

FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
MARCH 31, 2026

CITY OF GARRISON, TEXAS
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FOR THE YEAR ENDED MARCH 31, 2026

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DKG CPA
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 Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Garrison, Texas, as of and for the year ended March 31, 2026, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Garrison, Texas, as of March 31, 2026, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Garrison, Texas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison information on page 61, and the Texas Municipal Retirement System schedules on pages 62 through 64 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 accompanying Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Utility Services Fund Departments is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statement is 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 October 13, 2026, on our consideration of the City of Garrison, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Garrison, Texas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Garrison, Texas's internal control over financial reporting and compliance.



David K. Godwin, CPA, PLLC

Tyler, Texas
October 13, 2026

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Management's Discussion and Analysis

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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, 2026
(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 31, 2026. Please read in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

Mayor and Council

Tim Wright
Mayor

Arnie Kelley
Mayor Pro-Tem

Darrell Lunsford
Alderman

Travis Simon
Alderman

Hope Hallmark
Alderman

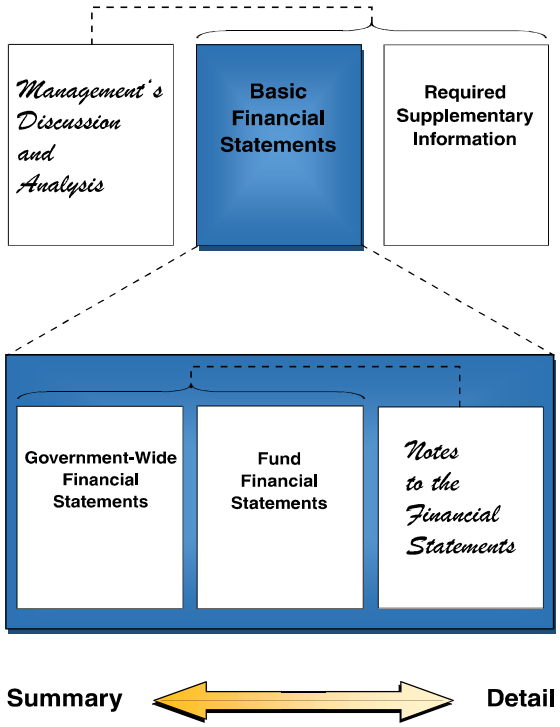
- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $3,459,031 (Net Position). Of this amount, $1,467,255 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by $110,730.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $158,804 Of this amount, $49,959 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 $49,959 or 9.35% of the total general fund expenditures.
- The City's outstanding long-term debt increased by $83,271

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 enterprise fund, which accounts for water, natural gas, and waste water services provided to citizens.

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			
Type of Statement	**Government-Wide**	**Governmental Funds**	**Proprietary Funds**
Scope	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.
Required financial statements	• 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
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	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
Type of flow/outflow information	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, sanitation, highways and streets, and parks and recreation. Fines, forfeitures, service charges, 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 $3,459,031 as of March 31, 2026.

The largest portion of the City's net position, 55%, or $21,916,133, 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	
	2026	2025	2026	2025	2026	2025
Current and Other Assets	$ 662,957	$ 508,942	$ 7,131,327	$ 1,081,192	$ 7,794,284	$ 1,590,134
Capital Assets	905,800	1,073,694	1,110,659	1,006,028	2,016,459	2,079,722
Total Assets	1,568,757	1,582,636	8,241,986	2,087,220	9,810,743	3,669,856
Total Deferred Outflows of Resources	4,943	88,432	4,917	67,222	9,860	155,654
Non-Current Liabilities	14,603	22,495	71,429	20,688	86,032	43,183
Other Liabilities	149,169	77,845	5,776,229	164,282	5,925,398	242,127
Total Liabilities	163,772	100,340	5,847,658	184,970	6,011,430	285,310
Total Deferred Inflows of Resources	106,489	105,093	243,653	86,806	350,142	191,899
Net Position:						
Invested in Capital Assets, Net of Related Debt	905,433	1,089,108	1,010,700	982,818	1,916,133	2,071,926
Restricted	11,638	75,965	-	-	11,638	75,965
Unrestricted	386,368	300,562	1,144,892	899,848	1,531,260	1,200,410
Total Net Position	$ 1,303,439	$ 1,465,635	$ 2,155,592	$ 1,882,666	$ 3,459,031	$ 3,348,301

A portion of net position, $6,885, is restricted for municipal court security and technology enhancements, in addition to $3,724 held for continuing education under the Law Enforcement Officer Standards and Education (LEOSE) fund. Another $1,028 are forfeitures held by the City. The remaining balance of unrestricted net position, $1,531,260, may be used to meet the government's ongoing obligations to citizens and creditors.

As of March 31, 2026, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its business-type activities. In the prior fiscal year, the City also reported overall positive balances in all three categories of net position.

Analysis of the City's Operations - Overall the City had an increase in net position of $110,730

Governmental Activities: Net position for the governmental activities decreased by $162,196. Net position invested in capital assets, net of related debt, decreased by $183,675 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 revenue collections and interfund transfers.

Total revenues for the governmental activities decreased from the previous year by $743,233, primarily due to larger grant receipts in the previous year. General revenue increased $778,046 during 2026, primarily due to similar activity.

Business-type Activities: Net position from business-type activities increased by $272,926. This increase was primarily due to operating activities of the City's utilities and interfund payroll transfers.

The following table provides a summary of the City's operations for the year ended March 31, 2026.

CITY OF GARRISON'S CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2026	2025	2026	2025	2026	2025
Revenues:						
Operating Revenues:						
Charges for Services	$ 179,560	$ 214,373	$ 805,108	$ 793,372	$ 984,668	$ 1,007,745
Other	-	-	6,098	667	6,098	667
General Revenues:						
Taxes	284,720	289,425	-	-	284,720	289,425
Grants & Contributions	24,450	746,845	10,000	132,066	34,450	878,911
Miscellaneous	6,920	23,053	-	-	6,920	23,053
Total Revenues	495,650	1,273,696	821,206	926,105	1,316,856	2,199,801
Expenses:						
General Government	693,008	605,630	-	-	693,008	605,630
Utiltiy Services	-	-	552,471	564,470	552,471	564,470
Total Expenses	693,008	605,630	552,471	564,470	1,245,479	1,170,100
Increase (Decrease) in Total Revenues Over (Under) Total Expenses	(197,358)	668,066	268,735	361,635	71,377	1,029,701
NONOPERATING REVENUES (EXPENSES)						
Interest Income	1,485	2,549	598	407	2,083	2,956
Pension Earnings	47,795	-	123,384	117	171,179	117
Debt Issuance Costs	-	-	(132,255)	-	(132,255)	-
Interest Expense	-	-	(1,654)	(1,888)	(1,654)	(1,888)
Total Non-operating Expense	49,280	2,549	(9,927)	(1,364)	39,353	1,185
OTHER FINANCING SOURCES (USES)						
Operating Transfers from Other Funds	-	-	14,118	46,997	14,118	46,997
Operating Transfers to Other Funds	(14,118)	(46,997)	-	-	(14,118)	(46,997)
Total Other Financing Sources (Uses)	(14,118)	(46,997)	14,118	46,997	-	-
Change in Net Position	(162,196)	623,618	272,926	407,268	110,730	1,030,886
Net Position – Beginning	1,465,635	842,017	1,882,666	1,475,398	3,348,301	2,317,415
Net Position – Ending	$ 1,303,439	$ 1,465,635	$ 2,155,592	$ 1,882,666	$ 3,459,031	$ 3,348,301

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INANCIAL 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 $158,804; of this total amount, $49,959 constitutes a surplus in unassigned fund balance.

Proprietary funds – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

In the general fund, the City's original budget planned for a decrease in the fund balance on a budget basis. The City did not pass any general fund budget amendments during the fiscal year ending 2026.

Actual revenues in all categories were lower than the final budgeted amounts by a total of $115,161 Actual expenditures not including transfers were lower than final budgeted amounts by a total of $209,038.

After considering operating transfers, the City had a favorable variance of $340,042 where transfers were made to support ongoing operating activities of the City's utility services; these expenditures were paid from the general funds unassigned fund balance.

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of March 31, 2026 amounts to $2,016,459 (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 $63,263 or -3.14% and due to depreciation expenditures exceeding capital asset acquisition.

Major capital asset additions during fiscal year 2026 included $182,550 for utility system improvements, $275,431 for the completion of a utility system project. $5,597 for equipment used in the operations of the utility system, and $61,652 for a vehicle used in operations of the business-type activities and street improvements.

CAPITAL ASSETS AT YEAR-END AND ACCUMULATED DEPRECIATION

	Governmental Activities		Business-Type Activities		Total	
	2026	2025	2026	2025	2026	2025
Land	$ 13,250	$ 13,250	$ 205,090	$ 205,090	$ 218,340	$ 218,340
Construction in Progress	-	-	182,550	358,709	182,550	358,709
Utility Systems	-	-	3,094,394	2,812,098	3,094,394	2,812,098
Building	320,000	320,000	149,328	149,328	469,328	469,328
Machinery & Equipment	34,835	34,935	565,583	559,986	600,418	594,921
Vehicles	910,134	894,721	263,114	216,875	1,173,248	1,111,596
Park Improvements	22,518	22,518	23,852	23,852	46,370	46,370
Infrastructure	119,956	119,956	-	-	119,956	119,956
Right-to-use software arrangements	11,308	11,308	4,567	4,567	15,875	15,875
Accumulated Depreciation	(526,201)	(342,994)	(3,377,819)	(3,324,477)	(3,904,020)	(3,667,471)
Total	$ 905,800	$ 1,073,694	$ 1,110,659	$ 1,006,028	$ 2,016,459	$ 2,079,722

Additional information on the City's capital assets can be found in Note 2 on pages 41 and 42 in the notes of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City had one (1) note payable with a balance of $46,611. The City also had one (1) bonds payable that totaled $65,000.

OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-Type Activities		Total	
	2026	2025	2026	2025	2026	2025
Note Payable	$ 11,653	$ -	$ 34,958	$ 21,569	$ 46,611	$ 21,569
Bond Payable	-	-	65,000	-	65,000	-
Copier Lease	1,974	3,041	-	-	1,974	3,041
Right-to-use software arrangements	-	4,063	-	1,641	-	5,704
Total	$ 13,627	$ 7,104	$ 99,958	$ 23,210	$ 113,585	$ 30,314

During the fiscal year, the City's outstanding debt increased by $83,271, or 274.69%. The increase was primarily due to the following:

- New notes payable agreement that is split between the funds
- New Combination Tax and Surplus Revenue Notes, Series 2025 Bond

Additional information on the City's long term-debt can be found in Note 2 on pages 43 through 47 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

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Government-Wide Financial Statements

CITY OF GARRISON, TEXAS
STATEMENT OF NET POSITION
MARCH 31, 2026

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	$ 194,015	$ 838,234	$ 1,032,249
Investments	47,321	7,585	54,906
Receivables (net of allowances):			
Sales taxes	17,272	-	17,272
Property taxes	18,281	-	18,281
Franchise taxes	12,026	-	12,026
Fines and forfeitures	39,221	-	39,221
Sanitation fees	3,081	-	3,081
Other	3,076	24,622	27,698
Restricted cash	18,418	5,605,569	5,623,987
Net pension asset	310,246	541,201	851,447
Due from other funds	-	114,116	114,116
Capital assets:			
Land and other non-depreciated assets	13,250	387,640	400,890
Other capital assets - net of depreciation	892,550	723,019	1,615,569
Total Assets	1,568,757	8,241,986	9,810,743
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows from pensions	4,659	4,785	9,444
Deferred outflows from OPEB	284	132	416
Total Deferred Outflows of Resources	4,943	4,917	9,860
LIABILITIES			
Accounts payable and accrued liabilities	22,289	5,736,270	5,758,559
Due to other funds	114,116	-	114,116
Long-term liabilities:			
Due within one year	12,764	39,959	52,723
Due in more than one year	14,603	71,429	86,032
Total Liabilities	163,772	5,847,658	6,011,430
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows from pensions	103,853	239,983	343,836
Deferred inflows from OPEB	2,636	3,670	6,306
Total Deferred Inflows of Resources	106,489	243,653	350,142
NET POSITION			
Investment in capital assets, net of related debt	905,433	1,010,700	1,916,133
Restricted for municipal court	6,885	-	6,885
Restricted for public safety	4,753	-	4,753
Unrestricted	386,368	1,144,892	1,531,260
Total Net Position	$ 1,303,439	$ 2,155,592	$ 3,459,031

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

CITY OF GARRISON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2026

FUNCTIONS / PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: GOVERNMENTAL ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: BUSINESS-TYPE ACTIVITIES	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION: TOTAL
Primary government:						
Governmental activities:						
Administration	$ 281,160	$ 24,433	$ -	$ (256,727)	$ -	$ (256,727)
Public safety	87,361			(87,361)	-	(87,361)
Municipal court	64,631	41,218	-	(23,413)	-	(23,413)
Sanitation	59,163	83,538	-	24,375	-	24,375
Emergency services	170,317	-	24,450	(145,867)	-	(145,867)
Highways and streets	29,207	30,371	-	1,164	-	1,164
Parks and recreation	1,169	-	-	(1,169)	-	(1,169)
Total governmental activities	693,008	179,560	24,450	(488,998)	-	(488,998)
Business-type activities:						
Utility services	686,380	805,108	10,000	-	128,728	128,728
Total business-type activities	686,380	805,108	10,000	-	128,728	128,728
Total primary government	$ 1,379,388	$ 984,668	$ 34,450	(488,998)	128,728	(360,270)
General revenues:						
Sales taxes				103,027	-	103,027
Property taxes				128,224	-	128,224
Franchise taxes				53,469	-	53,469
Pension earnings				47,795	123,384	171,179
Investment earnings				1,485	598	2,083
Miscellaneous local and intermediate revenue				6,920	6,098	13,018
Transfers				(14,118)	14,118	-
Total general revenues and transfers				326,802	144,198	471,000
Change in net position				(162,196)	272,926	110,730
Net position - beginning				1,465,635	1,882,666	3,348,301
Net position - ending				$ 1,303,439	$ 2,155,592	$ 3,459,031

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

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Fund Financial Statements

CITY OF GARRISON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2026

	MAJOR FUNDS	
	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS		
Cash	$ 194,015	$ 194,015
Investments	47,321	47,321
Receivables (net of allowances):		
Sales taxes	17,272	17,272
Property taxes	18,281	18,281
Franchise taxes	12,026	12,026
Fine and forfeitures	39,221	39,221
Sanitation fees	3,081	3,081
Other	3,076	3,076
Restricted cash	18,418	18,418
Total assets	$ 352,711	$ 352,711
LIABILITIES		
Accounts payable	$ 22,289	$ 22,289
Due to other funds	114,116	114,116
Total liabilities	136,405	136,405
DEFERRED INFLOWS (OF RESOURCES)		
Property taxes	18,281	18,281
Fines, forfeitures, and warrants	39,221	39,221
Total deferred inflows	57,502	57,502
FUND BALANCES		
Restricted fund balance:		
Municipal court	6,885	6,885
Public safety	4,753	4,753
Committed fund balance:		
Infrastructure	92,764	92,764
Assigned fund balance:		
Park improvements	4,443	4,443
Unassigned fund balance	49,959	49,959
Total fund balances	158,804	158,804
Total liabilities, deferred inflows and fund balances	$ 352,711	$ 352,711

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, 2026

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

Total fund balances - governmental funds	$	158,804
Capital assets used in governmental activities are not financial resources and, therefore, are not reported on the governmental funds balance sheet.		905,800
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		310,246
Deferred outflows, related to pension		4,659
Deferred inflows, related to pension		(103,853)
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		(11,197)
Deferred outflows, related to OPEB		284
Deferred inflows, related to OPEB		(2,636)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the governmental funds balance sheet.		
Note payable		(11,653)
Copier lease		(1,974)
Compensated absences		(2,543)
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.		39,221
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.		18,281
Net position of governmental activities	$	1,303,439

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

CITY OF GARRISON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2026

	MAJOR FUNDS	
	GENERAL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES		
Taxes:		
Sales	$ 103,027	$ 103,027
Property	140,442	140,442
Franchise	53,469	53,469
Fines and forfeitures	39,684	39,684
Infrastructure fees	30,371	30,371
Licenses and permits	1,220	1,220
Charges for services	23,213	23,213
Sanitation services	83,538	83,538
Grants and contributions	24,450	24,450
Interest income	1,485	1,485
Miscellaneous	6,920	6,920
Total revenues	507,819	507,819
EXPENDITURES		
Administration	262,502	262,502
Public safety	77,613	77,613
Municipal court	63,596	63,596
Sanitation	59,163	59,163
Emergency services	19,788	19,788
Highways and streets	23,165	23,165
Parks and recreation	43	43
Debt service	3,760	3,760
Capital outlay	24,813	24,813
Total expenditures	534,443	534,443
Excess (deficiency) of revenues over (under) expenditures	(26,624)	(26,624)
OTHER FINANCING SOURCES (USES)		
Operating transfers to other funds	(14,118)	(14,118)
Copier lease	(1,067)	(1,067)
Right-to-use software arrangements	(4,063)	(4,063)
Capital financing	15,413	15,413
Total other financing sources (uses)	(3,835)	(3,835)
Net change in fund balances	(30,459)	(30,459)
Fund balances - beginning of year	189,263	189,263
Fund balances - end of year	$ 158,804	$ 158,804

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, 2026

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

Net change in fund balances - total governmental funds	$	(30,459)
The depreciation of capital assets used in governmental activities is not reported in the funds.		(192,707)
Net delinquent property tax collections provide current financial resources to the funds (but has no effect on net assets).		(12,218)
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.		1,534
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:		
Compensated absences		5,569
Decreases in long-term liabilities do not require the use of current financial resources; therefore, are not reported as expenditures in the governmental funds:		
GASB 68 Pension adjustments		47,023
GASB 75 Other post employment benefit adjustments		772
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.		24,813
Increases in long-term liabilities on capital assets should be shown as an expenditure in the government-wide statement of activities, however, current financial resources are not consumed in the governmental funds.		(15,413)
Repayments of principal consumes the current financial resources of the governmental funds which report the effect as an expenditure, however, there is no expense on the statement of activities.		
Notes payable		3,760
Right-to-use software arrangements		4,063
Copier lease		1,067
Change in net position of governmental activities	$	(162,196)

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

CITY OF GARRISON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
MARCH 31, 2026

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND UTILITY SERVICES
ASSETS	
Current assets:	
Cash	$ 838,234
Investments	7,585
Accounts receivable (net)	24,622
Due from general fund	114,116
Total current assets	984,557
Noncurrent assets:	
Restricted cash	5,605,569
Net pension asset	541,201
Capital assets:	
Land	205,090
Utility systems	3,094,394
Buildings	149,328
Machinery and equipment	565,583
Vehicles	263,114
Improvements	23,852
Right-to-use software arrangements	4,567
Construction in progress	182,550
Less: accumulated depreciation	(3,377,819)
Total noncurrent assets	7,257,429
Total assets	8,241,986
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows from pensions	4,785
Deferred outflows from OPEB	132
Total deferred outflows of resources	4,917
LIABILITIES	
Current liabilities:	
Accounts payable	16,145
Unearned revenue	5,638,950
Customer deposits	81,175
Bond and notes payable	39,959
Total current liabilities	5,776,229
Non-current liabilities:	
Bond Payble	60,000
Compensated absences	6,789
Net OPEB liability	4,640
Total liabilities	5,847,658
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows from pensions	239,983
Deferred inflows from OPEB	3,670
Total deferred inflows of resources	243,653
NET POSITION	
Investment in capital assets, net of related debt	1,010,700
Unrestricted	1,144,892
Total net position	$ 2,155,592

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, 2026

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND UTILITY SERVICES
OPERATING REVENUES	
Service charges	$ 803,508
Tap fees	1,600
Grants	10,000
Other	6,098
Total operating revenues	821,206
OPERATING EXPENSES	
Personnel services	156,360
Natural gas purchases	108,416
Contract labor	16,243
Depreciation	53,343
Maintenance	33,948
Utilities	6,643
Chemicals and supplies	122,444
Permits and licenses	3,822
Professional fees	6,731
Training and education	1,075
Insurance	13,581
Other	29,865
Total operating expenses	552,471
Operating income	268,735
NONOPERATING REVENUES (EXPENSES)	
Pension earnings	123,384
Interest income	598
Interest expense	(1,654)
Debt issuance costs	(132,255)
Total nonoperating revenues (expenses)	(9,927)
Income before operating transfers	258,808
TRANSFERS	
Transfers in	14,118
Total transfers	14,118
Change in net position	272,926
Net position - beginning of year	1,882,666
Net position - end of year	$ 2,155,592

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, 2026

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUND UTILITY SERVICES
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	$ 805,108
Other cash receipts	16,098
Payments to suppliers for goods and services	(636,477)
Payments to employees for services	192,307
Net cash provided by operating activities	377,036
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers-in from other funds	14,118
Due from other funds	(114,116)
Net cash provided by non-capital financing activities	(99,998)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Debt issuance costs	(132,255)
Proceeds from loan forgiveness program	5,571,695
Acquisition and construction of capital assets	(157,974)
Principal repayments on debt	76,749
Interest on debt	(1,654)
Net cash used in capital and related financing activities	5,356,561
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	598
Net cash provided by investing activities	598
Net increase in cash and cash equivalents	5,634,197
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	809,606
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,443,803
Reconciliation of Operating Income to Net Cash provided by (used in) Operating Activities	
Operating income	$ 268,735
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	53,343
Noncash pension earnings	123,384
Loan forgiveness program held in escrow	(5,571,695)
Changes in assets and liabilities:	
Increase (decrease) in accounts payable	(43,999)
Increase (decrease) in unearned revenue	5,638,950
Increase (decrease) in pension liability	(339,408)
Increase (decrease) in OPEB liability	(3,128)
Increase (decrease) in deferred inflows	156,847
Increase (decrease) in sales tax payable	(306)
Increase (decrease) in compensated absences	(6,131)
Increase (decrease) in customer deposits	553
Decrease (increase) in deferred outflows	62,305
Decrease (increase) in investments	(598)
Decrease (increase) in grants receivable	38,500
Decrease (increase) in accounts receivable	(316)
Total adjustments	108,301
Net cash provided by operating activities	$ 377,036

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

Notes to the Financial Statements

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, 2026.

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.

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.

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.

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, 2026. 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.

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:

Assets	Years
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.

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.

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.

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:

Department	Expenditures	Budget	Variance
Sanitation	$ 59,163	$ 56,000	$ (3,163)
Emergency services	$ 19,788	$ 18,835	$ (953)
Debt service	$ 3,760	$ -	$ (3,760)
Capital outlay	$ 24,813	$ -	$ (24,813)

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.

NOTE 2: DETAILED NOTES ON ALL FUNDS

Deposits

The City's balances were completely covered by federal deposit insurance or collateralized at March 31, 2026. 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:

Cash & Cash Equivalents	Bank Balance	Category 1	Category 2	Category 3	Carrying Amount
General fund	$ 212,433	$ 212,433	$ -	$ -	$ 212,433
Proprietary fund	6,443,803	37,567	6,406,236	-	6,443,803
Total	$ 6,656,236	$ 250,000	$ 6,406,236	$ -	$ 6,656,236

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 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, 2026, the carrying amount of the City's certificates of deposit were $54906

Economic Dependence

The City's operations are funded by taxes and revenues collected from the residents of the City of Garrison, Texas. Accordingly, the City is economically dependent on the property values and the local economy of the City and surrounding area.

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Property Tax

The assessed valuation (net of exemptions) was $43,300,456 for 2025 (with taxes due January 1, 2025) levied at a rate of $0.29166 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:

Receivables	Primary Government General Fund	Business-Type Enterprise Fund Utility Services	Total
Accounts	$ 6,157	$ 49,225	$ 55,382
Fines	45,606	-	45,606
Taxes	47,579	-	47,579
Gross receivables	99,342	49,225	148,567
Less: Allowance for uncollectables	(6,385)	(24,603)	(30,988)
Total	$ 92,957	$ 24,622	$ 117,579

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, 2026, is as follows:

Funds	Transfers in	Transfers out
General	$ -	$ 14,118
Utility Services	14,118	-
Total	$ 14,118	$ 14,118

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:

Primary Government	Balance 3/31/2024	Additions	Deletions	Balance 3/31/2025
Governmental activities				
Non-depreciable assets:				
Land	$ 13,250	$ -	$ -	$ 13,250
Construction in progress	-	-	-	-
Depreciable assets:				
Buildings & improvements	320,000	-	-	320,000
Machinery and equipment	34,935	9,400	9,500	34,835
Infrastructure	119,956	-	-	119,956
Park improvements	22,518	-	-	22,518
Vehicles	894,721	15,413		910,134
Right-to-use software arrangements	11,308	-	-	11,308
Accumulate depreciation	(342,994)	(192,707)	(9,500)	(526,201)
Governmental activities, net	1,073,694	(167,894)	-	905,800
Business-type activities				
Non-depreciable assets:				
Land	205,090	-	-	205,090
Construction in progress	358,709	99,272	275,431	182,550
Depreciable assets:				
Utility systems	2,812,098	282,296	-	3,094,394
Buildings	149,328	-	-	149,328
Machinery and equipment	559,986	5,597	-	565,583
Vehicles	216,875	46,239	-	263,114
Improvements	23,852	-	-	23,852
Right-to-use software arrangements	4,567	-	-	4,567
Accumulate depreciation	(3,324,477)	(53,342)	-	(3,377,819)
Business-type activities, net	1,006,028	380,062	275,431	1,110,659
Capital assets, net	$ 2,079,722	$ 212,168	$ 275,431	$ 2,016,459

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Capital Assets - continued

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

Administration	$	20,277
Public safety		13,351
Municipal court		1,035
Emergency services		150,529
Highways and streets		6,389
Parks and recreation		1,126
Total depreciation expense	$	192,707

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, 2026.

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, 2026.

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.

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Liabilities

Obligations currently outstanding and reported as liabilities of the City are comprised of the following:

Purpose	Interest Rates	Original Issue Amount	Maturity Date	Yearend Balance
Governmental activities:				
John Deere Note Payable 25%	6.49%	$ 15,413	12/9/2026	$ 11,653
Business-type activities:				
John Deere Note Payable 75%	6.49%	46,238	12/9/2026	34,958
Combination Tax and Surplus Revenue Notes, Series 2025	0.00%	65,000	8/1/2032	65,000
	Total obligations	$ 126,651		$ 111,611

The changes in the general long-term debt as of March 31, 2026 are as follows:

	Balance 3/31/2024	Additions	Reductions	Balance 3/31/2025	Due Within One Year
Governmental activities:					
John Deere Note Payable	$ -	$ 15,413	$ (3,760)	11,653	$ 11,653
Compensated absences	8,112	-	(5,569)	2,543	-
Net OPEB liability	12,409	-	(1,212)	11,197	-
Copier lease	3,041	-	(1,067)	1,974	1,111
Right-to-use software arrangements	4,063	-	(4,063)	-	-
Business-type activities:					
Watermeter Note Payable	21,569	-	(21,569)	-	-
John Deere Note Payable	-	46,238	34,958	34,958	34,958
Combo Tax and Revenue, Series 2025	-	65,000	-	65,000	5,000
Compensated absences	12,920	-	(6,131)	6,789	-
Net pension liability	-	-	-	-	-
Net OPEB liability	7,768	-	(3,128)	4,640	-
Right-to-use software arrangements	1,641	-	(1,641)	-	-
Total	$ 69,882	$ 126,651	$ (11,541)	$ 138,754	$ 52,722

Annual debt service requirements for the City's long-term debt are as follows:

Year Ending March 31	Business-Type Activities Series 2025 Principal	Interest
2027	$ 5,000	$ -
2028	10,000	-
2029	10,000	-
2030	10,000	-
2031	10,000	-
2032-2033	20,000	-
Total	$ 65,000	$ -

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Liabilities -continued

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

Governmental Activities	Maturity Date	Interest Rates	Note Amount	Yearend Balance
John Deere - Excavator	12/9/2026	6.490%	$ 15,413	$ 11,653
		Total	$ 15,413	$ 11,653

Business-Typer Activities	Maturity Date	Interest Rates	Note Amount	Yearend Balance
John Deere - Excavator	12/9/2026	6.490%	$ 46,238	$ 31,158
		Total	$ 46,238	$ 31,158

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

	Notes Payable Payment Schedule				
Year Ending	Governmental Activities		Business-Type Activities		
March 31	Principal	Interest	Principal	Interest	Total
2027	$ 11,653	$ 317	$ 34,958	$ 952	$ 47,880
Total	$ 11,653	$ 317	$ 34,958	$ 952	$ 47,880

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Long-Term Liabilities - continued

Bonds and other debt payable at March 31,2026, are comprised of the following:

Combination Tax and Surplus Revenue Certificates of Obligation, Series 2025 (Direct Placement). In August 2025, the City approved issuance of $65,000 of combination tax and surplus revenue certificates of obligation carrying interest at rates of 0.00% .The sale of the bonds was made by private placement with the Texas Water Development Board ("TWDB"). The bonds mature on August 1, 2033, are secured by ad valorem taxes and a lien on surplus utility revenue, and are recorded in the system fund.

Note Payable – John Deere Excavator. On December 9, 2025 the City entered into an agreement with John Deere for the funding of one compact excavator in the amount of $146,000. The agreement requires monthly installments of $5,320 beginning January 2026 through December 2026 bearing interest at 6.49%. The note matures on December 9, 2026, and is recorded in a ¼ to ¾ split between general fund and utility fund.

Leases

Lease agreements are summarized as follows:

Description	Lease Date	Payment Terms	Payment Amount	Interest Rate	Total Lease Liability	Yearend Balance
Sharp color copier	1/20/2023	60 Months	$ 97.46	4.000%	$ 5,292	$ 1,974
				Total	$ 5,292	$ 1,974

The color copier equipment was leased for the City Hall Administration, beginning on January 20, 2023 for a term of sixty (60) months or five years at a fixed interest rate of 4.00%. This lease is renewable and the City will not acquire the equipment at the end of the five years.

The lease terms include an all-inclusive cost per copy maintenance agreement for toner, parts, labor, and supplies (excluding paper), with all black/white copies billed at a rate of $0.0125 each and color copies at a rate of $0.075 each.

Annual requirements to amortize long-term obligations and related interest are as follows:

	Governmental Activities	
Year Ending	Lease Payment Schedule	
March 31	Principal	Interest
2027	1,111	59
2028	863	14
Total	$ 1,974	$ 73

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Subscription-Based Information Technology Arrangements

The City implemented Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*, in fiscal year 2023. The City has three (3) software arrangements that require recognition under GASBS No. 96. The software amortization expense is included on the Statement of Revenues, Expenses and Changes in Fund Net Position related to the City's intangible asset of five software systems, which is included in the capital assets table as Intangible Right-to-Use Software Arrangements.

The City recognizes subscription-based information technology arrangement (SBITA) liabilities and intangible right-to-use assets for software as follows:

The QuickBooks accounting software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of $1,298. At the inception, the City has used a 8.00% interest rate for this arrangement based on the prime rate as published by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

The Kologik / COPsync municipal court and public safety software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of $3,090. At the inception, the City has used a 8.00% interest rate for this arrangement based on the prime rate as published by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

The RVS utility billing/tracking software arrangement is a one-year agreement, initiated in fiscal year 2023 with an annual payment of $1,226. At the inception, the City has used a 8.00% interest rate for this arrangement based on the prime rate as published by the *Wall Street Journal*. The City has an option to extend this arrangement for 12 additional months and is likely to exercise that option for two (2) additional years. There is no option to purchase the software.

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Subscription-Based Information Technology Arrangements – continued

These assets will be amortized over the lease terms of three years with $17,813 recorded as intangible right-to-use software arrangements in the General Fund and Water Sewer Fund capital assets.

SBITA agreements are summarized as follows:

Governmental Activities	SBITA Date	Payment Terms	Payment Amount	Interest Rate	Total SBITA Liability	Yearend Balance
Right-to-use software arrangements						
Kologik / COPsync	4/1/2023	36 months	3,090	8.00%	7,963	-
QuickBooks	4/1/2023	36 months	1,298	8.00%	3,345	-
Business-Type Activities						
Right-to-use software arrangements						
RVS	4/1/2023	36 months	1,226	8.00%	4,567	-
				Total	$ 17,813	$ -

Commitments

The City has the following contractual commitments as of March 31, 2026:

Wastewater Treatment Plant Replacement		$ 515,400
Sewer Line Replacement		483,050
	Total	$ 998,450

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan

Plan Description – The City participates as one of 940 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com.

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

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

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

Plan provisions for the City were as follows:

Plan Year	2025	2024
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

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

Employees covered by benefit terms:

At the December 31, 2025 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	2
Active employees	4
Total	13

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

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 7.71% and 7.48% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended March 31, 2026 were $21,818, and were equal to the required contributions.

Net Pension Liability – The City's Net Pension Liability (NPL) was measured as of December 31, 2025, 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, 2025 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 110% of the Public Safety table used for males and 100% of the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%.

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Texas Municipal Retirement System Plan – continued

Actuarial assumptions – continued:

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 to December 31, 2012. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for 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 by best estimate ranges of expected returns for each major asset class. The long-term expected rate of return is determined by weighting the expected return for each major asset class by the respective target asset allocation percentage. The target allocation and best estimates of the expected return for each major asset class in fiscal year 2026 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Public Equity	35.00%	6.20%
Private Equity	20.00%	11.00%
Tactical Opportunities	6.00%	6.10%
Credit	21.00%	7.70%
Real Assets	18.00%	7.30%
Total	100.00%	

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 12/31/2023	$ 2,148,726	$ 2,529,298	$ (380,572)
Changes for the year:			
Service cost	$ 53,691	$ -	$ 53,691
Interest	142,045	-	142,045
Changes in current period benefits*	-	-	-
Difference between expected and actual experience	(274,183)	-	(274,183)
Changes of assumptions	-	-	-
Contributions - employer	-	22,658	(22,658)
Contributions - employee	-	20,571	(20,571)
Net investment income	-	350,902	(350,902)
Benefit payments, including refunds of employee contributions	(142,393)	(142,393)	-
Administrative expense	-	(1,643)	1,643
Other changes	-	(60)	60
Net changes	(220,840)	250,035	(470,875)
Balance at 12/31/2024	$ 1,927,886	$ 2,779,333	$ (851,447)

* For TMRS, the "changes in current period benefits" includes substantively automatic benefit status changes, if applicable.

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)	$ (617,983)	$ (851,447)	$ (1,046,686)

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 tmrs.com.

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

For the year ended March 31, 2026, the City recognized pension earnings of $168,415.

At March 31, 2026, 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	$ -	$ 175,439
Changes in actuarial assumptions	580	822
Difference between projected and actual investment earnings	-	167,575
Contributions subsequent to the measurement date	8,864	-
Total	$ 9,444	$ 343,836

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 $8,864 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, 2026. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2026	$	(86,237)
2027		(160,776)
2028		(60,209)
2029		(36,034)
2030		-
Thereafter		-
Total	$	(343,256)

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, 2025 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	0
Active employees	4
Total	8

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	2025	2024
Total SDB Contribution (Rate)	.29%	.33
Retiree Portion of SDB Contribution (Rate)	.13%	.13%

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	3.60% to 11.85% including inflation
Discount rate*	4.83%
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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates – disabled retirees	2019Municipal Retirees of TexasMortality 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 the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.
*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2025.	

Changes in the OPEB liability:

	Total OPEB Liability
Balance at 12/31/2023	$ 20,177
Changes for the year:	
Service cost	$ 411
Interest	824
Change of benefit terms	-
Difference between expected and actual experience	(3,233)
Changes of assumptions	(1,960)
Benefit payments	(382)
Net changes	(4,340)
Balance at 12/31/2024	$ 15,837

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 3.83%	Current Rate Assumption 4.83%	1% Increase in Discount Rate 5.83%
City's net pension liability (asset)	$ 18,535	$ 15,837	$ 13,661

OPEB expense:

	OPEB Expense
Service cost	$ 411
Interest	824
Change of benefit terms	-
Employer administrative costs	-
Recognition of deferred outflows/inflows of resources:	
Differences between expected and actual experience	(963)
Changes of assumptions	(1,971)
Total OPEB expense	$ (1,699)

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

At March 31, 2026, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ 2,848
Changes in assumptions and other inputs	-	3,458
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	416	-
Total	$ 416	$ 6,306

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:		
2026	$	(2,877)
2027		(1,190)
2028		(1,299)
2029		(940)
2030		-
Thereafter		-
Total	$	(6,306)

Accounting Standards

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

GASB Statement No. 102 – "*Certain Risk Disclosures."* The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024. All applicable provisions have been included in the City's financial statements as of March 31, 2026

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

GASB Statement No. 103 – "*Financial Reporting Model Improvements."* The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025. Management has not yet determined the impact of this Statement on its financial statements.

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

NOTE 2: DETAILED NOTES ON ALL FUNDS – continued

Accounting Standards – continued

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

Federal Single Audit Act

Under the Single Audit Act, as amended, and Title 2 U.S. Code of Federal Regulations Part 200, Subpart F (Uniform Guidance), a single audit or program-specific audit is required when a nonfederal entity expends $1,000,000 or more in federal awards during its fiscal year. The City of Garrison expended less than this threshold during the fiscal year ended 2025; accordingly, a federal single audit was not required.

Subsequent Events

On June 30, 2026, the city closed on 14.05 acres of land for $150,000 that will be used for the new sewer plant.

Management has evaluated all other subsequent events through October 13, 2026, which is the date the financial statements were made available to management.

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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, 2026

	BUDGET AMOUNTS			VARIANCE WITH FINAL BUDGET FAVORABLE
	ORIGINAL	FINAL	ACTUAL	(UNFAVORABLE)
REVENUES				
Taxes:				
Sales	$ 125,000	$ 125,000	$ 103,027	$ (21,973)
Property	103,097	103,097	140,442	37,345
Franchise	58,500	58,500	53,469	(5,031)
Fines and forfeitures	185,295	185,295	39,684	(145,611)
Infrastructure fees	33,000	33,000	30,371	(2,629)
Licenses and permits	700	700	1,220	520
Charges for services	27,774	27,774	23,213	(4,561)
Sanitation services	85,000	85,000	83,538	(1,462)
Grants and contributions	-	-	24,450	24,450
Interest income	313	313	1,485	1,172
Miscellaneous	4,301	4,301	6,920	2,619
Total revenues	622,980	622,980	507,819	(115,161)
EXPENDITURES				
Administration	318,580	318,580	262,502	56,078
Public safety	85,781	85,781	77,613	8,168
Municipal court	127,385	127,385	63,596	63,789
Sanitation	56,000	56,000	59,163	(3,163)
Emergency services	18,835	18,835	19,788	(953)
Highways and streets	136,675	136,675	23,165	113,510
Parks and recreation	225	225	43	182
Debt service	-	-	3,760	(3,760)
Capital outlay	-	-	24,813	(24,813)
Total expenditures	743,481	743,481	534,443	209,038
Excess (deficiency) of revenues over (under) expenditures	(120,501)	(120,501)	(26,624)	93,877
OTHER FINANCING SOURCES (USES)				
Operating transfers to other funds	(250,000)	(250,000)	(14,118)	235,882
Copier lease	-	-	(1,067)	(1,067)
Right-to-use software arrangements	-	-	(4,063)	(4,063)
Capital financing	-	-	15,413	15,413
Total other financing sources	(250,000)	(250,000)	(3,835)	246,165
Excess (deficiency) of revenues & other sources over expenditures & other (uses)	$ (370,501)	$ (370,501)	(30,459)	$ 340,042
Fund balance - beginning of year			189,263	
Fund balance - end of year			$ 158,804	

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Total pension liability										
Service cost	$ 53,691	$ 61,682	$ 60,065	$ 54,412	$ 53,534	$ 80,619	$ 72,733	$ 67,759	$ 54,560	$ 48,360
Interest (on the total pension liability)	142,045	136,627	130,388	125,139	118,410	144,693	139,649	137,222	127,958	114,165
Changes of benefit terms	-	-	-	-	-	-	-	-	74,631	-
Difference between expected and actual experience	(274,183)	14,179	15,624	34,785	42,238	(473,184)	4,270	(92,835)	32,504	33,691
Change of assumptions	-	-	(1,082)	-	-	-	(15,348)	-	-	-
Benefit payments, including refunds of employee contributions	(142,393)	114,040	(112,703)	(166,096)	(63,789)	(192,120)	(68,947)	(88,397)	(80,360)	(58,843)
Net change in total pension liability	(220,840)	98,448	92,292	48,240	150,393	(439,992)	132,357	23,749	209,293	137,373
Total pension liability - beginning	2,148,726	2,050,278	1,957,986	1,909,746	1,759,353	2,199,345	2,066,988	2,043,239	1,833,946	1,696,573
Total pension liability - ending (a)	$ 1,927,886	$ 2,148,726	$ 2,050,278	$ 1,957,986	$ 1,909,746	$ 1,759,353	$ 2,199,345	$ 2,066,988	$ 2,043,239	$ 1,833,946
Plan fiduciary net position										
Contributions - employer	$ 22,658	$ 22,574	$ 21,425	$ 23,350	$ 44,950	$ 73,615	$ 75,430	$ 68,170	$ 49,057	$ 49,111
Contributions - employee	20,571	23,620	23,581	21,255	20,865	31,230	28,176	26,752	21,723	19,605
Net investment income	350,902	244,202	251,153	(180,598)	285,251	160,655	278,385	(55,428)	226,606	102,930
Benefit payments, including refunds of employee contributions	(142,393)	(114,040)	(112,703)	(166,096)	(63,789)	(192,120)	(68,947)	(88,397)	(80,360)	(58,843)
Administrative expense	(1,643)	(1,569)	(1,600)	(1,563)	(1,320)	(1,039)	(1,577)	(1,074)	(1,177)	(1,166)
Other	(60)	(36)	(9)	1,864	10	(41)	(47)	(55)	(60)	(63)
Net change in plan fiduciary net position	250,035	174,751	181,847	(301,788)	285,967	72,300	311,420	(50,032)	215,789	111,574
Plan fiduciary net position - beginning	2,529,298	2,354,547	2,172,700	2,474,488	2,188,521	2,116,221	1,804,801	1,854,833	1,639,044	1,527,470
Plan fiduciary net position - ending (b)	$ 2,779,333	$ 2,529,298	$ 2,354,547	$ 2,172,700	$ 2,474,488	$ 2,188,521	$ 2,116,221	$ 1,804,801	$ 1,854,833	$ 1,639,044
Net pension liability - ending [(a) - (b)]	$ (851,447)	$ (380,572)	$ (304,269)	$ (214,714)	$ (564,742)	$ (429,168)	$ 83,124	$ 262,187	$ 188,406	$ 194,902
Plan fiduciary net position as a percentage of total pension liability	144.16%	117.71%	114.84%	110.97%	129.57%	124.39%	96.22%	87.32%	90.78%	89.37%
Covered employee payroll	$ 29,873	$ 337,431	$ 336,877	$ 303,638	$ 298,075	$ 446,149	$ 402,509	$ 382,172	$ 362,044	$ 326,754
Net pension liability as a percentage of covered employee payroll	-289.73%	-112.79%	(90.32%)	(70.71%)	(189.46%)	(96.19%)	20.65%	68.60%	52.04%	59.65%

TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST 10 YEARS
(UNAUDITED)

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Actuarially determined contribution	$ 21,818	$ 20,313	$ 19,692	$ 21,086	$ 40,466	$ 63,679	$ 75,430	$ 68,170	$ 49,057	$ 49,111
Contributions in relation to the actuarially determined contribution	21,818	20,313	19,692	21,086	40,466	63,679	75,430	68,170	49,057	49,111
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered employee payroll	29,873	337,431	336,877	303,638	298,075	446,149	402,509	382,172	362,044	326,754
Contributions as a percentage of covered employee payroll	73.04%	6.02%	5.85%	6.94%	13.58%	14.27%	18.74%	17.84%	13.55%	15.03%

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 determin	
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	3.60% to 11.85% 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 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence). Pre-retirement: PUB(10) mortality tables, with the 110% of the Public Safety table used for males and the 100% of the General Employee table used for females. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Other information:	
Notes	There were no benefit changes during the year.

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)

	2026	2024	2023	2022	2022	2021	2020	2019
Total OPEB liability								
Service cost	$ 411	$ 540	$ 505	$ 941	$ 775	$ 1,428	$ 684	$ 688
Interest (on the total OPEB liability)	824	786	771	495	513	674	719	813
Changes of benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	(3,233)	(556)	102	136	(673)	(3,858)	(532)	(5,070)
Change of assumptions	(1,960)	(946)	857	(8,817)	754	3,366	3,981	(1,494)
Benefit payments	(382)	(439)	(472)	(273)	(179)	(89)	(121)	(115)
Net change in total OPEB liability	(4,340)	(615)	1,763	(7,518)	1,190	1,521	4,731	(5,178)
Total OPEB liability - beginning	20,177	20,792	19,029	26,547	25,357	23,836	19,105	24,283
Total OPEB liability - ending	$ 15,837	$ 20,177	$ 20,792	$ 19,029	$ 26,547	$ 25,357	$ 23,836	$ 19,105
Covered employee payroll		$ 337,431	$ 336,877	$ 303,638	$ 298,075	$ 446,149	$ 402,509	$ 382,172
Total OPEB liability as a percentage of covered employee payroll	5.39%	5.98%	6.17%	6.27%	8.91%	5.68%	5.92%	5.00%

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Supplementary Information

CITY OF GARRISON, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
UTILTIY SERVICES FUND DEPARTMENTS
FOR THE YEAR ENDED MARCH 31, 2026

	UTILITY SERVICES FUND ACTIVITIES DEPARTMENTS			
	WATER SYSTEM	NATURAL GAS	SEWER	TOTAL
OPERATING REVENUES				
Service charges	$ 391,923	$ 250,303	$ 161,282	$ 803,508
Tap fees	-	-	1,600	1,600
Grants	-	-	10,000	10,000
Other	6,098	-	-	6,098
Total operating revenues	398,021	250,303	172,882	821,206
OPERATING EXPENSES				
Personnel services	82,528	72,281	1,551	156,360
Natural gas purchases	-	108,416	-	108,416
Contract labor	10,761	1,990	3,492	16,243
Depreciation	37,404	771	15,168	53,343
Maintenance	10,369	11,693	11,886	33,948
Utilities	1,764	3,172	1,707	6,643
Chemicals and supplies	52,846	32,302	37,296	122,444
Permits and licenses	1,976	1,054	792	3,822
Professional fees	2,207	2,200	2,324	6,731
Training and education	225	160	690	1,075
Insurance	5,465	5,571	2,545	13,581
Other	-	29,196	669	29,865
Total operating expenses	205,545	268,806	78,120	552,471
Operating income (loss)	192,476	(18,503)	94,762	268,735
NONOPERATING REVENUES (EXPENSES)				
Pension Earnings	64,293	59,091	-	123,384
Interest income	598	-	-	598
Interest expense	(1,063)	(361)	(230)	(1,654)
Debt issuance costs	-	-	(132,255)	(132,255)
Total nonoperating expenses	63,828	58,730	(132,485)	(9,927)
Income (loss) before operating transfers	256,304	40,227	(37,723)	258,808
TRANSFERS				
Transfers in	13,555	563	-	14,118
Total transfers	13,555	563	-	14,118
Change in net position	269,859	40,790	(37,723)	272,926
Net position - beginning of year	1,102,085	192,767	587,814	1,882,666
Net position - end of year	$ 1,371,944	$ 233,557	$ 550,091	$ 2,155,592

Compliance and Internal Control

DKG CPA
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, the business-type 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, 2026, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 13, 2026.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



David K. Godwin, CPA, PLLC

Tyler, Texas
October 13, 2026