



**FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
MARCH 31, 2021**

**CITY OF GARRISON, TEXAS
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FOR THE YEAR ENDED MARCH 31, 2021**

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DAVID K. GODWIN

CERTIFIED PUBLIC ACCOUNTANT, PLLC

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
City of Garrison, Texas

Report on the Financial Statements

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 Garrison, Texas as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the opening balances and proprietary fund cash flows.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the "Basis for Disclaimer of Opinion on the Opening Balances and Proprietary Fund Cash Flows" paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Opening Balances and Proprietary Fund Cash Flows

We were not engaged as auditors of the City until after March 31, 2021, and, the last audit was performed as of March 31, 2004, therefore, the financial statements for the prior period were not audited. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Since, opening balances for accounts payable, accounts receivable, depreciation, customer deposits, compensated absences, deferred inflow and deferred outflows enter into the determination of cash flows, we were unable to determine whether any adjustments might have been necessary in respect of the net cash flows from operating activities reported in the proprietary fund cash flow statement.

Disclaimer of Opinion

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Opening Balances and Proprietary Fund Cash Flows” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the opening balances and proprietary fund cash flows of the City of Garrison, Texas. Accordingly, we do not express an opinion on the opening balances and proprietary fund cash flows.

Unmodified Opinions

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 Garrison, Texas, as of March 31, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Evidence of Employee Infidelity

As described in Note 2 to the financial statements, in August 2020, the City filed an insurance claim into evidence of employee infidelity. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 12, and the budgetary comparison information on page 54 be presented to supplement the basic financial statements. Such information, 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 me with sufficient evidence to express an opinion or provide any assurance.

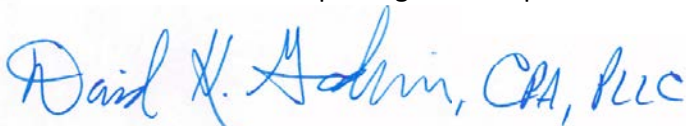
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Garrison, Texas's basic financial statements. The combining utility services fund departments financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining utility services fund departments financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 utility services fund departments financial statements 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 February 14, 2022, on my consideration of the City of Garrison, Texas's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Garrison, Texas's internal control over financial reporting and compliance.



David K. Godwin, CPA, PLLC

Tyler, Texas

February 14, 2022

Management's Discussion and Analysis



CITY OF GARRISON

330 SOUTH B AVENUE
GARRISON, TX 75946
936-347-2201 • FAX 936-347-2200



Management's Discussion and Analysis For Year Ended March 31, 2021 (Unaudited)

The Management Discussion and Analysis of the City of Garrison's (City) annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended March, 2021. Please read in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Mayor and Council

Russell Wright
Mayor

Arnie Kelley
Mayor Pro-Tem

Hope Hallmark
Alderman

Tim Wright
Alderman

Travis Simon
Alderman

Darrell Lunsford
Alderman

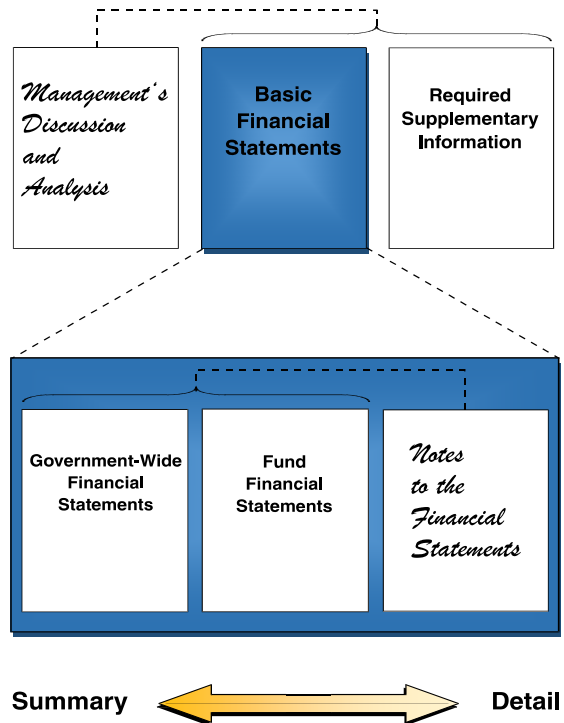
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$944,749 (Net Position). Of this amount, \$202,258 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by \$279,601.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$268,091. Of this amount, \$163,809 is unassigned and available for use within the City's fund designation and fiscal policies.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$163,809, or 45% of the total general fund expenditures.
- The City's outstanding long-term debt decreased by \$17,835.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City’s annual report consists of a series of financial statements, notes to those statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are Government-Wide Financial Statements that provide both long-term and short-term information about the City’s overall financial status.
- The remaining statements are Fund Financial Statements that focus on individual parts of the government, reporting the City’s operations in more detail than the Government-Wide Statements.
 - The Governmental Funds Statements tell how general government services were financed in the short term as well as what remains for future spending.
 - Proprietary Fund Statements offer financial information about the internal service fund used to report activities that provide services to organizations within the City. *The City had no active proprietary funds during the fiscal year.*

Figure A-1 Required Components of the City’s Annual Financial Report



The basic financial statements include notes that explain information contained within the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 (above) shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 (next page) summarizes the major features of the City’s financial statements, including the portion of the City’s government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-2
MAJOR FEATURES OF THE CITY'S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

<i>Type of Statement</i>	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.
<i>Required financial statements</i>	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of flow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The Government-Wide Statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-Wide Statements report the City's net position and how it has changed. Net position, the difference between the City's assets and liabilities, is one way to measure the City's financial health or position.

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

The Government-Wide Financial Statements of the City include the governmental activities. The City's basic activities include general government, municipal court, public safety, emergency services, highways and streets, and community center. Fines, forfeitures and taxes finance most of these activities.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices used by the City to track specific sources and uses of funding for specified activities.

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

The City has two types of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$944,749 as of March 31, 2021.

The largest portion of the City's net position, 75%, or \$710,301, reflects its investments in capital assets (e.g., land, building, equipment, vehicles, improvements and infrastructure), less any outstanding debt used in acquiring those assets. 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 liquidated to repay these liabilities.

CITY OF GARRISON'S NET POSITION

	Governmental Activities	Business-Type Activities	Total
	2021	2021	2021
Current and Other Assets	\$ 582,692	\$ 220,849	\$ 803,541
Capital Assets	253,252	557,166	810,418
Total Assets	<u>835,944</u>	<u>778,015</u>	<u>1,613,959</u>
Total Deferred Outflows of Resources	<u>67,781</u>	<u>49,510</u>	<u>117,291</u>
Non-Current Liabilities	18,118	111,254	129,372
Other Liabilities	9,804	150,477	160,281
Total Liabilities	<u>27,922</u>	<u>261,731</u>	<u>289,653</u>
Total Deferred Inflows of Resources	<u>287,128</u>	<u>209,720</u>	<u>496,848</u>
Net Position:			
Invested in Capital Assets, Net of Related Debt	253,252	457,049	710,301
Restricted	32,190	-	32,190
Assigned	-	-	-
Unrestricted	<u>303,233</u>	<u>(100,975)</u>	<u>202,258</u>
Total Net Position	<u>\$ 588,675</u>	<u>\$ 356,074</u>	<u>\$ 944,749</u>

A portion of net position, \$24,478, is restricted for municipal court security and technology enhancements, in addition to \$1,564 held for continuing education under the Law Enforcement Officer Standards and Education (LEOSE) fund. Another \$5,148 are forfeitures held by the City. The remaining balance of unrestricted net position, \$202,258, may be used to meet the government's ongoing obligations to citizens and creditors.

As of March 31, 2021, the City is able to report positive balances in all three categories of net position, for the government as a whole.

Analysis of the City's Operations - Overall the City had an increase in net position of \$279,601.

Governmental Activities: Net position for the governmental activities decreased by \$150,960. Net position invested in capital assets, net of related debt, decreased by \$17,271 due to capital asset acquisitions being less than depreciation expenses and liquidation of long-term debt. The remaining change in net position is due to lower-than-expected expenditures.

Business-type Activities: Net position from business-type activities increased by \$430,561. This increase was primarily due to transfers from the governmental funds and payments on the City’s long-term debt obligations

The following table provides a summary of the City’s operations for the year ended March 31, 2021.

CITY OF GARRISON’S CHANGES IN NET POSITION

	Governmental Activities	Business-Type Activities	Total
	2021	2021	2021
Revenues:			
Operating Revenues:			
Charges for Services	\$ 180,628	\$ 777,506	\$ 958,134
Other	-	32,142	32,142
General Revenues:			
Taxes	248,551	-	248,551
Fines & Forfeitures	-	-	-
Sanitation Services	-	-	-
Pension Earnings	61,551	44,344	105,895
Grant	33,244	-	33,244
Miscellaneous	44,459	-	44,459
Total Revenues	568,433	853,992	1,422,425
Expenses:			
General Government	389,803	-	389,803
Utility Services	-	748,505	748,505
Total Expenses	389,803	748,505	1,138,308
 Increase (Decrease) in Total Revenues	 178,630	 105,487	 284,117
NONOPERATING REVENUES (EXPENSES)			
Interest Income	41	-	41
Bond Interest Expense	-	(4,557)	(4,557)
Total Non-operating Expense	41	(4,557)	(4,516)
OTHER FINANCING SOURCES (USES)			
Operating Transfers from Other Funds	31,834	361,465	393,299
Operating Transfers to Other Funds	(361,465)	(31,834)	(393,299)
Total Other Financing Sources (Uses)	(329,631)	329,631	-
 Change in Net Position	 (150,960)	 430,561	 279,601
Net Position – Beginning	739,635	(74,487)	665,148
Net Position – Ending	\$ 588,675	\$ 356,074	\$ 944,749

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$268,091; of this total amount, \$163,809, constitutes a surplus in unassigned fund balance.

In the general fund, the City's original budget planned for an increase in the fund balance on a budget basis.

Actual revenues in all categories were higher than the final budgeted amounts by a total of \$63,306. Actual expenditures not including transfers were lower than final budgeted amounts by a total of \$182,718.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of March 31, 2021, amounts to \$710,301 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, improvements, vehicles, and infrastructure. The total decrease in capital assets for the current fiscal year was \$35,106, or 4.15% and due to depreciation expenditures exceeding capital asset acquisitions.

Major capital asset additions during fiscal year 2020 included \$9,500 for equipment utilized for public safety, and \$23,852 for water well improvements.

CAPITAL ASSETS AT YEAR-END AND ACCUMULATED

	Governmental Activities	Business-Type Activities	Total
	2021	2021	2021
Land	\$ 13,250	\$ 205,090	\$ 218,340
Utility Systems	-	2,636,957	2,636,957
Building	320,000	149,328	469,328
Machinery & Equipment	29,643	539,144	568,787
Vehicles	110,000	182,000	292,000
Improvements	-	23,852	23,852
Accumulated Depreciation	(219,641)	(3,179,205)	(3,398,846)
 Total	\$ 253,252	\$ 557,166	\$ 810,418

Additional information on the City’s capital assets can be found in Note 2 on page 37 in the notes of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had one note payable for \$100,117, which is secured by water meters and equipment.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities	Business-Type Activities	Total
	2021	2021	2021
Note Payable	\$ -	\$ 100,117	\$ 100,117
Total	\$ -	\$ 100,117	\$ 100,117

During the fiscal year, the City’s note payable decreased by \$17,835, or 15.12%. The decrease was primarily due to the following:

- Annual debt principal payment made on the note payable.

Additional information on the City’s long term-debt can be found in note 2 on page 39 in the notes of this report.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City’s finances. If you have questions about this report or need any additional information, contact the City of Garrison, Attn: City Secretary at 330 South B Ave, Garrison, Texas 75946.

Basic Financial Statements

Government-Wide Financial Statements

CITY OF GARRISON, TEXAS
STATEMENT OF NET POSITION
MARCH 31, 2021

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 176,418	\$ 4,458	\$ 180,876
Investments	43,505	6,536	50,041
Receivables (net of allowances):			
Sales taxes	16,269	-	16,269
Property taxes	25,250	-	25,250
Franchise taxes	8,180	-	8,180
Sanitation fees	1,334	-	1,334
Fines and forfeitures	31,530	-	31,530
Other	-	14,460	14,460
Restricted cash	32,190	14,243	46,433
Net pension asset	248,016	181,152	429,168
Capital assets:			
Land and other non-depreciated assets	13,250	205,090	218,340
Other capital assets - net of depreciation	240,002	352,076	592,078
Total Assets	835,944	778,015	1,613,959
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pensions subsequent to the measurement date	65,135	47,577	112,712
Changes in actuarial assumptions and other inputs	2,646	1,933	4,579
Total Deferred Outflows of Resources	67,781	49,510	117,291
LIABILITIES			
Accounts payable and accrued liabilities	9,804	131,942	141,746
Long-term liabilities:			
Due within one year	-	18,535	18,535
Due in more than one year	18,118	111,254	129,372
Total Liabilities	27,922	261,731	289,653
DEFERRED INFLOWS OF RESOURCES			
Differences between expected and actual economic experience on pensions	278,894	203,706	482,600
Differences between projected and actual investment earnings on pensions	8,234	6,014	14,248
Total Deferred Inflows of Resources	287,128	209,720	496,848
NET POSITION			
Investment in capital assets, net of related debt	253,252	457,049	710,301
Restricted for municipal court	25,478	-	25,478
Restricted for public safety	6,712	-	6,712
Unrestricted	303,233	(100,975)	202,258
Total Net Position	\$ 588,675	\$ 356,074	\$ 944,749

**CITY OF GARRISON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2021**

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary government:						
Governmental activities:						
Administration	\$ 109,586	\$ 23,738	\$ -	\$ (85,848)	\$ -	\$ (85,848)
Public safety	129,863	-	14,500	(115,363)	-	(115,363)
Municipal court	54,167	61,772	-	7,605	-	7,605
Sanitation	62,400	64,336	-	1,936	-	1,936
Emergency services	5,431	-	53	(5,378)	-	(5,378)
Highways and streets	28,176	30,782	-	2,606	-	2,606
Parks and recreation	180	-	18,691	18,511	-	18,511
Total governmental activities	389,803	180,628	33,244	(175,931)	-	(175,931)
Business-type activities:						
Utility services	753,062	777,506	-	-	24,444	24,444
Total business-type activities	753,062	777,506	-	-	24,444	24,444
Total primary government	\$ 1,142,865	\$ 958,134	\$ 33,244	(175,931)	24,444	(151,487)
General revenues:						
Sales taxes				94,298	-	94,298
Property taxes				114,320	-	114,320
Franchise taxes				39,933	-	39,933
Pension earnings				61,551	44,344	105,895
Investment earnings				41	-	41
Miscellaneous local and intermediate revenue				44,459	32,142	76,601
Transfers				(329,631)	329,631	-
Total general revenues and transfers				24,971	406,117	431,088
Change in net position				(150,960)	430,561	279,601
Net position - beginning				739,635	(74,487)	665,148
Net position - ending				\$ 588,675	\$ 356,074	\$ 944,749

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

Fund Financial Statements

**CITY OF GARRISON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2021**

	<u>MAJOR FUNDS</u>	
	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS		
Cash	\$ 176,418	\$ 176,418
Investments	43,505	43,505
Receivables (net of allowances):		
Sales taxes	16,269	16,269
Property taxes	25,250	25,250
Franchise taxes	8,180	8,180
Sanitation fees	1,334	1,334
Fine and forfeitures	31,530	31,530
Restricted cash	<u>32,190</u>	<u>32,190</u>
 Total assets	 <u>\$ 334,676</u>	 <u>\$ 334,676</u>
 LIABILITIES		
Accounts payable	\$ 9,804	\$ 9,804
Due to other funds	<u>-</u>	<u>-</u>
 Total liabilities	 <u>9,804</u>	 <u>9,804</u>
 DEFERRED INFLOWS (OF RESOURCES)		
Property taxes	25,250	25,250
Fines, forfeitures, and warrants	<u>31,531</u>	<u>31,531</u>
 Total deferred inflows	 <u>56,781</u>	 <u>56,781</u>
 FUND BALANCES		
Restricted fund balance:		
Municipal court	25,478	25,478
Public safety	6,712	6,712
Committed fund balance:		
Infrastructure	50,640	50,640
Assigned fund balance:		
Park improvements	21,452	21,452
Unassigned fund balance	<u>163,809</u>	<u>163,809</u>
 Total fund balances	 <u>268,091</u>	 <u>268,091</u>
 Total liabilities, deferred inflows and fund balances	 <u>\$ 334,676</u>	 <u>\$ 334,676</u>

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

**CITY OF GARRISON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2021**

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances - governmental funds	\$	268,091
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.		253,252
Long-term pension liability, which is based on GASB 68 reporting requirements, is not due and payable in the current period and therefore is not reported in the governmental fund financial statements:		
Net pension asset		248,016
Deferred outflows, related to pension		64,546
Deferred inflows, related to pension		(284,080)
Long-term OPEB liability, which is based on GASB 75 reporting requirements, is not due and payable in the current period and therefore is not reported in the governmental fund financial statements:		
Net OPEB liability		(14,653)
Deferred outflows, related to OPEB		3,235
Deferred inflows, related to OPEB		(3,048)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the governmental funds balance sheet.		3,465
Outstanding fines, forfeitures and warrants are a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.		31,531
Delinquent property taxes receivable is a long-term asset and not available to pay for current period expenditures and therefore is deferred in the funds.		25,250
Net position of governmental activities	\$	595,605

CITY OF GARRISON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2021

	<u>MAJOR FUNDS</u>	
	<u>GENERAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES		
Taxes:		
Sales	\$ 94,298	\$ 94,298
Property	113,058	113,058
Franchise	39,933	39,933
Fines and forfeitures	60,195	60,195
Infrastructure fees	30,782	30,782
Licenses and permits	350	350
Charges for services	23,388	23,388
Sanitation services	64,336	64,336
Grants and contributions	33,244	33,244
Interest income	41	41
Miscellaneous	44,459	44,459
	<u>504,084</u>	<u>504,084</u>
Total revenues		
	<u>504,084</u>	<u>504,084</u>
EXPENDITURES		
Administration	91,737	91,737
Public safety	123,955	123,955
Municipal court	53,588	53,588
Sanitation	62,400	62,400
Emergency services	4,867	4,867
Highways and streets	28,125	28,125
Parks and recreation	180	180
	<u>364,852</u>	<u>364,852</u>
Total expenditures		
	<u>364,852</u>	<u>364,852</u>
Excess (deficiency) of revenues over (under) expenditures	<u>139,232</u>	<u>139,232</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers from other funds	31,834	31,834
Operating transfers to other funds	<u>(361,465)</u>	<u>(361,465)</u>
Total other financing sources (uses)	<u>(329,631)</u>	<u>(329,631)</u>
Net change in fund balances	(190,399)	(190,399)
Fund balances - beginning of year	<u>458,490</u>	<u>458,490</u>
Fund balances - end of year	<u>\$ 268,091</u>	<u>\$ 268,091</u>

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

CITY OF GARRISON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2021

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds	\$ (190,399)
The depreciation of capital assets used in governmental activities is not reported in the funds.	(33,612)
Net delinquent property tax collections provide current financial resources to the funds (but has no effect on net assets).	1,262
The portion of fines, forfeitures and warrants receivable which are measurable and available are recognized as revenue in the funds. The remainder of the receivables are deferred and, therefore, are not reported in the governmental activities.	1,577
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:	
GASB 68 Pension adjustments	61,551
GASB 75 Other post employment benefit adjustments	(839)
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide statement of activities.	<u>9,500</u>
Change in net position of governmental activities	<u><u>\$ (150,960)</u></u>

CITY OF GARRISON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
MARCH 31, 2021

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
	UTILITY SERVICES
ASSETS	
Current assets:	
Cash	\$ 4,458
Investments	6,536
Accounts receivable (net)	<u>14,460</u>
Total current assets	<u>25,454</u>
Noncurrent assets:	
Restricted cash	14,243
Net pension asset	181,152
Capital assets:	
Land	205,090
Utility systems	2,636,957
Buildings	149,328
Machinery and equipment	539,144
Vehicles	182,000
Improvements	23,852
Construction in progress	-
Less: accumulated depreciation	<u>(3,179,205)</u>
Total noncurrent assets	<u>752,561</u>
Total assets	<u>778,015</u>
DEFERRED OUTFLOWS OF RESOURCES	
Contributions to pensions subsequent to the measurement date	47,577
Changes in actuarial assumptions and other inputs	<u>1,933</u>
Total deferred outflows of resources	<u>49,510</u>
LIABILITIES	
Current liabilities:	
Accounts payable	21,313
Customer deposits	110,025
Sales tax payable	604
Loan payable	<u>18,535</u>
Total current liabilities	150,477
Non-current liabilities:	
Loan payable	81,582
Compensated absences	18,968
Net OPEB liability	<u>10,704</u>
Total liabilities	<u>261,731</u>
DEFERRED INFLOWS OF RESOURCES	
Differences between expected and actual economic experience on pensions	203,706
Differences between projected and actual investment earnings on pensions	<u>6,014</u>
Total deferred inflows of resources	<u>209,720</u>
NET POSITION	
Investment in capital assets, net of related debt	457,049
Unrestricted	<u>(100,975)</u>
Total net position	<u>\$ 356,074</u>

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

CITY OF GARRISON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2021

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
	<u>UTILITY SERVICES</u>
OPERATING REVENUES	
Service charges	\$ 776,606
Tap fees	900
Pension Earnings	44,344
Other	<u>32,142</u>
Total operating revenues	<u>853,992</u>
OPERATING EXPENSES	
Personnel services	366,311
Natural gas purchases	109,626
Contract labor	19,479
Depreciation	34,846
Maintenance	41,753
Utilities	55,454
Chemicals and supplies	86,587
Permits and licenses	11,945
Professional fees	6,336
Training and education	1,537
Insurance	12,118
Other	<u>2,513</u>
Total operating expenses	<u>748,505</u>
Operating income	<u>105,487</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	-
Interest expense	<u>(4,557)</u>
Total nonoperating expenses	<u>(4,557)</u>
Income before operating transfers	<u>100,930</u>
TRANSFERS	
Transfers in	361,465
Transfers out	<u>(31,834)</u>
Total transfers	<u>329,631</u>
Change in net position	430,561
Net position - beginning of year	<u>(74,487)</u>
Net position - end of year	<u>\$ 356,074</u>

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

**CITY OF GARRISON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2021**

	BUSINESS-TYPE ACTIVITIES
	ENTERPRISE FUND
	<u>UTILITY SERVICES</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 777,506
Other cash receipts	32,142
Payments to suppliers	<u>(1,076,314)</u>
Net cash used in operating activities	<u>(266,666)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers-in from other funds	361,465
Transfers-out to other funds	<u>(31,834)</u>
Net cash provided by non-capital financing activities	<u>329,631</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(23,852)
Principal repayments on debt	(17,835)
Interest on debt	<u>(5,235)</u>
Net cash used in capital and related financing activities	<u>(46,922)</u>
Net increase in cash and cash equivalents	16,043
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,658</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 18,701</u></u>
Reconciliation of Operating Income to Net Cash provided by (used in) Operating Activities	
Operating income	\$ 96,212
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation expense	34,846
Changes in assets and liabilities:	
Increase (decrease) in accounts payable	(116,584)
Increase (decrease) in pension liability	(216,238)
Increase (decrease) in OPEB liability	643
Increase (decrease) in deferred inflows	(117,845)
Decrease (increase) in deferred outflows	(14,424)
Decrease (increase) in investments	(72)
Decrease (increase) in accounts receivable	<u>66,796</u>
Total adjustments	<u>(362,878)</u>
Net cash used in operating activities	<u><u>\$ (266,666)</u></u>

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

Notes to the Financial Statements

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Garrison, Texas (City) was incorporated in 1939 and operates under the laws of the State of Texas as a Type A General Law Municipality. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Boards (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended March 31, 2021.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. Governmental activities include programs supported primarily by taxes and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

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

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 identifiable activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or identifiable activity. 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 are reported as separate columns in the fund financial statements.

Interfund activities between governmental funds appear as due to/due froms on the governmental fund balance sheet and as other resources and other uses on the governmental fund statement of revenues, expenditures and changes in fund balance. All interfund transactions between governmental funds are eliminated on the government-wide statements.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Government-Wide and Fund Financial Statements - continued

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. All other expenses are non-operating.

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 the related cash flows. Property taxes are recognized as revenue 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. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year-end.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued

Revenues from local sources consist primarily of taxes. Tax revenue and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize 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. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

Utility Services Fund – This fund is utilized for the operations of the water, natural gas, and sewer provided by the City for the community.

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

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents

The City's cash and cash equivalents includes amounts on hand and in demand deposits.

Investments

State statutes and the City's investment policy authorize the City to invest in obligations of the U.S. Treasury, State of Texas obligations, certificates of deposit, commercial paper, corporate bonds, repurchase agreements, and mutual funds.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as either "Due to/from Other Funds" (i.e., the current portion of the interfund loan) or "Advances to/from Other Funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from Other Funds."

Property Taxes Receivable are shown net of an allowance for uncollectibles. The allowance is equal to zero (0) percent of delinquent property taxes receivable at March 31, 2021. The City's ad valorem taxes are levied on October 1 but do not become due until January 1 of the following year. Taxes become past due February 1 and become delinquent June 30. The City's taxes become a lien on real property on the due date of January 1. This lien is effective until the taxes are paid.

Long-Term Liabilities

In the government-wide 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.

In the fund financial statements, governmental fund types report the face amount of the debt issued as Other Financing Sources and debt payments as Expenditures.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of three (3) years. Such assets are recorded at historical cost where records are available or at an estimated fair market value at the date of acquisition where no historical records exist. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide statements regardless of their amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, equipment and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Waterworks system	30
Wastewater system	30
Building and improvements	20
Infrastructure	20
Equipment	5
Vehicles	5

In the case of initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities), public domain property including roads, bridges, curbs and gutters, streets and sidewalks and similar assets prior to March 31, 2020 have not been capitalized by the City. Additional capital assets, constructed or acquired each period subsequent to March 31, 2020, are capitalized and reported at historical cost.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Fund Balance Classification

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

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

Committed fund balance – amounts constrained to specific purposes by the City Council, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest-level action to remove or change the constraint.

Assigned fund balance – amounts the City Council intends to use for a specific purpose. Intent can be expressed by the Mayor or the City Secretary, through which the City Council has delegated the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). When it is appropriate for fund balance to be assigned, the City Council designated the authority to the Mayor and the City Secretary (such as the purchase of fixed assets, construction, debt service, or for other purposes).

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance-continued

Compensated Absences

Compensated vacations are granted to all full-time regular employees of the City. After the completion of a probationary three (3) months of employment, vacation is granted for employees. Regular employees earn five (5) days of vacation per year, after two years, ten (10) days per year, and after eight years of employment, the employee will receive fifteen (15) days of vacation. Ten (10) days of vacation leave may be carried from one calendar year to the next and upon termination of employment, any earned and unused vacation is paid.

Sick leave is accrued at the rate of six (6) days per year. Sick leave accrues from year to year up to a maximum of thirty (30) days. Upon termination of employment, accumulated sick leave up to ten (10) days is paid by the City.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net 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. Accordingly, items are unavailable revenue, and are reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary fund considers all cash on hand and demand deposits to be cash equivalents.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Stewardship, Compliance, and Accountability

Budgetary Data

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. The City holds a public hearing on the proposed budget prior to its adoption. All appropriations lapse at fiscal year-end.

The budget is legally enacted and once approved, can only be amended by approval of a majority of the Council members. Amendments are presented to the Council at its regular meetings.

Expenditures in Excess of Budgeted Amounts

The following is a summary of expenditures in excess of appropriations for the General Fund:

<u>Department</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Variance</u>
Sanitation	\$ 62,400	\$ 62,000	\$ (400)
Emergency services	\$ 4,867	\$ 4,075	\$ (792)
Parks and recreation	\$ 180	\$ -	\$ (180)

Use of Estimates

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

**CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021**

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits

The City’s balances were completely covered by federal deposit insurance or collateralized at March 31, 2021. The City’s deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City’s name.

Category 2 - Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.

Category 3 - Uncollateralized.

Deposits categorized by level of risk for cash and cash equivalents are as follows:

<u>Cash & Cash Equivalents</u>	<u>Bank Balance</u>	<u>Category</u>			<u>Carrying Amount</u>
		<u>1</u>	<u>2</u>	<u>3</u>	
General fund	\$ 208,608	\$ 208,608	\$ -	\$ -	\$ 208,608
Proprietary fund	18,701	18,701	-	-	18,701
Total	<u>\$ 227,309</u>	<u>\$ 227,309</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,309</u>

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Investments

The City is required by The Public Funds Investment Act (“Act”) to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City did not adhere to the requirements of the Act.

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, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The City’s certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the State. The FDIC currently insures the first \$250,000 of the City’s deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral pool. As of March 31, 2021, the carrying amount of the City’s certificates of deposit was \$50,041.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Property Tax

The assessed valuation (net of exemptions) was \$30,345,570 for 2020 (with taxes due January 1, 2020) levied at a rate of \$0.363266 per hundred-dollar valuation.

Receivables

Receivables as of year-end for the City’s major government fund, including applicable allowances for uncollectible accounts, are as follows:

<u>Receivables</u>	<u>Primary Government General Fund</u>	<u>Business-Type Utility Services Fund</u>	<u>Total</u>
	Accounts	\$ 1,334	
Fines	44,409	-	44,409
Taxes	49,699	-	49,699
Gross receivables	95,442	14,460	109,902
Less: Allowance for uncollectables	12,879	-	12,879
Total	<u>\$ 108,321</u>	<u>\$ 14,460</u>	<u>\$ 122,781</u>

Interfund Transfers

Transfers are indicative of funding for capital projects, debt service, and subsidies of various City operations. The composition of inter-fund transfers from/to other funds as of March 31, 2021, is as follows:

<u>Funds</u>	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 31,834	\$ (361,465)
Utility Services	361,465	(31,834)
Total	<u>\$ 393,299</u>	<u>\$ (393,299)</u>

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Capital Assets

The following is a summary of the changes in the capital assets during the fiscal year:

<u>Primary Government</u>	<u>Balance 3/31/2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/2021</u>
<i>Governmental activities</i>				
<u>Non-depreciable assets:</u>				
Land	\$ 13,250	\$ -	\$ -	\$ 13,250
<u>Depreciable assets:</u>				
Buildings & improvements	320,000	-	-	320,000
Machinery and equipment	20,143	9,500	-	29,643
Vehicles	110,000	-	-	110,000
Accumulate depreciation	(186,029)	(33,612)	-	(219,641)
Governmental activities, net	<u>277,364</u>	<u>(24,112)</u>	<u>-</u>	<u>253,252</u>
<i>Business-type activities</i>				
<u>Non-depreciable assets:</u>				
Land	205,090	-	-	205,090
<u>Depreciable assets:</u>				
Utility systems	2,636,957	-	-	2,636,957
Buildings	149,328	-	-	149,328
Machinery and equipment	539,144	-	-	539,144
Vehicles	182,000	-	-	182,000
Improvements	-	23,852	-	23,852
Accumulate depreciation	(3,144,359)	(34,846)	-	(3,179,205)
Business-type activities, net	<u>568,160</u>	<u>(10,994)</u>	<u>-</u>	<u>557,166</u>
Capital assets, net	<u>\$ 845,524</u>	<u>\$ (35,106)</u>	<u>\$ -</u>	<u>\$ 810,418</u>

Depreciation expense for governmental activities was charged to Functions/Programs as follows:

Administration	\$ 16,000
Public safety	13,583
Emergency services	<u>4,029</u>
Total depreciation expense	<u>\$ 33,612</u>

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Evidence of Employee Infidelity

The City filed an insurance claim in August 2020 after discovering that the external accounting firm audit reports of the City's financial statements for the years 2004 through 2019 were fraudulent. The City confirmed the employee that provided the fraudulent audit reports to the City was Ms. Terrie Bell. Buchanan Clarke Schlader LLP, Certified Public Accountants were retained to perform forensic services that included the period of August 2015 through July 2020.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in insurance coverage during the year ending March 31, 2021.

The City is a member of the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool, participating in workers' compensation, general liability, law enforcement liability, errors and omissions liability, automobile liability, automobile physical damage, real and personal property coverage, and employee health insurance.

Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial. No reportable litigation was pending against the City as of March 31, 2021.

Related Parties

In the ordinary course of business, the City has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the City.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Liabilities

Notes payable currently outstanding and reported as liabilities of the City’s proprietary activities are as follows:

<u>Secured By</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Note Amount</u>	<u>Yearend Balance</u>
Water meters and equipment	1/25/2026	3.863%	\$ 135,507	\$ 100,117
		Total	<u>\$ 135,507</u>	<u>\$ 100,117</u>

Annual debt service requirements for the City’s notes payable are as follows:

<u>Year Ending</u> <u>March 31</u>	<u>Proprietary Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 18,535	\$ 3,868
2023	19,251	3,152
2024	19,995	2,408
2025	20,767	1,635
2026	21,569	833
Total	<u>\$ 100,117</u>	<u>\$ 11,896</u>

The changes in the general long-term debt as of March 31, 2021 are as follows:

	<u>Balance</u> <u>3/31/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>3/31/2021</u>	<u>Due Within</u> <u>One Year</u>
<i>Governmental activities:</i>					
Compensated absences	\$ 3,465	\$ -	\$ -	\$ 3,465	\$ -
Net pension liability	48,038	-	(48,038)	-	-
Net OPEB liability	13,775	878	-	14,653	-
<i>Business-type activities:</i>					
Note payable	117,952	-	(17,835)	100,117	18,535
Compensated absences	18,968	-	-	18,968	-
Net pension liability	35,086	-	(35,086)	-	-
Net OPEB liability	10,061	643	-	10,704	-
Total	<u>\$ 247,345</u>	<u>\$ 1,521</u>	<u>\$ (100,959)</u>	<u>\$ 147,907</u>	<u>\$ 18,535</u>

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan

Plan Description – The City participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency 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 municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.TMRS.com.

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

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest. Plan provisions for the City were as follows:

Plan Year	2020	2019
Employee deposit rate	7%	7%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20

**CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

Employees covered by benefit terms:

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>6</u>
Total	<u>14</u>

Contributions – The contribution rate for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings 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) cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.50% and 15.08% in calendar years 2019 and 2020, respectively. The City’s contributions to TMRS for the year ended March 31, 2021 were \$63,679, and were equal to the required contributions.

Net Pension Liability – The City’s Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

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

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

**CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

Actuarial assumptions – continued:

For disabled annuitants, the same mortality tables for healthy retirees is used with a 4- year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2020 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 Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	<u>100.00%</u>	

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

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.

Changes in the net pension liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2019	\$ 2,199,345	\$ 2,116,221	\$ 83,124
Changes for the year:			
Service cost	\$ 80,619	\$ -	\$ 80,619
Interest	144,693	-	144,693
Change of benefit terms	-	-	-
Difference between expected and actual experience	(473,184)	-	(473,184)
Changes of assumptions	-	-	-
Contributions - employer	-	73,615	(73,615)
Contributions - employee	-	31,230	(31,230)
Net investment income	-	160,655	(160,655)
Benefit payments, including refunds of employee contributions	(192,120)	(192,120)	-
Administrative expense	-	(1,039)	1,039
Other changes	-	(41)	41
Net changes	(439,992)	72,300	(512,292)
Balance at 12/31/2020	\$ 1,759,353	\$ 2,188,521	\$ (429,168)

**CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate 5.75%	Current Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City’s net pension liability (asset)	\$ (217,136)	\$ (429,168)	\$ (607,408)

Pension plan fiduciary net position:

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

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended March 31, 2021, the City recognized pension income of \$106,507.

At March 31, 2021, 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	\$ -	\$ 477,325
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	14,248
Contributions subsequent to the measurement date	111,690	-
Total	\$ 111,690	\$ 491,573

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – continued

The amount of \$111,690 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 March 31, 2021. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>	
2021	\$ (160,785)
2022	(132,236)
2023	(147,159)
2024	(3,562)
2025	-
Thereafter	<u>-</u>
Total	<u>\$ (443,742)</u>

**CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Postemployment Benefits Other Than Pensions (OPEB): Supplemental Death Benefits Fund

Plan Description – The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected by ordinance to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits Provided – The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Employees covered by benefit terms:

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>6</u>
Total	<u>10</u>

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

Schedule of contributions:

Plan Year	2020	2019
Total SDB Contribution (Rate)	16%	14%
Retiree Portion of SDB Contribution (Rate)	.06%	0.02

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

(OPEB): Supplemental Death Benefits Fund – continued

Actuarial assumptions:

Summary of actuarial assumptions:	
Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate*	2.00%
Retirees' share of benefit-related costs	\$0.00
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.
*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.	

Changes in the OPEB liability:

	<u>Total OPEB Liability</u>
Balance at 12/31/2019	\$ 23,836
Changes for the year:	
Service cost	\$ 1,428
Interest	674
Change of benefit terms	-
Difference between expected and actual experience	(3,858)
Changes of assumptions	3,366
Benefit payments	<u>(89)</u>
Net changes	<u>1,521</u>
Balance at 12/31/2020	<u>\$ 25,357</u>

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

(OPEB): Supplemental Death Benefits Fund – continued

Sensitivity of the OPEB liability to changes in the discount rate:

	1% Decrease in Discount Rate 1.00%	Current Rate Assumption 2.00%	1% Increase in Discount Rate 3.00%
City's net pension liability (asset)	\$ 30,934	\$ 25,357	\$ 21,014

OPEB expense:

	OPEB Expense
Service cost	\$ 1,428
Interest	674
Change of benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(1,749)
Changes of assumptions	1,098
Total OPEB expense	\$ 1,451

Deferred outflows of resources and deferred inflows of resources related to OPEB:

At March 31, 2021, 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	\$ -	\$ 5,275
Changes in assumptions and other inputs	4,579	-
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	1,022	-
Total	\$ 5,601	\$ 5,275

**CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021**

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

(OPEB): Supplemental Death Benefits Fund – continued

Deferred Outflows and Deferred Inflows of Resources, by year, to be recognized in future OPEB expense (excluding city-provided contributions made subsequent to the measurement date):

Year ended December 31:		
2020	\$	(651)
2021		(651)
2022		(207)
2023		288
2024		(12)
Thereafter		-
Total	\$	(1,233)

Accounting Standards

The GASB has issued the following Statement(s) which were implemented during the current fiscal year as shown below:

GASB Statement No. 97 – “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*” The objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement has various effective dates and will become fully effective for reporting periods beginning after December 15, 2019. All applicable provisions have been included in the City’s financial statements as of March 31, 2021.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Accounting Standards – continued

The GASB has issued the following Statements which will become effective in future years as shown below based on the guidance of GASB Statement No. 95, [*Postponement of the Effective Dates of Certain Authoritative Guidance*]:

GASB Statement No. 84, "*Fiduciary Activities.*" The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, postponed by one year. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 87, "*Leases.*" The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, postponed by 18 months. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period.*" The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, postponed by one year. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 90, "*Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.*" The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, postponed by one year. Management has not yet determined the impact of this Statement on the financial statements.

GASB Statement No. 91, "*Conduit Debt Obligations.*" The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, postponed by one year. Management has not yet determined the impact of this Statement on the financial statements.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Accounting Standards – continued

GASB Statement No. 92 – *“Omnibus 2020.”* The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The Statement will become effective June 30, 2022, postponed by one year. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 93 – *“Replacement of Interbank Offered Rates.”* The primary objectives of this Statement are to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (“IBOR”). The Statement will become effective June 30, 2022, postponed by one year. Management has not yet determined the impact of this Statement on its financial statements.

The GASB has issued the following Statements which will become effective in future years as shown below:

GASB Statement No. 94 – *“Public-Private and Public-Public Partnerships and Availability Payment Arrangements.”* The primary objectives of this Statement are to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (“PPPs”). The Statement will become effective for fiscal years beginning after June 15, 2022. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 96 – *“Subscription-Based Information Technology Arrangements.”* The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users. The Statement will become effective for fiscal years beginning after June 15, 2022. Management has not yet determined the impact of this Statement on its financial statements.

GASB Statement No. 98 – *“The Annual Comprehensive Financial Report.”* This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years ending after December 15, 2021. Management has not yet determined the impact of this Statement on its financial statements.

CITY OF GARRISON, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

OMB Circular A-133 – State of Texas Single Audit Circular

The City did not expend \$750,000 or more in federal or state awards during 2021. As a result, a Single Audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular was not required for the year ended March 31, 2021.

Subsequent Events

On May 28, 2021, the City received confirmation of employee infidelity in a forensic audit report from Buchanan Clarke Schlader LLP, Certified Public Accountants. The estimated loss value for missing municipal court fees and utility collections totaled \$162,621.

On February 9, 2022 the City settled on a pending lawsuit in the amount of \$8,500.

Management has evaluated subsequent events through February 14, 2022, which is the date the financial statements were made available to management.

Required Supplementary Information

**CITY OF GARRISON, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2021**

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		(UNFAVORABLE)
REVENUES				
Taxes:				
Sales	\$ 108,000	\$ 108,000	\$ 94,298	\$ (13,702)
Property	81,609	81,609	113,058	31,449
Franchise	5,000	5,000	39,933	34,933
Fines and forfeitures	93,250	93,250	60,195	(33,055)
Infrastructure fees	26,000	26,000	30,782	4,782
Licenses and permits	-	-	350	350
Charges for services	28,250	28,250	23,388	(4,862)
Sanitation services	64,000	64,000	64,336	336
Grants and contributions	-	-	33,244	33,244
Interest income	9	9	41	32
Miscellaneous	34,660	34,660	44,459	9,799
Total revenues	<u>440,778</u>	<u>440,778</u>	<u>504,084</u>	<u>63,306</u>
EXPENDITURES				
Administration	125,365	125,365	91,737	33,628
Public safety	160,955	160,955	123,955	37,000
Municipal court	125,975	125,975	53,588	72,387
Sanitation	62,000	62,000	62,400	(400)
Emergency services	4,075	4,075	4,867	(792)
Highways and streets	69,200	69,200	28,125	41,075
Parks and recreation	-	-	180	(180)
Total expenditures	<u>547,570</u>	<u>547,570</u>	<u>364,852</u>	<u>182,718</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(106,792)</u>	<u>(106,792)</u>	<u>139,232</u>	<u>246,024</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers from other funds	135,000	135,000	31,834	(103,166)
Operating transfers to other funds	<u>(22,000)</u>	<u>-</u>	<u>(361,465)</u>	<u>(361,465)</u>
Total other financing sources	<u>113,000</u>	<u>135,000</u>	<u>(329,631)</u>	<u>(464,631)</u>
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	<u>\$ 6,208</u>	<u>\$ 28,208</u>	(190,399)	<u>\$ (218,607)</u>
Fund balance - beginning of year			<u>458,490</u>	
Fund balance - end of year			<u>\$ 268,091</u>	

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)

	2020	2019	2018	2017	2016	2015
Total pension liability						
Service cost	\$ 80,619	\$ 72,733	\$ 67,759	\$ 54,560	\$ 48,360	\$ 33,414
Interest (on the total pension liability)	144,693	139,649	137,222	127,958	114,165	115,990
Changes of benefit terms	-	-	-	74,631	-	-
Difference between expected and actual experience	(473,184)	4,270	(92,835)	32,504	33,691	(87,250)
Change of assumptions	-	(15,348)	-	-	-	23,821
Benefit payments, including refunds of employee contributions	<u>(192,120)</u>	<u>(68,947)</u>	<u>(88,397)</u>	<u>(80,360)</u>	<u>(58,843)</u>	<u>(59,383)</u>
Net change in total pension liability	(439,992)	132,357	23,749	209,293	137,373	26,592
Total pension liability - beginning	<u>2,199,345</u>	<u>2,066,988</u>	<u>2,043,239</u>	<u>1,833,946</u>	<u>1,696,573</u>	<u>1,669,981</u>
Total pension liability - ending (a)	<u>\$ 1,759,353</u>	<u>\$ 2,199,345</u>	<u>\$ 2,066,988</u>	<u>\$ 2,043,239</u>	<u>\$ 1,833,946</u>	<u>\$ 1,696,573</u>
Plan fiduciary net position						
Contributions - employer	\$ 73,615	\$ 75,430	\$ 68,170	\$ 49,057	\$ 49,111	\$ 35,538
Contributions - employee	31,230	28,176	26,752	21,723	19,605	13,952
Net investment income	160,655	278,385	(55,428)	226,606	102,930	2,265
Benefit payments, including refunds of employee contributions	(192,120)	(68,947)	(88,397)	(80,360)	(58,843)	(59,383)
Administrative expense	(1,039)	(1,577)	(1,074)	(1,177)	(1,166)	(1,381)
Other	<u>(41)</u>	<u>(47)</u>	<u>(55)</u>	<u>(60)</u>	<u>(63)</u>	<u>(70)</u>
Net change in plan fiduciary net position	72,300	311,420	(50,032)	215,789	111,574	(9,079)
Plan fiduciary net position - beginning	<u>2,116,221</u>	<u>1,804,801</u>	<u>1,854,833</u>	<u>1,639,044</u>	<u>1,527,470</u>	<u>1,536,549</u>
Plan fiduciary net position - ending (b)	<u>\$ 2,188,521</u>	<u>\$ 2,116,221</u>	<u>\$ 1,804,801</u>	<u>\$ 1,854,833</u>	<u>\$ 1,639,044</u>	<u>\$ 1,527,470</u>
Net pension liability - ending [(a) - (b)]	<u>\$ (429,168)</u>	<u>\$ 83,124</u>	<u>\$ 262,187</u>	<u>\$ 188,406</u>	<u>\$ 194,902</u>	<u>\$ 169,103</u>
Plan fiduciary net position as a percentage of total pension liability	124.39%	96.22%	87.32%	90.78%	89.37%	90.03%
Covered employee payroll	\$ 446,149	\$ 402,509	\$ 382,172	\$ 362,044	\$ 326,754	\$ 232,530
Net pension liability as a percentage of covered employee payroll	(96.19%)	20.65%	68.60%	52.04%	59.65%	72.72%

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)**

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ (429,168)	\$ 83,124	\$ 262,187	\$ 188,406	\$ 194,902	\$ 169,103
Contributions in relation to the actuarially determined contribution	104,845	103,606	94,922	70,780	68,716	49,490
Contribution deficiency (excess)	<u>(534,013)</u>	<u>(20,482)</u>	<u>167,265</u>	<u>117,626</u>	<u>126,186</u>	<u>119,613</u>
Covered employee payroll	446,149	402,509	382,172	362,044	326,754	232,530
Contributions as a percentage of covered employee payroll	23.50%	25.74%	24.84%	19.55%	21.03%	21.28%

NOTES TO THE SCHEDULE OF CONTRIBUTIONS

Valuation Date:	
Notes	Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	N/A
Asset valuation method	10 year smoothed market, 12% soft corridor
Inflation	2.5%
Salary increases	3.50% to 11.5% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other information:	
Notes	Adopted restricted prior service credit.

**TEXAS MUNICIPAL RETIREMENT SYSTEM
SUPPLEMENTAL DEATH BENEFITS FUND
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
LAST 10 YEARS (WILL ULTIMATELY BE DISPLAYED)
(UNAUDITED)**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 1,428	\$ 684	\$ 688
Interest (on the total OPEB liability)	674	719	813
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(3,858)	(532)	(5,070)
Change of assumptions	3,366	3,981	(1,494)
Benefit payments	<u>(89)</u>	<u>(121)</u>	<u>(115)</u>
Net change in total OPEB liability	1,521	4,731	(5,178)
Total OPEB liability - beginning	<u>23,836</u>	<u>19,105</u>	<u>24,283</u>
Total OPEB liability - ending	<u>\$ 25,357</u>	<u>\$ 23,836</u>	<u>\$ 19,105</u>
Covered employee payroll	\$ 446,149	\$ 402,509	\$ 382,172
Total OPEB liability as a percentage of covered employee payroll	5.68%	5.92%	5.00%

Supplementary Information

CITY OF GARRISON, TEXAS
COMBINING STATE OF NET POSITION
UTILITY SERVICES FUND DEPARTMENTS
MARCH 31, 2021

ASSETS	UTILITY SERVICES FUND ACTIVITIES			
	DEPARTMENTS			TOTAL
	WATER SYSTEM	NATURAL GAS	SEWER	
Current assets:				
Cash	\$ -	\$ -	\$ 4,458	\$ 4,458
Investments	6,536	-	-	6,536
Accounts receivable (net)	5,925	6,627	1,908	14,460
Due from general fund	-	-	-	-
Total current assets	12,461	6,627	6,366	25,454
Noncurrent assets:				
Restricted cash	9,453	4,790	-	14,243
Net pension asset	94,674	86,478	-	181,152
Capital assets:				
Land	90,860	-	114,230	205,090
Utility systems	2,486,957	-	150,000	2,636,957
Buildings	149,328	-	-	149,328
Machinery and equipment	529,144	-	10,000	539,144
Vehicles	122,000	60,000	-	182,000
Improvements	23,852	-	-	23,852
Construction in progress	-	-	-	-
Less: accumulated depreciation	(2,989,205)	(60,000)	(130,000)	(3,179,205)
Total noncurrent assets	517,063	91,268	144,230	752,561
Total assets	529,524	97,895	150,596	778,015
DEFERRED OUTFLOWS OF RESOURCES				
Contributions to pensions subsequent to the measurement date	24,866	22,711	-	47,577
Changes in actuarial assumptions and other inputs	1,010	923	-	1,933
Total deferred outflows of resources	25,876	23,634	-	49,510
LIABILITIES				
Current liabilities:				
Accounts payable	4,325	11,956	5,032	21,313
Accrued interest	-	-	-	-
Customer deposits	59,175	50,850	-	110,025
Sales tax payable	-	604	-	604
Loan payable	18,535	-	-	18,535
Total current liabilities	82,035	63,410	5,032	150,477
Non-current liabilities:				
Loan payable	81,582	-	-	81,582
Compensated absences	9,881	9,087	-	18,968
Net OPEB liability	5,595	5,109	-	10,704
Total liabilities	179,093	77,606	5,032	261,731
DEFERRED INFLOWS OF RESOURCES				
Differences between expected and actual economic experience on pensions	106,462	97,244	-	203,706
Differences between projected and actual investment earnings on pensions	3,143	2,871	-	6,014
Total deferred inflows of resources	109,605	100,115	-	209,720
NET POSITION				
Investment in capital assets, net of related debt	312,819	-	144,230	457,049
Unrestricted	(46,117)	(56,192)	1,334	(100,975)
Total net position	\$ 266,702	\$ (56,192)	\$ 145,564	\$ 356,074

CITY OF GARRISON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
UTILITY SERVICES FUND DEPARTMENTS
FOR THE YEAR ENDED MARCH 31, 2021

	UTILITY SERVICES FUND ACTIVITIES			
	DEPARTMENTS			TOTAL
	WATER SYSTEM	NATURAL GAS	SEWER	
OPERATING REVENUES				
Service charges	\$ 383,069	\$ 258,949	\$ 134,588	\$ 776,606
Tap fees	400	-	500	900
Pension Earnings	23,175	21,169	-	44,344
Other	26,648	2,747	2,747	32,142
Total operating revenues	<u>433,292</u>	<u>282,865</u>	<u>137,835</u>	<u>853,992</u>
OPERATING EXPENSES				
Personnel services	234,777	129,409	2,125	366,311
Natural gas purchases	-	109,626	-	109,626
Contract labor	13,119	3,180	3,180	19,479
Depreciation	24,846	7,000	3,000	34,846
Maintenance	14,580	14,311	12,862	41,753
Utilities	49,998	3,965	1,491	55,454
Chemicals and supplies	47,901	13,651	25,035	86,587
Permits and licenses	3,562	983	7,400	11,945
Professional fees	2,201	2,065	2,070	6,336
Training and education	331	1,018	188	1,537
Insurance	4,795	5,278	2,045	12,118
Other	481	1,356	676	2,513
Total operating expenses	<u>396,591</u>	<u>291,842</u>	<u>60,072</u>	<u>748,505</u>
Operating income (loss)	<u>36,701</u>	<u>(8,977)</u>	<u>77,763</u>	<u>105,487</u>
NONOPERATING REVENUES (EXPENSES)				
Interest expense	(4,557)	-	-	(4,557)
Total nonoperating expenses	<u>(4,557)</u>	<u>-</u>	<u>-</u>	<u>(4,557)</u>
Income (loss) before operating transfers	<u>32,144</u>	<u>(8,977)</u>	<u>77,763</u>	<u>100,930</u>
TRANSFERS				
Transfers in	272,902	88,563	-	361,465
Transfers out	(31,834)	-	-	(31,834)
Total transfers	<u>241,068</u>	<u>88,563</u>	<u>-</u>	<u>329,631</u>
Change in net position	273,212	79,586	77,763	430,561
Net position - beginning of year	<u>(6,510)</u>	<u>(135,778)</u>	<u>67,801</u>	<u>(74,487)</u>
Net position - end of year	<u>\$ 266,702</u>	<u>\$ (56,192)</u>	<u>\$ 145,564</u>	<u>\$ 356,074</u>

CITY OF GARRISON, TEXAS
COMBINING STATEMENT OF CASH FLOWS
UTILITY SERVICES FUND DEPARTMENTS
FOR THE YEAR ENDED MARCH 31, 2021

	UTILITY SERVICES FUND ACTIVITIES			
	DEPARTMENTS			TOTAL
	WATER SYSTEM	NATURAL GAS	SEWER	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 383,469	\$ 258,949	\$ 135,088	\$ 777,506
Other cash receipts	26,648	2,747	2,747	32,142
Payments to suppliers	(596,908)	(345,469)	(133,937)	(1,076,314)
Net cash provided by (used in) operating activities	<u>(186,791)</u>	<u>(83,773)</u>	<u>3,898</u>	<u>(266,666)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers-in from other funds	272,902	88,563	-	361,465
Transfers-out to other funds	(31,834)	-	-	(31,834)
Due from other funds	-	-	-	-
Net cash provided by non-capital financing activities	<u>241,068</u>	<u>88,563</u>	<u>-</u>	<u>329,631</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(23,852)	-	-	(23,852)
Principal repayments on debt	(17,835)	-	-	(17,835)
Interest on debt	(5,235)	-	-	(5,235)
Net cash used in capital and related financing activities	<u>(46,922)</u>	<u>-</u>	<u>-</u>	<u>(46,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	-	-	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	7,355	4,790	3,898	16,043
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,098</u>	<u>-</u>	<u>560</u>	<u>2,658</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,453</u>	<u>\$ 4,790</u>	<u>\$ 4,458</u>	<u>\$ 18,701</u>
Reconciliation of Operating Income (Loss) to Net Cash provided by (used in) Operating Activities				
Operating income (loss)	\$ 32,177	\$ (13,728)	\$ 77,763	\$ 96,212
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	24,846	7,000	3,000	34,846
Changes in assets and liabilities:				
Increase (decrease) in accounts payable	(21,253)	(8,736)	(86,595)	(116,584)
Increase (decrease) in pension liability	(113,011)	(103,227)	-	(216,238)
Increase (decrease) in OPEB liability	337	306	-	643
Increase (decrease) in deferred inflows	(135,183)	17,338	-	(117,845)
Decrease (increase) in deferred outflows	(7,539)	(6,885)	-	(14,424)
Decrease (increase) in investments	(72)	-	-	(72)
Decrease (increase) in accounts receivable	32,907	24,159	9,730	66,796
Total adjustments	<u>(218,968)</u>	<u>(70,045)</u>	<u>(73,865)</u>	<u>(362,878)</u>
Net cash provided by (used in) operating activities	<u>\$ (186,791)</u>	<u>\$ (83,773)</u>	<u>\$ 3,898</u>	<u>\$ (266,666)</u>

Compliance and Internal Control



DAVID K. GODWIN

CERTIFIED PUBLIC ACCOUNTANT, PLLC

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 Honorable Mayor and Members of City Council
City of Garrison, 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, each major fund, and the aggregate remaining fund information of the City of Garrison, Texas (City), as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 14, 2022.

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) 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'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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2021-003, 2021-004, 2021-005, and 2021-006 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses as items 2021-001 and 2021-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2021-007, 2021-008, 2021-009, 2021-010, and 2021-011.

City of Garrison, Texas's Response to Findings

The City's response to the findings is described in the accompanying summary schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



David K. Godwin, CPA, PLLC

Tyler, Texas

February 14, 2022

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-001 Significant Deficiency

Condition:

Undocumented processes and procedures impede the effectiveness of long-term operations.

Criteria:

Succession planning ensures longevity of the City's current operations and financial infrastructure.

Cause of Condition:

The City has not fully designed an effective strategy for succession of key responsibilities within the City.

Potential Effect of Condition:

In the event of loss of key personnel within the City, the City would no longer have the capacity to perform ALL daily public service functions.

Recommendation 2021-001

In order to maintain integrity of the City's financial infrastructure, a succession plan should be developed to ensure common daily processes and procedures for routine public services can be performed by the City in the event key personnel become unavailable to perform regular duties.

General effective succession planning activities often include cross training key personnel and/or identifying key responsibilities and essential processes to establish a formal listing of these activities (i.e., monthly – bank reconciliations, quarterly – 941's filed, annually – 1099's filed).

Management Response	x	Agree		Disagree
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Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	June 30, 2022
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To ensure public services functions are performed daily, the City will work to cross train appropriate personnel. In addition, the City will work with key personnel to outline their daily routines and develop a formal catalogue of essential processes.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-002 Significant Deficiency

Condition:

During inspection of municipal court records:

- One (1) docket file selected for review could not be located by the City.
- One (1) drivers safety course certificate was missing from the court docket file.
- One (1) final judgement included multiple dispositions.

Criteria:

Chapter 30.0009 of the Texas Local Government Code, indicates that the municipal clerk shall keep the records of the municipal court and maintain an index of all court judgments.

Cause of Condition:

The municipal court clerk worked in multiple positions at the City with limited oversight.

Potential Effect of Condition:

Inability to provide documents could lead to fines and penalties under the Public Information Act (Texas Local Government Code, Chapter 552).

Recommendation 2021-002

Training should be provided to the municipal court staff to establish consistent record maintenance within the City.

Management Response	<input checked="" type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree
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Corrective Action Plan

Individual Responsible	James Sachtleben, Judge	Estimated Implementation Date	June 30, 2022
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The municipal court is evaluating current processes and procedures, including enhancements of records management.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-003 Material Weakness

Condition:

The City’s accounting software allowed for out-of-balance transactions to exist in excess of \$1.8 million.

Criteria:

Each financial transaction should have an equal offset under Generally Accepted Accounting Principles (GAAP).

Cause of Condition:

The accounting system generated “Balance Sheet” for March 31, 2021 was 53 pages along with the corresponding “Revenue and Expense Report” having 58 pages.

Potential Effect of Condition:

Excessively long and complex reports are difficult to review and allow users to reach inaccurate financial conclusions.

Recommendation 2021-003

Out-of-balance discrepancies should be corrected within the City’s financial infrastructure. The City should also develop an internal control framework that will not allow for unbalanced entries to occur in the future.

Management Response	<input checked="" type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree
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Corrective Action Plan

Individual Responsible	Jenny Frederick, City Secretary	Estimated Implementation Date	June 30, 2022
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The City Secretary is actively working to convert the City’s financial records to QuickBooks which does not allow unbalanced entries and provides various user-friendly financial reports.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-004 Material Weakness

Condition:

The City Council's financial review is limited to bank account balances.

Criteria:

Chapter 101.002 of the Texas Local Government Code, provides for the governing body of the municipality to have control of the City's finances.

Cause of Condition:

Inaccurate transactions and errors within the City's accounting system hindered the City Council's reliance on financial reports produced from the system.

Potential Effect of Condition:

Inaccurate conclusions can be established without complete financial information.

Recommendation 2021-004

A formal financial review should be implemented by the City to include reconciled financial statements. At a minimum, the financial statement review should include a Balance Sheet, Profit and Loss, and Budget vs Actual for all funds.

Management Response	<input checked="" type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree
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Corrective Action Plan

Individual Responsible	Jenny Frederick, City Secretary	Estimated Implementation Date	June 30, 2022
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The City Secretary is actively working to convert the City's financial records to QuickBooks. Once completed, a formal review of the City's financial statements will be implemented.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-005 Material Weakness

Condition:

Internal controls are not properly designed to identify and timely correct bookkeeping errors that may occur during daily operations of the City.

Criteria:

Effective and efficient operations rely on accurate reporting for internal and external decision making.

Cause of Condition:

The City Secretary has limited governmental accounting experience and limited oversight from City Council.

Potential Effect of Condition:

Errors in the City's financial infrastructure can be misleading to both internal and external financial statement users.

Recommendation 2021-005

The City should evaluate continuing professional education needs of City staff to enhance financial infrastructure and effectiveness of City operations. See also Observation/Recommendation 2021-006.

Management Response	x	Agree	Disagree
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Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	September 30, 2022
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The City Council is actively working on a continuing education plan for all City personnel.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-006 Material Weakness

Condition:

The City Secretary has administrative abilities, including check signing authority, over the City’s bank accounts while also being charged with performance of check processing duties and preparing bank reconciliations.

Criteria:

Segregation of duties is a key component of effective internal controls for cash handling and disbursement activities.

Cause of Condition:

Current City practices rely on dual authentication of check disbursements and do not include a formal review of the bank reconciliation process.

Potential Effect of Condition:

Segregation of duties account for the number one internal control weakness in organizations, allowing a trusted individual access to assets while maintaining the capability of concealing their activity. Without proper oversight of cash handling and disbursement activities, there is a risk that financial misstatements and/or misappropriation of assets could occur and go undetected.

Recommendation 2021-006

Mitigating controls over the lack of segregation of duties should be established to require an individual, independent of the check preparation and bank reconciliation processes, to substantiate supporting documentation provided for cash handling and disbursement activities.

Typical mitigating controls and oversight activities include documenting detailed review of invoices, bank drafts and bank reconciliations to ensure effective controls are maintained over the cash handling and disbursement activities, in addition to safeguarding the individual responsible for these functions.

Management Response	x	Agree		Disagree
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Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	June 30, 2022
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Invoices are currently reviewed by the City Council; however, an additional layer of internal control will be added to include documentation of this review through initials of the reviewer on invoices.

Additionally, the City will design, implement, and document a monthly review of bank reconciliations and electronic bank drafts to enhance oversight of future disbursement activities.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-007 Compliance

Condition:

The City is not meeting State statutes for timely preparation of its annual financial statements.

Criteria:

Chapter 103.003 of the Texas Local Government Code requires the annual financial statements, including the auditor's opinion on the statements, to be filed in the office of the municipal secretary within 180 days after the last day of the municipality's fiscal year.

Cause of Condition:

The prior City Secretary, Terrie Bell, was misappropriating City funds and fraudulently presenting audited financial statements to the City Council.

Potential Effect of Condition:

Inability to provide timely financial statements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2021-007

Effective and efficient operations rely on timely financial reporting for internal and external decision making. Internal controls should be established to ensure compliance with Chapter 103.003 of the Texas Local Government Code.

Management Response	<input checked="" type="checkbox"/>	Agree	<input type="checkbox"/>	Disagree
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Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	March 31, 2022
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To ensure longevity and integrity of the City's financial infrastructure the City is developing internal controls to assist with timely preparation of annual financial statements.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-008 Compliance

Condition:

The City does not have an Investment Policy in place.

Criteria:

In accordance with Public Funds Investment Act (PFIA), Chapter 2256, Texas Government Code, the City is required to adopt by rule, order, ordinance, or resolution, as appropriate, a written Investment Policy regarding the investment of its funds and funds under its control.

Cause of Condition:

The City's key personnel have not had Investment training to comply with PFIA.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2021-008

The City should adopt an Investment Policy and train key personnel to ensure its compliance with the Public Funds Investment Act.

Management Response

Agree

Disagree

Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	June 30, 2022
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The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-009 Compliance

Condition:

The City does not fully comply with annual Cyber Security training.

Criteria:

Texas House Bill 3834 requires all elected officials and most local government employees to complete an annual cybersecurity training program that has been certified by the Texas Department of Information Resources.

Cause of Condition:

The City has no record of Cyber Security training being completed by City Council or employees.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2021-009

The City should complete required Cyber Security training and train key personnel to ensure its compliance with the Texas House Bill 3834.

Management Response



Agree



Disagree

Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	June 30, 2022
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The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-010 Compliance

Condition:

The City does not file an annual unclaimed property report.

Criteria:

In accordance with Title 6 of the Texas Property Code, which governs the State of Texas Unclaimed Property Program, the City is required to file an annual report to the Texas Comptroller’s office for unclaimed property.

Cause of Condition:

The City’s key personnel have not had unclaimed property training to comply with the Unclaimed Property Program.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2021-010

The City should properly file an unclaimed property report and train key personnel to ensure its compliance with the Unclaimed Property Program.

Management Response

Agree

Disagree

Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	September 30, 2022
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The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.

**CITY OF GARRISON, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED MARCH 31, 2021**

2021-011 Compliance

Condition:

The City does not file the approved budget with the county clerk.

Criteria:

Chapter 102.011 of the Texas Local Government Code states that after the budget has been finally prepared and approved, a copy of the budget and the amendments to the budget shall be filed with the county clerk.

Cause of Condition:

The City's key personnel have not had training to comply with Chapter 102.011 of the Texas Local Government Code.

Potential Effect of Condition:

Noncompliance with statutory requirements could lead to fines and penalties under Texas Local Government Code in addition to the loss of funding opportunities by the City.

Recommendation 2021-011

The City should file the approved budget with the county clerk and train key personnel to ensure its compliance with the Chapter 102.011 of the Texas Local Government Code.

Management Response

Agree

Disagree

Corrective Action Plan

Individual Responsible	Russell Wright, Mayor	Estimated Implementation Date	June 30, 2022
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The City is developing internal controls to assist with correcting and maintaining statutory compliance as well as actively working on a continuing education plan for all City personnel.