

**CITY OF IOLA, TEXAS**

**FINANCIAL STATEMENTS AS OF**

**SEPTEMBER 30, 2025**

**TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON**

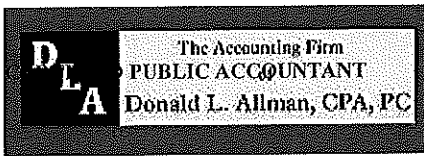
**AND SUPPLEMENTARY INFORMATION**

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## Independent Auditor's Report

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

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 Iola, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Iola, Texas'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 of Iola, Texas, as of September 30, 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 of Iola, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Iola, Texas'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 of lola, Texas'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 of lola, Texas'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 and budgetary comparison information on pages 3-9 and 32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2026, on our consideration of the City of lola, Texas 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 of lola, Texas'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 of lola, Texas internal control over financial reporting and compliance.

Donald L. Allman, CPA, P.C.



Liberty Hill, TX  
March 27, 2026

**Management's Discussion and Analysis  
City of Iola Texas**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial Report, we, the Administrators of City of Iola, Texas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2025. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 13.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased by \$205,899 as a result of this year's operations and grants.
- The General Fund ended the fiscal year with an increase of \$81,977 in net position, and the Proprietary Fund ended the fiscal year with an increase of \$123,922.
- The General Fund, Special Revenue Funds and Debt Service Fund ended the fiscal year with a combined \$49,711 increase in Governmental Funds net position.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 through 13). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. Proprietary statements provide the same type of information as the government-wide financial statements, only in more detail.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

**Management's Discussion and Analysis**  
**City of Iola, Texas**

**USING THIS ANNUAL REPORT (continued)**

**Reporting the City as a Whole**

*The statement of Net Position and the Statement of Activities*

The analysis of the City's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the City is better or worse off as a result of the year's activities. The Statement of Net Position includes all of the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year.

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

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

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

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

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

**Management's Discussion and Analysis**  
**City of Iola, Texas**

**USING THIS ANNUAL REPORT (continued)**

**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

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

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

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net position was \$1,751,839 as of September 30, 2025. Analyzing the net position and net expenses of governmental and business-type activities separately, the business-type activities net position are \$985,700 and the general fund net position was \$766,139. The following analysis focuses on the net position (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

**Management's Discussion and Analysis  
City of Iola, Texas**

**Table I**

**NET POSITION**

|                                  | <b>Governmental<br/>Activities</b> |                | <b>Business-type<br/>Activities</b> |                   | <b>Total<br/>Government</b> |                   |
|----------------------------------|------------------------------------|----------------|-------------------------------------|-------------------|-----------------------------|-------------------|
|                                  | 2025                               | 2024           | 2025                                | 2024              | 2025                        | 2024              |
| Current and other assets         | \$ 670,999                         | \$ 618,349     | \$ (6,502)                          | \$ (6,502)        | \$ 664,497                  | \$ 611,847        |
| Restricted Assets                | -                                  | -              | 10,005,790                          | 10,194,469        | -                           | 10,194,469        |
| Noncurrent and capital assets    | 79,738                             | 47,013         | 1,089,614                           | 980,214           | 1,169,352                   | 1,027,227         |
| <b>Total Assets</b>              | <b>750,737</b>                     | <b>665,362</b> | <b>11,088,902</b>                   | <b>11,168,181</b> | <b>1,833,849</b>            | <b>11,833,543</b> |
| Deferred Revenue                 | -                                  | -              | 6,212,202                           | 6,321,612         | 6,212,202                   | 6,321,612         |
| Current Liabilities              | 644                                | 701            | -                                   | 59,300            | 644                         | 60,001            |
| Long-term Liabilities            | -                                  | -              | 3,891,000                           | 3,906,000         | 3,891,000                   | 3,906,000         |
| <b>Total Liabilities</b>         | <b>644</b>                         | <b>701</b>     | <b>10,103,202</b>                   | <b>10,286,912</b> | <b>10,103,845</b>           | <b>10,287,613</b> |
| Deferred Inflows of Resources    | -                                  | -              | -                                   | -                 | -                           | -                 |
| Net Position:                    |                                    |                |                                     |                   |                             |                   |
| Net Investment in Capital Assets | 79,738                             | 47,013         | 992,202                             | 760,202           | 1,071,940                   | 807,215           |
| Restricted:                      | 135,788                            | 115,721        | 50,000                              | -                 | 185,788                     | 115,721           |
| Unrestricted                     | 550,613                            | 501,927        | (56,502)                            | 121,067           | 494,111                     | 622,994           |
| <b>Total net position</b>        | <b>766,139</b>                     | <b>664,661</b> | <b>985,700</b>                      | <b>881,269</b>    | <b>1,751,839</b>            | <b>1,545,930</b>  |

**Management's Discussion and Analysis  
City of Iola, Texas**

**Table II**

**CHANGE IN NET POSITION**

|                                    | Governmental<br>Activities |           | Business-type Activities |            | Total<br>Primary<br>Government |             |
|------------------------------------|----------------------------|-----------|--------------------------|------------|--------------------------------|-------------|
|                                    | 2025                       | 2024      | 2025                     | 2024       | 2025                           | 2024        |
|                                    | <b>Revenues:</b>           |           |                          |            |                                |             |
| <b>Program Revenues</b>            |                            |           |                          |            |                                |             |
| Charges for Services               | \$ -                       | \$ -      | \$ -                     | \$ -       | \$ -                           | \$ -        |
| Operating grants and contributions | \$32,725                   | -         | 109,400                  | 207,232    | 142,125                        | 207,232     |
| <b>General Revenues:</b>           |                            |           |                          |            |                                |             |
| Property tax                       | 41,153                     | 27,503    |                          |            | 41,153                         | 27,503      |
| Sales taxes                        | 93,349                     | 72,319    |                          |            | 93,349                         | 72,319      |
| Franchise fees & other taxes       | 11,194                     | 9,781     |                          | -          | 11,194                         | 9,781       |
| Investment earnings                | 14,377                     | 11,064    | 142                      | 159        | 14,519                         | 11,223      |
| Miscellaneous                      | 943                        | 222       | -                        | -          | 943                            | 222         |
| Transfers                          | (15,000)                   | (5,000)   | 15,000                   | 5,000      | -                              | -           |
| Total Revenue                      | 178,740                    | 115,889   | 124,542                  | \$212,391  | 303,282                        | 328,280     |
| <b>Expenses:</b>                   |                            |           |                          |            |                                |             |
| General government                 | 96,765                     | 34,054    |                          |            | 96,765                         | 34,054      |
| Water and Sewer                    |                            |           | 620                      | 2,620      | 620                            | 2,620       |
| Total Expenses                     | 96,765                     | 34,054    | 620                      | 2,620      | 97,385                         | 36,674      |
| Change in net position             | 81,976                     | 81,835    | 123,922                  | 209,771    | 205,898                        | 291,606     |
| Net position - beginning           | 684,163                    | 602,328   | 861,778                  | 652,007    | 1,545,941                      | 1,254,335   |
| Net position - ending              | \$ 766,139                 | \$684,163 | \$ 985,700               | \$ 861,778 | \$1,751,839                    | \$1,545,941 |

## **Management's Discussion and Analysis City of Iola, Texas**

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

A large portion of the City's net position (61 percent) reflect its investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The balance of *unrestricted net position*, \$494,111 may be used to meet the government's ongoing obligations to citizens and creditors.

For fiscal year 2025, revenues from governmental activities totaled \$193,740. Grants, property tax, sales tax, and investment earnings income are the largest components of revenues.

For fiscal year 2025, expenses for governmental activities totaled \$96,764. The City's largest funded program is for general government costs.

Income for the City's business-type activities were \$109,542 for the fiscal year ending September 30, 2025, consisting primarily of funding from the TWDB. Expenses for the City's business-type activities were \$620.

### **THE CITY'S FUNDS**

As the City completed the year, its governmental funds, as presented in the balance sheet on page 14, reported a combined fund balance of \$683,377, which is higher than last year's total of \$633,666.

**Management's Discussion and Analysis  
City of Iola, Texas**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 2025, the City had \$1,169,352 invested primarily in construction in progress. See the Capital Assets section of the footnotes for greater detail on capital assets and depreciation.

|                          | Governmental Activities |           | Business-Type Activities |            | Total        |              |
|--------------------------|-------------------------|-----------|--------------------------|------------|--------------|--------------|
|                          | 2025                    | 2024      | 2025                     | 2024       | 2025         | 2024         |
| Land                     | \$ -                    | \$ -      | \$ 92,026                | \$ 92,026  | \$ 92,026    | \$ 92,026    |
| Construction in Progress | 79,738                  | 47,013    | 997,588                  | 888,188    | 1,077,326    | 935,201      |
| Subtotal                 | 79,738                  | 47,013    | 1,089,614                | 980,214    | 1,169,352    | 1,027,227    |
| Accumulated Depreciation | -                       | -         | -                        | -          | -            | -            |
| Net Capital Assets       | \$ 79,738               | \$ 47,013 | \$ 1,089,614             | \$ 980,214 | \$ 1,169,352 | \$ 1,027,227 |

**Debt**

At September 30, 2025, the City had \$3,891,000 in bonds payable. See the Debt section of the footnotes for greater detail on debt transactions.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City adopted a \$128,400 budget for fiscal year 2025-2026. It will be funded through sales tax and property taxes via a \$0.165647/100 tax rate.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Iola, PO Box 84, Iola, Texas 77861.

## BASIC FINANCIAL STATEMENTS

**CITY OF IOLA, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2025**

|  | <b>Primary Government</b>  |                             |             |
|--|----------------------------|-----------------------------|-------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total       |
| <b><u>ASSETS</u></b>                             |                            |                             |             |
| Cash   | \$ 297,557                 | \$ -                        | \$ 297,557  |
| Investments                                      | 373,442                    | -                           | 373,442     |
| Property taxes receivable                        | 3,024                      | -                           | 3,024       |
| Sales taxes receivable                           | 6,520                      | -                           | 6,520       |
| Internal balances                                | 6,502                      | (6,502)                     | -           |
| Restricted cash                                  |                            | 10,005,790                  |             |
| Capital assets, net of accumulated depreciation: |                            |                             |             |
| Land   | -                          | 92,026                      | 92,026      |
| Construction in progress                         | 79,738                     | 997,588                     | 1,077,326   |
| Total Capital Assets                             | 79,738                     | 11,088,902                  | 1,169,352   |
| Total Assets                                     | 766,783                    | 11,088,902                  | 1,849,895   |
| <b><u>LIABILITIES</u></b>                        |                            |                             |             |
| Accounts payable                                 | -                          | -                           | -           |
| Payroll tax liabilities                          | 644                        | -                           | 644         |
| Unearned revenue                                 | -                          | 6,212,202                   | 6,212,202   |
| Noncurrent liabilities:                          |                            |                             |             |
| Due within one year                              | -                          | 50,000                      | 50,000      |
| Due in more that one year                        | -                          | 3,841,000                   | 3,841,000   |
| Total Liabilities                                | 644                        | 10,103,202                  | 10,103,845  |
| <b><u>NET POSITION</u></b>                       |                            |                             |             |
| Net Investment in capital assets                 | 79,738                     | 992,202                     | 1,071,940   |
| Restricted for:                                  |                            |                             |             |
| Debt service                                     | 20,496                     | 50,000                      | 70,496      |
| Road maintenance                                 | 115,292                    | -                           | 115,292     |
| Unrestricted                                     | 550,613                    | (56,502)                    | 494,111     |
| Total Net Position                               | \$ 766,139                 | \$ 985,700                  | \$1,751,839 |

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

**CITY OF IOLA, TEXAS  
STATEMENT OF ACTIVITIES  
September 30, 2025**

|                                | <b>Program Revenues</b> |                                 |   |
|--------------------------------|-------------------------|---------------------------------|---|
| <b>Functions / Programs</b>    | <b>Expenses</b>         | <b>Charges for<br/>Services</b> | <b>Operating<br/>Grants and<br/>Contributions</b> |
| Primary government:            |                         |                                 |   |
| Governmental activities:       |                         |                                 |   |
| General government             | \$ 96,764               | \$ -                            | \$ 32,725   |
| Total governmental activities  | 96,764                  | 0                               | 32,725  |
| Business-type activities:      |                         |                                 |   |
| Sewer                          | 620                     | 0                               | 109,400   |
| Total business-type activities | 620                     | 0                               | 109,400   |
| <br>Total primary government   | <br>97,384              | <br>0                           | <br>142,125                                       |

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

**Net (Expense) Revenue and  
Changes in Net Position**

**Primary Government**

|                                | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b> |
|--------------------------------|------------------------------------|-------------------------------------|--------------|
| <b>Functions / Programs</b>    |                                    |                                     |              |
| Primary government:            |                                    |                                     |              |
| Governmental activities:       |                                    |                                     |              |
| General Government             | (64,038)                           |                                     | (64,038)     |
| Interest on long-term debt     | 0                                  | 0                                   | -            |
| Total governmental activities  | (64,038)                           | 0                                   | (64,038)     |
| Business-type activities:      |                                    |                                     |              |
| Sewer                          |                                    | 108,780                             | 108,780      |
| Total business-type activities | 0                                  | 108,780                             | 108,780      |
| Total primary government       | (64,038)                           | 108,780                             | 44,742       |
| General Revenues:              |                                    |                                     |              |
| Property tax                   | 41,153                             |                                     | 41,153       |
| Sales tax                      | 93,349                             |                                     | 93,349       |
| Franchise fees                 | 11,194                             |                                     | 11,194       |
| Investment earnings            | 14,377                             | 142                                 | 14,519       |
| Miscellaneous                  | 943                                | 0                                   | 943          |
| Transfers                      | (15,000)                           | 15,000                              | 0            |
| Total General Revenues         | 146,015                            | 15,142                              | 161,157      |
| Change in net position         | 81,977                             | 123,922                             | 205,899      |
| Net Position - Beginning       | 684,163                            | 861,778                             | 1,545,941    |
| Net Position - Ending          | \$766,140                          | \$985,700                           | \$1,751,840  |

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

**CITY OF IOLA, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2025**

| <u>ASSETS</u>                                   | General           | Debt Service     | Special<br>Revenue<br>Fund | Total             |
|---|-------------------|------------------|----------------------------|-------------------|
| Cash  | \$ 164,575        | \$ 18,994        | \$ -                       | \$ 183,569        |
| Investments                                     | 373,442           | -                | -                          | 373,442           |
| Restricted cash                                 | -                 | -                | 113,988                    | 113,988           |
| Property tax receivable                         | 2,645             | 379              | -                          | 3,024             |
| Sales tax receivable                            | 5,216             | -                | 1,304                      | 6,520             |
| Due from other funds                            | 5,000             | 1,502            | -                          | 6,502             |
| Total Assets                                    | <u>\$ 550,878</u> | <u>\$ 20,875</u> | <u>\$ 115,292</u>          | <u>\$ 687,045</u> |
| <br><b><u>LIABILITIES AND FUND BALANCES</u></b> |                   |                  |                            |                   |
| Liabilities:                                    |                   |                  |                            |                   |
| Payroll liabilities                             | \$ 644            | \$ -             | \$ -                       | \$ 644            |
| Unearned revenues                               | 2,645             | 379              | -                          | 3,024             |
| Total Liabilities                               | <u>3,289</u>      | <u>379</u>       | <u>-</u>                   | <u>3,668</u>      |
| Fund Balances:                                  |                   |                  |                            |                   |
| Nonspendable                                    | -                 | -                | -                          | -                 |
| Restricted for road maintenance                 | -                 | -                | 115,292                    | 115,292           |
| Restricted for debt service                     | -                 | 20,496           | -                          | 20,496            |
| Unassigned                                      | 547,589           | -                | -                          | 547,589           |
| Total Fund Balances                             | <u>547,589</u>    | <u>20,496</u>    | <u>115,292</u>             | <u>683,378</u>    |
| Total Liabilities and Fund Balances             | <u>\$ 550,878</u> | <u>\$ 20,875</u> | <u>\$ 115,292</u>          | <u>\$ 687,045</u> |

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

**CITY OF IOLA, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**September 30, 2025**

|  |  |           |
|--|--|-----------|
| Total fund balances-governmental funds |  | \$683,378 |
|--|--|-----------|

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

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

|                          |           |          |
|--------------------------|-----------|----------|
|                          | \$ 79,738 |          |
| Construction in progress | \$ 79,738 |          |
| Total capital assets     | \$79,738  | \$79,738 |

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

|                                       |         |         |
|---------------------------------------|---------|---------|
|                                       | \$3,024 |         |
| Unearned Property taxes not collected | \$3,024 | \$3,024 |

|   |  |           |
|---|--|-----------|
| Net position of governmental activities |  | \$766,140 |
|---|--|-----------|

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

**CITY OF IOLA, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2025**

| <u>Revenues</u>                          | General    | Debt Service | Special<br>Revenue<br>Funds | Total      |
|--|------------|--------------|-----------------------------|------------|
| Property tax                             | \$ 25,120  | \$ 16,492    | \$ -                        | \$ 41,613  |
| Sales tax                                | 74,679     | -            | 18,670                      | 93,349     |
| Franchise fees                           | 11,194     | -            | -                           | 11,194     |
| Grant income                             | 32,725     | -            | -                           | 32,725     |
| Miscellaneous                            | 943        | -            | -                           | 943        |
| Interest income                          | 14,377     | -            | -                           | 14,377     |
| Total Revenues                           | 159,038    | 16,492       | 18,670                      | 194,200    |
| <br><u>Expenditures</u>                  |            |              |                             |            |
| General government                       | 77,603     | 2,000        | 17,161                      | 96,764     |
| Capital Outlay                           | 32,725     | -            | -                           | 32,725     |
| Total Expenditures                       | 110,328    | 2,000        | 17,161                      | 129,489    |
| Deficiency of Revenues Over Expenditures | 48,710     | 14,492       | 1,509                       | 64,711     |
| <br>Other Financing Sources:             |            |              |                             |            |
| Transfers in                             | -          | -            | -                           | -          |
| Transfers out                            | -          | (15,000)     | -                           | (15,000)   |
|  | -          | (15,000)     | -                           | (15,000)   |
| Net Change in Fund Balance               | 48,710     | (508)        | 1,509                       | 49,711     |
| Fund Balances - beginning of year        | 498,879    | 21,005       | 113,783                     | 633,667    |
| Fund Balances - end of year              | \$ 547,589 | \$ 20,497    | \$ 115,292                  | \$ 683,378 |

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

**CITY OF IOLA, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2025**

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

Net change in fund balances ----- total governmental funds \$49,711

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

|                             |               |        |
|-----------------------------|---------------|--------|
| Capital outlay expenditures | 32,725        |        |
| Depreciation expense        | -             |        |
|                             | <u>32,725</u> | 32,725 |

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

|                              |              |       |
|------------------------------|--------------|-------|
| Property taxes not collected | 3,024        |       |
| Less prior year              | (3,484)      |       |
|                              | <u>(460)</u> | (460) |

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

|   |          |   |
|---|----------|---|
| Debt service - principal                | -        |   |
| Difference in Deferred Inflows/Outflows | -        |   |
|   | <u>-</u> | - |

Change in net position of governmental activities \$81,977

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

**CITY OF IOLA, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
September 30, 2025**

|   | <b>Business-type<br/>Activities Enterprise<br/>Fund</b> |
|---|---|
|   | <b>Sewer Fund</b>                                       |
| <b>ASSETS:</b>                                    |   |
| Noncurrent Assets                                 |   |
| Restricted Assets:                                | \$ 10,005,790   |
| Cash  | -   |
| Capital Assets:                                   |   |
| Land  | 92,026  |
| Construction in Progress                          | 997,588   |
| Total Noncurrent Assets                           | \$ 11,095,404   |
| <br><b>LIABILITIES:</b>                           |   |
| Current Liabilities:                              |   |
| Accounts Payable                                  | \$ -  |
| Due to General Fund                               | 6,502   |
| Unearned Revenue                                  | 6,212,202   |
| Long-term Liabilities                             | 3,891,000   |
| Total Liabilities                                 | \$ 10,109,704   |
| <br><b>NET POSITION:</b>                          |   |
| Investment in Capital Assets, Net of Related Debt | \$ 992,202  |
| Restricted for Debt Service                       | 50,000  |
| Unrestricted                                      | (56,502)  |
| Total Net Position                                | \$ 985,700  |

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

**CITY OF IOLA, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION – PROPRIETARY FUND**  
**For the Year Ended September 30, 2025**

|                                    | <b>Business-type Activities<br/>Enterprise Fund</b> |
|------------------------------------|---|
|                                    | <b>Sewer Fund</b>                                   |
| Operating Revenues:                |   |
| Total Operating Revenues           | \$ -  |
| Operating Expenses:                |   |
| Permits                            | 620   |
| Total Operating Expenses           | 620   |
| Net Operating Income (Expenses)    | (620)   |
| Non-Operating Revenues (Expenses); |   |
| Intergovernmental Revenue          | 109,400   |
| Interest Income                    | 142   |
| Total Nonoperating Revenues        | 109,542   |
| Income Before Transfers            | 108,922   |
| Interfund Transfers In             | 15,000  |
| Change in Net Position             | 123,922   |
| Net Position - beginning           | 861,778   |
| Net Position - ending              | \$ 985,700  |

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

**CITY OF IOLA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended September 30, 2025**

|  | <b>Business-type Activities<br/>Enterprise Fund</b> |
|--|---|
|  | <b>Sewer Fund</b>                                   |
| <b><u>Cash Flows from Operating Activities</u></b>   |   |
| Cash paid for services   | \$ (620)  |
| Net Cash Provided by Operating Activities  | (620)   |
| <b><u>Cash Flows from Noncapital Financing Activities</u></b>                                      |   |
| Grant revenues received  | 109,400   |
| Decrease in restricted cash  | (186,716)   |
| Net Cash used by Noncapital Financing Activities   | (77,316)  |
| <b><u>Cash Flows from Capital and Related Financing Activities</u></b>                             |   |
| Transfers In   | 15,000  |
| Principal payments on loan   | (15,000)  |
| Acquisition of capital assets  | (109,400)   |
| Net Cash Used by Capital and Related Financing Activities  | (109,400)   |
| <b><u>Cash Flows from Investing Activities</u></b>   |   |
| Interest received  | 159   |
| Net Cash Provided by Investing Activities  | 159   |
| Net Increase in Cash and Cash Equivalents  | (187,177)   |
| Cash and cash equivalents - beginning of year  | 10,192,967  |
| Cash and cash equivalents - end of year  | \$10,005,790  |
| <b><u>Reconciliation of operating income to net cash provided<br/>by operating activities:</u></b> |   |
| Operating income (loss)  | (\$620)   |
| Net Cash Provided by Operating Activities  | (\$620)   |

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

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

A. Summary of Significant Accounting Policies

The combined financial statements of City of Iola, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity:

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
  - the City holds the corporate powers of the organization
  - the City appoints a voting majority of the organization's board
  - the City is able to impose its will on the organization
  - the organization has the potential to impose a financial benefit/burden on the City
  - there is fiscal dependency by the organization on the City
  - the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City. Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities.

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The City reports the following major governmental funds: General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund. The City reports the following major enterprise funds: Sewer Fund. This fund accounts for the charges for providing residents with sewer service (which is in the planning and design phase currently).

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. tax

The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under lease contracts and subscription-based information technology arrangements are reported as other financing sources. When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

**3. Financial Statement Amounts**

**a. Cash and Cash Equivalents**

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

**b. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

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

**c. Inventories and Prepaid Items**

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**d. Capital Assets Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.**

**e. Receivable and Payable Balances The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year end.**

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**f. Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

**g. Deferred Outflows and Inflows of Resources**

In addition to assets, the statements of financial position (the government-wide and proprietary Statements of Net Position) and governmental funds balance sheet will sometimes report a separate section for deferred inflows and outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

**h. Fund Balances - Governmental Funds**

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** - represents amounts that can only be used for a specific purpose because of a formal action by the City's Board of Aldermen. Committed amounts cannot be used for any other purpose unless the Board of Aldermen removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Aldermen. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**Assigned Fund Balance** - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Aldermen or by an official or body to which the Board of Aldermen delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned. When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

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

- i. Net Position Flow Assumption Sometimes the City will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.
- j. Fund Balance Flow Assumptions Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources {the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance, Unassigned fund balance is applied last.
- k. Use of Estimates The preparation of financial statements in conformity with GAAP requires the use of management's estimates

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

| <u>Violation</u> | <u>Action Taken</u> |
|------------------|---------------------|
| None reported    | Not applicable      |

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|-----------------------|----------------|
| None reported    | Not applicable        | Not applicable |

C. Deposits and Investments

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

Cash Deposits

At September 30, 2025, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$813,090 and the bank balance was \$813,367. The City's cash deposits at September 30, 2025 and during the year ended September 30, 2025, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Restricted Cash

The City has approval from TWDB for \$11,000,800 in funding to construct a wastewater treatment plant. The funding is in four phases. All four phases have now been funded by TWDB. The funds below are being held in separate restricted escrow bank accounts until qualifying expenditures have been made and approval is given by TWDB to release funds to pay vendors

At September 30, 2025, the City has these funds in restricted escrow bank accounts:

| Restricted Cash- Sewer Fund      | <u>2025</u>         | <u>2024</u>          |
|----------------------------------|---------------------|----------------------|
| Cash from 0% Loan- 2020          | \$ 520,449          | \$ 539,951           |
| Cash from 0% Loan- 2023          | 3,131,038           | 3,131,038            |
| Cash from Loan Forgiveness- 2020 | 474,412             | 643,111              |
| Cash from Loan Forgiveness- 2023 | 5,737,800           | 5,737,800            |
|                                  | <u>\$ 9,863,699</u> | <u>\$ 10,051,900</u> |

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

Also in restricted cash are two bank accounts required by TWDB as a reserve for outstanding debt and for funding the interest and sinking payment.

|                          | Required by<br>TWDB | Funded by<br>City | Over (Under)<br>Funded |
|--------------------------|---------------------|-------------------|------------------------|
| Reserve Required by TWDB | \$ 50,000           | \$ 50,000         | \$ -                   |
| Funded by the City       | 50,000              | 50,000            | -                      |
| Over (Under) Funded      | \$ -                | \$ -              | \$ -                   |

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity. The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies. The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2025 consisted of various certificates of deposits totaling \$373,442.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. Investment securities are exposed to custodial credit risk if the securities are

**CITY OF IOLA, TEXAS**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2025

uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

#### Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

#### Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk. Foreign Currency Risk This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

#### Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

#### Investment Accounting Policy

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

#### Fair Value Measurement

The City categorizes its fair value measurements with 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 are significant unobservable inputs.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City currently has no investments that require fair value measurement.

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

D. Capital Assets Capital asset activity for the year ended September 30, 2025, was as follows:

|   | <b>Beginning<br/>Balance</b> | <b>Increase</b> | <b>(Decrease)</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|-----------------|-------------------|---------------------------|
| <b>Governmental Activities</b>              |                              |                 |                   |                           |
| Capital assets, not being depreciated:      |                              |                 |                   |                           |
| Land  | \$ -                         | \$ -            | \$ -              | \$ -                      |
| Construction in progress                    | 47,013                       | 32,725          | -                 | 79,738                    |
| Total capital assets, not being depreciated | 47,013                       | 32,725          | -                 | 79,738                    |
| Governmental activities capital assets, net | \$ 47,013                    | \$ 32,725       | \$ -              | \$ 79,738                 |

|   | <b>Beginning<br/>Balance</b> | <b>Increase</b> | <b>(Decrease)</b> | <b>Ending<br/>Balance</b> |
|---|------------------------------|-----------------|-------------------|---------------------------|
| <b>Business-type activities</b>             |                              |                 |                   |                           |
| Capital assets, not being depreciated       |                              |                 |                   |                           |
| Land  | \$ 92,026                    | \$ -            | -                 | \$ 92,026                 |
| Construction in progress                    | 888,188                      | 109,400         | -                 | 997,588                   |
| Total capital assets, not being depreciated | 980,214                      | -               | -                 | 980,214                   |
| Business-type capital assets, net           | \$ 980,214                   | \$ -            | \$ -              | \$ 980,214                |

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2025, consisted of the following:

|                   | <b>Due from<br/>Other Funds</b> | <b>Due to Other<br/>Funds</b> |
|-------------------|---------------------------------|-------------------------------|
| General Fund      | \$ 5,000                        | \$ -                          |
| Debt Service Fund | 1,502                           | -                             |
| Water, Sewer Fund | -                               | 6,502                         |
| Total All Funds   | \$6,502                         | \$6,502                       |

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2025, consisted of the following:

|              | <b>Transfers In</b> | <b>Transfers Out</b> |
|--------------|---------------------|----------------------|
| General Fund | \$ -                | \$ 15,000            |
| Sewer Fund   | \$ 15,000           | -                    |
| Total        | \$ 15,000           | \$ 15,000            |

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

**F. Unearned Revenue**

Deferred revenue is revenue (usually from grants) that has been received by the City but has not yet been spent so the revenue is considered unearned until the time that qualified expenditures are made. As of September 30, 2025, the City classified these amounts as unearned revenue. Components of Unearned Revenue - Sewer Fund:

**Components of Unearned Revenue- Sewer Fund**

|  |                    |
|--|--------------------|
| Balance of 2020 Principal Forgiveness Loan | \$ 474,402         |
| Balance of 2022 Principal Forgiveness Loan | <u>5,737,800</u>   |
| Total                                      | <u>\$6,212,202</u> |

**G. Long-Term Obligations**

**1. Long-Term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2025, are as follows:

|                                | Amounts                  |             |                  | Amounts                  |                    |
|--------------------------------|--------------------------|-------------|------------------|--------------------------|--------------------|
|                                | Outstanding<br>10/1/2024 | Additions   | Retirements      | Outstanding<br>9/30/2025 | Current<br>Portion |
| Business-Type Activities       |                          |             |                  |                          |                    |
| Certificates of Obligation-    | \$ 3,906,000             | \$ -        | \$ 15,000        | \$ 3,891,000             | \$ 50,000          |
| Total Business-Type Activities | <u>\$ 3,906,000</u>      | <u>\$ -</u> | <u>\$ 15,000</u> | <u>\$ 3,891,000</u>      | <u>\$ 50,000</u>   |

**2. Debt Service Requirements**

Debt service requirements on long-term debt at September 30, 2025, are as follows:

| Fiscal Year Ending: | Principal           | Interest    | Total               |
|---------------------|---------------------|-------------|---------------------|
| 2026                | \$ 50,000           | \$ -        | \$ 50,000           |
| 2027                | 80,000              | -           | 80,000              |
| 2028                | 105,000             | -           | 105,000             |
| 2029                | 105,000             | -           | 105,000             |
| 2030                | 105,000             | -           | 105,000             |
| Thereafter          | <u>3,446,000</u>    | -           | <u>3,446,000</u>    |
| Total               | <u>\$ 3,891,000</u> | <u>\$ -</u> | <u>\$ 3,891,000</u> |

**CITY OF IOLA, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2025**

The City issued Combination Tax and Revenue Certificates, Series 2020 and 2022, in the amount of \$3,926,000. The proceeds will be used to construct a sewer system for the City. The Certificates both have a 0% interest rate. Principal payments range from \$5,000 to \$138,000 annually and are due August 15 each year.

|                                  |                     |
|----------------------------------|---------------------|
| Certificates of Obligation- 2020 | \$ 3,348,000        |
| Certificates of Obligation- 2023 | <u>543,000</u>      |
| Total                            | <u>\$ 3,891,000</u> |

**H. Risk Management**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2025, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**I. Commitments and Contingencies**

**1. Contingencies**

The City participates in 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 the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable 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 basic financial statements for such contingencies.

**2. Litigation**

No reportable litigation was pending against the City at September 30, 2025.

**J. Subsequent Events**

The City evaluated subsequent events through March 27, 2026, which is the date through which the financial statements were available to be issued. The City did not identify any events that require recording or disclosure in the financial statements for the year ended September 30, 2025.

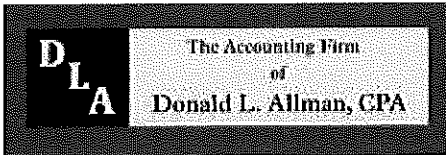
**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF IOLA, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE BUDGET TO ACTUAL – GENERAL FUND**

**For the Year Ended September 30, 2025**

|                                      | Budgeted Amounts |            | Actual<br>Amounts | Variance with<br>Final Budget - |
|--------------------------------------|------------------|------------|-------------------|---------------------------------|
|                                      | Original         | Final      |                   |                                 |
| <b><u>Revenues</u></b>               |                  |            |                   |                                 |
| Property tax                         | \$ 34,400        | \$ 34,400  | \$ 41,613         | \$ 7,213                        |
| Sales tax                            | 62,000           | 62,000     | 93,349            | 31,349                          |
| Franchise fees and other taxes       | 8,206            | 8,206      | 11,194            | 2,988                           |
| Miscellaneous income                 | -                | -          | 943               | 943                             |
| Interest income                      | -                | -          | 14,377            | 14,377                          |
| Total Revenue                        | 104,606          | 104,606    | 161,475           | 56,869                          |
| <b><u>Expenditures</u></b>           |                  |            |                   |                                 |
| General government                   | 84,745           | 84,745     | 96,764            |                                 |
| Capital Outlay:                      |                  | -          | 32,725            | (32,725)                        |
| Total Expenditures                   | 84,745           | 84,745     | 129,489           | (32,725)                        |
| Excess (Deficiency) of Revenues      |                  |            |                   |                                 |
| Over Expenditures:                   | 19,861           | 19,861     | 31,986            | 24,143                          |
| Other Financing Sources (Uses):      |                  |            |                   |                                 |
| Transfer In/(Out)                    | -                | -          | (15,000)          | 15,000                          |
| Grant income                         | -                | -          | 32,725            | 32,725                          |
| Total Other Financing Sources (Uses) | -                | -          | 17,725            | 47,725                          |
| Net Change in Fund Balance           | 19,861           | 19,861     | 49,711            | 71,869                          |
| Fund Balances - beginning of year    | 633,666          | 633,666    | 633,666           |                                 |
| Fund Balances - end of year          | \$ 653,527       | \$ 653,527 | \$ 683,377        | \$ 71,869                       |

**COMPLIANCE AND INTERNAL CONTROL SECTION**



Donald L. Allman, CPA, PC  
160 Owen Pass  
Liberty Hill, Texas 78642

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CERTIFIED PUBLIC ACCOUNTANT

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

To the Mayor & City Council  
City of lola, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of lola, Texas, as of and for the year ended September 30, 2025 and the related notes to the financial statements, which collectively comprise the City of lola, Texas' basic financial statements, and have issued our report thereon dated March 27, 2026.

**Internal Control over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 may exist that have not been identified.


**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of lola, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Donald L. Allman, CPA, PC

  
Liberty Hill, TX  
March 27, 2026