CITY OF SHALLOWATER, TEXAS

AUDITED FINANCIAL REPORT

SEPTEMBER 30, 2025

CITY OF SHALLOWATER, TEXAS
AUDITED FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2025

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Shallowater, Texas
Shallowater, Texas

Report on 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 Shallowater, Texas (the City), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the City adopted a new accounting guidance, GASB No. 101, Compensated Absences. Total fund balances for governmental funds were restated for a decrease of $23,859 respectively. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the GASB 68 & 75 schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

EMMS CPAs and Advisors, PLLC

Levelland, Texas
March 4, 2026

BASIC FINANCIAL STATEMENTS

CITY OF SHALLOWATER, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

	Primary government		
	Governmental Activities	Business - type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 4,345,479	$ 837,138	$ 5,182,617
Receivable, net	146,140	417,738	563,878
Prepaid items	4,658	-	4,658
Total Current Assets	4,496,277	1,254,876	5,751,153
Noncurrent Assets:			
Net pension asset	110,599	28,293	138,892
Capital assets:			
Land	66,528	1,480,607	1,547,135
Depreciable assets	2,201,384	6,228,960	8,430,344
Construction in progress	35,573	2,403,186	2,438,759
Water rights, net of amortization	-	717,084	717,084
Total Noncurrent Assets	2,414,084	10,858,130	13,272,214
Total assets	6,910,361	12,113,006	19,023,367
DEFERRED OUTFLOWSS OF RESOURCES			
Deferred outflow related to pension plan	50,050	12,833	62,883
Deferred outflow related to OPEB	5,205	1,988	7,193
Total deferred outflows of resources	55,255	14,821	70,076
LIABILITIES			
Accounts payable	69,636	370,291	439,927
Accrued liabilities	4,806	742	5,548
Accrued interest	21,919	20,607	42,526
Meter deposits	-	86,650	86,650
Current portion of compensated absences	37,063	7,419	44,482
Current portion of long-term obligations	110,608	361,420	472,028
Noncurrent liabilities:			
Noncurrent porion of long-term obligations	601,693	3,280,567	3,882,260
Total OPEB liability	22,491	8,083	30,574
Noncurrent portion of accrued compensated absences	98,684	1,198	99,882
Total Liabilities	966,900	4,136,977	5,103,877
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow related to pension plan	60,330	15,440	75,770
Deferred inflow related to OPEB	10,176	3,972	14,148
Total deferred inflows of resources	70,506	19,412	89,918
NET POSITION			
Net investment in capital assets	1,591,184	7,187,850	8,779,034
Restricted:			
Enabling Legislation	18,263	-	18,263
Net pension asset	110,599	28,293	138,892
Unrestricted net position	4,208,164	755,295	4,963,459
Total net position	$ 5,928,210	$ 7,971,438	$ 13,899,648

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

CITY OF SHALLOWATER, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions
Primary government:				
GOVERNMENTAL ACTIVITIES				
Judicial	$ 33,383	$ 30,416	$ -	$ -
Administrative	621,447	26,380	568	-
Sanitation	249,771	397,472	-	-
Street	341,756	-	-	-
Fire	259,238	-	184,527	13,918
Police	815,673	-	-	-
Health	4,858	-	-	-
Ambulance	450,377	332,556	-	-
Civil Defense	29,865	-	-	-
Parks	75,355	-	1,631	-
Interest on Debt	34,812	-	-	-
Total governmental activities	2,916,535	786,824	186,726	13,918
BUSINESS-TYPE ACTIVITIES:				
Water & sewer fund	1,728,096	1,959,232	-	223,937
Sanitation fund	266,512	372,550	-	-
Interest on Debt	125,273	-	-	-
Total business-type activities	2,119,881	2,331,782	-	223,937
TOTAL PRIMARY GOVERNMENT	$ 5,036,416	$ 3,118,606	$ 186,726	$ 237,855

General revenues:
Taxes:
Property taxes
General sales and use taxes
Franchise tax
Investment earnings
Miscellaneous revenue
Sale of Assets
Transfers
Total general revenues and transfers
Change in net position
Net position - beginning
Net position - ending

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

Net (expense) revenue and Changes in net position		
Primary government		
Governmental Activities	Business-type Activities	Total
$ (2,967)	$ -	$ (2,967)
(594,499)	-	(594,499)
147,701	-	147,701
(341,756)	-	(341,756)
(60,793)	-	(60,793)
(815,673)	-	(815,673)
(4,858)	-	(4,858)
(117,821)	-	(117,821)
(29,865)	-	(29,865)
(73,724)	-	(73,724)
(34,812)	-	(34,812)
(1,929,067)	-	(1,929,067)
-	455,073	455,073
-	106,038	106,038
-	(125,273)	(125,273)
-	435,838	435,838
(1,929,067)	435,838	(1,493,229)
1,730,515	-	1,730,515
446,286	-	446,286
155,237	-	155,237
254,889	2,451	257,340
50,932	47,443	98,375
6,370	2,960	9,330
(1,200,000)	1,200,000	-
1,444,229	1,252,854	2,697,083
(484,838)	1,688,692	1,203,854
6,413,048	6,282,746	12,695,794
$ 5,928,210	$ 7,971,438	$ 13,899,648

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

CITY OF SHALLOWATER, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

		General Fund
ASSETS		
Current cash and cash equivalents	$	4,345,479
Accounts receivable, net		101,449
Property taxes receivable, net		1,074
Prepaid items		4,658
Total assets	$	4,452,660
LIABILITIES		
Accounts payable	$	69,636
Accrued payroll		4,806
Compensated Absences		37,063
Total liabilities		111,505
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue		1,074
Total deferred inflows of resources		1,074
FUND BALANCES		
Restricted:		
Enabling Legislation		18,263
Unassigned		4,321,818
Total fund balances		4,340,081
Total liabilities, deferred inflows & fund balances	$	4,452,660

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

CITY OF SHALLOWATER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

Total fund balances - governmental funds	$ 4,340,081
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	1,309,956
Current year capital outlays and long-term debt principal are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2025 capital outlays and debt principal payments is to increase net position.	572,897
Included in the noncurrent assets is the recognition of the City's net pension liability required by GASB 68 in the amount of $110,599, and a deferred resource inflow in the amount of ($60,330), and a deferred resource outflow in the amount of $50,050. This resulted in decrease in net position by $100,319.	100,319
Included in the noncurrent assets is the recognition of the City's net OPEB liability required by GASB 75 in the amount of ($22,491), and a deferred resource inflow in the amount of ($10,176), and a deferred resource outflow in the amount of $5,205. This resulted in decrease in net position by ($27,462).	(27,462)
The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(291,669)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, and eliminating interfund transactions.Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds. The net effect of these reclassifications and recognitions is to increase net position.	(75,912)
Net position of governmental activities	$ 5,928,210

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

CITY OF SHALLOWATER, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	General Fund
REVENUE	
Taxes:	
Property taxes	$ 1,705,605
Sales taxes	446,286
Franchise taxes	155,237
Intergovernmental revenue	185,095
Fines, fees and charges for services	30,416
Grants	13,918
Permits	26,380
Ambulance calls	332,556
Sanitation	397,472
Miscellaneous revenue	50,932
Contributions	1,631
Total revenues	3,345,528
EXPENDITURES	
Current operating:	
Judicial	33,709
Administrative	603,021
Sanitation Department	249,771
Street	252,540
Fire	191,445
Police Department	737,947
Health Department	4,858
Ambulance	450,377
Civil Defense	27,416
Parks	26,385
Debt Service	
Principal	61,169
Interest	24,314
Capital operating improvements	511,728
Total expenditures	3,174,680
Excess of revenues over expenditures	170,848
OTHER FINANCING SOURCES (USES)	
Investment earnings	254,889
Sale of Assets	6,370
Transfer in (out)	(1,200,000)
Total other financing sources (uses)	(938,741)
Net change in fund balances	(767,893)
Fund balance - September 30, 2024	5,131,833
Prior period adjustment - Note #13	(23,859)
Fund balance - September 30, 2025	$ 4,340,081

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

CITY OF SHALLOWATER, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Total net change in fund balances - governmental funds	$ (767,893)
Current year capital outlays expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2025 capital outlays is to increase (decrease) the change in net position.	562,399
The implementation of the requirements of GASB 68 for that certain expenditures be de-expanded and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/24 caused the change in the ending net position to increase in the amount of $34,931. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling ($28,150). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased the change in net position by $13,766. The result of these changes is to decrease the change in net position by $20,547.	20,547
The implementation of the requirements of GASB 75 for that certain expenditures be de-expanded and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/24 caused the change in the ending net position to increase in the amount of $2,264. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling ($1,284). The City's reported TMRS net OPEB expense had to be recorded. The net pension OPEB increased the change in net position by $28. The result of these changes is to decrease the change in net position by $1,008.	1,008
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(291,669)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.	(9,230)
Change in net position of governmental activities	$ (484,838)

CITY OF SHALLOWATER, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2025

	Water & Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 837,138
Accounts receivables, net	417,738
Total current assets	1,254,876
Noncurrent assets:	
Net pension asset	28,293
Capital assets:	
Land	1,480,607
Depreciable assets	6,228,960
Construction in Progress	2,403,186
Water rights, net amortization	717,084
Total noncurrent assets	10,858,130
Total assets	12,113,006
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow related to pension plan	12,833
Deferred outflow related to OPEB	1,988
Total deferred outflows of resources	14,821
LIABILITIES	
Current liabilities:	
Accounts payable	370,291
Accrued payroll	742
Accrued interest	20,607
Meter deposits	86,650
Current portion of compensated absences	7,419
Current portion of long-term debt	361,420
Noncurrent liabilities:	
Long-term debt due after one year	3,280,567
OPEB liability	8,083
Noncurrent compensated absences	1,198
Total noncurrent liabilities	3,289,848
Total liabilities	4,136,977
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow related to pension plan	15,440
Deferred inflow related to OPEB	3,972
Total deferred inflows of resources	19,412
NET POSITION	
Net investment in capital assets	2,586,973
Restricted net pension asset	28,293
Unrestricted net position	5,356,172
Total net position	$ 7,971,438

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

CITY OF SHALLOWATER, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Water & Sewer Fund
OPERATING REVENUES:	
Water revenue	$ 1,905,342
Sewer revenue	372,550
Tapping and connection fees	6,300
Penalties	47,590
Total operating revenue	2,331,782
OPERATING EXPENSES:	
Water department	1,728,096
Sewer department	266,512
Total operating expenses	1,994,608
Operating income	337,174
NONOPERATING INCOME/(EXPENSES):	
Interest income	2,451
Sale of asset	2,960
Grant revenue	223,937
Miscellaneous revenue	47,443
Interest expense - non - operating	(125,273)
Total nonoperating revenues/(expenses)	151,518
Income before transfers	488,692
Transfers, net	1,200,000
Change in net position	1,688,692
Total net position - September 30, 2024	6,282,746
Total net position - September 30, 2025	$ 7,971,438

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

CITY OF SHALLOWATER, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Water & Sewer Fund
Cash flows from operating activities:	
Cash received from customers	$ 2,322,844
Cash payments to employees for services	(520,399)
Cash payments to other supplieres for goods and services	(698,636)
Net cash provided from operating activities	1,103,809
Cash flows from non-capital financing activities:	
Transfer (to) from general fund	1,200,000
Receipts from other nonoperating activities	271,380
Net cash provided by non-capital Financing activities	1,471,380
Cash flows from capital and related financing activities:	
Principal and interest paid on lonterm debt	(473,750)
Acquisition or construction of capital assets	(2,876,009)
Net cash (used for) capital and related financing activities	(3,349,759)
Cash flows from investing activities:	
Interest earned on investments	2,451
Net change in cash provided from investing activities	2,451
Net (decrease) in cash and cash equivalents	(772,119)
Cash and cash equivalents at the beginning of the year	1,609,257
Cash and cash equivalents at the end of the year	$ 837,138
Reconciliation of operating income to net cash Provided by (used for) operating activities:	
Operating income	$ 337,174
Adjustments to reconcile income from operations to Net cash from operating activities:	
Depreciation	770,769
Change in assets and liabilities	
Accounts receivables, net	(9,668)
Accounts payable	200,962
Meter deposits	730
Accrued compensated absences	3,652
Accrued interest	(358)
Net pension asset/liability	(28,062)
Total OPEB liability	175
Deferred inflows of resources	(185,285)
Deferred outflows of resources	13,720
Total Adjustments	766,635
Net cash provided from Operating activities	$ 1,103,809

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Shallowater, Texas (the City) operates under a Council-Manager form of government. The City's major operations include police and fire protection, sanitation and recreation, public works, and general administrative services. In addition, the City owns and operates a water and sewer system.

The City provides the following services: public safety, streets, sanitation, health and social services, recreation, public improvements, and general administrative services. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board, other authoritative sources identified in of the American Institute of Certified Public Accountants and the requirements of contracts and grants of agencies from which it receives funds.

REPORTING ENTITY

The City Council (Council) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB 61 – The Financial Reporting Entity: Omnibus (GASB 61). Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City does not have component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants 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 how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. Examples include water charges for water services provided to the residents of the City. The "grants and contributions" column includes amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. Examples include grants for emergency response equipment. If revenues are not program revenues, they are general revenues used to support all of the City's functions. Taxes are always general revenues.

Interfund activities within governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. All interfund transactions within governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column for each major fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont.)

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use 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. Revenues not considered available are recorded as deferred revenues.

Revenues from local sources consist primarily of property taxes. Property tax revenues 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 revenues 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

The proprietary fund types and fiduciary funds 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. Pursuant to GASB Statement No. 62, the City applies all GASB pronouncements as well as all Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with 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 assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

FUND ACCOUNTING

With the implementation of GASB 54, the City now reports fund balance of governmental funds in the following classifications depending on the relative strength of the spending constraints placed on the purpose for which resources can be used:

a. Nonspendable Fund Balance – Represents the amount that cannot be spent because the assets are not in a spendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

b. Restricted Fund Balance – Represents the amounts that are constrained by external parties, constitutional provisions or enabling legislation.

c. Committed Fund Balance – Represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes the restrictions by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balances amounts differ from restricted balances in that the constraints on the funds' usage is internally generated, rather than from external sources, constitutional provisions, or enabling legislation.

d. Assigned Fund Balance – Represents amounts which the City intends to use for a specific purpose but does not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of the amounts is for a specific purpose that is narrower than the general purpose of the County itself. The Councilors have not yet delegated authority to assign fund balance amounts to a specific individual.

e. Unassigned Fund Balance – Represents amounts which are unconstrained in that they may be spent for any purpose. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative fund balance in this classification because of overspending for specific purposes for which amounts have been restricted, committed or assigned.

1. The City reports only the General Fund as a major governmental 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.

2. The City reports two of its proprietary funds as major funds. These funds are used to account for the acquisition, operation, and maintenance of golf course, refuse, water/wastewater and gas facilities. These funds are intended to be entirely or predominantly self-supported through user charges to customers. The City reports the following proprietary funds as major funds:

   - ☐ Water/Sewer Fund

3. Additionally, the City reports the following fund type(s):

   Proprietary Funds:

   a. **Enterprise Funds** – The City's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in enterprise funds. The City has two enterprise funds and both are considered to be major funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

DEFERRED OUTFLOWS/DEFERRED INFLOWS

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has the following items that qualify for reporting in that category:

- Deferred outflow related to pensions and OPEB, which result from pension contributions after the measurement date (deferred and recognized in the following fiscal year) and differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting on the government-wide statement of net position.

- Deferred inflow related to pensions and OPEB, which result from differences in projected and actual earnings on pension liabilities. This amount is amortized over a five year period.

Additionally the City has one type of this item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported on in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OTHER POST-EMPLOYMENT BENEFITS

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

LEASES

Leases Effective October 1, 2021, the City implemented GASB No. 87, Leases. As the lessee, the City determines whether a contract is, or contains a lease at inception. Lease agreements with a maximum lease term of twelve months or less, including options to extend, are accounted for as a short{erm lease. Lease agreements that transfer ownership of the underlying asset to the City at the end of the contract are recorded as a finance purchase with a related lease liability. Lease agreements not classified as a short-term lease, or a finance purchase are accounted for as an intangible right to use lease asset. An intangible right to use lease asset represents the City's right to use an underlying asset during the lease term and the lease liability represents the City's obligation to make lease payments arising from the lease. Intangible right to use lease assets and lease liabilities are recognized at lease commencement based upon the estimate present value of unpaid lease payments over the lease term. The City uses its incremental borrowing rate based on information available at lease commencement in determining the present value of unpaid lease payments. As the lessor, the City applies the same criteria but recognizes a lease receivable and a deferred inflow of resources equal to the present value of the lease payments.

SUBSCRIPTION-BASED INFOMRATION TECHNOLOGY ARRAGEMENTS

Effective October 1, 2022, the City implemented GASB No. 96, Subscription-Based Information Technology Arrangements (SBITA). The City determines whether a contract conveys control of the right to use another party's (SBITA vendor's) IT software, infrastructure, or data warehouse, alone or in combination with tangible capital assets (underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. The SBITA liability is the present value of the annual payments using the City's incremental borrowing rate. The liability is amortized providing the principal and interest components of the payments over the SBITA term. The SBITA asset is measured as the SBITA liability pl.us any capitalized expenditures/expenses incurred in the initial implementation stage. The SBITA asset is depreciated (amortized) using a straight-line depreciation method over the term of the SBITA arrangement.

The City did not have any SBITA's that were material or applicable to the implementation of the new standard during the year ended September 30, 2025. Therefore, GASB No. 96 did not affect the financial statement presentation and disclosure.

ACCOUNTING CHANGES AND ERROR CORRECTIONS

An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of the Statement are effective for accounting changes and error corrections made in fiscal years beginning after October 1, 2023, and all reporting periods thereafter.

COMPENSATED ABSENCES

In June 2022, the GASB issued Statement No. 101, Compensated Absences. This Statement requires that liabilities for compensated absences be recognized in financial statements prepared using the economic resources measurement focus for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for that leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This standard was implemented October 1, 2024.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

2. Any inventory or materials and supplies on hand at year end are considered insignificant, and therefore are not reflected in the financial statements.

3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in accordance with GASB No. 65 – *Items Previously Reported as Assets and Liabilities*.

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

5. Capital assets, which include land, buildings, furniture, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than; $5,000 for equipment and machinery; $25,000 for buildings (and building improvements) and infrastructure; and an estimated useful life in excess of two years. Land is always capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

   The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, furniture and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25-40
Water & Sewer Systems	15-40
Vehicles	5-20
Machinery & Equipment	3-20

6. The tax is collected by vendors from their consumers and submitted to the Comptroller of the State of Texas by the 20th of the month following collection. The State then remits the allocated amount of sales tax to the City by the 10th of the month following vendor submission. These amounts are included in the gross receipts tax revenue and are recorded as revenue when the City receives the funds. The current rate is 8.25%.

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

OTHER ACCOUNTING POLICIES (Cont.)

9. The City participates in federally-assisted programs. In connection with grants under these programs, the City is required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives. In the opinion of management, the City has complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, the City expects the resulting liability to be immaterial.

NOTE 2 – BUDGETARY DATA

The City Council has prepared an "appropriated budget" for the General Fund. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to October 1, the City Administrator prepares a budget for the succeeding fiscal year beginning October 1 which must be adopted before the preceding September 15. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Council, and are not made after fiscal year end.

4. The budget is controlled by the City Administrator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. The City Administrator is authorized to transfer budgeted amounts between object classes within functions/departments within any fund. However, all other revisions must be approved by the City Council. All budget appropriations lapse at year end.

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits - State statute requires that public funds in the City's depository institution be secured by eligible securities, as defined by V.T.C.A., Local Government Code Chapter 2257, in an amount not less than the amount on deposit plus any accrued interest less any amount provided for by insurance of the United States or an instrumentality thereof.

NOTE 3 - DEPOSITS AND INVESTMENTS (Cont.)

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law.** The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The City's depository agreement provides that as security for the deposits of the City their bank will pledge to the City securities at 102% of the largest balances the City maintains in the bank. Value of the securities comprising the pledge will be set at the lower of par value or market value. The securities pledged must satisfy the requirements of Article 2560 of the Texas Revised Civil Statutes Annotated. Furthermore, the pledged securities are subject to the approval of the City Council as to type and value. Substitutions of securities or changes in total amounts of securities may be made only by the City with proper written authorization. A copy of the safekeeping receipts for securities pledged will be issued to the City at the conclusion of each investment transaction.

At September 30, 2025, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) at financial institutions was $5,182,617. At all times during the fiscal year, the City's cash deposits were secured by pledged collateral and by FDIC insurance.

NOTE 4 - PROPERTY TAXES

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

<u>Delinquent Taxes Receivable</u> - Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The $43,617 difference between the Governmental Activities and the General Fund is a reconciling item between the two financial statements.

	Governmental Activities	**General Fund**
Property Taxes Receivable	$ 74,063	$ 74,063
Allowance for Uncollectible	(29,372)	(72,989)
Net Property taxes receivable	$ 44,691	$ 1,074

NOTE 5 – ACCOUNTS RECEIVABLE

Receivables of the City's business-type activities are reported net of uncollectible amounts. Total estimated uncollectible amounts related to revenues of the current period are as follows:

	Governmental Activities	**Business Activities**	**Total**
Receivables:			
Franchise Taxes	$ 54,413	$ -	$ 54,413
Ambulance	101,254	-	101,254
Other	197	18,589	18,786
Customer Accounts	-	678,135	678,135
Gross Receivables	155,864	696,724	852,588
Less: Allowance for Uncollectible	(54,415)	(278,986)	(333,401)
Net Total Receivables	$ 101,449	$ 417,738	$ 519,187

NOTE 6 – INTERFUND TRANSFERS

Net transfers of $1,200,000 from governmental activities to business-type activities on the government-wide statement of activities is the City's designated payment for operations.. The following interfund transfers are reflected in the fund level financial statements for the year ended September 30, 2025:

	Transfers Out	Transfers In
Governmental Funds		
General Fund	$ 1,200,000	$ -
Total Governmental Funds	1,200,000	-
Proprietary Funds		
Water and Sewer Funds	-	1,200,000
Total Proprietary Funds	-	1,200,000
Total Transfers	$ 1,200,000	$ 1,200,000

NOTE 7 - CAPITAL ASSET ACTIVITY

Capital asset activity for the City for the year ended September 30, 2025 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	$ -	$ 66,528	$ -	$ 66,528
Buildings	266,751	41,995	-	308,746
Construction in Progress	35,573	-	-	35,573
City Park	702,214	-	-	702,214
Infrastructure	1,457,921	-	-	1,457,921
Machinery & Equipment	864,461	59,595	-	924,056
Automotive	1,257,428	343,610	(34,117)	1,566,921
Totals at Historic Cost	4,584,348	511,728	(34,117)	5,061,959
Governmental Activities:				
Less Accumulated Depreciation for:				
Buildings	(180,815)	(15,813)	-	(196,628)
City Park	(392,885)	(47,076)	-	(439,961)
Infrastructure	(535,085)	(87,828)	-	(622,913)
Machinery & Equipment	(425,206)	(93,879)	-	(519,085)
Automotive	(966,931)	(47,073)	34,117	(979,887)
Total Accumulated Depreciation	(2,500,922)	(291,669)	-	(2,758,474)
Governmental Activities Capital Assets, Net	$ 2,083,426	$ 220,059	$ -	$ 2,303,485

The City reported depreciation expense by function on the Statement of Activities. The depreciation expense for governmental activities is allocated to functions as follows:

Administrative	$ 18,543
Streets	92,670
Fire	67,921
Police	61,116
Parks	48,970
Emergency	2,449
Total	$ 291,669

NOTE 7 - CAPITAL ASSET ACTIVITY (Cont.)

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type Activities:				
Land	$ 280,607	$ 1,200,000	$ -	$ 1,480,607
Construction in Progress	808,662	1,594,524	-	2,403,186
Buildings	103,531	-	-	103,531
Water System	8,089,052	42,619	-	8,131,671
Sewer System	2,163,881	-	-	2,163,881
Automotive	275,365	38,866	-	314,231
Totals at Historic Cost	11,721,098	2,876,009	-	14,597,107
Less Accumulated Depreciation:				
Buildings	(77,870)	(2,054)	-	(79,924)
Water System	(2,224,050)	(687,569)	-	(2,911,619)
Sewer System	(1,308,320)	(36,991)	-	(1,345,311)
Automotive	(113,119)	(34,381)	-	(147,500)
Total Accumulated Depreciation	(3,723,359)	(760,995)	-	(4,484,354)
Business-type Activities Capital Assets, Net	$ 7,997,739	$ 2,115,014	$ -	$ 10,112,753

NOTE 8 – WATER RIGHTS

On January 25, 2013, the City purchased water rights at a cost of $330,211. The depletion will begin when the City begins pumping water. The City had a study done to determine the ground water capacity. This study will be used to determine the amount to amortize once the City begins to pump water. As of September 30, 2025, the City had not pumped any water from this location.

On April 28, 2015, the City purchased water rights at a cost of $488,682. The City is currently pumping water from the wells associated with the water rights and based on a study done, the City should be able to use these wells through the year 2065. The City is amortizing the cost of the water rights over 50 years and amortized $9,774 during the year ended September 30, 2025.

Water rights activity for the City for the year ended September 30, 2025 was as follows

WATER RIGHTS	Beginning Balance	Additions	Retirements	Ending Balance
Purchase Water Rights	$ 818,893	$ -	$ -	$ 818,893
Totals at Historic Cost	818,893	-	-	818,893
Less Accumulated Amortization:				
Water Rights	(92,035)	(9,774)	-	(101,809)
Total Accumulated Depreciation	(92,035)	(9,774)	-	(101,809)
Component Unit Capital Assets, Net	$ 726,858	$ (9,774)	$ -	$ 717,084

NOTE 9 - LONG-TERM LIABILITIES

Long-term liabilities for the fiscal year ended September 30, 2025, are detailed below.

Long-Term Activity: Long-term activity for governmental and business-type activities for the year ended September 30, 2025 was as follows:

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

	Beginning Balance	Additions	Reductions	Ending Balance	Interest Paid	Due Within One Year
Governmental Activities:						
Notes Payable	$ 670,656	$ -	$ (42,630)	$ 628,026	$ 18,334	$ 94,085
Financing Leases	102,814	-	(18,539)	84,275	2,965	16,523
Total Governmental Activities	$ 773,470	$ -	$ (61,169)	$ 712,301	$ 21,299	$ 110,608
Business-type Activities:						
2012 G.O. Bonds	$ 1,895,000	$ -	$ (240,000)	$ 1,655,000	$ 72,820	$ 250,000
Series 2019A	820,000	-	(20,000)	800,000	31,897	20,000
Series 2019B	900,000	-	(40,000)	860,000	-	40,000
Notes Payable	250,147	-	(36,916)	213,231	12,670	38,787
Financing Leasing	125,675	-	(11,919)	113,756	7,528	12,633
Total Business-Type Activities	$ 3,990,822	$ -	$ (348,835)	$ 3,641,987	$ 124,915	$ 361,420

Governmental Activities:

Note payable

On January 29, 2016, the City borrowed $1,000,000 from Peoples Bank at an interest rate of 3.25% to be paid in annual installments through February 15, 2034. The proceeds of the loan were used for city streets. The unpaid balance at September 30, 2025 is $512,259.

On November 17, 2022, the City received a loan advance from Lubbock County, Texas to purchase a brush truck for county fire calls. The total loan was $215,767 with a zero percent interest rate to be paid back in annual installments of $50,000 with the last payment of $15,767. The unpaid balance at September 30, 2025 is $115,767.

Financing leases

The City is leasing police equipment and a tractor and loader and bale spear under operating leases. Total lease obligations of $89,300 were added during the year ended September 30, 2024. The leases carry interest rates ranging from 5.57% to 5.95%. At September 30, 2025, the total outstanding lease obligations were $84,275. The associated capital asset balances will be amortized over the lease obligations and will be fully amortized in 2027.

The future debt service requirements for the Governmental Activities are scheduled below.

	Governmental Activities		
Fiscal Year Ended	Principal	Interest	Total
2026	$ 110,608	$ 27,919	$ 138,527
2027	110,950	24,700	135,650
2028	75,526	21,446	96,972
2029	62,032	14,767	76,799
2030	76,327	12,332	88,659
2031-2035	276,858	28,112	304,970
Totals	$ 712,301	$ 129,276	$ 841,577

NOTE 9 - LONG-TERM LIABILITIES (Cont.)

Business-type Activities:

General Obligation Bonds

In 2012, the City issued General Obligation Bonds totaling $4,100,000. Proceeds from this issue are to be used for Water and Sewer improvements. This debt carries an interest rate of 1.70% -4.32% and matures in 2031. The bonds constitute direct obligations of the City, payable from a combination of (1) the levy and collection of a direct and continuing ad valorem tax on all taxable property within the City and (2) a pledge of surplus net revenues of the City's Waterworks and Sewer System.

Combination Tax and Surplus Net Revenue Certificates of Obligations

In January 2019, the City issued Series 2019A and Series 2019B combination tax and surplus net revenue certificates of obligation. The total amount of certificates of obligation issued totaled $2,000,000. The Series 2019A certificates mature in February 2049 and the debt carries an interest rate of 1.97% to 4.34%. The Series 2019B certificates mature in February 2049 and the debt carries an interest rate of 0%. The proceeds of these issues will be used to finance water system improvements.

Notes Payable

On April 28, 2015, the City borrowed $547,558 from Peoples Bank at an interest rate of 5.95% to be paid in annual installments through April 1, 2030. The proceeds of the loan were used to purchase water rights. The unpaid balance at September 30, 2025 is $213,231.

Financing Lease

The City is leasing a backhoe loader under an operating lease. Total lease obligation of $125,675 was added during the year ended September 30, 2024. The lease carries an interest rate of 5.99%. At September 30, 2025, the total outstanding lease obligations was $113,756. The associated capital asset balance will be amortized over the lease obligation and will be fully amortized in 2028.

Debt Service Requirements on Business-type Activities:

	Business-type Activities		
Fiscal Year Ended	**Principal**	**Interest**	**Total**
2026	$ 361,420	$ 112,559	$ 473,979
2027	374,143	99,324	473,467
2028	391,993	85,103	477,096
2029	463,531	69,887	533,418
2030	395,900	50,344	446,244
2031-2035	615,000	136,296	751,296
2036-2040	335,000	101,144	436,144
2041-2045	375,000	63,585	438,585
2046-2049	330,000	16,926	346,926
Totals	$ 3,641,987	$ 735,167	$ 4,377,154

NOTE 10 – DEFINED BENEFIT PENSION PLANS

Plan Description: The City participates as one of 942 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

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

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

The City has adopted plan provisions that provide for retirement eligibility at age 60 and above with 5 or more years of service, or with 20 years of service regardless of age. The plan provides supplemental death benefits for both employees and retirees, as well as disability benefits. Members are vested after 5 years and may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

Employees Covered by Benefit Terms:

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

Inactive employees or beneficiaries currently receiving benefits	11
Inactive employees entitled to but not yet receiving benefits	20
Active employees	17
Total	48

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.75% and 5.20% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were $54,178, and were equal to the required contributions.

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Cont.)

Net Pension Liability: The City's Net Pension Liability (NPL) was measured as of December 31, 2024, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions
The Total Pension Liability in the December 31, 2024, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85% per year, including inflation
Investment rate of return	6.75%

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	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) – (b)
Balance at 12/31/2023	$ 2,085,996	$ 2,087,130	$ (1,134)
Changes for the year:			
Service cost	108,172	-	108,172
Interest	141,659	-	141,659
Difference between expected and actual experience	(69,031)	-	(69,031)
Changes of assumptions	-	-	-
Contributions – employer	-	45,672	(45,672)
Contributions – employee	-	57,692	(57,692)
Net investment income	-	216,618	(216,618)
Benefit payments, including refunds of employee contributions	(82,850)	(82,850)	-
Administrative expense	-	(1,391)	1,391
Other changes	-	(33)	33
Net changes	97,950	235,708	(137,758)
Balance at 12/31/2024	$ 2,183,946	$ 2,322,838	$ (138,892)

Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 145,415	$ (138,892)	$ (378,097)

NOTE 10 – DEFINED BENEFIT PENSION PLANS (Cont.)

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2025, the City recognized pension expense of $28,389.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 19,027	$ 48,787
Changes in actuarial assumptions	-	4,610
Difference between projected and actual investment earnings	-	22,373
Contributions subsequent to the measurement date	43,856	-
Total	$ 62,883	$ 75,770

The City reported $43,856 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2026	$ (7,796)
2027	7,503
2028	(41,302)
2029	(15,148)
Total	$ (56,743)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description: The City also participates in the cost sharing multiple-employer OPEB plan operated by the Texas Municipal Retirement System (TMRS) known as 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 January 1 of the following year.

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. 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 the 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.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Employees Covered by Benefit Terms:

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

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	1
Active employees	17
Total	23

Contributions: Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.23% and 0.20% in calendar years 2024 and 2025, respectively. The City's contributions to TMRS for the year ended September 30, 2025 were $2,187, and were equal to the required contributions.

Net OPEB Liability: The City's OPEB Liability was measured as of December 31, 2024, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.60% to 11.85% per year, including inflation
Discount Rate	3.77%

Discount Rate

The discount rate used to measure the Total Pension Liability was 3.77%. 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 OPEB liability

	Total OPEB Liability
Balance at 12/31/2023	$ 29,717
Changes for the year:	
Service cost	1,731
Interest	1,140
Difference between expected and actual experience	347
Changes of assumptions	(1,688)
Benefit payments	(673)
Net changes	857
Balance at 12/31/2024	$ 30,574

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS (Cont.)

Sensitivity of the net pension OPEB to changes in the discount rate

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

	1% Decrease in Discount Rate (3.08%)	Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
City's net OPEB liability	$ 36,446	$ 30,574	$ 25,991

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2025, the City recognized OPEB expense of $640.

At September 30, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,460	$ 4,646
Changes in actuarial assumptions	4,046	9,502
Contributions subsequent to the measurement date	1,687	-
Total	$ 7,193	$ 14,148

The City reported $1,687 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2026	$ (1,812)
2027	(2,328)
2028	(2,863)
2029	(1,476)
2030	(32)
Thereafter	(131)
Total	$ (8,642)

NOTE 12 – COMPENSATED ABSENCES

The City has established policies allowing employees vacation time. Employees may earn vacation leave of up to 21 days per year, depending on years of service. No employee may accrue more than 50 days of vacation leave. Employees may be compensated for vacation pay should their work situation require their presence and cause them to exceed the maximum 50 days' accumulation allowed. An employee can, upon request, be compensated for 1 week of accumulated vacation time.

NOTE 12 – COMPENSATED ABSENCES (Cont.)

The City has established a policy which allows employees to accumulate sick leave on the basis of 6 hours for each month of service. Unused sick leave may be carried over from year to year to an accumulated total of 50 working days.

The net changes are shown below:

	Beginning Balance	Change	Ending Balance
Governmental Activities:			
Vacation	$ 51,287	$ 17,676	$ 68.963
Sick	37,117	29,667	66,784
Total Governmental Activities	$ 88,404	$ 47,343	$ 135,747
Business-type Activities:			
Vacation	$ 4,142	$ 3,111	$ 7,253
Sick	823	541	1,364
Total Business-type Activities	$ 4,965	$ 3,652	$ 8,617

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE

Change in Accounting Principle. The City is implementing the provisions of GASB Statement 101, Compensated Absences, in the financial statements of the current fiscal year. The City provides two forms of employee leave (vacation and sick) but has previously only accrued vacation leave. Sick leave is earned each month and carries over without limits at the end of the fiscal year. Because unused sick leave is not paid upon termination, however, the City did not accrue a liability in previous years. Under Statement 101, accumulated sick leave meets the first two criteria (attributable to past service and accumulates). The City therefore examined its past experience with accumulated sick leave and estimated the amount of accumulated leave that was more likely than not to be used by employees. This estimate is now to be reported as a liability in the government-wide and enterprise fund financial statements. The portion of this liability that existed at the beginning of the current year (or the earliest year presented in comparative statements) is recognized as a decrease in beginning net position resulting from adoption of a new accounting standard.

	Beginning Balance	Change in Accounting Principle	Restated Balance
Fund Balances: Governmental Funds			
Major Funds	$ 5,131,833	$ (23,859)	$ 5,107,974
Total Governmental Funds	$ 5,131,833	$ (23,859)	$ 5,107,974

NOTE 14 – SUBSEQUENT EVENTS

In preparing the financial statements, the City has evaluated events and transactions for potential disclosure through March 4, 2026, the date the financial statements are available to be issued. The City got a new TWDB Bond for $8,400,000 on November 12, 2025.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHALLOWATER, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	Budgeted amounts		Actual Amounts	Varaince with Final budget Positive or
	Original	Final	(GAAP Basis)	(Negative)
REVENUES:				
Taxes:				
Property taxes	$ 1,725,968	$ 1,725,968	$ 1,705,605	$ (20,363)
Sales taxes	415,000	415,000	446,286	31,286
Franchise tax	200,000	200,000	155,237	(44,763)
Intergovernmental revenue	-	-	185,095	185,095
Fines, fees and charges for services	699,600	699,600	30,416	(669,184)
Grants	223,809	223,809	13,918	(209,891)
Permits	-	-	26,380	26,380
Ambulance calls	-	-	332,556	332,556
Sanitation	-	-	397,472	397,472
Miscellaneous revenue	30,000	30,000	50,932	20,932
Contributions	-	-	1,631	1,631
Total revenues	3,294,377	3,294,377	3,345,528	51,151
EXPENDITURES:				
Current:				
Judicial	33,337	33,337	33,709	(372)
Legislative	32,500	32,500	-	32,500
Administrative	631,967	631,967	603,021	28,946
Sanitation Department	258,000	258,000	249,771	8,229
Street	573,414	573,414	252,540	320,874
Fire	245,552	245,552	191,445	54,107
Police Department	653,685	653,685	737,947	(84,262)
Health Department	2,605	2,605	4,858	(2,253)
Ambulance	483,611	483,611	450,377	33,234
Civil Defense	26,757	26,757	27,416	(659)
Parks	31,985	31,985	26,385	5,600
Debt Service				
Principal	60,964	60,964	61,169	(205)
Interest	-	-	24,314	(24,314)
Capital operating improvements	300,000	300,000	511,728	(211,728)
Total expenditures	3,334,377	3,334,377	3,174,680	159,697
Excess of revenues over Expenditures	(40,000)	(40,000)	170,848	210,848
OTHER FINANCIAL SOURCES (USES):				
Investment earnings	180,000	180,000	254,889	74,889
Sale of Assets	-	-	6,370	6,370
Transfers, net	(140,000)	(140,000)	(1,200,000)	(1,060,000)
Total other financial sources (uses)	40,000	40,000	(938,741)	(978,741)
Net change	-	-	(767,893)	(767,893)
Fund balance - September 30, 2024	5,131,833	5,131,833	5,131,833	-
Prior period adjustment	-	-	(23,859)	(23,859)
Fund balance - September 30, 2025	$ 5,131,833	$ 5,131,833	$ 4,340,081	$ (791,752)

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

CITY OF SHALLOWATER, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS [1]
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	2024[1]	2023[1]	2022[1]
Total Pension Liability			
Service cost	$ 108,172	$ 96,693	$ 89,519
Interest (on the total pension liability)	141,659	130,086	118,827
Difference between expected and actual experience	(69,031)	27,278	52,048
Change of assumptions	-	(9,850)	-
Benefit payments, including refunds of employee contributions	(82,850)	(74,136)	(120,220)
Net Change in Total Pension Liability	97,950	170,071	140,174
Total Pension Liability - Beginning	2,085,996	1,915,925	1,775,751
Total Pension Liability - Ending (a)	$ 2,183,946	$ 2,085,996	$ 1,915,925
Plan Fiduciary Net Position			
Contributions - employer	$ 45,672	$ 38,523	$ 39,237
Contributions - employee	57,692	53,128	49,458
Net investment income	216,618	214,595	(148,686)
Benefit payments, including refunds of employee contributions	(82,850)	(74,136)	(120,220)
Administrative expense	(1,391)	(1,367)	(1,286)
Other	(33)	(10)	1,535
Net Change in Plan Fiduciary Net Position	235,708	230,733	(179,962)
Plan Fiduciary Net Position - Beginning	2,087,130	1,856,397	2,036,359
Plan Fiduciary Net Position - Ending (b)	$ 2,322,838	$ 2,087,130	$ 1,856,397
Net Pension Liability - Ending (a) - (b)	$ (138,892)	$ (1,134)	$ 59,528
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	106.36%	100.05%	96.89%
Covered Employee Payroll	$ 961,526	$ 885,463	$ 824,301
Net Pension Liability as a Percentage of Covered Employee Payroll	-14.44%	-0.13%	7.22%

[1] Amounts are based on the Texas Municipal Retirement System Plan year end December 31.

See independent auditor's report and accompanying notes to required supplementary information.

2021[1]	2020[1]	2019[1]	2018[1]	2017[1]	2016[1]	2015[1]
$ 75,620	$ 73,835	$ 64,348	$ 63,072	$ 48,886	$ 49,088	$ 45,546
118,119	105,847	100,044	93,603	85,059	79,231	75,480
(93,086)	56,828	(57,352)	(23,965)	(89,971)	(820)	(22,335)
-	-	10,695	(40,037)	(33,040)	(49,076)	(23,178)
(74,008)	(37,181)	(35,831)	-	-	-	31,175
26,645	199,329	81,904	204,732	10,934	78,423	106,688
1,749,106	1,549,777	1,467,873	1,263,141	1,252,207	1,173,784	1,067,096
$ 1,775,751	$ 1,749,106	$ 1,549,777	$ 1,467,873	$ 1,263,141	$ 1,252,207	$ 1,173,784
$ 32,267	$ 30,974	$ 27,395	$ 20,623	$ 19,578	$ 16,043	$ 16,851
42,364	40,755	36,527	30,063	28,389	28,244	27,637
234,962	124,732	216,387	(42,911)	172,668	79,221	1,698
(74,008)	(37,181)	(35,831)	(40,037)	(33,040)	(49,076)	(23,178)
(1,087)	(807)	(1,223)	(830)	(895)	(895)	(1,035)
7	(31)	(36)	(44)	(45)	(49)	(50)
234,505	158,442	243,219	(33,136)	186,655	73,488	21,923
1,801,853	1,643,412	1,400,193	1,433,329	1,246,674	1,173,186	1,151,263
$ 2,036,358	$ 1,801,854	$ 1,643,412	$ 1,400,193	$ 1,433,329	$ 1,246,674	$ 1,173,186
$ (260,607)	$ (52,748)	$ (93,635)	$ 67,680	$ (170,188)	$ 5,533	$ 598
114.68%	103.02%	106.04%	95.39%	113.47%	99.56%	99.95%
$ 706,066	$ 679,253	$ 608,781	$ 601,257	$ 567,784	$ 564,882	$ 552,740
-36.91%	-7.77%	-15.38%	11.26%	-29.97%	0.98%	0.11%

See independent auditor's report and accompanying notes to required supplementary information.

CITY OF SHALLOWATER, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	2025	2024	2023
Actuarially determined contribution	$ 54,178	$ 46,919	$ 38,559
Contributions in relation to actuarially determined contribution	(54,178)	(46,919)	(38,559)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 1,060,690	$ 1,013,877	$ 860,151
Contributions as a percentage of covered employee payroll	5.11%	4.63%	4.48%

See independent auditor's report and accompanying notes to required supplementary information.

2022	2021	2020	2019	2018	2017	2016
$ 36,565	$ 33,052	$ 29,161	$ 15,914	$ 20,343	$ 18,903	$ 16,562
(36,565)	(33,052)	(29,161)	(24,844)	(20,343)	(18,903)	(16,562)
$ -	$ -	$ -	$ (8,930)	$ -	$ -	$ -
$ 776,002	$ 723,714	$ 641,815	$ 590,380	$ 590,380	$ 592,862	$ 531,275
4.71%	4.57%	4.54%	4.21%	3.45%	3.19%	3.12%

See independent auditor's report and accompanying notes to required supplementary information.

CITY OF SHALLOWATER, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
NOTES TO SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	N/A
Asset valuation method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary increases	3.6% to 11.85% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table based on rates vary by age. Last updated for the 2023 valuation pursuant to an experience study of the period ending 2022.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. Males 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) mortability tables, with the 110% 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:	There were no benefit changes during the year.

CITY OF SHALLOWATER, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY [1]
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	2024[2]	2023[2]	2022[2]
Total Pension Liability			
Service cost	$ 1,731	$ 1,417	$ 2,803
Interest (on the total OPEB liability)	1,140	1,097	702
Difference between expected and actual experience	347	(447)	1,550
Change of assumputions	(1,688)	1,630	(14,650)
Benefit payments, including refunds of employee contributions	(673)	(708)	(824)
Net Change in Total Pension Liability	857	2,989	(10,419)
Total Pension Liability - Beginning	29,717	26,728	37,147
Total Pension Liability - Ending (a)	$ 30,574	$ 29,717	$ 26,728
Covered Employee Payroll	$ 961,526	$ 885,463	$ 824,301
Net Pension Liability as a Percentage of Covered Employee Payroll	3.18%	3.36%	3.24%

[1] This schedule is intended to show 10 years of information. Additional information will be presented as it becomes available.

[2] Amounts are based on the Texas Municipal Retirement System Plan year end December 31.

	2021(2)	2020(2)	2019(2)	2018(2)	2017(2)
	$ 2,471	$ 2,377	$ 1,461	$ 2,044	$ 1,703
	832	1,026	986	982	936
	(7,386)	(3,888)	1,600	(3,888)	-
	1,189	5,133	6,420	(1,797)	2,184
	(635)	(204)	(183)	(60)	(114)
	(3,529)	4,444	10,284	(2,719)	4,709
	40,676	36,232	25,948	28,667	23,958
	$ 37,147	$ 40,676	$ 36,232	$ 25,948	$ 28,667
	$ 706,066	$ 679,253	$ 608,781	$ 601,257	$ 567,784
	5.26%	5.99%	5.95%	4.32%	5.05%

CITY OF SHALLOWATER, TEXAS
TEXAS MUNICIPAL RETIREMENT SYSTEM
NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

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

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.5%
Salary increases	3.6% to 11.85% including inflation
Discount rate*	4.08%
Retiree's share of benefit-related costs	$0
Mortality - service retirees	2019 Municipal Retirees of Texas Mortality Tables. Males rates are multiplied by 103% and females rates are multiplied by 105%. The rates are projected on fully generational basis by the most recent Scale MP-2021 (with immidiate coverage).
Mortality - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immidiate convergence) to account for future mortality improvements subject to the floor.
Other information:	There were no benefit changes during the year. There were no changes in assumptions or plan privisions.

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

INTERNAL CONTROL AND COMPLIANCE

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

Honorable Mayor and City Council
City of Shallowater, Texas
Shallowater, TX

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 Shallowater, Texas (the City), as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 4, 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 have not been identified.

Report on 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 did not disclose any instances of noncompliance that would be 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.

EMMS CPAs and Advisors, PLLC

Levelland, TX
March 4, 2026

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Shallowater, Texas (the City) for the year ended September 30, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 24, 2025 our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

A CPA not in engagement reviewed the financial statements prepared by the audit team leader. Any adjustments proposed were approved by management.

Significant Risks Identified

We have identified the following significant risks:

1. Management override of controls – the risk that management will circumvent controls and procedures to complete a transaction.
2. Improper revenue recognition – the risk that revenue is not properly included in current year or has been excluded.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the fiscal year end 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. GASB 101 is a new pronouncement related to accounting compensated absences.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the City's financial statements were depreciation and allowance for uncollectible accounts.

> Management's estimate of the depreciation expense is based on allocating the cost of the assets reported on the depreciation schedule in a straight-line method over the estimated useful lives of the assets.
>
> Management's estimate of the allowance for uncollectible accounts is based on historical data of bad debt write-offs and the current evaluation of the receivables as of the fiscal year end.

We evaluated the key factors and assumptions used to develop the depreciation expense and allowance for uncollectible accounts in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to: debt disclosures, fixed assets disclosures, and property tax revenue disclosures.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We did not identify any significant unusual transactions.

Identified or Suspected Fraud

We have not identified or have not obtained information that indicates that the following fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit.The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report. Management Discussion and Analysis was not included.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated March 4, 2026.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

Restriction of Use

This information is intended solely for the use of the City's City Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

EUMS CPAs and Advisors, PLLC

Levelland, Texas
March 4, 2026