

CITY OF DRIPPING SPRINGS, TEXAS



DRIPPING SPRINGS
Texas

**FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

For the Fiscal Year Ended
September 30, 2022

CITY OF DRIPPING SPRINGS, TEXAS

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FINANCIAL SECTION



DRIPPING SPRINGS
Texas

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of City Council
City of Dripping Springs, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dripping Springs, Texas City of Dripping Springs, Texas (the City), as of and for the year ended September 30, 2022, 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, 2022, 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City'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.

To the Honorable Mayor and
Members of City Council
City of Dripping Springs, Texas

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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 management’s discussion and analysis, budgetary comparison schedule, pension system, and other post-employment benefit supplementary information, 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.

To the Honorable Mayor and
Members of City Council
City of Dripping Springs, Texas

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, professional style.

Austin, Texas
March 29, 2023



DRIPPING SPRINGS
Texas

CITY OF DRIPPING SPRINGS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Dripping Springs, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2022. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$58,313,052 (net position). The unrestricted net position, which represents the amounts available to meet the City's ongoing obligations to citizens and creditors, was a \$24,810,783.
- The City's total net position increased \$24,069,853, including an increase to beginning net position in the amount of \$2,538,335. The increase is primarily due to increase in charges for services and capital contributions during the current period.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$12,279,573, an increase of \$3,737,768 in comparison with the prior year. Of this amount, \$7,721,876, or 63%, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$7,721,876, or approximately 103% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis serves as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide financial statements

The government-wide financial statements are comprised of the Statement of Net Position and the Statement of Activities. These two statements are designed to provide readers with a broad overview of the City's finances utilizing the full accrual method of accounting, in a manner similar to private-sector business. Under the full accrual method of accounting, transactions are reported as soon as the underlying event giving rise to the change occurs. Therefore, assets, liabilities, revenues and expenses are reported in these statements for some items that will result in cash flows in future periods.

The Statement of Net Position presents information on all of the City's assets and liabilities, including capital assets, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, development, public safety, public works, and culture and recreation. The business-type activities of the City include water and wastewater.

The Tax Increment Reinvestment Zone Number One and Tax Increment Reinvestment Zone Number Two are included as blended component units.

CITY OF DRIPPING SPRINGS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Reporting on the City's Most Significant Funds

Fund Financial Statements

The fund financial statements focus on current available resources and are organized and operated on the basis of funds, which are defined as a fiscal and accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities. The City has two governmental funds.

Governmental Funds – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation schedules found within the governmental fund statements.

The City adopts an annual appropriated budget for the governmental fund. Budgetary comparison statements for the General Fund are included in the Required Supplementary Information of this report.

Proprietary Funds – The City uses proprietary (business-type) funds to account for its water and wastewater operations. The full-accrual basis of accounting is used for all proprietary type funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide other postemployment benefits, pension information and general fund budgetary comparisons. Required supplementary information can be found in the City's Annual Financial Report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and supporting schedules can be found in the City's Annual Financial Report.

CITY OF DRIPPING SPRINGS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-Wide Financial Analysis

Statement of Net Position - Net position serves as one useful indicator of a government's financial position. The City's net position increased from \$34,243,199 to \$58,313,052. The \$32,644,258 portion of the City's net position consists of net investment in capital assets; land, buildings, infrastructure, and equipment, less any outstanding debts used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

City of Dripping Springs, Texas
 Summary of Statement of Net Position
 As of September 30, 2022 and 2021

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 14,425,111	\$ 8,956,593	\$ 55,759,024	\$ 32,664,744	\$ 70,184,135	\$ 41,621,337
Capital assets, net	16,918,176	13,705,155	19,080,522	7,955,257	35,998,698	21,660,412
Total Assets	31,343,287	22,661,748	74,839,546	40,620,001	106,182,833	63,281,749
Deferred Outflows	127,618	(5,277)	10,680	-	138,298	(5,277)
Other liabilities	2,133,260	1,387,248	833,243	642,796	2,966,503	2,030,044
Long-term Liabilities	689,124	775,146	44,243,488	25,910,000	44,932,612	26,685,146
Total Liabilities	2,822,384	2,162,394	45,076,731	26,552,796	47,899,115	28,715,190
Deferred Inflows	100,548	318,083	8,416	-	108,964	318,083
Net Position						
Net investment in capital assets	16,448,176	13,165,155	16,196,082	3,500,714	32,644,258	16,665,869
Restricted	858,011	100,190	-	1,691,841	858,011	1,792,031
Unrestricted	11,241,786	6,910,649	13,568,997	8,874,650	24,810,783	15,785,299
Total Net Position	\$ 28,547,973	\$ 20,175,994	\$ 29,765,079	\$ 14,067,205	\$ 58,313,052	\$ 34,243,199

The largest portion of the City's net position (56%) is reflected in its capital assets. Since the City uses these capital assets to provide services to its citizens, they are not available for future spending. Net positions subject to external restriction on how they may be used comprise 2 percent of the City's net position. Unrestricted net position comprises 42% of net position. Unrestricted net position may be used to meet the City's ongoing obligations to its citizens and creditors.

CITY OF DRIPPING SPRINGS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Statement of Activities - The City's overall net position increased \$24,069,853 from the prior fiscal year. The increase includes a restatement (increase) to beginning net position in the amount of \$2,538,335. The reasons for this overall increase are discussed below.

City of Dripping Springs, Texas
Changes in Net Position
Years Ended September 30, 2022 and 2021

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues:						
Charges for Services	\$ 5,479,593	\$ 722,620	\$ 4,754,635	\$ 2,327,954	\$ 10,234,228	\$ 3,050,574
Operating grants and contributions	279,513	-			279,513	-
Capital grants and contributions	3,671,853	-	11,976,506		15,648,359	-
General revenues:						
Property taxes	2,491,548	2,192,485	-	-	2,491,548	2,192,485
Other taxes	4,441,473	3,819,236	1,232,424	352,293	5,673,897	4,171,529
Development fees	-	3,375,669	-	-	-	3,375,669
Interest Income	134,830	80,587	261,275	130,222	396,105	210,809
Grant income	-	814,240	-	-	-	814,240
Miscellaneous	153,783	310,434	(65,293)	116,104	88,490	426,538
Total Revenues	16,652,593	11,315,271	18,159,547	2,926,573	34,812,140	14,241,844
Expenses						
General government	3,314,422	7,051,414	-	-	3,314,422	7,051,414
Development services	2,115,651	-	-	-	2,115,651	-
Public safety	119,796	-	-	-	119,796	-
Public works	1,536,519	-	-	-	1,536,519	-
Parks and community	1,986,992	862,680	-	-	1,986,992	862,680
Interest on debt	23,973	25,108	-	137,735	23,973	162,843
Water and wastewater	-	-	4,183,269	1,739,938	4,183,269	1,739,938
Total Expenses	9,097,353	7,939,202	4,183,269	1,877,673	13,280,622	9,816,875
Increase in Net Position						
Before Transfers	7,555,240	3,376,069	13,976,278	1,048,900	21,531,518	4,424,969
Transfers	(155,721)	(740,260)	155,721	740,260	-	-
Change in Net Position	7,399,519	2,635,809	14,131,999	1,789,160	21,531,518	4,424,969
Net position, Beginning	20,175,994	17,540,185	14,067,205	12,278,045	34,243,199	29,818,230
Prior period adjustment	972,460	-	1,565,875	-	2,538,335	-
Net Position, Ending	\$ 28,547,973	\$ 20,175,994	\$ 29,765,079	\$ 14,067,205	\$ 58,313,052	\$ 34,243,199

Net position in governmental activities increased \$20.2 million over prior year mainly due to a significant increase in revenues offset by an increase in expenses. Total governmental revenues increased approximately \$5.8 million from the previous year. This increase was caused primarily by developer contributions of \$3.7 million in the current year and an increase in sales tax and charges for services. Total governmental expenses increased approximately \$1.2 million over the previous year. The increases were due mainly to increased general government expenses.

CITY OF DRIPPING SPRINGS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Net position in business-type activities increased \$14.1 million over prior year mainly due to a significant increase in revenues offset by an increase in expenses. Total business-type revenues increased approximately \$15.2 million from previous year. The increase in revenues is due to a \$12 million dollar contribution from developers along with an increase in charges for services. Business-type activities' expenses increased approximately \$2.3 million over prior year. The increase is due to increase in operating expenses.

Financial Analysis of the City's Funds

Governmental Funds - The City has nine governmental funds - the general fund, the debt service fund, and seven special revenue funds. For the year ended September 30, 2022, the governmental fund balances increased by \$3.7 million to \$12.3 million. The restricted portion of the fund balance totaled \$2.7 million; \$1.8 million in fund balance is committed; and \$7.7 million in fund balance is unassigned. The General Fund accounts for all the unassigned portion of fund balance at year-end.

Proprietary Fund - The proprietary fund is used to account for operating activity of the water and wastewater system. The proprietary fund net position increased \$14.1 million to \$29.8 million total. The increase is due to increase in charges for services and over \$11 million in developer contributions.

Capital Assets and Debt Administration

Capital Assets - At September 30, 2022, the government-wide financials fund had \$35,998,698, net of depreciation, invested in capital assets. Capital assets increased \$14.3 million in the current year. The increase is due to developer contributions offset by depreciation during the year. Capital Assets, net of depreciation, are as follows:

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 5,930,814	\$ 5,930,814	\$ -	\$ -	\$ 5,930,814	\$ 5,930,814
Buildings	615,545	323,727	-	-	615,545	323,727
Improvements	6,314,663	7,096,854	-	-	6,314,663	7,096,854
Machinery and equipment	370,904	219,715	135,077	-	505,981	219,715
Infrastructure	3,686,250	134,045	18,945,445	7,955,257	22,631,695	8,089,302
Totals	\$ 16,918,176	\$ 13,705,155	\$ 19,080,522	\$ 7,955,257	\$ 35,998,698	\$ 21,660,412

Debt – Bonded debt increased \$18.3 million during the year. The increase is due to an issuance in the current year in the amount of \$18,895,000. The increase is offset by the principal payments made during the year on the other bonds. Bonded debt for the City is as follow:

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
General Obligation Bonds	\$ -	\$ -	\$ 2,620,000	\$ 3,285,000	\$ 2,620,000	\$ 3,285,000
Certificates of Obligation	470,000	540,000	41,620,000	22,625,000	42,090,000	23,165,000
Totals	\$ 470,000	\$ 540,000	\$ 44,240,000	\$ 25,910,000	\$ 44,710,000	\$ 26,450,000

General Fund Budgetary Highlights

The largest single revenue source is Sales Tax Revenue collected and were estimated at \$4.2 million for 2022. Licenses and permits were budgeted at \$4.2 million while property taxes were budgeted at \$2.1 million. Overall, the City's actual revenues were approximately \$470,000 under budget. General Fund expenditures were budgeted at \$7,566,264 for fiscal year 2022. For the year ended September 30, 2022, the City's actual expenditures were approximately \$69,000 below the legally adopted appropriations.

CITY OF DRIPPING SPRINGS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budget And Rates

For Fiscal Year 2022-2023, the City's total appraised property value rose \$428,670,328 from \$1,077,373,009 to \$1,506,043,377. As a result, the City was able to lower its tax rate from \$.1900 to \$.1778 per \$100 valuation. Additionally, it is anticipated that commercial and residential growth will continue, further improving the City's ability to provide unique living experience for Dripping Springs's residents. For this fiscal year, the City anticipates completing its Comprehensive Plan - Reimagine Dripping Springs, which when completed will establish priorities for the area's future land use and major development projects.

Similar to Fiscal Year 2021-2022, the City's provision of utilities has continued to expand. In Fiscal Year 2022-2023, the City began providing retail water services, in addition to wastewater services. While the City anticipated providing retail water service to over 6,500 LUE's (living unit equivalents) only 20 are anticipated to be online by the end of the fiscal year.

Additionally, the City anticipated resolving all issues related to its approved TCEQ Wastewater Discharge permit, allowing the City to begin construction to expand its existing wastewater system. This construction has already been fully funded through the Texas Water Development Board.

Contacting the City's Financial Management

This financial report is intended to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's resources and to show the City's accountability for the money it receives and disburses.

If you have questions about the report or need additional financial information, contact the City Administrator at the City of Dripping Springs.

BASIC FINANCIAL STATEMENTS



DRIPPING SPRINGS
Texas

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF NET POSITION

September 30, 2022

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 13,660,144	\$ 13,235,318	\$ 26,895,462
Restricted assets - cash and cash equivalents	-	41,355,560	41,355,560
Receivables (net of allowance for uncollectibles)	764,967	1,168,146	1,933,113
Capital assets not subject to depreciation	5,930,814	-	5,930,814
Capital assets, net of accumulated depreciation	10,987,362	19,080,522	30,067,884
Total Assets	31,343,287	74,839,546	106,182,833
Deferred Outflows of Resources			
Pension related	117,006	9,792	126,798
OPEB related	10,612	888	11,500
Total Deferred Outflows of Resources	127,618	10,680	138,298
Liabilities			
Current Liabilities:			
Accounts payable	890,668	281,267	1,171,935
Accrued liabilities	573,209	-	573,209
Accrued interest payable	1,563	139,305	140,868
Deposits payable	161,952	412,671	574,623
Unearned revenue	505,868	-	505,868
Non-current liabilities:			
Due within one year	247,451	2,455,000	2,702,451
Due in more than one year	441,673	41,788,488	42,230,161
Total Liabilities	2,822,384	45,076,731	47,899,115
Deferred Inflows of Resources			
Pension related	93,660	7,839	101,499
OPEB related	6,888	577	7,465
Total Deferred Inflows of Resources	100,548	8,416	108,964
Net Position			
Net Investment in capital assets	16,448,176	16,196,082	32,644,258
Restricted for:			
Debt service	-	-	-
Development	589,328	-	589,328
Culture and recreation	268,683	-	268,683
Unrestricted	11,241,786	13,568,997	24,810,783
Total Net Position	\$ 28,547,973	\$ 29,765,079	\$ 58,313,052

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 3,314,422	\$ 613,012	\$ 279,513	\$ -	\$ (2,421,897)	\$ -	\$ (2,421,897)
Development	2,115,651	4,326,717	-	-	2,211,066	-	2,211,066
Public safety	119,796	-	-	-	(119,796)	-	(119,796)
Public works	1,536,519	-	-	3,671,853	2,135,334	-	2,135,334
Culture and recreation	1,986,992	539,864	-	-	(1,447,128)	-	(1,447,128)
Interest on long-term debt	23,973	-	-	-	(23,973)	-	(23,973)
Total Governmental Activities	9,097,353	5,479,593	279,513	3,671,853	333,606	-	333,606
Business-type Activities:							
Water and wastewater	4,183,269	4,754,635	-	11,976,506	-	12,547,872	12,547,872
Total Business-type Activities:	4,183,269	4,754,635	-	11,976,506	-	12,547,872	12,547,872
Total Primary Government	\$ 13,280,622	\$ 10,234,228	\$ 279,513	\$ 15,648,359	333,606	12,547,872	12,881,478
General Revenues and Transfers:							
Taxes:							
Property taxes					2,491,548	-	2,491,548
Sales and use taxes					4,273,465	906,155	5,179,620
Other taxes					168,008	326,269	494,277
Miscellaneous					153,783	(65,293)	88,490
Transfers					(155,721)	155,721	-
Total General Revenues and Transfers					7,065,913	1,584,127	8,650,040
Change in Net Position							
					7,399,519	14,131,999	21,531,518
Net Position, beginning					20,175,994	14,067,205	34,243,199
Prior period adjustment					972,460	1,565,875	2,538,335
Net Position, beginning - restated					21,148,454	15,633,080	36,781,534
Net Position, Ending					\$ 28,547,973	\$ 29,765,079	\$ 58,313,052

CITY OF DRIPPING SPRINGS, TEXAS
BALANCE SHEET GOVERNMENTAL FUNDS
September 30, 2022

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Current Assets:			
Cash and cash equivalents	\$ 8,884,126	\$ 4,776,018	\$ 13,660,144
Property Taxes Receivable	13,841	-	13,841
Sales Tax Receivable	270,154	-	270,154
Other Receivables	480,972	-	480,972
Total Assets	<u>\$ 9,649,093</u>	<u>\$ 4,776,018</u>	<u>\$ 14,425,111</u>
Liabilities:			
Accounts payable	\$ 672,647	\$ 218,021	\$ 890,668
Unearned revenues	505,868	-	505,868
Developer deposits	161,652	-	161,652
Total Liabilities	<u>1,913,376</u>	<u>218,321</u>	<u>2,131,697</u>
Fund Balances:			
Restricted for:			
Development	-	2,340,986	2,340,986
Culture and recreation	-	268,683	268,683
Committed:			
Reserve and debt service	-	1,948,028	1,948,028
Unassigned:	7,721,876	-	7,721,876
Total Fund Balances	<u>7,721,876</u>	<u>4,557,697</u>	<u>12,279,573</u>
Total Liabilities and Fund Balances	<u>\$ 9,649,093</u>	<u>\$ 4,776,018</u>	<u>\$ 14,425,111</u>

CITY OF DRIPPING SPRINGS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2022

Total Fund Balance - Governmental Funds	\$	12,279,573
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		16,918,176
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Certain other long-term assets (property taxes) are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position.		13,841
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Some liabilities and deferred outflows and inflows are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the statement of net position.

Bonds payable		(470,000)
Interest payable		(1,563)
Compensated absences		(177,451)
Deferred inflows/outflows related to pensions		23,346
Deferred inflows/outflows related to OPEB		3,724
Net pension liability		(2,228)
Total OPEB liability		(39,445)

Net Position of governmental activities	\$	<u><u>28,547,973</u></u>
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CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes:			
Ad Valorem Taxes	\$ 1,845,325	\$ 632,382	\$ 2,477,707
Sales and use taxes	3,342,204	931,261	4,273,465
Franchise taxes	45,563	31,377	76,940
Mixed drink tax	91,068	-	91,068
Licenses and permits	4,332,356	-	4,332,356
Intergovernmental revenues	279,513	1,000	280,513
Charges for services	692,491	313,184	1,005,675
Interest Income	97,912	36,906	134,818
Donations	8,206	3,445	11,651
Miscellaneous	66,437	216,269	282,706
Total Revenues	<u>10,801,075</u>	<u>2,165,824</u>	<u>12,966,899</u>
Expenditures			
Current:			
General government	2,520,813	554,014	3,074,827
Public safety	131,803	-	131,803
Public works	1,750,065	-	1,750,065
Development	2,192,078	-	2,192,078
Culture and recreation	902,501	929,726	1,832,227
Debt Service:			
Principal	-	70,000	70,000
Interest and fiscal charges	-	22,410	22,410
Total Expenditures	<u>7,497,260</u>	<u>1,576,150</u>	<u>9,073,410</u>
Excess of Revenues Over Expenditures	3,303,815	589,674	3,893,489
Other Financing Sources (Uses)			
Transfers in	132,833	1,103,019	1,235,852
Transfers out	(887,260)	(504,313)	(1,391,573)
Total Other Financing Sources (Uses)	<u>(754,427)</u>	<u>598,706</u>	<u>(155,721)</u>
Net Change in Fund Balance	2,549,388	1,188,380	3,737,768
Fund Balances, Beginning	5,431,312	2,138,033	7,569,345
Prior period adjustment	(258,824)	1,231,284	972,460
Fund Balances, Ending	<u>\$ 7,721,876</u>	<u>\$ 4,557,697</u>	<u>\$ 12,279,573</u>

CITY OF DRIPPING SPRINGS, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES , EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Net Changes in Fund Balance -- Governmental Fund	\$ 3,737,768
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Amount is net of impact of prior year restatement of beginning net position.	182,503
Developers contributions are not reported in governmental funds.	3,671,853
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over the estimated useful lives and is reported as depreciation expense. This is the amount of depreciation expense for the current year. Amount is net of impact of prior year restatement of beginning net position.	(641,335)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	13,841
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Activities.	70,000
Total OPEB expense is not recognized in governmental funds	305,280
Total Pension Expense is not recognized in governmental funds	140,751
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Increase in compensated absences	(79,579)
Increase in accrued interest	<u>(1,563)</u>
Changes in Net Position of Governmental Activities	<u>\$ 7,399,519</u>

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2022

	<u>Water and Wastewater</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 13,235,318
Restricted cash, cash equivalents	41,355,560
Accounts receivable, net of allowance for doubtful accounts	<u>1,168,146</u>
Total Current Assets	<u>55,759,024</u>
Noncurrent Assets:	
Capital assets:	
Infrastructure	25,368,133
Equipment	168,846
Less accumulated depreciation	<u>(6,456,457)</u>
Total Noncurrent Assets	<u>19,080,522</u>
Total Assets	<u>74,839,546</u>
Deferred Outflows of Resources	
Pension related	9,792
OPEB related	<u>888</u>
Total Deferred Outflows of Resources	<u>10,680</u>
Liabilities	
Current liabilities:	
Accounts payable	281,267
Accrued interest payable	139,305
Customer deposits	412,671
Bonds payable - current	655,000
Certificates of obligation - current	<u>1,800,000</u>
Total Current Liabilities	<u>3,288,243</u>
Noncurrent Liabilities:	
Bonds payable	1,965,000
Certificates of obligation	39,820,000
Net pension liability	187
Total OPEB liability	<u>3,301</u>
Total Noncurrent Liabilities	<u>41,788,488</u>
Total Liabilities	<u>45,076,731</u>
Increase (decrease) in total OPEB liability	
Deferred inflows related to pensions	7,839
Deferred inflows related to OPEB	<u>577</u>
Total Deferred Inflows of Resources	<u>8,416</u>
Net Position	
Net investment in capital assets	16,196,082
Unrestricted	<u>13,568,997</u>
Total Net Position	<u>\$ 29,765,079</u>

CITY OF DRIPPING SPRINGS, TEXAS**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUNDS***For the Year Ended September 30, 2022*

	Water and Wastewater
Operating Revenues	
Charges for services	\$ 4,754,440
Sales taxes	906,155
Miscellaneous	266,541
Total Operating Revenues	<u>5,927,136</u>
Operating Expenses	
Personnel	255,817
Supplies and materials	73,991
Contractual services	747,896
Other services	827,620
Repairs and maintenance	505,054
Depreciation	1,020,087
Total Operating Expenses	<u>3,430,465</u>
Operating Income	<u>2,496,671</u>
Non-Operating Revenues (Expenses)	
Interest expense	(758,174)
Interest Income	261,275
Total Non-Operating Expenses	<u>(496,899)</u>
Income Before Contributions and Transfers	<u>1,999,772</u>
Contributions and Transfers	
Capital contributions	11,976,506
Transfers in	155,721
Total Contributions and Transfers	<u>12,132,227</u>
Change in Net Position	14,131,999
Net Position, Beginning	14,067,205
Prior period adjustment	<u>1,565,875</u>
Net Position, Ending	<u>\$ 29,765,079</u>

CITY OF DRIPPING SPRINGS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2022

	<u>Water and Wastewater</u>
Cash Flows from Operating Activities	
Receipts from customers	4,348,404
Other receipts	1,172,696
Payments to suppliers and service providers	(2,140,550)
Payment to employees for salaries and benefits	(255,817)
Net Cash Provided by Operating Activities	<u>3,124,733</u>
Cash Flows From Noncapital Financing Activities	
Transfers from other funds	155,721
Net Cash Provided by Noncapital Financing Activities	<u>155,721</u>
Cash Flows From Capital and Related Financing Activities	
Principal paid on capital debt	(1,565,000)
Proceeds from issuance of debt	19,895,000
Acquisition and construction of capital assets	(168,846)
Interest paid on capital debt	(618,869)
Net Cash from Capital and Related Financing Activities	<u>17,542,285</u>
Cash Flows from Investing Activities	
Interest Income	261,275
Net Cash Provided by Investing Activities	<u>261,275</u>
Net Change in Cash and Cash Equivalents	21,084,014
Cash and cash equivalents, beginning (including \$21,455,457 reported as restricted cash, as reported in prior year audit)	31,940,989
Additional cash recorded as part of the prior period adjustment for cash not previously recorded	1,565,875
Cash and Cash Equivalents, Ending (including \$41,355,560 reported as restricted cash)	<u>\$ 54,590,878</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,496,671
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,020,087
Increase in accounts receivable	(444,391)
Increase in pension related deferred outflows of resources	(9,792)
Increase in OPEB related deferred outflows of resources	(888)
Increase in accounts payable	12,787
Increase in deposits payable	38,355
Increase in net pension liability	187
Increase in net OPEB liability	3,301
Increase in pension related deferred inflows of resources	7,839
Increase in OPEB related deferred inflows of resources	577
Net cash provided by operating activities	<u>\$ 3,124,733</u>

CITY OF DRIPPING SPRINGS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The City of Dripping Springs, Texas (the City) provides a full range of municipal services including public safety, public works, development, culture and recreation, and general administrative services. In addition, the City provides water and wastewater service as a proprietary function of the City. The accounting policies of the City of Dripping Springs conform to generally accepted accounting principles issued by the Governmental Accounting Standards Board which is the recognized financial accounting standard setting body for governmental entities. The notes to the financial statements are an integral part of the City's basic financial statements.

The City is a general law city governed by an elected mayor and a five-member City Council. The City's financial statements include its component units. The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Blended Component Units

The City of Dripping Springs Tax Increment Reinvestment Zone No. 1 (TIRZ#1) is fiscally dependent on the City, as the City approves their budgets and any debt issuances; TIRZ#1 qualifies for blending because the City's Council controls the Board as they appoint the majority of the Board. TIRZ#1 is also financially dependent on the City. TIRZ#1 is reported as a blended component unit of the City and it does not issue separate financial statements.

The City of Dripping Springs Tax Increment Reinvestment Zone No. 2 (TIRZ#2) is fiscally dependent on the City, as the City approves their budgets and any debt issuances; TIRZ#1 qualifies for blending because the City's Council controls the Board as they appoint the majority of the Board. TIRZ#2 is also financially dependent on the City. TIRZ#2 is reported as a blended component unit of the City and it does not issue separate financial statements.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position reports the assets and liabilities of the primary government. The net position section of this statement represents the residual amount of assets less their associated liabilities. The net position section is divided into three categories. The first category is Net Investment in Capital Assets, which includes all capital assets, net of accumulated depreciation, less any outstanding debt associated with the assets. Capital assets cannot readily be sold and converted into cash. The second category is Restricted Net Position, which includes those assets that have a constraint placed on their use. The constraints are either: 1) externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws and regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. The final section is Unrestricted Net Position, and this represents net position that generally can be used for any purpose. However, they are not necessarily in a spendable form, like cash.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Governmental Funds (continued)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund - is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund balance is available for any purpose, provided it is expended or transferred in accordance with the legally adopted budget of the City.

Nonmajor governmental funds include the debt service fund, which accounts for the accumulation of resources that are for the payment of principal and interest on the City's general long-term debt. The City also reports seven special revenue funds that are considered nonmajor. These funds account for specific revenue sources that are restricted or committed to expenditures for particular purposes.

Proprietary Funds

Proprietary funds are those used to account for the City's ongoing organizations and activities which are similar to those found in the private sector. The measurement focus is upon capital maintenance and upon determination of net position and changes in net position.

The government has one proprietary fund and it is reported as a major fund.

The Water Wastewater Fund - The fund accounts for the activities for which outside users are charged a fee roughly equal to the cost of providing water and wastewater services.

Budgetary Information

The City Mayor submits an annual budget to the City Council. In September, the City Council adopts annual fiscal year budgets for specific City funds. Budgets for the General Fund are adopted on a basis consistent with U.S. generally accepted accounting principles. The budget is properly amended throughout the year.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Fund Balances/Net Position (continued)

Deposits and Investments

For purposes of the Statement of Cash Flows, the City’s cash and cash investments are considered to be cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less from the date of acquisition. The depository bank pays the City interest on all funds on deposit.

As of September 30, 2022, the City does not hold any investments and only has interest bearing cash accounts.

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 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables 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. As of September 30, 2022, the City does not have an allowance for uncollectible tax receivables as the total balance of the taxes receivable is not significant to the financial statements.

Restricted Assets

In accordance with applicable covenants of bond issues or other agreements, appropriate assets have been restricted.

Capital Assets

Capital assets, which include property, plant, 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 government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized but are charged to operations as incurred. Improvements and betterments which materially extend the useful lives of capital assets are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of the capital assets of business-type activities is included a part of the capitalized value of the assets constructed. Contributions of capital assets from external sources are recorded as capital contribution revenue. Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	15-40 years
Building improvements	15-40 years
Infrastructure	10-40 years
Machinery and equipment	5-10 years

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Fund Balances/Net Position (continued)

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation is accrued depending on level of employment and years of service. Vacation can be accrued depending on years of service with the City. Accrued vacation is paid upon retirement or termination. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are matured, for example, unused reimbursable leave payable as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary 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.

Pensions and Other Post-Employment Benefits (OPEB)

The City has Pension and OPEB for supplemental death benefits fund (SDBF) with the Texas Municipal Retirement System (TMRS). For purposes of measuring the net pension and total OPEB liability from TMRS, pension/OPEB related deferred outflows and inflows of resources, and pension/OPEB expense, City specific information about its Fiduciary Net Position in TMRS and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions to TMRS are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension and Total OPEB Liabilities is obtained from TMRS through reports prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and 75. The OPEB for health benefits is an unfunded plan. The same actuaries used for pensions and OPEB from TMRS are used to provide the reporting information for the OPEB for health benefits.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the financial position as described below:

A *deferred outflow of resources* is a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for reporting in this category:

- Deferred outflows of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the City's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Fund Balances/Net Position (continued)

Deferred Outflows/Inflows of Resources (continued)

- Deferred outflows of resources for other post-employment benefits (OPEB) other than pension – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the total OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the City’s proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB investments will be amortized over a closed five-year period. The remaining postemployment related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan.

A *deferred inflow of resources* is an acquisition of a government's net positions (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has three items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual bases of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – reported in the government-wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the City’s proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred inflows of resources for OPEB – Reported in the government wide financial statement of net position, this deferred inflow results primarily from 1) changes in actuarial assumptions; and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan.

Fund Balance

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Fund Balances/Net Position (continued)

Fund Balance (continued)

In accordance with GASB 54, the City classifies governmental fund balances as follows:

- *Committed fund balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority (City Council). Commitments may be changed or lifted only by the government taking the same formal action (resolution) that imposed the constraint originally (i.e. park acquisition and improvement, recreation, etc).
- *Restricted fund balance* - fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers.
- *Unassigned fund balance* – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Order of Expenditure of Funds – When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

Net Position

Restricted – The City restricts net position to serve different purposes. In the City’s governmental funds, net position is restricted for the retirement of long-term debt, development, and parks and community.

Implementation of New Standards

GASB No. 87, *Leases*, was issued to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The City has determined that this statement does not have a material effect on the financial statements.

No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* was issued in June 2020. This Statement provides guidance regarding the financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The Statement will also enhance (1) information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all Section 457 plans. Paragraphs 4 and 5 of the Statement were effective immediately whereas the remaining requirements of this Statement are effective for periods beginning after June 15, 2021. The City has evaluated the effects of this standard and has determined that this Statement does not impact the financial statements.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Deposits and Investments

The investment policy of the City is governed by State statute and a Council adopted City Investment Policy. Major controls stipulated in the Investment Policy include: depository limitations require Federal Deposit Insurance Corporation ("FDIC") insurance or full 100 percent collateralization; depositories are limited to Texas banking institutions; all collateral for repurchase agreements and deposits held by independent third party trustees; all settlement is delivery versus payment; all authorized investments are defined; and diversification guidelines are set as are maximum maturity and maximum weighted average maturity.

State statutes require all time and demand deposits to be fully insured or collateralized. Cash and cash equivalents are considered to be cash on hand, demand deposits with banks and other financial institutions, and any other kind of account that has the general characteristics of demand deposits where funds may be added or withdrawn at any time without penalty or prior notice. Cash equivalents are defined as liquid investments that are both readily convertible to known amounts of cash and so near their maturity, they present insignificant risk or changes in value because of changes in interest rates.

At September 30, 2022, the carrying amount of deposits was \$68,251,022 and the respective bank balances were \$70,522,239. The City's bank balances were fully insured or collateralized with securities held by the City's agent in the City's name.

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complied with this law for the year ended September 30, 2022, it had no custodial credit risk for deposits.

The *Public Funds Investment Act* (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety or principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the state maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

As of September 30, 2022, the City does not hold any investments.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3 - Property Taxes

The appraisal of property within the City is the responsibility of the Hays Central Appraisal District (the Appraisal District). The Appraisal District is required under the Property Tax Code to appraise all property within the county on the basis of 100% of its market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, take legal action. Under this legislation, the City continues to set tax rates on City property. The Texas Legislature enacted new legislation for property taxes which calculates the no new revenue tax rate (the rate will raise the same amount of property tax revenue from same properties as prior year). The voter approved rate is the highest tax rate the City may adopt without holding an election. The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Appraised values are established by the Appraisal District at market value, assessed at 100% of appraised value and certified by the Appraisal District Board of Review. The City property taxes are billed and collected by the City's Tax Assessor/Collector. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on property on February 1 of the current calendar year.

Within the \$2.50 maximum levy, there is no legal limit upon the amount of property taxes, which can be levied for debt service. The property tax rates to finance general governmental services for fiscal year 2022 was \$0.19 per \$100 of assessed valuation. The 2021 assessed value and total tax levy as adjusted through September 30, 2022 were \$1,076,562,825 and \$2,046,902, respectively.

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Appraisal District establishes appraised values. Taxes are levied by the City Council based on the appraised values and operating needs of the City.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 4 - Receivables

Receivables as of September 30, 2022 for the City’s individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Receivables		
Property taxes	\$ 13,841	\$ 13,841
Sales taxes	270,154	270,154
Other	480,972	480,972
Gross receivable	<u>764,967</u>	<u>764,967</u>
Less: Allowance for uncollectible	-	-
Net Receivables.	<u>\$ 764,967</u>	<u>\$ 764,967</u>

	<u>Water and Wastewater Fund</u>	<u>Total Business-Type Activities</u>
Receivables		
Sales tax	\$ 67,539	\$ 67,539
Customer	1,100,607	1,100,607
Gross receivable	<u>1,168,146</u>	<u>1,168,146</u>
Less: Allowance for uncollectible	-	-
Net Receivables.	<u>\$ 1,168,146</u>	<u>\$ 1,168,146</u>

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets

Capital assets activity for the year ended September 30, 2022, was as follows:

	Balance October 1, 2021 Restated	Additions	Retirements and Transfers	Balance September 30, 2022
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 5,930,814	\$ -	\$ -	\$ 5,930,814
Total capital assets, not being depreciated	5,930,814	-	-	5,930,814
Capital assets being depreciated:				
Buildings	1,075,825	-	-	1,075,825
Improvements other than buildings	9,236,290	-	-	9,236,290
Machinery and equipment	1,394,970	185,745	-	1,580,715
Infrastructure	703,818	3,671,853	-	4,375,671
Total capital assets being depreciated	12,410,903	3,857,598	-	16,268,501
Less accumulated depreciation for:				
Buildings	(423,004)	(37,276)	-	(460,280)
Improvements other than buildings	(2,606,046)	(315,581)	-	(2,921,627)
Machinery and equipment	(1,066,106)	(143,705)	-	(1,209,811)
Infrastructure	(431,110)	(258,311)	-	(689,421)
Total accumulated depreciation	(4,526,266)	(754,873)	-	(5,281,139)
Total capital assets being depreciated, net	7,884,637	3,102,725	-	10,987,362
Governmental activities capital assets, net	<u>\$ 13,815,451</u>	<u>\$ 3,102,725</u>	<u>\$ -</u>	<u>\$ 16,918,176</u>
	Balance October 1, 2021	Additions	Retirements and Transfers	Balance September 30, 2022
Business-type activities:				
Business-type assets, being depreciated				
Infrastructure	\$ 13,391,627	\$ 11,976,506	\$ -	\$ 25,368,133
Machinery and equipment	-	168,846	-	168,846
Total capital assets being depreciated	13,391,627	12,145,352	-	25,536,979
Less accumulated depreciation for:				
Infrastructure	(5,436,370)	(986,318)	-	(6,422,688)
Machinery and equipment	-	(33,769)	-	(33,769)
Total accumulated depreciation	(5,436,370)	(1,020,087)	-	(6,456,457)
Business Type activities capital assets, net	<u>\$ 7,955,257</u>	<u>\$ 11,125,265</u>	<u>\$ -</u>	<u>\$ 19,080,522</u>

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Capital Assets (continued)

Depreciation was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 454,134
Public works	31,379
Parks and recreation	269,360
Total Governmental Activities	<u>\$ 754,873</u>
Business-type Activities:	
Water and Wastewater	\$ 1,020,087
Total Business-type Activities	<u>\$ 1,020,087</u>

Note 6 - Long-Term Liabilities

The City issues general obligation bonds, certificates of obligation bonds, and contractual obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental which includes blended component units and business-type activities. These issues are direct obligations and pledge the full faith and credit of the City.

General Obligation Bonds	Original Borrowings	Final Maturity	Interest Rates	Balance at September 30, 2022	
				Governmental	Business-Type
General Obligation Refunding Bonds, Series 2015	\$ 7,410,000	2026	0.437 - 2.352%	\$ -	\$ 2,620,000
Total General Obligation Bonds				<u>\$ -</u>	<u>\$ 2,620,000</u>

Certificates of Obligation	Final Maturity	Final Maturity	Interest Rates	Balance at September 30, 2022	
				Governmental	Business-Type
Combination Tax and Limited Revenue Certificates of Obligation, Series 2013	\$ 1,000,000	2028	4.15%	\$ 470,000	\$ -
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2019	23,500,000	2040	0.04 - 0.61%	-	21,725,000
Combination Tax and Revenue Certificates of Obligation, Series 2022	19,895,000	2042	0.61 - 2.01%		19,895,000
Total Certificates of Obligation				<u>\$ 470,000</u>	<u>\$ 41,620,000</u>

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Liabilities (continued)

Changes in the City’s long-term liabilities for the year ended September 30, 2022 are as follows:

	<u>Balance October 1 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30 2022</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
Certificates of obligation	\$ 540,000	\$ -	\$ (70,000)	\$ 470,000	\$ 70,000
Total bonds payable	<u>540,000</u>	<u>-</u>	<u>(70,000)</u>	<u>470,000</u>	<u>70,000</u>
Compensated absences	97,872	79,579	-	177,451	177,451
Net pension liability	99,058	-	(96,830)	2,228	-
Total OPEB liability	<u>38,216</u>	<u>1,229</u>	<u>-</u>	<u>39,445</u>	<u>-</u>
Total Governmental Activities	<u><u>\$ 775,146</u></u>	<u><u>\$ 80,808</u></u>	<u><u>\$ (166,830)</u></u>	<u><u>\$ 689,124</u></u>	<u><u>\$ 247,451</u></u>
Business-type Activities:					
Bonds Payable:					
General obligation bonds	\$ 3,285,000	\$ -	\$ (665,000)	\$ 2,620,000	\$ 655,000
Certificates of obligation	<u>22,625,000</u>	<u>19,895,000</u>	<u>(900,000)</u>	<u>41,620,000</u>	<u>1,800,000</u>
Total Bonds Payable	<u>25,910,000</u>	<u>19,895,000</u>	<u>(1,565,000)</u>	<u>44,240,000</u>	<u>2,455,000</u>
Net pension liability	-	187	-	187	-
Total OPEB liability	<u>-</u>	<u>3,301</u>	<u>-</u>	<u>3,301</u>	<u>-</u>
Total Business-type Activities	<u><u>\$ 25,910,000</u></u>	<u><u>\$ 19,898,488</u></u>	<u><u>\$ (1,565,000)</u></u>	<u><u>\$ 44,243,488</u></u>	<u><u>\$ 2,455,000</u></u>

Long-term liabilities applicable to the City’s governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Compensated absences generally are paid by the General Fund for the governmental activities.

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligations bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal maturity. The City is in compliance with this requirement.

<u>Fiscal Year</u>	<u>Governmental Activities</u>	
	<u>Certificates of Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 70,000	\$19,505
2024	75,000	16,600
2025	75,000	13,488
2026	80,000	10,375
2027	85,000	7,055
2028	85,000	3,527
	<u><u>\$ 470,000</u></u>	<u><u>\$ 70,550</u></u>

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Liabilities (continued)

General Obligation Bonds and Certificates of Obligation (continued)

Fiscal Year	Business-type Activities					
	General Obligation Bonds		Certificates of Obligation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 655,000	\$ 56,232	\$ 1,800,000	\$ 377,847	\$ 2,455,000	\$ 434,079
2024	655,000	43,498	1,830,000	378,842	2,485,000	422,340
2025	655,000	29,901	1,865,000	370,442	2,520,000	400,343
2026	655,000	15,405	1,905,000	360,322	2,560,000	375,727
2027	-	-	1,945,000	349,731	1,945,000	349,731
2028-2032	-	-	10,420,000	1,543,788	10,420,000	1,543,788
2033-2037	-	-	11,750,000	1,054,945	11,750,000	1,054,945
2038-2042	-	-	10,105,000	389,792	10,105,000	389,792
	<u>\$ 2,620,000</u>	<u>\$ 145,036</u>	<u>\$41,620,000</u>	<u>\$4,825,709</u>	<u>\$44,240,000</u>	<u>\$4,970,745</u>

Current Year Issuance of Debt

During fiscal year 2022, the City issued \$19,895,000 in Certificates of Obligation, Series 2022. The bonds have a rate that range between 0.61% and 2.01. The proceeds will be used for construction and renovation to the City’s water and wastewater system. The bonds mature in fiscal year 2042.

Note 7 - Interfund Receivables, Payables and Transfers

The composition of interfund transfers for the year are as follows:

Transfers From	Transfers To			Totals
	General	Governmental Funds	Water and wastewater Fund	
General Fund	\$ -	\$ 731,539	\$ 155,721	\$ 887,260
Other Governmental	132,833	371,480	-	504,313
Totals	<u>\$ 132,833</u>	<u>\$ 1,103,019</u>	<u>\$ 155,721</u>	<u>\$ 1,391,573</u>

During the year, transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due and (2) move general fund resources to provide an annual subsidy to other funds.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Defined-Benefit Pension Plans

Plan Description and Provisions

The City participates as one of 895 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (annual report) that can be obtained at www.tmr.com.

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

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

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

The City has approved an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate:	6%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	10
Service retirement eligibility:	20 years at any age, 10 years at age 60 and above
Updated Service Credit:	100% Repeating Transfers
Annuity Increase to retirees:	70% of CPI Repeating
Supplemental death benefit – active employees and retirees	Yes

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Defined-Benefit Pension Plans (continued)

Benefits Provided

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	36
Active employees	<u>40</u>
Total	<u>78</u>

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 consulting 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 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 6% in calendar years 2022 and 2021.

Net Pension Liability

The City’s net pension liability was measured as of December 31, 2021, and the total pension liability 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, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation:	2.50%
Overall payroll growth:	3.5% to 11.50% including inflation
Investment Rate of Return:	6.75%, net of pension plan investment expense, including inflation

Salary increases are assumed to occur once a year on January 1 so that the pay used for the period year following the valuation is equal to the reported pay for the prior year. Salaries are assumed to increase on a graduated service-based scale.

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

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Defined-Benefit Pension Plans (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2022 are summarized in the table below:

<u>Asset Class</u>	<u>Strategic Target Allocation Index</u>
Core fixed income	6.0%
Non-Core fixed income	20.0%
Global public equity	35.0%
Real Estate	12.0%
Hedge funds	5.0%
Other public & private market	12.0%
Private equity	10.0%
Cash equivalents	0.0%
Total	<u>100.0%</u>

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Defined-Benefit Pension Plans (continued)

Changes in the Net Pension Liability

	Total Pension Liability <u>(a)</u>	Increase (Decrease) Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balance at 12/31/2020	\$ 1,297,440	\$ 1,198,382	\$ 99,058
Changes for the year:			
Service cost	248,908	-	248,908
Interest	95,314	-	95,314
Difference between expected and actual experience	(21,189)	-	(21,189)
Changes in assumptions	-	-	-
Contributions - employer	-	130,324	(130,324)
Contributions - employee	-	132,987	(132,987)
Net investment income	-	157,083	(157,083)
Benefit payments, including refunds, of employee contributions	(19,657)	(19,657)	-
Administrative expense	-	(723)	723
Other charges	-	5	(5)
Net changes	<u>303,376</u>	<u>400,019</u>	<u>(96,643)</u>
Balance at 12/31/2021	<u>\$ 1,600,816</u>	<u>\$ 1,598,401</u>	<u>\$ 2,415</u>

Sensitivity of the Net Pension Liability

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:

	<u>1% Decrease to 5.75%</u>	<u>Current Single Rate Assumption 6.75%</u>	<u>1% Increase to 7.75%</u>
City's net pension liability	\$ 250,125	\$ 2,415	\$ (203,824)

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 the following location: [TMRS 2021 ACFR](#).

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 - Defined-Benefit Pension Plans (continued)

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

For the year ended September 30, 2022, the City recognized pension expense of \$108,316 related to the TMRS plan.

At September 30, 2022, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actuarial assumptions and actual experience	\$ 8,795	\$ (23,642)
Changes in actuarial assumptions used	3,087	-
Differences between projected and actual investment earnings	-	(77,857)
Contributions subsequent to the measurement date	114,916	-
Total	<u>\$ 126,798</u>	<u>\$ (101,499)</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date of \$114,916 will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>net deferred outflows (inflows) of resources</u>
2023	\$ (19,209)
2024	(31,564)
2025	(21,907)
2026	(16,937)
Total	<u>\$ (89,617)</u>

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits

Benefit Plan Description

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

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 another post-employment benefit (OPEB). As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership in the plan as of the measurement date of December 31, 2021 was as follows:

Inactive employees currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>40</u>
Total	<u>45</u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.12% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both active employees and retirees and the assets are not segregated for these groups. Under GASB Statement No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 1.84% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2021.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits (continued)

Actuarial Assumptions

The City's total OPEB liability was measured at December 31, 2021 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

<i>Valuation Date:</i>	December 31, 2021
<i>Methods and Assumptions:</i>	
Inflation:	2.50%
Salary Increases:	3.50% to 11.50%, including inflation
Discount rate:	1.84%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.
Retirees' share of benefit related costs:	\$0
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees:	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees:	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits (continued)

Actuarial Assumptions (continued)

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the Total OPEB Liability

Total OPEB Liability	
Service cost	\$ 8,201
Interest	844
Changes of benefit terms	-
Difference between expected and actual experience of the total OPEB liability	(5,943)
Changes of assumptions	1,650
Benefit payments	<u>(222)</u>
Net change in total OPEB liability	4,530
Total OPEB liability - beginning	<u>38,216</u>
Total OPEB liability - ending	<u><u>\$ 42,746</u></u>
Covered payroll	\$ 2,216,455
Total OPEB liability as a percentage of covered payroll	1.93%

Sensitivity Analysis

The following presents the total OPEB liability of the employer, calculated using the discount rate of 1.84%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (0.84%) or 1 percentage point higher (2.84%) than the current rate. Note that the healthcare cost trend rate does not affect the total OPEB liability, so sensitivity to the healthcare cost trend rate is not shown.

Current Discount Rate Assumption		
<u>1% Decrease to 0.84%</u>	<u>1.84%</u>	<u>1% Increase to 2.84%</u>
\$ 55,190	\$ 42,746	\$ 33,459

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$9,837 related to the TMRS Supplemental Death Benefits plan.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Other Post-Employment Benefits (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB Activity (continued)

As of September 30, 2022, the City reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 846	\$ (6,763)
Changes assumptions	10,458	(702)
Contributions subsequent to the measurement date	196	-
Total	<u>\$ 11,500</u>	<u>\$ (7,465)</u>

The \$196 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2022.

Amounts currently reported as deferred outflows of resources related to OPEB, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

<u>Fiscal Year</u>	<u>Net deferred outflows (inflows) of resources</u>
2023	\$ 792
2024	792
2025	633
2026	954
2027	1,123
Thereafter	(455)
Total	<u>\$ 3,839</u>

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City purchases commercial insurance to indemnify it in event of loss. For the past three years, settlements did not exceed coverage.

CITY OF DRIPPING SPRINGS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 11 – Prior Period Adjustment

Adjustments to prior period’s net position and fund balance were necessary in the governmental activities, business-type activities and some of the governmental funds. The table below summarizes the prior period adjustment followed by the reason for the adjustment:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fund Balance/Net Position at September 30, 2021, as originally presented	\$ 5,431,312	\$ 2,138,033	\$ 20,175,994	\$ 14,067,205
Prior period adjustment	<u>(258,824)</u>	<u>1,231,284</u>	<u>972,460</u>	<u>1,565,875</u>
Fund Balance/Net Position at September 30, 2021, as restated	<u>\$ 5,172,488</u>	<u>\$ 3,369,317</u>	<u>\$ 21,148,454</u>	<u>\$ 15,633,080</u>

- **General Fund** – During the audit, it was noted that the City carried certain accounts that are considered to be noncurrent in nature in the general fund. Noncurrent balances should not be accounted for at the fund level and the net impact to fund balance in the general fund was a reduction of \$258,824.
- **Nonmajor Governmental Funds** – The TIRZ#1 and TIRZ#2 were previously reported as discretely presented component units, thus not included as part of the primary government. An analysis was performed during the audit and it was determined that TIRZ#1 and TIRZ#2 should be reported as blended component units and be included as part of the primary government. Accordingly, for fiscal year 2022, TIRZ#1 and TIRZ#2 are presented as blended component units. Additionally, in prior period, the TIRZ#1 reported a long-term liability due to the City in the amount of \$500,000. The City recoded the \$500,000 as a transfer to the component unit and not as a corresponding receivable. During the audit, it was determined that the \$500,000 was not a loan to the component unit. The total prior period adjustment is \$1,231,284 which is the net of bringing in last year’s net position to fund balance in the amount of \$731,284, as previously presented, plus the addition of \$500,000 to adjust for the long-term liability.
- **Governmental Activities** – The prior period adjustment to Governmental Activities is the net of the adjustment to the General Fund and Nonmajor Governmental Funds above.
- **Business-Type activities** – The prior period adjustment to net position for business-type activities is mainly due to an incorrect cash balance included in prior periods. The City’s bond proceeds issued for the finance, planning, acquisition, design and construction of certain wastewater system improvements were obtained through the purchase of bonds through the Texas Water Development Board (TWDB) financial assistance which includes \$1,000,000 of principal forgiveness. The proceeds are placed in an escrow account and outlays are requested by the City from TWDB. There is a total of three different escrow bank accounts related to the bonds issued that the City was not properly reconciling. In prior years, the balance of the escrow bank accounts was not properly stated. Additionally, the income derived from these escrow bank accounts was not fully recognized by the City. As part of the fiscal year 2022 audit, account balances were confirmed directly with third parties and it was determined that a prior period adjustment was necessary in the amount of \$1,565,875 to properly state cash and cash equivalents in the water and wastewater fund (business-type activities).



DRIPPING SPRINGS
Texas

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DRIPPING SPRINGS, TEXAS

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For the Year Ended September 30, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
Ad Valorem Taxes	\$ 1,987,492	\$ 2,081,549	\$ 1,845,325	\$ (236,224)
Sales and use taxes	3,796,126	4,193,078	3,342,204	(850,874)
Franchise taxes	40,000	45,563	45,563	-
Mixed drink tax	60,000	85,000	91,068	6,068
Licenses and permits	2,537,199	4,245,146	4,332,356	87,210
Intergovernmental revenues	707,181	713,871	279,513	(434,358)
Charges for services	224,900	206,146	692,491	486,345
Interest Income	40,000	90,000	97,912	7,912
Donations	9,027	8,206	8,206	-
Miscellaneous	40,250	40,250	66,437	26,187
Total Revenues	9,442,175	11,708,809	10,801,075	(907,734)
Expenditures				
Current:				
General government	3,954,587	3,679,192	2,520,813	1,158,379
Public safety	60,948	60,330	131,803	(71,473)
Public works	1,998,785	1,158,317	1,750,065	(591,748)
Development services	1,054,500	1,896,285	2,192,078	(295,793)
Parks and community services	842,941	772,140	902,501	(130,361)
Total Expenditures	7,911,761	7,566,264	7,497,260	69,004
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,530,414	4,142,545	3,303,815	(838,730)
Other Financing Sources (Uses)				
Transfers in	520,437	250,640	132,833	(117,807)
Transfers out	(1,484,469)	(1,946,907)	(887,260)	1,059,647
Total Other Financing Sources (Uses)	(964,032)	(1,696,267)	(754,427)	941,840
Net Change in Fund Balance	566,382	2,446,278	2,549,388	103,110
Fund Balances, Beginning	5,431,312	5,431,312	5,431,312	-
Prior period adjustment	-	-	(258,824)	(258,824)
Fund Balances, Ending	\$ 5,997,694	\$ 7,877,590	\$ 7,721,876	\$ (155,714)

Actual expenditures exceeded final budget in public safety, public works, development services, and parks and community services.



DRIPPING SPRINGS
Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last Seven Measurement Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total pension liability				
Service Cost	\$ 248,908	\$ 215,769	\$ 163,515	\$ 129,750
Interest (on the Total Pension Liability)	95,314	74,816	59,115	48,199
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(21,189)	12,809	(6,464)	(14,071)
Changes of assumptions	-	-	3,380	-
Benefit payments, including refunds of employee contributions	(19,657)	(12,910)	(13,212)	(24,895)
Net change in total pension liability	303,376	290,484	206,334	138,983
Total pension liability – beginning	1,297,440	1,006,956	800,622	661,639
Total pension liability – ending	<u>\$ 1,600,816</u>	<u>\$ 1,297,440</u>	<u>\$ 1,006,956</u>	<u>\$ 800,622</u>
Plan fiduciary net position				
Contributions – employer	\$ 130,324	\$ 114,507	\$ 92,626	\$ 78,968
Contributions – employee	132,987	115,077	87,441	68,470
Net investment income	157,083	69,581	100,230	(16,201)
Benefit payments, including refunds of employee contributions	(19,657)	(12,910)	(13,212)	(24,895)
Administrative Expense	(723)	(448)	(564)	(313)
Other	5	(18)	(18)	(17)
Net change in plan fiduciary net position	400,019	285,789	266,503	106,012
Plan fiduciary net position – beginning	1,198,382	912,593	646,090	540,078
Plan fiduciary net position – ending	<u>\$ 1,598,401</u>	<u>\$ 1,198,382</u>	<u>\$ 912,593</u>	<u>\$ 646,090</u>
Net pension liability	<u>\$ 2,415</u>	<u>\$ 99,058</u>	<u>\$ 94,363</u>	<u>\$ 154,532</u>
Plan fiduciary net position as a percentage of the total pension liability	99.85%	92.37%	90.63%	80.70%
Covered payroll	\$ 2,216,455	\$ 1,917,948	\$ 1,457,351	\$ 1,141,163
Net pension liability as a percentage of covered employee payroll	0.11%	5.16%	6.47%	13.54%

GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will continue to build this schedule over the next 10-year period as the information becomes available.

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Seven Measurement Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Service Cost	\$ 67,410	\$ 50,354	\$ 30,743
Interest (on the Total Pension Liability)	38,747	29,124	24,446
Changes of benefit terms	62,645	-	-
Difference between expected and actual experience	18,543	(4,706)	1,741
Changes of assumptions	-	-	15,501
Benefit payments, including refunds of employee contributions	(6,768)	-	-
Net change in total pension liability	<u>180,577</u>	<u>74,772</u>	<u>72,431</u>
Total pension liability – beginning	<u>481,062</u>	<u>406,290</u>	<u>333,859</u>
Total pension liability – ending	<u><u>\$ 661,639</u></u>	<u><u>\$ 481,062</u></u>	<u><u>\$ 406,290</u></u>
Plan fiduciary net position			
Contributions – employer	\$ 28,309	\$ 14,212	\$ 8,735
Contributions – employee	55,761	38,205	24,994
Net investment income	56,460	22,471	440
Benefit payments, including refunds of employee contributions	(6,768)	-	-
Administrative Expense	(292)	(253)	(268)
Other	(15)	(14)	(13)
Net change in plan fiduciary net position	<u>133,455</u>	<u>74,621</u>	<u>33,888</u>
Plan fiduciary net position – beginning	<u>406,623</u>	<u>332,002</u>	<u>298,114</u>
Plan fiduciary net position – ending	<u><u>\$ 540,078</u></u>	<u><u>\$ 406,623</u></u>	<u><u>\$ 332,002</u></u>
Net pension liability	<u><u>\$ 121,561</u></u>	<u><u>\$ 74,439</u></u>	<u><u>\$ 74,288</u></u>
Plan fiduciary net position as a percentage of the total pension liability	81.63%	84.53%	81.72%
Covered payroll	\$ 984,086	\$ 764,092	\$ 499,885
Net pension liability as a percentage of covered employee payroll	12.35%	9.74%	14.86%

GASB 68 requires 10 fiscal years of data to be provided in this schedule. The City will continue to build this schedule over the next 10-year period as the information becomes available.

CITY OF DRIPPING SPRINGS, TEXAS
SCHEDULE OF PENSION CONTRIBUTIONS
Last Seven Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Actuarially Determined Contribution	\$ 158,663	\$ 229,584	\$ 180,067	\$ 147,438
Contributions in relation to the actuarially determined contribution	<u>(158,663)</u>	<u>(229,584)</u>	<u>(180,067)</u>	<u>(147,438)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,644,390	\$ 1,917,948	\$ 1,457,351	\$ 1,141,163
Contributions as a percentage of covered payroll	6.00%	11.97%	12.36%	12.92%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	
Actuarially Determined Contribution	\$ 84,070	\$ 52,417	\$ 33,729	
Contributions in relation to the actuarially determined contribution	<u>(84,070)</u>	<u>(52,417)</u>	<u>(33,729)</u>	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	
Covered payroll	\$ 984,086	\$ 764,092	\$ 499,885	
Contributions as a percentage of covered payroll	8.54%	6.86%	6.75%	

Note: This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

NOTES TO SCHEDULE OF CONTRIBUTIONS

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	23 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount rate	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre Retirement: PUB 10 mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes: There were no benefit changes during the year.

CITY OF DRIPPING SPRINGS, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Five Measurement Years

Total OPEB Liability	2021	2020	2019	2018
Service cost	\$ 8,201	\$ 6,329	\$ 2,769	\$ 2,511
Interest on the total OPEB liability	844	732	589	588
Difference between expected and actual experience of the total OPEB liability	(5,943)	1,190	(114)	(3,494)
Changes in assumptions	1,650	6,621	5,872	(1,534)
Benefit payments	(222)	(192)	(146)	-
Net change in total OPEB liability	4,530	14,680	8,970	(1,929)
Total OPEB Liability - Beginning	38,216	23,536	14,566	16,495
Total OPEB Liability - Ending	<u>\$ 42,746</u>	<u>\$ 38,216</u>	<u>\$ 23,536</u>	<u>\$ 14,566</u>
Covered payroll	\$ 2,216,455	\$ 1,917,948	\$ 1,457,351	\$ 1,141,163
Total OPEB liability as a percentage of covered payroll	1.93%	1.99%	1.61%	1.28%

Notes to the Required Supplementary Information

Ten years of data should be presented but data was unavailable prior to 2017.

TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

Total OPEB Liability	2017
Service cost	\$ 1,968
Interest on the total OPEB liability	496
Changes in benefit terms	-
Difference between expected and actual experience of the total OPEB liability	-
Changes in assumptions	1,905
Benefit payments	-
Net change in total OPEB liability	4,369
Total OPEB Liability - Beginning	12,126
Total OPEB Liability - Ending	<u>\$ 16,495</u>
Covered payroll	\$ 984,086
Total OPEB liability as a percentage of covered payroll	1.68%

Notes to the Required Supplementary Information

Ten years of data should be presented but data was unavailable prior to 2017.

TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

CITY OF DRIPPING SPRINGS, TEXAS
SCHEDULE OF OPEB CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Fiscal Year 2022

	<u>2022</u>
Actuarially Determined Contribution	\$ 3,173
Contributions in relation to the actuarially determined contribution	<u>(3,173)</u>
Contribution deficiency (excess)	\$ -
Covered payroll	\$ 2,644,390
Contributions as a percentage of covered payroll	0.12%

Notes to the Required Supplementary Information

Ten years of data should be presented but data was unavailable prior to 2022.

TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

SUPPLEMENTARY INFORMATION

CITY OF DRIPPING SPRINGS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2022

	<u>Special Revenue Funds</u>				
	<u>Debt Service Fund</u>	<u>Hotel/Motel Tax</u>	<u>PEG Fund</u>	<u>Reserve Fund</u>	<u>Dripping Spring Ranch Park</u>
Assets					
Current Assets:					
Cash and cash equivalents	\$ 99,029	\$ 483,467	\$ 175,740	\$ 1,848,999	\$ 355,165
Total Assets	<u>\$ 99,029</u>	<u>\$ 483,467</u>	<u>\$ 175,740</u>	<u>\$ 1,848,999</u>	<u>\$ 355,165</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	-	69,879	-	-	139,493
Accrued liabilities	-	-	-	-	300
Total Liabilities	<u>-</u>	<u>69,879</u>	<u>-</u>	<u>-</u>	<u>139,793</u>
Fund Balances:					
Restricted for:					
Debt service	-	-	-	-	-
Development	-	413,588	175,740	-	-
Parks and community	-	-	-	-	215,372
Committed to:					
Reserve and Debt Service	99,029	-	-	1,848,999	-
Total Fund Balances	<u>99,029</u>	<u>413,588</u>	<u>175,740</u>	<u>1,848,999</u>	<u>215,372</u>
Total Liabilities and Fund Balances	<u>\$ 99,029</u>	<u>\$ 483,467</u>	<u>\$ 175,740</u>	<u>\$ 1,848,999</u>	<u>\$ 355,165</u>

CITY OF DRIPPING SPRINGS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2022

	<u>Special Revenue Funds</u>				<u>Total Nonmajor Governmental Funds</u>
	<u>Farmers Market</u>	<u>Town Center TIRZ (TIRZ #1)</u>	<u>Arrowhead TIRZ (TIRZ #2)</u>	<u>Total Nonmajor Special Revenue Funds</u>	
Assets					
Current Assets:					
Cash and cash equivalents	\$ 53,311	\$ 1,109,544	\$ 650,763	\$ 4,676,989	\$ 4,776,018
Total Assets	<u>\$ 53,311</u>	<u>\$ 1,109,544</u>	<u>\$ 650,763</u>	<u>\$ 4,676,989</u>	<u>\$ 4,776,018</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	-	7,337	1,312	218,021	218,021
Accrued liabilities	-	-	-	300	300
Total Liabilities	<u>-</u>	<u>7,337</u>	<u>1,312</u>	<u>218,321</u>	<u>218,321</u>
Fund Balances:					
Restricted for:					
Debt service	-	-	-	-	-
Development	-	1,102,207	649,451	2,340,986	2,340,986
Parks and community	53,311	-	-	268,683	268,683
Committed to:					
Reserve and Debt Service	-	-	-	1,848,999	1,948,028
Total Fund Balances	<u>53,311</u>	<u>1,102,207</u>	<u>649,451</u>	<u>4,458,668</u>	<u>4,557,697</u>
Total Liabilities and Fund Balances	<u>\$ 53,311</u>	<u>\$ 1,109,544</u>	<u>\$ 650,763</u>	<u>\$ 4,676,989</u>	<u>\$ 4,776,018</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended September 30, 2022

	Special Revenue Funds				Dripping Springs Ranch Park
	Debt Service Fund	Hotel/Motel Tax	PEG Fund	Reserve Fund	
Revenues					
Taxes:					
Ad Valorem Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and use taxes	-	931,261	-	-	-
Franchise taxes	-	-	31,377	-	-
Interest income	1,744	109	1,905	18,511	1,541
Intergovernmental revenues					
Charges for services	-	-	-	-	263,585
Donations	-	-	-	-	-
Miscellaneous	-	-	-	-	215,478
Total Revenues	<u>1,744</u>	<u>931,370</u>	<u>33,282</u>	<u>18,511</u>	<u>480,604</u>
Expenditures					
Current:					
General government	-	306,095	-	-	-
Culture and recreation	-	-	-	-	867,627
Debt Service:					
Principal	70,000	-	-	-	-
Interest and fiscal charges	22,410	-	-	-	-
Total Expenditures	<u>92,410</u>	<u>306,095</u>	<u>-</u>	<u>-</u>	<u>867,627</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(90,666)</u>	<u>625,275</u>	<u>33,282</u>	<u>18,511</u>	<u>(387,023)</u>
Other Financing Sources (Uses)					
Transfers in	89,505	-	-	300,000	562,377
Transfers out	-	(473,007)	-	-	(5,731)
Total Other Financing Sources (Uses)	<u>89,505</u>	<u>(473,007)</u>	<u>-</u>	<u>300,000</u>	<u>556,646</u>
Change in Fund Balance	(1,161)	152,268	33,282	318,511	169,623
Fund Balances, Beginning	100,190	261,320	142,458	1,530,488	45,749
Prior period adjustment	-	-	-	-	-
Fund Balances, Ending	<u>\$ 99,029</u>	<u>\$ 413,588</u>	<u>\$ 175,740</u>	<u>\$ 1,848,999</u>	<u>\$ 215,372</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended September 30, 2022

	Special Revenue Funds			Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
	Farmers Market	Town Center TIRZ (TIRZ #1)	Arrowhead TIRZ (TIRZ #2)		
Revenues					
Taxes:					
Ad Valorem Taxes	\$ -	\$ 285,543	\$ 346,839	\$ 632,382	\$ 632,382
Hotel Motel Taxes	-	-	-	931,261	931,261
TWC Fees	-	-	-	31,377	31,377
Interest income	83	8,916	4,097	35,162	36,906
Intergovernmental revenues	1,000	-	-	1,000	1,000
Charges for services	49,599	-	-	313,184	313,184
Donations	3,445	-	-	3,445	3,445
Miscellaneous	791	-	-	216,269	216,269
Total Revenues	<u>54,918</u>	<u>294,459</u>	<u>350,936</u>	<u>2,164,080</u>	<u>2,165,824</u>
Expenditures					
Current:					
General government	-	225,371	22,548	554,014	554,014
Culture and recreation	62,099	-	-	929,726	929,726
Debt service:					
Principal	-	-	-	-	70,000
Interest and fiscal charges	-	-	-	-	22,410
Total Expenditures	<u>62,099</u>	<u>225,371</u>	<u>22,548</u>	<u>1,483,740</u>	<u>1,576,150</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,181)</u>	<u>69,088</u>	<u>328,388</u>	<u>680,340</u>	<u>589,674</u>
Other Financing Sources (Uses)					
Transfers in	2,664	148,473	-	1,013,514	1,103,019
Transfers to other funds	-	-	(25,575)	(504,313)	(504,313)
Total Other Financing Sources (Uses)	<u>2,664</u>	<u>148,473</u>	<u>(25,575)</u>	<u>509,201</u>	<u>598,706</u>
Change in Fund Balance	(4,517)	217,561	302,813	1,189,541	1,188,380
Fund Balances, Beginning	57,828	-	-	2,037,843	2,138,033
Prior period adjustment	-	884,646	346,638	1,231,284	1,231,284
Fund Balances, Ending	<u>\$ 53,311</u>	<u>\$ 1,102,207</u>	<u>\$ 649,451</u>	<u>\$ 4,458,668</u>	<u>\$ 4,557,697</u>



DRIPPING SPRINGS
Texas

COMPLIANCE AND INTERNAL CONTROL SECTION



DRIPPING SPRINGS
Texas

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

To the Honorable Mayor and Members
of the City Council
City of Dripping Springs, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dripping Springs, Texas (the City), as of and for the year ended September 30, 2022, 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 29, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-003, 2022-004, and 2022-005 to be significant deficiencies.

To the Honorable Mayor and Members
of the City Council
City of Dripping Springs, Texas

Report on Compliance and Other Matters

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

City of Dripping Springs’s Response to Findings

The City’s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Austin, Texas
March 29, 2023

CITY OF DRIPPING SPRINGS, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2022

Finding 2022-001 Internal Control Over Financial Reporting: Fiscal Year End Closing Procedures

Type of Finding: Material Weakness

Criteria: Proper controls over financial reporting include a system designed to provide for the preparation of the financial statements and accompanying notes to the financial statements that are materially correct and in accordance with accounting principles generally accepted in the United States of America. Monthly and annual reconciliations are necessary to ensure that accounts are properly stated.

Condition: During our audit, we identified journal entries to correct year-end balances. Entries were made to reconcile sales tax receivable, capital assets, debt, and transfers.

Cause: Internal controls not properly designed to regularly reconcile accounts leads to inaccurate balances and reporting at the end of a reporting period.

Effect: The lack of internal controls increases the risk of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Recommendation: We recommend that the City review its internal control procedures over financial reporting to ensure controls are in place to identify and record all transactions in the correct period and reconcile accounts on a timely basis. Management should establish and follow financial close procedures and ensure that all reconciliations are completed monthly for all significant financial accounts, which includes timely and effective review and/or approval of all transactions and reconciliations of account balances by the appropriate level of management. In addition, management should retain supporting documentation for all transactions entered into its general ledger.

Management's Response: Management will develop and implement a "Journal Entry Policy." This policy will outline the steps and approvals required to enter a journal entry. Each Journal Entry will be prepared and approved prior to being made, and the appropriate paperwork will be maintained for each journal entry approved.

CITY OF DRIPPING SPRINGS, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2022

Finding 2022-002 Internal Control Over Financial Reporting: Prior Period Adjustment

Type of Finding: Material Weakness

Criteria: Management is responsible for the accuracy and completeness of the financial records and for establishing and maintaining effective internal controls over financial reporting.

Condition: There was a period adjustment to net position and fund balance of several opinion units due to the City not reconciling certain accounts including cash, debt, and capital assets. The prior period adjustment was also a result of improperly reporting two funds in prior year. During the audit, we identified an error in the beginning fund balance in the general fund and beginning net position in the governmental activities and business-type activities. We also identified two funds that were improperly reported as discretely presented component units.

Cause: Lack of internal controls over reconciliation of financial accounts.

Effect: The lack of internal controls increases the risk of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Recommendation: We recommend that the City review its internal control procedures over financial reporting to ensure that controls are in place to properly identify and reconcile their financial accounts and account for all the activity during the reporting period.

Management's Response: The City will review its internal control procedures over financial reporting to ensure that controls are in place to properly identify and reconcile their financial accounts and account for all the activity during the reporting period.

CITY OF DRIPPING SPRINGS, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2022

Finding 2022-003 Internal Control Over Financial Reporting: Segregation of Duties - Payroll

Type of Finding: Significant Deficiency

Criteria: The City is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial amounts are accurate and valid.

Condition: During our testing procedures related to payroll, we noted that timesheet information is manually entered and calculated prior to being entered into the system. The data input is not reviewed after being manually calculated and entered by the accounting clerk. Additionally, the accounting clerk is responsible for processing payroll.

Cause: Internal controls not properly designed to ensure the information being inputted to calculate payroll is reviewed and approved. Additionally, a lack of segregation of duties exists as the person entering the information is the same person who processes payroll.

Effect: The lack of internal controls increases the risk of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Recommendation: We recommend for the City to establish procedures to ensure that an appropriate level of segregation of duties is established. Procedures should be established to ensure there are checks and balances throughout the payroll process.

Management's Response: The City will establish procedures to ensure separation of duties and to provide a system of checks and balances for the payroll process. The City also anticipates utilizing a new time management system.

Finding 2022-004 Internal Control Over Financial Reporting: Accounts Payable – Purchase Orders

Type of Finding: Significant Deficiency

Criteria: The City is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial amounts are accurate and valid.

Condition: During our testing procedures related to accounts payable, we noted that purchase orders are not being utilized. The City's policy states that purchase orders are required for all purchases exceeding \$100.

Cause: Internal controls not properly designed to follow the City's policy to ensure purchase orders are created, reviewed, and approved prior to services being performed.

Effect: The lack of internal controls increases the risk of misappropriation of assets and potential misreporting of financial statement amounts due to error or fraud.

Recommendation: We recommend for the City to establish procedures to ensure that purchase orders are created, reviewed, and approved prior to services being performed.

Management's Response: The City intends to update its purchasing policy to better fit the current and future needs of the City, while meeting or exceeding requirements and standards. Anticipated changes to the current policy are expected to be updated spending limits and standards for the requirement of Purchase Orders.

CITY OF DRIPPING SPRINGS, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2022

Finding 2022-005 Internal Control Over Financial Reporting: Policies and Procedures

Type of Finding: Significant Deficiency

Criteria: The City is required to maintain internal controls over financial reporting to provide a high level of assurance that the financial amounts are accurate and valid.

Condition: During our testing procedures over user access, it was noted that the individual over accounts payable has the ability to change vendor information and process payments. The individual over payroll has the ability to change pay rates and process payroll disbursements. Individuals in the finance department have the ability to initiate, approve and post journal entries into the accounting system without a second review or approval. Additionally, it was noted that the City does not have formal policies for many of the significant financial areas.

Cause: Improperly designed internal controls.

Effect: Unauthorized activity may impact data integrity and financial reporting. Unauthorized user access may lead to erroneous transaction, undetected transactions, and compromised data resulting in unreliable financial reports.

Recommendation: We recommend for the City to adopt formal internal control policies and procedures. User access rights should be periodically reviewed, properly documented, and adequate actions should be taken to address issues noted.

Management's Response: The City is reviewing all policies and will make necessary amendments to ensure proper checks and balances. Additionally, the City will develop and implement all necessary policies which are currently lacking.