>829,186</u>	<u>26,600</u>
Net pension liability	367,407	-	137,704	229,703	-
OPEB liability	60,487	492	-	60,979	-
Compensated absences*	105,787	8,948	-	114,735	28,684
Accrued closure and post-closure care	<u>14,635</u>	<u>410</u>	<u>-</u>	<u>15,045</u>	<u>-</u>
Total business-type activity					
long-term liabilities	<u>\$ 1,406,933</u>	<u>\$ 9,850</u>	<u>\$ 167,135</u>	<u>\$ 1,249,648</u>	<u>\$ 55,284</u>

* The change in the compensated absences liability is presented as a net change.

Compensated absences, pension benefits, and other post-employment benefits are generally liquidated by the General Fund for the governmental activities and by the Utility Fund for the business-type activities.

At December 31, 2025 an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the City's transfer station no longer accepts waste. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The estimated amount of OPEB benefit payments that are due within one year is reported as \$0 as the amounts were determined to be insignificant to the City's December 31, 2025 financial statements. Therefore, the entire OPEB liability is reported as a noncurrent liability on the Statement of Net Position.

NOTE 11: LONG-TERM DEBT - (Continued)**General Obligation Bonds**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities or to advance refund previously issued debt. General obligation bonds are direct obligations and pledge the full faith and credit of the City. The bonds have been issued for governmental and business-type activities.

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Term</u>	<u>Interest Rate</u>	<u>Original Amount</u>
Series 2024	2024 - 2044	4.0% - 5.0%	\$ 5,825,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2026	\$ 163,400	\$ 207,131	\$ 26,600	\$ 33,719	\$ 430,850
2027	167,700	198,854	27,300	32,372	426,226
2028	176,300	190,254	28,700	30,972	426,226
2029	189,200	181,116	30,800	29,484	430,600
2030	197,800	171,441	32,200	29,484	430,925
2031-2035	1,148,100	696,041	186,900	113,309	2,144,350
2036-2040	1,423,300	420,626	231,700	68,474	2,144,100
2041-2044	1,367,400	111,972	222,600	18,228	1,720,200
	<u>\$ 4,833,200</u>	<u>\$ 2,177,435</u>	<u>\$ 786,800</u>	<u>\$ 356,042</u>	<u>\$ 8,153,477</u>

Right-to-Use Lease

The City's noncancelable lease agreement for police equipment is reported as a right-to-use lease liability in the government-wide financial statements as of December 31, 2025. The lease is payable in monthly installments through 2034.

Outflows of resources which are included in the measurement of the lease liability balance as of December 31, 2025 were comprised of \$7,662 of principal and \$0 of interest in governmental activities.

Annual requirements to maturity for the right-to-use lease liability is as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2026	\$ 5,743	\$ 1,920	\$ 7,663
2027	5,930	1,733	7,663
2028	6,123	1,540	7,663
2029	6,322	1,340	7,662
2030	6,528	1,134	7,662
2031-2034	28,307	2,342	30,649
	<u>\$ 58,953</u>	<u>\$ 10,009</u>	<u>\$ 68,962</u>

NOTE 11: LONG-TERM DEBT - (Continued)**Subscription Liabilities**

The City recognizes subscription liabilities for its payment obligations under subscription-based information technology arrangements (SBITAs), which convey to the City the right to use another party's information technology software. The City's SBITA relates to cloud-based services and other software packages for the police department. The present value of future minimum subscription payments as of December 31, 2025, is recorded as a subscription liability in the government-wide financial statements.

Outflows of resources from SBITAs which are included in the measurement of the subscription liability balance as of December 31, 2025 were comprised of \$14,000 of principal and \$0 of interest.

Principal and interest requirements to maturity as of December 31, 2025, are as follows:

Year	Governmental Activities		Total
	Principal	Interest	
2026	\$ 12,717	\$ 1,283	\$ 14,000
2027	13,131	869	14,000
2028	13,558	442	14,000
	<u>\$ 39,406</u>	<u>\$ 2,594</u>	<u>\$ 42,000</u>

NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**A. Interfund Receivables and Payables**

At times during the year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund.

Interfund receivable and payable balances as of December 31, 2025, were as follows:

Receivable Fund	Payable Fund	Amount
General	Sales Tax 4A Mft. Dev. Corp.	\$ 440
	Sales Tax 4B Bus. Dev. Corp.	440
	Nonmajor Funds	6,733
Sales Tax 4A Mft. Dev. Corp.	Utility	119,234
Sales Tax 4B Bus. Dev. Corp.	Utility	119,234
	Sales Tax 4A Mft. Dev. Corp.	635,986
Grant	Utility	1,290
Utility	General	94,899
	2024 Capital Projects	776,145
Nonmajor Funds	General	50,205
	Utility	60,518
		<u>\$ 1,865,124</u>

NOTE 12: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - (Continued)**B. Interfund Transfers**

Each year various funds of the City transfer funds to other funds. The most significant of these is the planned transfers from the City's Utility Fund to the General Fund. These transfers are intended to provide the necessary resources to meet the operating obligations of the General Fund. During the current year, transfers between funds consisted of the following:

Transfers Out	Transfers In				Total
	General	Grant	Utility	Nonmajor Funds	
General	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000
Grant	-	-	23,501	-	23,501
Utility	782,717	13,500	-	-	796,217
Nonmajor funds	693	-	-	-	693
	<u>\$ 783,410</u>	<u>\$ 13,500</u>	<u>\$ 23,501</u>	<u>\$ 10,000</u>	<u>\$ 830,411</u>

NOTE 13: COMMITMENTS AND CONTINGENCIES**Grant Programs**

The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2025, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Litigation

The City is not currently involved in any litigation which, in the opinion of the City's administration, would have a material effect on the financial statements.

NOTE 14: FUND BALANCES

The following is a detail of the governmental fund balances as of December 31, 2025:

	Governmental Fund Balances			Total
	Nonspendable	Restricted	Unassigned	
General				
Inventory	\$ 21,857	\$ -	\$ -	\$ 21,857
Prepaid items	129,295	-	-	129,295
Unassigned	-	-	2,849,294	2,849,294
Sales Tax 4A Mft. Dev. Corp.				
Prepaid items	1,036	-	-	1,036
Development	-	1,031,744	-	1,031,744
Sales Tax 4B Bus. Dev. Corp.				
Prepaid items	1,036	-	-	1,036
Development	-	2,122,025	-	2,122,025
Grant				
Various government projects	-	29,890	-	29,890
2024 Capital Projects				
Various capital projects	-	4,932,812	-	4,932,812
Nonmajor governmental				
Arts and tourism	-	260,081	-	260,081
Fire department	-	172,407	-	172,407
Municipal court	-	35,675	-	35,675
Local youth diversion	-	3,498	-	3,498
Development	-	10	-	10
Debt service	-	109,822	-	109,822
	<u>\$ 153,224</u>	<u>\$ 8,697,964</u>	<u>\$ 2,849,294</u>	<u>\$ 11,700,482</u>

NOTE 15: SIGNIFICANT FORTHCOMING STANDARDS

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the City include the following:

GASB Statement No. 103, Financial Reporting Model Improvements - The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, Disclosure of Certain Capital Assets - The objective of the Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, Subsequent Events - The objective of the Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and the impact has not yet been determined.

Required Supplementary Information

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL**

For the year ended December 31, 2025

With comparative totals for the year ended December 31, 2024

	2025				2024
	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)	Actual Budgetary Basis
REVENUES					
Taxes					
Property	\$ 462,871	\$ 501,610	\$ 489,303	\$ (12,307)	\$ 509,631
Sales	735,000	800,000	898,823	98,823	771,479
Franchise	49,700	40,056	40,626	570	42,822
Other	8,000	10,250	10,407	157	10,063
Licenses and permits	38,000	89,700	89,420	(280)	55,283
Intergovernmental	304,656	213,738	122,400	(91,338)	146,900
Charges for services	139,300	135,916	139,768	3,852	135,681
Fines and forfeitures	184,300	158,072	147,981	(10,091)	210,056
Investment income	106,875	131,000	130,848	(152)	133,288
Miscellaneous	157,032	167,444	167,015	(429)	182,386
Total revenues	<u>2,185,734</u>	<u>2,247,786</u>	<u>2,236,591</u>	<u>(11,195)</u>	<u>2,197,589</u>
EXPENDITURES					
Current					
General government					
Administration	340,307	373,425	376,245	(2,820)	343,639
Municipal court	129,319	102,161	98,618	3,543	113,030
Total general government	<u>469,626</u>	<u>475,586</u>	<u>474,863</u>	<u>723</u>	<u>456,669</u>
Public safety					
Police	1,433,364	1,253,868	1,187,953	65,915	1,185,510
Fire	104,121	97,430	72,993	24,437	75,925
Fire marshal	-	546	427	119	779
Total public safety	<u>1,537,485</u>	<u>1,351,844</u>	<u>1,261,373</u>	<u>90,471</u>	<u>1,262,214</u>
Public works					
Streets	270,708	370,129	241,168	128,961	206,954
Culture and recreation					
Airport	63,167	42,308	38,686	3,622	32,341
Library	465,800	322,574	289,023	33,551	321,875
Parks	306,020	248,361	232,731	15,630	183,322
Golf course	275,592	209,701	194,771	14,930	168,001
Total culture and recreation	<u>1,110,579</u>	<u>822,944</u>	<u>755,211</u>	<u>67,733</u>	<u>705,539</u>
Total expenditures	<u>3,388,398</u>	<u>3,020,503</u>	<u>2,732,615</u>	<u>287,888</u>	<u>2,631,376</u>
Excess (deficiency) of revenues over expenditures	(1,202,664)	(772,717)	(496,024)	276,693	(433,787)

(continued)

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL**

For the year ended December 31, 2025

With comparative totals for the year ended December 31, 2024

	2025				2024
	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)	Actual Budgetary Basis
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 977,841	\$ 782,717	\$ 783,410	\$ 693	\$ 734,383
Transfers out	(10,000)	(10,000)	(10,000)	-	(10,000)
Total other financing sources (uses)	<u>967,841</u>	<u>772,717</u>	<u>773,410</u>	<u>693</u>	<u>724,383</u>
Net change in fund balance - budgetary basis	<u>\$ (234,823)</u>	<u>\$ -</u>	277,386	<u>\$ 277,386</u>	290,596

Reconciliation of Budgetary Basis Change in Fund Balance to Generally Accepted Accounting Principles (GAAP)

The City budgets for lease and subscription expenditures only to the extent expected to be paid, rather than on a modified accrual basis. The differences are:

Leases - expenditures	(66,616)	-
Leases - other financing source	66,616	-
Subscriptions - expenditures	(53,406)	-
Subscriptions - other financing source	<u>53,406</u>	<u>-</u>
Net modified accrual-basis adjustments	<u>-</u>	<u>-</u>
Net change in fund balance - GAAP basis	277,386	290,596
Fund balance at beginning of year - GAAP basis	<u>2,723,060</u>	<u>2,432,464</u>
Fund balance at end of year - GAAP basis	<u>\$ 3,000,446</u>	<u>\$ 2,723,060</u>

(concluded)

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - SALES TAX 4A MANUFACTURING DEVELOPMENT CORPORATION****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL***For the year ended December 31, 2025**With comparative totals for the year ended December 31, 2024*

	2025			Variance	2024
	Original Budget	Final Budget	Actual	Positive (Negative)	Actual
REVENUES					
Taxes					
Sales	\$ 367,500	\$ 367,500	\$ 449,411	\$ 81,911	\$ 385,740
Investment income	47,500	47,500	62,063	14,563	52,966
Miscellaneous	500	500	3,177	2,677	10,141
Total revenues	<u>415,500</u>	<u>415,500</u>	<u>514,651</u>	<u>99,151</u>	<u>448,847</u>
EXPENDITURES					
Current					
General government					
Administration	298,924	298,924	264,623	34,301	189,288
Capital outlay	116,576	116,576	-	116,576	68,017
Total expenditures	<u>415,500</u>	<u>415,500</u>	<u>264,623</u>	<u>150,877</u>	<u>257,305</u>
Excess (deficiency) of revenues over expenditures	-	-	250,028	250,028	191,542
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	156,083
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156,083</u>
Change in fund balance	-	-	250,028	250,028	347,625
Fund balance at beginning of year	<u>782,752</u>	<u>782,752</u>	<u>782,752</u>	<u>-</u>	<u>435,127</u>
Fund balance at end of year	<u>\$ 782,752</u>	<u>\$ 782,752</u>	<u>\$ 1,032,780</u>	<u>\$ 250,028</u>	<u>\$ 782,752</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - SALES TAX 4B BUSINESS DEVELOPMENT CORPORATION****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended December 31, 2025

With comparative totals for the year ended December 31, 2024

	2025				2024
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES					
Taxes					
Sales	\$ 367,500	\$ 367,500	\$ 449,411	\$ 81,911	\$ 385,740
Investment income	32,300	32,300	46,454	14,154	45,903
Total revenues	<u>399,800</u>	<u>399,800</u>	<u>495,865</u>	<u>96,065</u>	<u>431,643</u>
EXPENDITURES					
Current					
General government					
Administration	313,924	313,924	159,866	154,058	135,920
Capital outlay	85,876	85,876	-	85,876	-
Total expenditures	<u>399,800</u>	<u>399,800</u>	<u>159,866</u>	<u>239,934</u>	<u>135,920</u>
Excess (deficiency) of revenues over expenditures	-	-	335,999	335,999	295,723
OTHER FINANCING SOURCES (USES)					
Transfers out	-	-	-	-	(217,747)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(217,747)</u>
Change in fund balance	-	-	335,999	335,999	77,976
Fund balance at beginning of year	<u>1,787,062</u>	<u>1,787,062</u>	<u>1,787,062</u>	<u>-</u>	<u>1,709,086</u>
Fund balance at end of year	<u>\$ 1,787,062</u>	<u>\$ 1,787,062</u>	<u>\$ 2,123,061</u>	<u>\$ 335,999</u>	<u>\$ 1,787,062</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CITY OF HALLETTSVILLE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION

Last ten years

	2016	2017	2018
Total Pension Liability			
Service cost	\$ 170,705	\$ 175,461	\$ 174,312
Interest (on the total pension liability)	458,080	479,223	498,923
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(37,062)	(77,630)	(34,211)
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(248,241)	(313,503)	(255,735)
Net Change in Total Pension Liability	343,482	263,551	383,289
Total Pension Liability - Beginning	6,825,132	7,168,614	7,432,165
Total Pension Liability - Ending (a)	<u>\$ 7,168,614</u>	<u>\$ 7,432,165</u>	<u>\$ 7,815,454</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 170,421	\$ 187,021	\$ 184,709
Contributions - Employee	71,614	73,170	73,364
Net investment income	389,413	851,122	(207,703)
Benefit payments, including refunds of employee contributions	(248,241)	(313,503)	(255,735)
Administrative expense	(4,397)	(4,410)	(4,014)
Other	(237)	(223)	(211)
Net Change in Plan Fiduciary Net Position	378,573	793,177	(209,590)
Plan Fiduciary Net Position - Beginning	5,761,498	6,140,071	6,933,248
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,140,071</u>	<u>\$ 6,933,248</u>	<u>\$ 6,723,658</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 1,028,543</u>	<u>\$ 498,917</u>	<u>\$ 1,091,796</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.65%	93.29%	86.03%
Covered Payroll	\$ 1,414,290	\$ 1,463,395	\$ 1,467,274
Net Pension Liability as a Percentage of Covered Payroll	72.73%	34.09%	74.41%

NOTE: Information for the prior year was not readily available. The City will compile the respective information over the next year as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

2019	2020	2021	2022	2023	2024
\$ 176,886	\$ 184,363	\$ 197,990	\$ 193,095	\$ 201,283	\$ 216,058
524,274	555,466	583,630	624,096	641,873	664,282
-	-	-	-	-	-
36,191	(11,887)	214,023	(5,932)	116,122	(2,536)
14,803	-	-	-	(83,112)	-
(273,760)	(313,808)	(321,208)	(466,208)	(637,758)	(465,389)
478,394	414,134	674,435	345,051	238,408	412,415
7,815,454	8,293,848	8,707,982	9,382,417	9,727,468	9,965,876
<u>\$ 8,293,848</u>	<u>\$ 8,707,982</u>	<u>\$ 9,382,417</u>	<u>\$ 9,727,468</u>	<u>\$ 9,965,876</u>	<u>\$ 10,378,291</u>
\$ 176,059	\$ 181,150	\$ 202,853	\$ 196,240	\$ 206,955	\$ 241,775
73,906	76,499	81,679	79,725	81,032	87,473
1,039,653	587,096	1,077,077	(678,640)	975,217	939,052
(273,760)	(313,808)	(321,208)	(466,208)	(637,758)	(465,389)
(5,873)	(3,798)	(4,983)	(5,872)	(6,206)	(6,029)
(177)	(148)	34	7,008	(43)	(142)
1,009,808	526,991	1,035,452	(867,747)	619,197	796,740
6,723,658	7,733,466	8,260,457	9,295,909	8,428,162	9,047,359
<u>\$ 7,733,466</u>	<u>\$ 8,260,457</u>	<u>\$ 9,295,909</u>	<u>\$ 8,428,162</u>	<u>\$ 9,047,359</u>	<u>\$ 9,844,099</u>
<u>\$ 560,382</u>	<u>\$ 447,525</u>	<u>\$ 86,508</u>	<u>\$ 1,299,306</u>	<u>\$ 918,517</u>	<u>\$ 534,192</u>
93.24%	94.86%	99.08%	86.64%	90.78%	94.85%
\$ 1,487,686	\$ 1,529,984	\$ 1,633,578	\$ 1,594,508	\$ 1,620,640	\$ 1,749,460
37.67%	29.25%	5.30%	81.49%	56.68%	30.53%

CITY OF HALLETTSVILLE, TEXAS**SCHEDULE OF EMPLOYER CONTRIBUTIONS****TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION***Last ten fiscal years*

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially Determined Contribution	\$ 187,021	\$ 184,709	\$ 176,059
Contribution in relation to the actuarially determined contribution	<u>(187,021)</u>	<u>(184,709)</u>	<u>(176,059)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,463,395	\$ 1,467,274	\$ 1,487,686
Contributions as a percentage of covered payroll	12.78%	12.59%	11.83%

NOTE: Information for the prior fiscal year was not readily available. The City will compile the respective information over the next fiscal year.

The accompanying notes to required supplementary information are an integral part of this schedule.

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
\$ 181,150	\$ 202,853	\$ 196,051	\$ 206,955	\$ 241,775	\$ 248,477
<u>(181,150)</u>	<u>(202,853)</u>	<u>(196,051)</u>	<u>(206,955)</u>	<u>(241,775)</u>	<u>(248,477)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,529,984	\$ 1,633,578	\$ 1,594,508	\$ 1,620,640	\$ 1,749,460	\$ 1,817,681
11.84%	12.42%	12.30%	12.77%	13.82%	13.67%

CITY OF HALLETTSVILLE, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT
Last ten years

	Measurement Year		
	2017	2018	2019
Total OPEB Liability			
Service cost	\$ 4,244	\$ 4,989	\$ 4,314
Interest (on the total OPEB liability)	4,317	4,357	4,829
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	(830)	(2,988)
Change of assumptions	9,645	(8,460)	24,868
Benefit payments	<u>(1,171)</u>	<u>(1,174)</u>	<u>(1,190)</u>
Net Change in Total OPEB Liability	17,035	(1,118)	29,833
Total OPEB Liability - Beginning	<u>112,676</u>	<u>129,711</u>	<u>128,593</u>
Total OPEB Liability - Ending	<u>\$ 129,711</u>	<u>\$ 128,593</u>	<u>\$ 158,426</u>
 Covered Payroll	 \$ 1,463,395	 \$ 1,467,274	 \$ 1,487,686
 Total OPEB Liability as a Percentage of Covered Payroll	 8.86%	 8.76%	 10.65%

NOTE: Information for the prior two years was not readily available. The City will compile the respective information over the next two years as provided by TMRS on a "measurement date" basis.

The accompanying notes to required supplementary information are an integral part of this schedule.

Measurement Year				
2020	2021	2022	2023	2024
\$ 5,049	\$ 6,861	\$ 7,175	\$ 3,727	\$ 4,549
4,407	3,715	3,643	5,522	5,668
-	-	-	-	-
(4,612)	665	(3,264)	4,133	(6,383)
22,692	5,439	(62,381)	6,106	(6,942)
(1,377)	(4,574)	(4,624)	(5,510)	(6,298)
26,159	12,106	(59,451)	13,978	(9,406)
158,426	184,585	196,691	137,240	151,218
<u>\$ 184,585</u>	<u>\$ 196,691</u>	<u>\$ 137,240</u>	<u>\$ 151,218</u>	<u>\$ 141,812</u>
\$ 1,529,984	\$ 1,633,578	\$ 1,594,508	\$ 1,620,640	\$ 1,749,460
12.06%	12.04%	8.61%	9.33%	8.11%

CITY OF HALLETTSVILLE, TEXAS**SCHEDULE OF EMPLOYER CONTRIBUTIONS****TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT***Last ten fiscal years*

	Fiscal Year		
	2018	2019	2020
Actuarially Determined Contribution	\$ 1,174	\$ 1,190	\$ 1,377
Contribution in relation to the actuarially determined contribution	(1,174)	(1,190)	(1,377)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 1,467,274	\$ 1,487,686	\$ 1,529,984
Contributions as a percentage of covered payroll	0.0800%	0.0800%	0.0900%

NOTE: Information for the prior two years was not readily available. The City will compile the respective information over the next two years.

The accompanying notes to required supplementary information are an integral part of this schedule.

Fiscal Year				
2021	2022	2023	2024	2025
\$ 4,574	\$ 4,624	\$ 5,510	\$ 6,298	\$ 7,089
(4,574)	(4,624)	(5,510)	(6,298)	(7,089)
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 1,633,578	\$ 1,594,508	\$ 1,620,640	\$ 1,749,460	\$ 1,817,681
0.2800%	0.2900%	0.3400%	0.3600%	0.3900%

NOTE 1: BUDGETARY BASIS OF ACCOUNTING

The City annually adopts budgets that are prepared using a budgetary basis of accounting consistent with the modified accrual basis of accounting, which is the basis used for financial reporting, with the exception that the City budgets for lease and subscription expenditures only to the extent expected to be paid, rather than on a modified accrual basis.

The Required Supplementary Information includes a budgetary comparison schedule for the Major Special Revenue Funds, Sales Tax 4A Manufacturing Development Corporation and Sales Tax 4B Business Development Corporation. The activity of these funds is funded from local sources and an annual budget is adopted by the City. The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Grant Fund. The activity of the fund is funded by the federal government, thereby no local control over appropriating funds is possible. Therefore, there is no requirement of presenting a budgetary comparison schedule.

NOTE 2: BUDGETARY LEGAL COMPLIANCE

For the year ended December 31, 2025, the City complied with budgetary restrictions at all departmental levels, except for the following:

<u>Department</u>	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Administration	\$ 373,425	\$ 376,245	\$ (2,820)

NOTE 3: DEFINED BENEFIT PENSION PLAN

Valuation Date

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	21 years (longest amortization ladder)
Asset Valuation Method	10 year Smoothed Fair Value; 12% Soft Corridor
Inflation	2.50%
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.

NOTE 3: DEFINED BENEFIT PENSION PLAN - (Continued)**Mortality**

Post-retirement: 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).
Pre-retirement: PUB(10) mortality tables, with 110% of the Public Safety tables used for males and 100% of the General Employee tables used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).

Other Information

There were no benefit changes during the year.

NOTE 4: SUPPLEMENTAL DEATH BENEFIT PLAN - OPEB

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

There were no changes in plan provisions during the year.

Changes in Assumptions

- Discount rate increased to 4.08% from 3.77%.

**Combining and Individual Fund Financial
Statements and Schedules**

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for general government debt principal and interest.

CITY OF HALLETTSVILLE, TEXAS
ALL NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
December 31, 2025

	Special Revenue Funds			
	Volunteer Fireman Pension	Hotel/Motel Tax	Fire Truck	Friench Simpson Memorial Library
ASSETS				
Cash and cash equivalents	\$ 39,860	\$ 156,291	\$ 82,342	\$ 101,949
Receivables (net)	-	8,574	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	50,205	-
Total assets	<u>\$ 39,860</u>	<u>\$ 164,865</u>	<u>\$ 132,547</u>	<u>\$ 101,949</u>
LIABILITIES				
Due to other funds	\$ -	\$ -	\$ -	\$ 6,733
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,733</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted				
Arts and tourism	-	164,865	-	95,216
Public safety	39,860	-	132,547	-
Municipal court	-	-	-	-
Development	-	-	-	-
Debt service	-	-	-	-
Total fund balances	<u>39,860</u>	<u>164,865</u>	<u>132,547</u>	<u>95,216</u>
Total liabilities and fund balances	<u>\$ 39,860</u>	<u>\$ 164,865</u>	<u>\$ 132,547</u>	<u>\$ 101,949</u>

Special Revenue Funds

Municipal Court	Local Youth Diversion	EDC Grant	Total	Debt Service	Total Nonmajor Governmental Funds
\$ 35,675	\$ 3,498	\$ 10	\$ 419,625	\$ 230,782	\$ 650,407
-	-	-	8,574	138,137	146,711
-	-	-	-	45,167	45,167
-	-	-	50,205	60,518	110,723
<u>\$ 35,675</u>	<u>\$ 3,498</u>	<u>\$ 10</u>	<u>\$ 478,404</u>	<u>\$ 474,604</u>	<u>\$ 953,008</u>
\$ -	\$ -	\$ -	\$ 6,733	\$ -	\$ 6,733
-	-	-	6,733	-	6,733
-	-	-	-	364,782	364,782
-	-	-	-	364,782	364,782
-	-	-	260,081	-	260,081
-	3,498	-	175,905	-	175,905
35,675	-	-	35,675	-	35,675
-	-	10	10	-	10
-	-	-	-	109,822	109,822
<u>35,675</u>	<u>3,498</u>	<u>10</u>	<u>471,671</u>	<u>109,822</u>	<u>581,493</u>
<u>\$ 35,675</u>	<u>\$ 3,498</u>	<u>\$ 10</u>	<u>\$ 478,404</u>	<u>\$ 474,604</u>	<u>\$ 953,008</u>

CITY OF HALLETTSVILLE, TEXAS
ALL NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the year ended December 31, 2025

	Special Revenue Funds			
	Volunteer Fireman Pension	Hotel/Motel Tax	Fire Truck	Friench Simpson Memorial Library
REVENUES				
Taxes	\$ -	\$ 104,046	\$ -	\$ -
Fines and forfeitures	-	-	-	-
Investment income	1,733	6,586	2,733	2,378
Miscellaneous	-	-	-	33,229
Total revenues	<u>1,733</u>	<u>110,632</u>	<u>2,733</u>	<u>35,607</u>
EXPENDITURES				
Current				
Public safety	200	-	-	-
Culture and recreation	-	88,946	-	59,419
Debt service				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>200</u>	<u>88,946</u>	<u>-</u>	<u>59,419</u>
Excess (deficiency) of revenues over expenditures	1,533	21,686	2,733	(23,812)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	10,000	-
Transfers out	-	-	-	(693)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>(693)</u>
Net change in fund balances	1,533	21,686	12,733	(24,505)
Fund balances at beginning of year	<u>38,327</u>	<u>143,179</u>	<u>119,814</u>	<u>119,721</u>
Fund balances at end of year	<u>\$ 39,860</u>	<u>\$ 164,865</u>	<u>\$ 132,547</u>	<u>\$ 95,216</u>

Special Revenue Funds

Municipal Court	Local Youth Diversion	EDC Grant	Total	Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 104,046	\$ 382,579	\$ 486,625
6,110	3,498	-	9,608	-	9,608
-	-	-	13,430	515	13,945
-	-	-	33,229	-	33,229
6,110	3,498	-	160,313	383,094	543,407
-	-	-	200	-	200
-	-	-	148,365	-	148,365
-	-	-	-	176,300	176,300
-	-	-	-	197,013	197,013
-	-	-	148,565	373,313	521,878
6,110	3,498	-	11,748	9,781	21,529
-	-	-	10,000	-	10,000
-	-	-	(693)	-	(693)
-	-	-	9,307	-	9,307
6,110	3,498	-	21,055	9,781	30,836
29,565	-	10	450,616	100,041	550,657
\$ 35,675	\$ 3,498	\$ 10	\$ 471,671	\$ 109,822	\$ 581,493

GENERAL FUND

The General Fund is a constitutional fund and is utilized to account for all City revenues and expenditures except those which are required to be classed in other constitutional funds and such other funds that are presented separately to facilitate proper accountability.

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****BALANCE SHEET**

December 31, 2025

With comparative totals for December 31, 2024

	2025	2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,173,565	\$ 1,948,306
Investments	1,060,904	1,011,973
Receivables (net)		
Taxes	238,325	219,306
Accounts	50,548	30,348
Fines	54,027	53,761
Other	651	651
Lease receivable - current portion	59,297	55,767
Due from other governments	138,856	211,717
Due from other funds	7,613	7,613
Inventory	21,857	20,093
Prepaid items	129,295	102,168
Total current assets	3,934,938	3,661,703
Noncurrent assets		
Lease receivable - noncurrent portion	14,963	74,260
Total assets	\$ 3,949,901	\$ 3,735,963
LIABILITIES		
Accounts payable	\$ 37,498	\$ 45,052
Accrued expenditures	66,135	63,704
Due to other funds	145,104	183,656
Due to other governments	14,287	19,911
Unearned revenue	-	4,113
Total liabilities	263,024	316,436
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	612,171	566,440
Deferred inflows related to right-to-use lease receivable	74,260	130,027
Total deferred inflows	686,431	696,467
FUND BALANCE		
Nonspendable	151,152	122,261
Unassigned	2,849,294	2,600,799
Total fund balance	3,000,446	2,723,060
Total liabilities, deferred inflows and fund balance	\$ 3,949,901	\$ 3,735,963

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL**

For the year ended December 31, 2025

With comparative totals for the year ended December 31, 2024

	2025			2024
	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)	Actual Budgetary Basis
REVENUES				
Taxes				
Property	\$ 501,610	\$ 489,303	\$ (12,307)	\$ 509,631
Sales	800,000	898,823	98,823	771,479
Franchise	40,056	40,626	570	42,822
Other	10,250	10,407	157	10,063
Licenses and permits	89,700	89,420	(280)	55,283
Intergovernmental	213,738	122,400	(91,338)	146,900
Charges for services	135,916	139,768	3,852	135,681
Fines and forfeitures	158,072	147,981	(10,091)	210,056
Investment income	131,000	130,848	(152)	133,288
Miscellaneous	167,444	167,015	(429)	182,386
Total revenues	2,247,786	2,236,591	(11,195)	2,197,589
EXPENDITURES				
Current				
General government				
Administration	373,425	376,245	(2,820)	343,639
Municipal court	102,161	98,618	3,543	113,030
Total general government	475,586	474,863	723	456,669
Public safety				
Police	1,253,868	1,187,953	65,915	1,185,510
Fire	97,430	72,993	24,437	75,925
Fire marshal	546	427	119	779
Total public safety	1,351,844	1,261,373	90,471	1,262,214
Public works				
Streets	370,129	241,168	128,961	206,954
Culture and recreation				
Airport	42,308	38,686	3,622	32,341
Library	322,574	289,023	33,551	321,875
Parks	248,361	232,731	15,630	183,322
Golf course	209,701	194,771	14,930	168,001
Total culture and recreation	822,944	755,211	67,733	705,539
Total current	3,020,503	2,732,615	287,888	2,631,376
Total expenditures	3,020,503	2,732,615	287,888	2,631,376
Excess (deficiency) of revenues over expenditures	(772,717)	(496,024)	276,693	(433,787)

(continued)

CITY OF HALLETTSVILLE, TEXAS**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL**

For the year ended December 31, 2025

With comparative totals for the year ended December 31, 2024

	2025			2024
	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)	Actual Budgetary Basis
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 782,717	\$ 783,410	\$ 693	\$ 734,383
Transfers out	(10,000)	(10,000)	-	(10,000)
Total other financing sources (uses)	<u>772,717</u>	<u>773,410</u>	<u>693</u>	<u>724,383</u>
Net change in fund balance - budgetary basis	<u>\$ -</u>	277,386	<u>\$ 277,386</u>	290,596

Reconciliation of Budgetary Basis Change in Fund Balance to Generally Accepted Accounting Principles (GAAP)

The City budgets for lease and subscription expenditures only to the extent expected to be paid, rather than on a modified accrual basis. The differences are:

Leases - expenditures	(66,616)	-
Leases - other financing source	66,616	-
Subscriptions - expenditures	(53,406)	-
Subscriptions - other financing source	<u>53,406</u>	<u>-</u>
Net modified accrual-basis adjustments	<u>-</u>	<u>-</u>
Net change in fund balance - GAAP basis	277,386	290,596
Fund balance at beginning of year - GAAP basis	<u>2,723,060</u>	<u>2,432,464</u>
Fund balance at end of year - GAAP basis	<u>\$ 3,000,446</u>	<u>\$ 2,723,060</u>

(concluded)

ENTERPRISE FUND

The Enterprise Fund accounts for the acquisition, operations, and maintenance of the City's facilities and services which are entirely or predominantly supported by user charges or those for which the City has decided that periodic determination of the revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. All activities necessary to provide services are accounted for in this fund, including, but not limited to, administration, operations, and maintenance.

CITY OF HALLETTSVILLE, TEXAS**MAJOR ENTERPRISE FUND - UTILITY FUND****BALANCE SHEET**

December 31, 2025

With comparative totals for December 31, 2024

	2025	2024
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,050,856	\$ 3,611,351
Investments	2,142,285	2,046,041
Receivables (net)		
Accounts	660,708	615,241
Due from other funds	871,044	973,451
Inventory	612,909	534,599
Prepaid items	27,817	16,271
Total current assets	8,365,619	7,796,954
Noncurrent assets		
Capital assets		
Machinery and equipment	2,967,200	2,923,294
Buildings and improvements	66,132	66,132
Infrastructure	24,912,539	24,334,963
Total capital assets	27,945,871	27,324,389
Less: Accumulated depreciation	18,406,658	17,864,047
Subtotal	9,539,213	9,460,342
Land	37,611	37,611
Construction in progress	1,423,092	227,025
Net capital assets	10,999,916	9,724,978
Total noncurrent assets	10,999,916	9,724,978
Total assets	19,365,535	17,521,932
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow related to pension	125,047	247,597
Deferred outflow related to OPEB	5,527	8,930
Total deferred outflows of resources	130,574	256,527
LIABILITIES		
Current liabilities		
Accounts payable	984,489	156,358
Accrued expenses	46,554	39,647
Accrued interest payable	2,865	2,439
Deposits	225,888	215,235
Due to other governments	10,292	8,470
Due to other funds	300,276	201,204
Accrued compensated absences	28,684	10,579
Current portion of long-term obligations	26,600	28,700
Total current liabilities	1,625,648	662,632
Noncurrent liabilities		
Accrued compensated absences	86,051	95,208
Net pension liability	229,703	367,407
OPEB liability	60,979	60,487
Accrued closure and post-closure care	15,045	14,635
Noncurrent portion of long-term obligations	802,586	829,917
Total noncurrent liabilities	1,194,364	1,367,654
Total liabilities	2,820,012	2,030,286

CITY OF HALLETTSVILLE, TEXAS**MAJOR ENTERPRISE FUND - UTILITY FUND****BALANCE SHEET***December 31, 2025**With comparative totals for December 31, 2024*

	<u>2025</u>	<u>2024</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to pension	\$ 58,992	\$ 24,529
Deferred inflow related to OPEB	<u>13,970</u>	<u>15,872</u>
Total deferred inflows of resources	<u>72,962</u>	<u>40,401</u>
 NET POSITION		
Net investment in capital assets	9,960,611	9,656,227
Unrestricted net position	<u>6,642,524</u>	<u>6,051,545</u>
Total net position	<u>\$ 16,603,135</u>	<u>\$ 15,707,772</u>

CITY OF HALLETTSVILLE, TEXAS
MAJOR ENTERPRISE FUND - UTILITY FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN FUND NET POSITION
BUDGET (NON-GAAP BASIS) AND ACTUAL
For the year ended December 31, 2025
With comparative totals for the year ended December 31, 2024

	2025				2024
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
OPERATING REVENUES					
Electric	\$ 4,529,118	\$ 4,857,365	\$ 4,897,877	\$ 40,512	\$ 4,581,327
Water	640,561	731,465	736,169	4,704	676,515
Sanitary sewer	440,038	504,902	504,277	(625)	480,589
Solid waste	834,200	838,520	844,711	6,191	801,902
Miscellaneous	24,000	38,191	36,993	(1,198)	63,727
Total operating revenues	<u>6,467,917</u>	<u>6,970,443</u>	<u>7,020,027</u>	<u>49,584</u>	<u>6,604,060</u>
OPERATING EXPENSES					
Administration / Directors	708,786	707,623	680,395	27,228	634,462
Electric	3,490,956	4,046,000	3,202,300	843,700	3,022,323
Water	384,996	396,849	337,713	59,136	348,568
Sanitary sewer	355,082	1,256,850	292,152	964,698	263,509
Solid waste	793,829	794,971	749,966	45,005	730,327
Total operating expenses	<u>5,733,649</u>	<u>7,202,293</u>	<u>5,262,526</u>	<u>1,939,767</u>	<u>4,999,189</u>
Operating income (loss) before nonoperating revenues (expenses) and contributions and transfers	734,268	(231,850)	1,757,501	1,989,351	1,604,871
NONOPERATING REVENUES (EXPENSES)					
Investment income	213,750	246,000	247,208	1,208	264,135
Interest and fiscal charges	-	-	(31,514)	(31,514)	(21,055)
Total nonoperating revenues (expenses)	<u>213,750</u>	<u>246,000</u>	<u>215,694</u>	<u>(30,306)</u>	<u>243,080</u>
Income (loss) before contributions and transfers	948,018	14,150	1,973,195	1,959,045	1,847,951
Contributions and transfers					
Capital grants and contributions	-	78,557	248,395	169,838	342,538
Transfers in	-	23,501	23,501	-	51,664
Transfers out	(977,841)	(796,217)	(796,217)	-	(824,383)
Total contributions and transfers	<u>(977,841)</u>	<u>(694,159)</u>	<u>(524,321)</u>	<u>169,838</u>	<u>(430,181)</u>
Change in net position - (Non-GAAP Basis)	<u>\$ (29,823)</u>	<u>\$ (680,009)</u>	1,448,874	<u>\$ 2,128,883</u>	1,417,770
Depreciation			(542,610)		(516,972)
Bad debt expense			(10,901)		(13,409)
Change in net position - (GAAP Basis)			895,363		887,389
Net position at beginning of year			<u>15,707,772</u>		<u>14,820,383</u>
Net position at end of year			<u>\$ 16,603,135</u>		<u>\$ 15,707,772</u>

NONMAJOR DEBT SERVICE FUND

CITY OF HALLETTSVILLE, TEXAS**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL****NONMAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND**

For the year ended December 31, 2025

With comparative totals for the year ended December 31, 2024

	2025				2024
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Actual
REVENUES					
Taxes					
Ad valorem	\$ -	\$ 345,675	\$ 382,579	\$ 36,904	\$ -
Investment income	-	463	515	52	40
Total revenues	-	346,138	383,094	36,956	40
EXPENDITURES					
Debt service					
Principal retirement	-	176,300	176,300	-	-
Interest and fiscal charges	-	254,163	197,013	57,150	-
Total expenditures	-	430,463	373,313	57,150	-
Excess (deficiency) of revenues over expenditures	-	(84,325)	9,781	94,106	40
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	100,001
Total other financing sources (uses)	-	-	-	-	100,001
Change in fund balance	-	(84,325)	9,781	94,106	100,041
Fund balance at beginning of year	100,041	100,041	100,041	-	-
Fund balance at end of year	<u>\$ 100,041</u>	<u>\$ 15,716</u>	<u>\$ 109,822</u>	<u>\$ 94,106</u>	<u>\$ 100,041</u>

SINGLE AUDIT SECTION



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

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hallettsville, Texas (the "City") as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 13, 2026.

Report on Internal Control over Financial Reporting

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

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

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Report on Compliance and Other Matters

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

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants
Victoria, Texas

May 13, 2026



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Hallettsville, Texas (the "City") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

The Honorable Mayor and Members
of the City Council
City of Hallettsville, Texas

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants
Victoria, Texas

May 13, 2026

CITY OF HALLETTSVILLE, TEXAS**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***For the year ended December 31, 2025*

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Assistance Listing No.</u>	<u>Other Award Number</u>
FEDERAL EXPENDITURES		
U. S. Department of Housing and Urban Development		
<i>Passed Through the Texas General Land Office</i>		
Community Development Block Grant	14.228	22-085-026-D267
Community Development Block Grant	14.228	22-160-010-E214
Community Development Block Grant	14.228	24-065-072-E683
<i>Total passed through the Texas General Land Office</i>		
<i>Passed Through the Texas Department of Agriculture</i>		
Community Development Block Grant	14.228	CDV23-0170
<i>Passed Through the Texas Department of Housing and Community Affairs</i>		
Home Investment Partnerships Program	14.239	2024-0055
Total U.S. Department of Housing and Urban Development		
U. S. Department of Transportation		
<i>Passed Through the Texas Department of Transportation</i>		
Airport Improvement Program	20.106	M2413HALE
Total U.S. Department of Transportation		
U. S. Department of Justice		
<i>Passed Through the Office of the Governor</i>		
<i>Criminal Justice Division</i>		
Bulletproof Vest Partnership Program	16.607	N/A
Total U.S. Department of Justice		
Institute of Museum and Library Services		
<i>Passed Through the Texas State Library & Archives Commission</i>		
ILL Lending Reimbursement 2025	45.310	LS-256843-OLS-24
Total Institute of Museum and Library Services		
TOTAL FEDERAL EXPENDITURES		

See accompanying notes to schedule of expenditures of federal awards.

Expenditures			Passed through to Subrecipients	Name of Cluster (if applicable)	Note
From Pass-Through Awards	From Direct Awards	Total			
\$ 4,283,009	\$ -	\$ 4,283,009	\$ -		
111,700	-	111,700	-		
91,338	-	91,338	-		
4,486,047	-	4,486,047	-		
63,500	-	63,500	-		
6,245	-	6,245	-		
4,555,792	-	4,555,792	-		
20,216	-	20,216	-		
20,216	-	20,216	-		
1,133	-	1,133	-		
1,133	-	1,133	-		
564	-	564	-		
564	-	564	-		
\$ 4,577,705	\$ -	\$ 4,577,705	\$ -		

CITY OF HALLETTSVILLE, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2025

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City, under programs of the federal government for the year ended December 31, 2025 in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable; except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

NOTE 3: INDIRECT COST RATE

The City has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF HALLETTSVILLE, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2025

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

☐ yes ☒ no

Identification of major programs:

<i>Assistance Listing Number(s)</i>	<i>Name of Major Programs or Cluster</i>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$ 1,000,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

CITY OF HALLETTSVILLE, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended December 31, 2025

None were reported.