FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2025

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CITY OF DRIPPING SPRINGS, TEXAS

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the 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 the City of Dripping Springs, Texas, (the City) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Dripping Springs, Texas' 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 of Dripping Springs, Texas, as of September 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2025, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Restatements of Beginning Net Position and Fund Balance

As described in Note 13 to the financial statements, the City restated its beginning net position and fund balances as of October 1, 2024 to correct material misstatements identified in previously issued financial statements. The restatement relates primarily to revenue recognition and old dormant balance sheet items. Accordingly, amounts reported for the prior period have been adjusted to reflect these corrections. Our opinion is not modified with respect to this matter.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension information, and other postemployment benefit 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.

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 accompanying combining nonmajor governmental 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 and individual 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 17, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

San Antonio, Texas
March 17, 2026

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CITY OF DRIPPING SPRINGS, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2025

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, 2025. 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 September 30, 2025 by $141,771,009 (net position). The unrestricted net position, which represents the amounts available to meet the City's ongoing obligations to citizens and creditors, was $17,826,531.
- The City's total net position increased by $35,782,777. The increase is primarily due to increased property taxes, miscellaneous revenue, and capital contributions of $19,780,274 during the current period.
- At September 30, 2025 the City's governmental funds reported combined ending fund balances of $30,090,521, a net increase of $15,304,786 in comparison with the prior year. Most of this increase is due to the issuance of Certificates of Obligation, Series 2025 in the amount of $13,435,000.
- At September 30, 2025 the unassigned fund balance for the general fund was $6,536,909 or 51% 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 four components: (1) government-wide financial statements, (2) fund financial statements, (3) component unit financial statements, and (4) notes to the financial statements and required supplementary information.

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, revenue 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 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 (i.e., 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 their 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.

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.

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 (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 maintained seventeen (17) individual governmental funds during the 2025 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, the Dripping Springs Ranch Park fund, and the capital improvements fund which are considered to be major funds. Data from the other fourteen (14) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the governmental funds. Budgetary comparison statements of the general fund and Dripping Springs Ranch Park are included in the required supplementary information of this report.

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

Fiduciary funds – The City uses a fiduciary fund to account for the funds the City holds on a custodial basis. The full-accrual basis of accounting is used for the fiduciary type fund.

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, general fund, and Dripping Springs Ranch Park budgetary comparisons. Required supplementary information can be found immediately following the notes to the financial statements.

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 immediately following the required supplementary information.

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 $105,880,686 to $141,771,009. The $115,962,818 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.

SUMMARY OF STATEMENT OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Assets:						
Current and other assets	$ 31,715,655	$ 16,534,227	$ 62,198,005	$ 60,866,108	$ 93,913,660	$ 77,400,335
Capital assets, net	59,696,279	42,327,702	48,561,030	33,977,776	108,257,309	76,305,478
Total assets	91,411,934	58,861,929	110,759,035	94,843,884	202,170,969	153,705,813
Deferred outflows of resources	204,467	220,540	30,553	28,040	235,020	248,580
Liabilities:						
Other liabilities	1,656,070	1,717,785	5,119,537	3,006,118	6,775,607	4,723,903
Long-term liabilities	16,408,171	3,269,631	37,337,266	40,018,850	53,745,437	43,288,481
Total liabilities	18,064,241	4,987,416	42,456,803	43,024,968	60,521,044	48,012,384
Deferred inflows of resources	99,124	54,405	14,812	6,918	113,936	61,323
Net position:						
Net investment in capital assets	58,099,388	39,782,460	57,863,430	38,844,352	115,962,818	78,626,812
Restricted	5,338,822	4,010,461	2,642,838	-	7,981,660	4,010,461
Unrestricted	10,014,826	10,247,727	7,811,705	12,995,686	17,826,531	23,243,413
Total net position	$ 73,453,036	$ 54,040,648	$ 68,317,973	$ 51,840,038	$ 141,771,009	$ 105,880,686

The largest portion of the City's net position (82%) is reflected in its net investment in capital assets. Since the City uses these capital assets to provide services to its citizens, they are not available for future spending. Net position is subject to external restriction on how it may be used comprises 6% of the City's net position. Unrestricted net position comprises 12% of net position. Unrestricted net position may be used to meet the City's ongoing obligations to its citizens and creditors.

Statement of Activities

The City's overall net position increased $35,890,323 from the prior fiscal year. The reasons for this overall increase are discussed below.

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program revenues						
Charges for services	$ 3,404,705	$ 4,170,884	$ 5,153,640	$ 4,115,418	$ 8,558,345	$ 8,286,302
Operating grants and contributions	794,238	27,315	-	-	794,238	27,315
Capital grants and contributions	15,519,461	8,174,964	12,536,434	4,328,290	28,055,895	12,503,254
General revenues						
Property taxes	5,094,936	3,332,892	-	-	5,094,936	3,332,892
Other taxes	5,163,461	5,149,211	1,392,200	1,303,383	6,555,661	6,452,594
Interest income	634,265	396,248	2,118,111	2,456,341	2,752,376	2,852,589
Miscellaneous	1,864,336	1,087,057	1,865,532	177,222	3,729,868	1,264,279
Total revenues	32,475,402	22,338,571	23,065,917	12,380,654	55,541,319	34,719,225
Expenses:						
General government	3,979,983	4,863,060	-	-	3,979,983	4,863,060
Development services	2,973,582	1,910,251	-	-	2,973,582	1,910,251
Public safety	210,445	87,303	-	-	210,445	87,303
Public works	1,331,594	3,675,178	-	-	1,331,594	3,675,178
Parks and community	4,077,124	3,857,116	-	-	4,077,124	3,857,116
Interest on debt	596,301	18,556	-	-	596,301	18,556
Water and wastewater	-	-	6,589,513	5,484,886	6,589,513	5,484,886
Total expenses	13,169,029	14,411,464	6,589,513	5,484,886	19,758,542	19,896,350
Increase (decrease) in net position before transfers	19,306,373	7,927,107	16,476,404	6,895,768	35,782,777	14,822,875
Transfers	50,545	37,936	(50,545)	(37,936)	-	-
Change in net position	19,356,918	7,965,043	16,425,859	6,857,832	35,782,777	14,822,875
Net position - beginning	54,040,648	46,075,605	51,840,038	44,982,206	105,880,686	91,057,811
Restatement of net position	55,470	-	52,076	-	107,546	-
Net position - ending	$ 73,453,036	$ 54,040,648	$ 68,317,973	$ 51,840,038	$ 141,771,009	$ 105,880,686

Net position in governmental activities increased $19.4 million over the prior year mainly due to a significant increase in revenues. Total governmental revenues increased approximately $10.1 million from the previous year. The increase was caused primarily by developer contributions of $15.5 million in the current year, compared to $8.2 million in the prior year. Total governmental expenses decreased approximately $1.2 million over the previous year. The decreases were due mainly to decreases in general government and public works expenses.

Net position in business-type activities increased $16.5 million over the prior year mainly due to an increase in other revenues, including a capital contribution of $8.2 million offset by an increase in expenses. Total business-type revenues increased approximately $10.7 million from the previous year. The increase in revenues is due to a $12.5 million dollar contribution from developers, compared to $4.3 million in the prior year. Business-type expenses increased significantly from the prior year due to increased payroll costs and general maintenance expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds – The City has seventeen governmental funds – the general fund, the debt service fund, capital improvements fund, and fourteen special revenue funds. For the year ended September 30, 2025, the governmental fund balances increased by $15.3 million to $30 million. The restricted portion of the fund balance totaled $19.7 million; $3.8 million in fund balance is committed; and $6.5 million in fund balance is unassigned. The general fund accounts for all the unassigned portion of fund balance at year end.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance amounted to $6.5 million, a decrease of $1.3 million from the prior fiscal year. This decrease was due to an increase in expenditures during the fiscal year. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 51% of total general fund expenditures.

The fund balance of the Dripping Springs Ranch Park fund was $110,462, a decrease of $14,517 from the prior fiscal year.

Proprietary fund – The proprietary fund is used to account for operating activity of the water and wastewater system. The proprietary fund net position increased $16.5 million to $68.3 million total. The increase is due to an increase in investment income and over $12 million in developer contributions.

Fiduciary fund – The fiduciary fund is used to account for funds the City holds on a custodian basis. For the year ended September 30, 2025, the Heritage Trust Fund has a net position of $48,377.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – At September 30, 2025, the City had $108,257,309, net of depreciation/amortization, invested in capital assets. Capital assets increased by $32 million in the current year. The increase is due to developer contributions offset by depreciation/amortization during the year. Capital assets, net of depreciation/amortization are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
Land	$ 8,280,224	$ 8,049,186	$ 174,453	$ -	$ 8,454,677	$ 8,049,186
Construction in progress	821,139	-	1,706,353	-	2,527,492	-
Buildings	2,684,438	1,801,059	-	-	2,684,438	1,801,059
Improvements	5,967,483	5,701,490	-	-	5,967,483	5,701,490
Machinery and equipment	568,617	435,020	85,640	79,605	654,257	514,625
Infrastructure	41,330,320	26,276,580	46,114,671	33,249,043	87,444,991	59,525,623
Right-to-use lease asset	-	-	479,913	649,128	479,913	649,128
Right-to-use SBITA asset	44,058	64,367	-	-	44,058	64,367
Total capital assets	$ 59,696,279	$ 42,327,702	$ 48,561,030	$ 33,977,776	$ 108,257,309	$ 76,305,478

More information on capital assets can be found in note 5 to the financial statements.

Debt – The City's debt increased $10,403,987 during the year. The increase is due to the issuance of the Series 2025 Certificates of Obligations. The City's debt is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2025	2024	2025	2024	2025	2024
General obligation bonds	$ -	$ -	$ 655,000	$ 1,310,000	$ 655,000	$ 1,310,000
Certificates of obligation	13,035,000	325,000	36,125,000	37,990,000	49,160,000	38,315,000
Tax notes	2,145,000	2,500,000	-	-	2,145,000	2,500,000
Bond premium	745,041	-	-	-	745,041	-
SBITA payable	29,545	42,726	-	-	29,545	42,726
Lease payable	-	-	498,414	661,287	498,414	661,287
Total	$ 15,954,586	$ 2,867,726	$ 37,278,414	$ 39,961,287	$ 53,233,000	$ 42,829,013

More information on debt can be found in note 6 to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The largest single revenue source is sales tax revenue collected and was estimated at $4.9 million for 2025. Licenses and permits were budgeted at $2.4 million while property taxes were budgeted at $3.7 million. Overall, the City's actual revenues were approximately $119 thousand over budget. General fund expenditures were budgeted at $12.9 million for fiscal year 2025. For the year ended September 30, 2025, the City's actual expenditures were approximately $12.8 million, $110 thousand under legally adopted appropriations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For fiscal year 2024-2025, the City's total appraised value rose $99,252,834 from $2,077,013,756 to $2,176,266,590. The City anticipates continued residential and commercial growth, adding to the City's ability to provide a unique living experience for its residents. The City anticipates completing its Comprehensive Plan – Reimagine Dripping Springs, establishing priorities for the City's future land use and development projects.

The City resolved all issues relating to its approved TCEQ Wastewater Discharge Permit. Bidding on construction of the new plan is scheduled to happen in Spring of 2026, with construction anticipated to begin in June. Phase I of construction has already been funded through the Texas Water Development Board (TWDB). Phase II is currently being evaluated by the TWDB as the funding application is processed. The City currently has 496 retail water customers, which is an increase of 298 customers since the same time in 2025.

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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 any questions about this report or need additional financial information, contact the City Administrator of the City of Dripping Springs, Texas.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Government Accounting Standards Board (GASB). The sets of statements include:

- Government-Wide Financial Statements
- Fund Financial Statements
    - Governmental Funds
    - Proprietary Funds
    - Fiduciary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

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CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF NET POSITION

September 30, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	$ 30,860,282	$ 8,966,497	$ 39,826,779
Restricted assets - cash and cash equivalents	-	46,716,624	46,716,624
Receivables (net of allowance for uncollectables)	2,282,677	5,087,580	7,370,257
Internal balances	(1,427,304)	1,427,304	-
Capital assets not subject to depreciation/amortization	9,101,363	1,880,806	10,982,169
Capital assets, net of accumulated depreciation/amortization	50,594,916	46,680,224	97,275,140
Total assets	91,411,934	110,759,035	202,170,969
Deferred outflows of resources:			
Deferred outflows of resources - pension	193,223	28,872	222,095
Deferred outflows of resources - OPEB	11,244	1,681	12,925
Total deferred outflows of resources	204,467	30,553	235,020
Liabilities:			
Current liabilities:			
Accounts payable	1,258,882	3,183,562	4,442,444
Accrued liabilities	242,046	-	242,046
Accrued interest payable	51,596	135,810	187,406
Deposits payable	103,546	1,800,165	1,903,711
Noncurrent liabilities:			
Due within one year	732,239	2,729,509	3,461,748
Due in more than one year	15,675,932	34,607,757	50,283,689
Total liabilities	18,064,241	42,456,803	60,521,044
Deferred inflows of resources:			
Deferred inflows of resources - pension	81,856	12,232	94,088
Deferred inflows of resources - OPEB	17,268	2,580	19,848
Total deferred inflows of resources	99,124	14,812	113,936
Net position:			
Net investment in capital assets	58,099,388	57,863,430	115,962,818
Restricted for:			
Debt service	107,299	-	107,299
Development	3,853,579	-	3,853,579
Culture and recreation	124,501	-	124,501
Tourism	1,253,443	-	1,253,443
Impact fees	-	2,642,838	2,642,838
Unrestricted net position	10,014,826	7,811,705	17,826,531
Total net position	$ 73,453,036	$ 68,317,973	$ 141,771,009

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF ACTIVITIES

For the year ended September 30, 2025

Functions and Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary governmental activities:				
General government	$ 3,979,983	$ 459,415	$ 155,369	$ -
Development	2,973,582	2,628,060	-	-
Public safety	210,445	-	-	-
Public works	1,331,594	-	638,869	15,519,461
Culture and recreation	3,956,730	317,230	-	-
Tourism	120,394	-	-	-
Interest on long-term debt	596,301	-	-	-
Total primary governmental activities	13,169,029	3,404,705	794,238	15,519,461
Business-type activities:				
Water and wastewater	6,589,513	5,153,640	-	12,536,434
Total business-type activities	6,589,513	5,153,640	-	12,536,434
Primary government	$ 19,758,542	$ 8,558,345	$ 794,238	$ 28,055,895

General revenues and transfers:
Taxes:
Property taxes
Sales and use taxes
Other taxes
Unrestricted investment earnings
Miscellaneous
Transfers
Total general revenues and transfers

Change in net position

Net position at beginning of year

Restatement of net position

Net position at end of year

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (3,365,199)	$ -	$ (3,365,199)
(345,522)	-	(345,522)
(210,445)	-	(210,445)
14,826,736	-	14,826,736
(3,639,500)	-	(3,639,500)
(120,394)	-	(120,394)
(596,301)	-	(596,301)
6,549,375	-	6,549,375
-	11,100,561	11,100,561
-	11,100,561	11,100,561
6,549,375	11,100,561	17,649,936
5,094,936	-	5,094,936
5,081,419	994,904	6,076,323
82,042	397,296	479,338
634,265	2,118,111	2,752,376
1,864,336	1,865,532	3,729,868
50,545	(50,545)	-
12,807,543	5,325,298	18,132,841
19,356,918	16,425,859	35,782,777
54,040,648	51,840,038	105,880,686
55,470	52,076	107,546
$ 73,453,036	$ 68,317,973	$ 141,771,009

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2025

	General Fund	Dripping Springs Ranch Park	Capital Improvements	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	$ 7,056,257	$ 345,838	$ 14,409,291	$ 9,048,896	$ 30,860,282
Property taxes receivables	20,660	-	-	-	20,660
Sales tax receivable	791,606	-	-	-	791,606
Other receivables	1,470,411	-	-	-	1,470,411
Due from other funds	60,911	-	-	204,987	265,898
Total assets	$ 9,399,845	$ 345,838	$ 14,409,291	$ 9,253,883	$ 33,408,857
Liabilities:					
Accounts payable	$ 875,193	$ 224,035	$ -	$ 159,654	$ 1,258,882
Accrued liabilities	231,584	10,462	-	-	242,046
Due to other funds	1,631,953	879	-	60,370	1,693,202
Developer deposits	103,546	-	-	-	103,546
Total liabilities	2,842,276	235,376	-	220,024	3,297,676
Deferred inflows of resources:					
Unearned revenue - property taxes	20,660	-	-	-	20,660
Total deferred inflows of resources	20,660	-	-	-	20,660
Fund balances:					
Restricted for:					
Debt service	-	-	-	107,299	107,299
Development	-	-	-	3,853,579	3,853,579
Culture and recreation	-	110,462	-	14,039	124,501
Tourism	-	-	-	1,253,443	1,253,443
Capital projects	-	-	14,409,291	-	14,409,291
Committed:					
Other	-	-	-	466,671	466,671
Reserve	-	-	-	3,338,828	3,338,828
Unassigned	6,536,909	-	-	-	6,536,909
Total fund balances	6,536,909	110,462	14,409,291	9,033,859	30,090,521
Total liabilities, deferred inflows of resources, and fund balances	$ 9,399,845	$ 345,838	$ 14,409,291	$ 9,253,883	$ 33,408,857

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

RECONCILIATION OF BALANCE SHEET
GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION

For the year ended September 30, 2025

Total fund balances - governmental funds	$ 30,090,521
Amounts reported in governmental funds and 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.	59,696,279
Certain 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.	20,660
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 and premium payable	(15,925,041)
SBITA payable	(29,545)
Interest payable	(51,596)
Compensated absences	(390,718)
Deferred inflows/outflows related to pensions	111,367
Deferred inflows/outflows related to OPEB	(6,024)
Net pension liability	(22,342)
Total OPEB liability	(40,525)
Total net position of governmental activities	$ 73,453,036

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the year ended September 30, 2025

	General Fund	Dripping Springs Ranch Park	Capital Improvements	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Taxes:					
Ad valorem taxes	$ 3,195,917	$ -	$ -	$ 1,910,146	$ 5,106,063
Sales and use taxes	3,979,650	-	-	1,101,769	5,081,419
Franchise taxes	40,978	-	-	14,087	55,065
Mixed drink tax	26,977	-	-	-	26,977
Licenses and permits	2,642,556	-	-	-	2,642,556
Intergovernmental revenues	794,238	-	-	-	794,238
Charges for services	444,919	249,611	-	67,619	762,149
Interest income	212,077	7,737	178,479	235,972	634,265
Donations	7,876	-	-	81,857	89,733
Miscellaneous	484,274	531,872	-	758,457	1,774,603
Total revenues	11,829,462	789,220	178,479	4,169,907	16,967,068
Expenditures:					
General government	3,532,433	-	-	-	3,532,433
Public safety	186,779	-	-	-	186,779
Public works	1,181,854	-	-	-	1,181,854
Development	2,135,026	-	-	504,173	2,639,199
Culture and recreation	2,097,365	841,486	-	572,941	3,511,792
Tourism	-	-	-	106,855	106,855
Capital outlay	2,742,465	260,345	83,366	147,672	3,233,848
Debt service:					
Principal	693,181	-	-	400,000	1,093,181
Interest and fiscal charges	242,955	-	200,975	114,483	558,413
Total expenditures	12,812,058	1,101,831	284,341	1,846,124	16,044,354
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	(982,596)	(312,611)	(105,862)	2,323,783	922,714
Other financing sources (uses):					
Transfers in	-	330,000	-	1,022,826	1,352,826
Transfers out	(300,000)	(31,906)	-	(970,375)	(1,302,281)
Bonds issued	-	-	13,435,000	-	13,435,000
Premium	-	-	757,669	-	757,669
Total other financing sources (uses)	(300,000)	298,094	14,192,669	52,451	14,243,214
Net change in fund balances	(1,282,596)	(14,517)	14,086,807	2,376,234	15,165,928
Fund balance - beginning of year	7,841,784	124,979	322,484	6,496,488	14,785,735
Restatement of fund balance	(22,279)	-	-	161,137	138,858
Fund balance - end of year	$ 6,536,909	$ 110,462	$ 14,409,291	$ 9,033,859	$ 30,090,521

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

RECONCILIATON OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS TO CHANGE IN STATEMENT OF ACTIVITIES

For the year ended September 30, 2025

Net change in fund balances - governmental funds	$ 15,165,928
Amounts reported in governmental funds and 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 are allocated over their estimated useful lives and reported as depreciation/amortization.	3,233,848
Developers contributions are not reported in governmental funds.	15,519,461
Depreciation and amortization expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation and amortization expense is not reported as expenditures in the governmental funds.	(1,384,732)
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.	(11,127)
Governmental funds report repayment of principal as an expenditure. In contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceed proceeds.	
Debt service principal	1,093,181
Bond premium amortization	12,628
Tax notes and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. This is the amount of proceeds from issuance of certificates of obligation.	(14,192,669)
Total OPEB expense is not recognized in governmental funds.	(5,775)
Total pension expense is not recognized in governmental funds.	33,782
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	(57,091)
Increase in accrued interest	(50,516)
Change in net position of governmental activities	$ 19,356,918

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF NET POSITION
ENTERPRISE FUNDS

September 30, 2025

	Water and Wastewater Fund
ASSETS	
Current assets:	
Cash and cash equivalents	$ 8,966,497
Restricted cash, cash equivalents	46,716,624
Accounts receivable, net of allowance for doubtful accounts	5,087,580
Due from other funds	1,427,304
Total current assets	62,198,005
Noncurrent assets:	
Capital assets:	
Land	174,453
Infrastructure	57,255,010
Equipment	227,956
Right-to-use lease asset	846,075
Construction in progress	1,706,353
Less accumulated depreciation/amortization	(11,648,817)
Total noncurrent assets	48,561,030
Total assets	110,759,035
Deferred outflows of resources:	
Deferred outflows of resources - pension	28,872
Deferred outflows of resources - OPEB	1,681
Total outflows of resources	30,553
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 110,789,588

(continued)

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF NET POSITION
ENTERPRISE FUNDS

September 30, 2025

	Water and Wastewater Fund
LIABILITIES	
Current liabilities:	
Accounts payable	$ 3,183,562
Accrued interest payable	135,810
Customer deposits	1,800,165
Bonds payable - current	655,000
Certificates of obligation - current	1,905,000
Lease payable - current	169,509
Total current liabilities	7,849,046
Noncurrent liabilities:	
Compensated absences	49,458
Certificate of obligation	34,220,000
Lease payable	328,905
Net pension liability	3,338
OPEB liability	6,056
Total noncurrent liabilities	34,607,757
Total liabilities	42,456,803
Deferred inflows of resources:	
Deferred inflows of resources - pension	12,232
Deferred inflows of resources - OPEB	2,580
Total inflows of resources	14,812
NET POSITION	
Net investment in capital assets	57,863,430
Restricted - Impact Fees	2,642,838
Unrestricted	7,811,705
Total net position	68,317,973
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 110,789,588

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUNDS

For the year ended September 30, 2025

	Water and Wastewater Fund
Operating revenues:	
Charges for services	$ 3,318,260
Franchise fees	397,296
Impact Fees	1,835,380
Miscellaneous	1,865,532
Total operating revenues	7,416,468
Operating expenses:	
Personnel	819,043
Supplies and materials	225,224
Contracted services	776,976
Other services	1,290,738
Repairs and maintenance	1,136,684
Depreciation/amortization	1,911,460
Total operating expenses	6,160,125
Operating income	1,256,343
Nonoperating revenues (expenses):	
Interest expense	(429,388)
Sales taxes	994,904
Interest income	2,118,111
Total nonoperating revenues (expenses)	2,683,627
Income before contributions and transfers	3,939,970
Contributions and transfers	
Capital contributions	12,536,434
Transfer in	-
Transfers out	(50,545)
Total contributions and transfers	12,485,889
Change in net position	16,425,859
Net position at beginning of year	51,840,038
Restatement of net position	52,076
Net position at end of year	$ 68,317,973

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS

For the year ended September 30, 2025

	Water and Wastewater Fund
Cash flows from operating activities:	
Receipts from customers	$ 5,024,220
Payments to suppliers and service providers	(2,241,306)
Payment to employees for salaries and benefits	(813,553)
Net cash provided by (used in) operating activities	1,969,361
Cash flows from noncapital financing activities:	
Other revenue received	994,904
Transfers to other funds	(50,545)
Net cash provided by (used in) noncapital financing activities	944,359
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(3,958,280)
Principal paid on capital debt	(2,520,000)
Principal paid on lease	(162,873)
Interest paid on capital debt	(423,830)
Net cash provided by (used in) capital and related financing activities	(7,064,983)
Cash flows from investing activities:	
Interest income	2,118,111
Net increase (decrease) in cash and cash equivalents	(2,033,152)
Cash and cash equivalents - beginning	57,716,273
Cash and cash equivalents - ending	$ 55,683,121
Reconciliation of operating income to net cash provided by (used in) operating activities:	
Operating income	$ 1,256,343
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation/amortization expense	1,911,460
Increase in accounts receivable	(1,958,104)
Increase in due from others	(824,269)
Increase in pension related deferred outflows of resources	(2,468)
Increase in OPEB related deferred outflows of resources	(45)
Increase in accounts payable	1,311,195
Increase in deposits payable	266,066
Increase in compensated absences	11,178
Decrease in net pension liability	(11,547)
Increase in net OPEB liability	1,658
Increase in pension related deferred inflows of resources	7,736
Increase in OPEB related deferred inflows of resources	158
Net cash provided by (used in) operating activities	1,969,361
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:	
Contributions of capital assets	$ 12,536,434

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

For the year ended September 30, 2025

	Heritage Road Trail Trust Fund
ASSETS	
Cash and cash equivalents	$ 48,377
TOTAL ASSETS	$ 48,377
NET POSITION	
Unrestricted	$ 48,377
TOTAL NET POSITION	$ 48,377

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

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FIDUCIARY FUNDS

For the year ended September 30, 2025

	Heritage Road Trail Trust Fund
Additions	
Investment earnings	$ 1,475
Deletions	
Development services	-
Change in net position	1,475
Net position at beginning of year	(1,867,305)
Restatement of net position	1,914,207
Net position at end of year	$ 48,377

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

FINAL DRAFT

DRIPPING SPRINGS
Texas

Open spaces, friendly faces.

CITY OF DRIPPING SPRINGS, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2025

(1) Summary of significant accounting policies

Reporting entity

The financial statements of 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 as a proprietary function of the City. The accounting policies of the City of Dripping Springs conform to generally accepted accounting principles (GAAP) issued by the Governmental Accounting Standards Board (GASB) 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 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 is also financially dependent on the City. TIRZ#1 is reported as a blended component unit of the City and 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#2 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 does not issue separate financial statements.

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 represent 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.

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

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, contributors, or laws and regulations of other governments, (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, 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 principal and interest expenditures on a general long-term debt, including subscription-based technology arrangements (SBITA) liabilities, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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.

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

Governmental funds (continued)

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.

Dripping Springs Ranch Park Fund – is one of the City's special revenue funds. It accounts for all financial resources for the Dripping Springs Ranch Park, a park and event center.

Capital Improvements Fund – is used to account for construction in progress capital outlay or long-term repair expenditures.

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 fourteen 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 and accounted for using an economic resources measurement focus. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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

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

Fiduciary funds

Fiduciary funds are used to account for assets held on behalf of outside parties by the City. The City uses custodial funds to account for assets held in the agent capacity for other developers for which the City disburses funds on behalf of the development.

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

Public improvement districts

Special assessment revenue bonds are issued by the City for the public improvement districts (PID) and are secured solely from assessment revenues generated by each PID. The City is not obligated in any manner for this special assessment debt but merely acts as the developer's agent in handling the debt service by each PID and forwarding to the trustee for payment to the bond holders. The bond proceeds were deposited into trust accounts with Wilmington Trust National Association for the purpose of funding improvements in the projects. Wilmington Trust National Association serves as trustee, for the benefit of the bond holders, for these funds as well as any and all other property or money of every name and nature, which is, from time-to-time hereafter by delivery or in writing of any kind, conveyed, pledged, assigned, or transferred to the trustee.

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.

Assets, liabilities, deferred inflows/outflows of resources and fund balances/net position

Deposits and investments

The 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, 2025, the City does not hold any investments and only has interest bearing cash accounts.

(1) Summary of significant accounting policies (continued)

Assets, liabilities, deferred inflows/outflows of resources and fund balances/net position (continued)

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, 2025, the City does not have an allowance for uncollectable tax receivables as the total balance of the taxes receivable is not significant to the financial statements.

Accounts receivables

The City has entered into various agreements with developers and vendors under which under which the City advanced construction and engineering costs related to projects within the City. In accordance with the terms of these agreements, the City is entitled to reimbursement of these upfront expenditures. Amounts advanced under these arrangements are recorded as accounts receivable in the accompanying financial statements. Because these amounts represent reimbursements of previously incurred expenditures, no revenue has been recognized in connection with these transactions.

As of September 30, 2025, management has evaluated the outstanding receivable balances and determined that they are fully collectible. Accordingly, no allowance for doubtful accounts has been recorded.

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, infrastructure assets, right-to-use lease assets, and right-to-use SBITA 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. The City has established a lease and SBITA recognition threshold of $5,000 and $5,000 respectively. 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. Improvement and betterments which materially extend the useful lives of capital assets are capitalized.

(1) Summary of significant accounting policies (continued)

Assets, liabilities, deferred inflows/outflows of resources and fund balances/net position (continued)

Capital assets (continued)

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 as part of the capitalized value of the assets constructed. Contributions of capital assets from external sources are recorded as capital contribution revenue. Property, plant, equipment, the right-to-use lease assets, and right-to-use SBITA assets of the primary government are depreciated/amortized using the straight-line method over the following estimated useful lives:

Asset Description	Estimated Useful Life
Buildings	15-40 years
Building improvements	15-40 years
Infrastructure	10-40 years
Machinery and equipment	5-10 years
Right-to-use lease asset	lease term
Right-to-use SBITA asset	subscription term

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 of employment in accordance with City policy. As of October 1, 2024 the City has implemented GASB Statement No. 101 *Compensated Absences*. This required all vacation and sick leave carried by employees at the City as well as the fringe benefits associated with the leave balances to be included in the calculation of compensated absences and required a restatement of net position of $84,368.

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.

Leases

The City is a lessee for a noncancellable lease of equipment. The City recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the proprietary fund financial statements. The City recognizes lease liabilities with an initial, individual value of $5,000 or more.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

(1) Summary of significant accounting policies (continued)

Assets, liabilities, deferred inflows/outflows of resources and fund balances/net position (continued)

Leases (continued)

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rates as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase options price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Subscription-based information technology arrangements (SBITA)

The City is under contract for SBITA for various software. The arrangement/contract are noncancellable and the City recognizes a SBITA liability and an intangible right-to-use SBITA asset in the government-wide financial statements. The City recognizes SBITA liabilities with an initial, individual value of $5,000 or more.

At the commencement of the SBITA, the City initially measures the SBITA liability at the present value of payments expected to be made during the SBITA term. Subsequently, the SBITA liability is reduced by the principal portion of SBITA payments made. The SBITA asset is initially measured as the initial amount of the SBITA liability, adjusted for payments made at or before the SBITA commencement date, plus certain initial direct costs. Subsequently, the SBITA asset is amortized on a straight-line basis over its useful life. Key estimates and judgments related to SBITA include how the City determines (1) the discount rate it uses to discount the expected SBITA payments to present value, (2) SBITA term, and (3) SBITA payments.

- The City uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the City generally uses its estimated incremental borrowing rates as the discount rate for SBITAs.

- The SBITA term includes the noncancellable period of the SBITA and payments included in the measurement of the SBITA liability are composed of fixed payments and purchase options price that the City is reasonably certain to exercise.

(1) Summary of significant accounting policies (continued)

Assets, liabilities, deferred inflows/outflows of resources and fund balances/net position (continued)

Subscription-based information technology arrangements (SBITA) (continued)

The City monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the SBITA asset and liability if certain changes occur that are expected to significantly affect the amount of the SBITA liability.

SBITA assets are reported with other capital assets and SBITA liabilities are reported with long-term debt on the statement of net position.

Pensions and other postemployment benefits (OPEB)

The City has pension and OPEB for supplemental death benefits fund (SBDF) 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 number 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 health benefits.

(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

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 assets (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.

- Deferred outflows of resources for other postemployment 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.

(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)

A *deferred inflow of resources* is an acquisition of a government's net assets (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 basis of accounting. The 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 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.

(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 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 balances 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 find that reports a positive unassigned fund balance amount. In other governmental funds other than the 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.

(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.

(2) Deposits and investments (continued)

At September 30, 2025, the carrying amount of deposits was $86,591,776 and the respective bank balances were $86,735,921. 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, 2025, 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 of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the 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 compliance with all requirements of the Act and with local policies.

As of September 30, 2025, the City does not hold any investments.

(3) Property taxes

The appraisal of property within the City is the responsibility of the 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's 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.

(3) Property taxes (continued)

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 2025 was $0.1794 per $100 of assessed valuation. The 2025 assessed value and total tax levy as adjusted through September 30, 2025 were $2,070,364,108 and $3,714,233, 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 appraisal values. Taxes are levied by the City Council based on the appraised values and operating needs of the City.

(4) Receivables

Receivables as of September 30, 2025 for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water and Wastewater Fund	Total
Receivables			
Property taxes	$ 20,660	$ -	$ 20,660
Sales taxes	791,606	-	791,606
Customers	-	5,087,580	5,087,580
Other	1,470,411	-	1,470,411
Total receivables	$ 2,282,677	$ 5,087,580	$ 7,370,257

(5) Capital assets

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

	Balance October 1, 2024	Additions	Retirements and Transfers	Balance September 30, 2025
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 8,049,186	$ 231,038	$ -	$ 8,280,224
Construction in progress	-	821,139	-	821,139
Total capital assets not being depreciated	8,049,186	1,052,177	-	9,101,363
Capital assets being depreciated:				
Buildings	2,402,210	986,974	-	3,389,184
Improvements other than buildings	9,236,290	559,875	-	9,796,165
Machinery and equipment	1,906,941	241,637	-	2,148,578
Infrastructure	28,268,518	15,912,646	-	44,181,164
Right-to-use SBITA asset	101,543	-	-	101,543
Total capital assets being depreciated	41,915,502	17,701,132	-	59,616,634
Less accumulated depreciation:				
Buildings	(601,151)	(103,595)	-	(704,746)
Improvements other than buildings	(3,534,800)	(293,882)	-	(3,828,682)
Machinery and equipment	(1,471,922)	(108,039)	-	(1,579,961)
Infrastructure	(1,991,937)	(858,907)	-	(2,850,844)
Right-to-use SBITA asset	(37,176)	(20,309)	-	(57,485)
Total accumulated depreciation	(7,636,986)	(1,384,732)	-	(9,021,718)
Total capital assets being depreciated (net)	34,278,516	16,316,400	-	50,594,916
Governmental activities capital assets (net)	$ 42,327,702	$ 17,368,577	$ -	$ 59,696,279

(5) Capital assets (continued)

	Balance October 1, 2024	Additions	Retirements and Transfers	Balance September 30, 2025
Business-type activities:				
Capital assets not being depreciated:				
Land	$ -	$ 174,453	$ -	$ 174,453
Construction in progress	-	1,706,353	-	1,706,353
Total capital assets, not being depreciated	-	1,880,806	-	1,880,806
Capital assets being depreciated:				
Infrastructure	42,683,319	14,571,691	-	57,255,010
Machinery and equipment	185,739	42,217	-	227,956
Right-to-use lease asset	846,075	-	-	846,075
Total capital assets being depreciated	43,715,133	14,613,908	-	58,329,041
Less accumulated depreciation:				
Infrastructure	(9,434,276)	(1,706,063)	-	(11,140,339)
Machinery and equipment	(106,134)	(36,182)	-	(142,316)
Right-to-use lease asset	(196,947)	(169,215)	-	(366,162)
Total accumulated depreciation	(9,737,357)	(1,911,460)	-	(11,648,817)
Total capital assets being depreciated (net)	33,977,776	12,702,448	-	46,680,224
Business-type activities capital assets (net)	$ 33,977,776	$ 14,583,254	$ -	$ 48,561,030

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

Governmental activities:	
General government	$ 431,667
Public safety	23,091
Public works	145,454
Development	328,412
Culture and recreation	442,632
Tourism	13,476
Total governmental activities	$ 1,384,732
Business-type activities:	
Water and wastewater	$ 1,911,460
Total business-type activities	$ 1,911,460

(5) Capital assets (continued)

Net investment in capital assets at September 30, 2025 is calculated as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net	$ 59,696,279	$ 48,561,030
Less:		
Accrued interest payable	51,596	135,810
Bonds payable	13,035,000	655,000
Notes payable	2,145,000	36,125,000
SBITA liability	29,545	-
Lease liability	-	498,414
Unamortized premiums on outstanding debt	745,041	-
Plus:		
Unspent bond/note proceeds	14,409,291	46,716,624
Net investment in capital assets	$ 58,099,388	$ 57,863,430

(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.

				Balance at September 30, 2025	
General Obligation Bonds	Original Borrowings	Final Maturity	Interest Rates	Governmental	Business-Type
General Obligation Refunding Bonds, Series 2015	$ 7,410,000	2026	0.437-2.352%	$ -	$ 655,000
Total general obligation bonds				$ -	$ 655,000

(6) Long-term liabilities (continued)

Certificates of Obligation	Original Borrowings	Final Maturity	Interest Rates	Balance at September 30, 2025 Governmental	Balance at September 30, 2025 Business-Type
Combination Tax and Limited Revenue Certificates of Obligation, Series 2013	$ 1,000,000	2028	4.15%	$ 250,000	$ -
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2019	23,500,000	2040	0.04-0.61%	-	18,860,000
Combination Tax and Revenue Certificates of Obligation, Series 2022	19,895,000	2042	0.61-2.01%	-	17,265,000
Combination Tax and Revenue Certificates of Obligation, Series 2025	13,435,000	2043	5.00%	12,785,000	-
Total certificates of obligation				$ 13,035,000	$ 36,125,000

Tax Notes	Original Borrowings	Final Maturity	Interest Rates	Balance at September 30, 2025 Governmental	Balance at September 30, 2025 Business-Type
General Obligation Refunding Bonds, Series 2015	$ 2,500,000	2026	4.44%	$ 2,145,000	$ -
Total tax notes				$ 2,145,000	$ -

The City issued Certificates of Obligation bonds, Series 2025 on April 15, 2025 in the amount of $13,435,000 for the purpose of constructing and improving existing City Streets and Right of Way improvements. The original issue consists of bonds maturing as of September 1, 2043 with an interest rate of 5.0%.

(6) Long-term liabilities (continued)

Changes in the City's long-term liabilities for the year ended September 30, 2025 are as follows:

	October 1, 2024 as restated	Increases	Decreases	Balance September 30, 2025	Due Within One Year
Governmental activities:					
Bonds and notes payable:					
Certificates of obligation	$ 325,000	$ 13,435,000	$ (725,000)	$ 13,035,000	$ 290,000
Tax notes	2,500,000	-	(355,000)	2,145,000	390,000
Bond premium	-	757,669	(12,628)	745,041	37,884
Total bonds and notes payable	2,825,000	14,192,669	(1,092,628)	15,925,041	717,884
SBITA payable	42,726	-	(13,181)	29,545	14,355
Compensated absences	333,627	57,091	-	390,718	-
Net pension liability	117,071	-	(94,729)	22,342	-
Total OPEB liability	34,595	5,930	-	40,525	-
Total governmental activities	$ 3,353,019	$ 14,255,690	$ (1,200,538)	$ 16,408,171	$ 732,239
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 1,310,000	$ -	$ (655,000)	$ 655,000	$ 655,000
Certificates of obligation	37,990,000	-	(1,865,000)	36,125,000	1,905,000
Total bonds payable	39,300,000	-	(2,520,000)	36,780,000	2,560,000
Lease payable	661,287	-	(162,873)	498,414	169,509
Compensated absences	39,260	10,198	-	49,458	-
Net pension liability	14,885	-	(11,547)	3,338	-
Total OPEB liability	4,398	1,658	-	6,056	-
Total business-type activities	$ 40,019,830	$ 11,856	$ (2,694,420)	$ 37,337,266	$ 2,729,509

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 obligation 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.

	Governmental Activities					
	Certificates of Obligation		Tax Notes		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2026	$ 290,000	$ 649,625	$ 390,000	$ 95,238	$ 680,000	$ 744,863
2027	570,000	635,805	410,000	77,922	980,000	713,727
2028	595,000	608,028	430,000	59,718	1,025,000	667,746
2029	535,000	579,000	445,000	40,626	980,000	619,626
2030	565,000	552,250	470,000	20,868	1,035,000	573,118
2031-2035	3,265,000	2,309,750	-	-	3,265,000	2,309,750
2036-2040	4,180,000	1,406,250	-	-	4,180,000	1,406,250
2041-2043	3,035,000	308,250	-	-	3,035,000	308,250
Total	$ 13,035,000	$ 7,048,958	$ 2,145,000	$ 294,372	$ 15,180,000	$ 7,343,330

(6) Long-term liabilities (continued)

General obligation bonds and certificates of obligation (continued)

	Business-Type Activities					
	General Obligation Bonds		Certificates of Obligation		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2025	$ 655,000	$ 15,406	$ 1,905,000	$ 360,322	$ 2,560,000	$ 375,728
2026	-	-	1,945,000	349,731	1,945,000	349,731
2027	-	-	1,990,000	338,211	1,990,000	338,211
2028	-	-	2,035,000	325,035	2,035,000	325,035
2029	-	-	2,080,000	310,345	2,080,000	310,345
2030-2034	-	-	11,190,000	1,274,435	11,190,000	1,274,435
2035-2039	-	-	12,660,000	670,810	12,660,000	670,810
2040-2042	-	-	2,320,000	69,610	2,320,000	69,610
Total	$ 655,000	$ 15,406	$ 36,125,000	$ 3,698,499	$ 36,780,000	$ 3,713,905

Lease payable

The City entered into a six-year lease agreement as lessee for the acquisition and use of WWTP equipment. An initial lease liability was recorded in the amount of $817,784. As of September 30, 2025 the value of the lease liability was $498,414. The lease has an interest rate of 4%. The equipment has a six-year estimated useful life. The value of the right-to-use asset as of the end of the current fiscal year was $846,075 and had accumulated amortization of $366,162.

The future principal and interest payments as of September 30, 2025, were as follows:

	Lease Payable		
Fiscal Year	Principal	Interest	Total
2026	$ 169,509	$ 16,851	$ 186,360
2027	176,415	9,945	186,360
2028	152,490	2,810	155,300
Total	$ 498,414	$ 29,606	$ 528,020

SBITA payable

The City entered into a five-year SBITA agreement for the right-to-use software. An initial SBITA was recorded in the amount of $54,983. As of September 30, 2025, the value of the SBITA liability was $29,545. The SBITA has an interest rate of 4%. The software noncancellable term is 5 years. The value of the right-to-use asset as of the end of the current fiscal year was $101,543 and had accumulated amortization of $57,485.

(6) Long-term liabilities (continued)

SBITA payable (continued)

The future principal and interest SBITA payments as of September 30, 2025, were as follows:

	SBITA Payable		
Fiscal Year	Principal	Interest	Total
2026	$ 14,355	$ 1,182	$ 15,537
2027	15,190	608	15,798
Total	$ 29,545	$ 1,790	$ 31,335

(7) Special assessment bonds

The Public Improvement Districts (PID) were created by City Council ordinance under the Texas PID Act (Texas Local Government Code Chapter 372) principally to finance certain capital improvement projects for master planned developments within City boundaries. In order to finance the capital improvements of the City can issue special assessment bonds up to a maximum principal amount in accordance with development agreements between the City and the developer.

The City authorized by the Texas PID Act and on Assessment Ordinance to collect assessments levied on the properties within the improvement area, which is pledged to pay the scheduled principal and interest payments on the PID bonds.

The City is in no way liable for repayment of the PID bonds, and is only acting as a custodian for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate.

(7) Special assessment bonds (continued)

A summary of the terms of special assessment bonds, as of September 30, 2025, follows:

Description	Original Issue	Final Maturity	Interest Rates	Outstanding Balance September 30, 2025
Special Assessment Revenue Bonds, Series 2023 Heritage Public Improvement District Improvement Area #1 Project	$ 790,000	2030	4.50%	$ 633,000
Special Assessment Revenue Bonds, Series 2023 Heritage Public Improvement District Improvement Area #1 Project	2,595,000	2043	5.38%	2,595,000
Special Assessment Revenue Bonds, Series 2023 Heritage Public Improvement District Improvement Area #1 Project	3,658,000	2053	5.50%	3,658,000
Special Assessment Revenue Bonds, Series 2024 Heritage Public Improvement District Improvement Area #2 Project	766,000	2031	4.25%	766,000
Special Assessment Revenue Bonds, Series 2024 Heritage Public Improvement District Improvement Area #2 Project	2,587,000	2044	5.00%	2,587,000
Special Assessment Revenue Bonds, Series 2024 Heritage Public Improvement District Improvement Area #2 Project	3,520,000	2054	5.30%	3,520,000
Total				$ 13,759,000

(8) Interfund receivables, payables, and transfers

The composition of interfund transfers for the year ended September 30, 2025 are as follows:

	Transfers To		
Transfers From	Dripping Springs Ranch Park	Nonmajor Governmental Funds	Totals
General fund	$ -	$ 300,000	$ 300,000
Dripping Springs Ranch Park	-	31,906	31,906
Nonmajor governmental	330,000	640,375	970,375
Water and wastewater fund	-	50,545	50,545
Totals	$ 330,000	$ 1,022,826	$ 1,352,826

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. Transfers from hotel/motel tax fund were properly expended for allowance activities.

(9) Defined benefit pension plans

Texas Municipal Retirement System

Plan description

The City of Dripping Springs participates as one of 934 plans in the defined benefit cash-balance pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of the system with a six-member, Governor appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com.

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

(9) Defined benefit pension plans (continued)

Texas Municipal Retirement System (continued)

Benefits provided

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

At retirement, the member's benefit is calculated based on the sum of the member's contributions, with interest, and the City-financed monetary credits with interest. The retiring members may select one of seven monthly benefit payment 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 total member's contribution and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Members are eligible to retire at age sixty (60) and above with five (5) or more years of service or with twenty (20) years of service regardless of age. A member is vested after five (5) years. The contribution rate for the employees is 7%, and the City matching percent is currently 2 to 1.

Employees covered by benefit terms

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

Inactive employees or beneficiaries receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	49
Active employees	64
Total	116

Contributions

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

Employees for the City were required to contribute 6% of their annual compensation during the fiscal year. The contribution rates for the City were 5.63% and 5.71% in calendar years 2025 and 2024, respectively. The City's contributions to TMRS for the year ended September 30, 2025, were $276,617, and were equal to the required contributions.

(9) Defined benefit pension plans (continued)

Texas Municipal Retirement System (continued)

Net pension liability

The City's net pension liability (NPL) was measured as of December 31, 2024, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.60% to 11.85% including inflation
Discount rate *	4.08
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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

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

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with 110% of the public safety table used for males and 100% of the general employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by the most recent Scale MP2021 to account for future mortality improvements subject to the floor.

(9) Defined benefit pension plans (continued)

Texas Municipal Retirement System (continued)

Actuarial assumptions (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2018 through December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. The post-retirement mortality assumption for annuity purchase rates (APRs) 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.

The long-term expected rate of return on pension plan investments was determined by weighting the expected return for each major asset class by the respective target asset allocation percentage.

The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2025 are summarized in the following tables:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.10%
Core Fixed Income	6.0%	5.00%
Non-Core Fixed Income	6.0%	6.80%
Hedge Funds	5.0%	6.40%
Private Equity	13.0%	8.50%
Private Debt	13.0%	8.20%
Real Estate	12.0%	6.70%
Infrastructure	6.0%	6.00%
Other public and private markets	4.0%	7.30%
Total	100.0%	

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 member 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 members. 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.

(9) Defined benefit pension plans (continued)

Texas Municipal Retirement System (continued)

Changes in net pension liability

The schedule below presents the changes in the net pension liability (asset) as of December 31, 2024:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at December 31, 2023	$ 2,530,490	$ 2,398,534	$ 131,956
Changes for the year:			
Service cost	489,038	-	489,038
Interest	185,249	-	185,249
Change of benefit terms	-	-	-
Difference between expected and actual experience	(26,518)	-	(26,518)
Changes of assumptions	-	-	-
Contributions - employer	-	245,811	(245,811)
Contributions - employee	-	258,295	(258,295)
Net investment income	-	251,575	(251,575)
Benefit payments, including refunds of employee contributions	(61,155)	(61,155)	-
Administrative expense	-	(1,598)	1,598
Other changes	-	(37)	37
Net changes	586,614	692,890	(106,277)
Balance at December 31, 2024	$ 3,117,104	$ 3,091,424	$ 25,680

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 513,652	$ 25,680	$ (373,326)

(9) Defined benefit pension plans (continued)

Texas Municipal Retirement System (continued)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the schedule of changes in fiduciary net position, by participant city. The report may be obtained at www.tmrs.com.

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

For the year ended September 30, 2025, the City recognized pension expense of $233,513.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 17,611	$ 31,312
Changes in actuarial assumptions	-	12,947
Difference between projected and actual investment earnings	-	49,829
Contributions subsequent to the measurement date	204,484	-
Total	$ 222,095	$ 94,088

The City reported $204,484 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year September 30,	Amortization Expense
2026	$ (17,243)
2027	2,928
2027	(40,330)
2028	(21,832)
Thereafter	-
Total	$ (76,477)

(10) Other postemployment benefits (OPEB) plan

Texas Municipal Retirement System

Plan description

The City participates in a single-employer defined benefit plan, which operates like a group-term life insurance plan, operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits provided

The death benefit for active members provides a lump-sum payment approximately equal to the member's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired members are insured for $7,500; this coverage is an "other postemployment benefit" or OPEB. As the SDBF covers both active and retiree members, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated).

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. 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. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

The contribution rate for the City was 0.14% and 0.19% respectively for calendar years 2025 and 2024. The City's contributions to TMRS for the SDBF program for the year ended September 30, 2025 were $7,729 and were equal to the required contributions.

Employees covered by benefit terms

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

Inactive employees or beneficiaries receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	7
Active employees	64
Total	73

Other postemployment benefits (OPEB) liability

The City's total OPEB liability of $46,581 was measured as of December 31, 2024 and was determined by an actuarial valuation as of that date.

(10) Other postemployment benefits (OPEB) plan (continued)

Texas Municipal Retirement System (continued)

Actuarial assumptions:

The total OPEB liability in the December 31, 2024 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Salary increases	3.60% to 11.85% including inflation
Discount rate *	4.08
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. Male rates are multiplied by 103% and female rates are multiplied by 105%. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence).
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by the most recent Scale MP-2021 (with immediate convergence) to account for future mortality improvements subject to the floor.

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

The actuarial assumptions used in the December 31, 2024 valuation were based on the results of an actuarial experience study for the period ending December 31, 2022.

Changes in the total OPEB liability:

Balance at December 31, 2023	$ 38,993
Changes for the year:	
Service cost	8,179
Interest on the total OPEB liability	1,616
Changes of benefit terms	-
Difference between expected and actual experience	1,569
Change of assumptions	(3,346)
Benefit payments	(430)
Net changes	7,588
Balance at December 31, 2024	$ 46,581

(10) Other postemployment benefits (OPEB) plan (continued)

Texas Municipal Retirement System (continued)

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

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

	1% Decrease in Discount Rate (3.08%)	Current Discount Rate (4.08%)	1% Increase in Discount Rate (5.08%)
City's OPEB liability	$ 58,866	$ 46,581	$ 37,457

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

For the year ended September 30, 2025, the City recognized OPEB expense of $7,526.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 1,846	$ 4,016
Changes in actuarial assumptions	5,750	15,832
Difference between projected and actual investment earnings	-	-
Contributions subsequent to the measurement date	5,329	-
Total	$ 12,925	$ 19,848

The City reported $5,329 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability for the year ending September 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year September 30,	Amortization Expense
2026	$ (1,948)
2027	(1,779)
2028	(3,357)
2029	(2,902)
2030	(2,123)
Thereafter	(143)
Total	$ (12,252)

(11) Risk management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, 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.

(12) Change in accounting principle

Effective for the fiscal year beginning October 1, 2024, the City implemented GASB Statement No. 101, *Compensated Absences,* which revises the recognition and measurement guidance for compensated absences. The implementation of GASB Statement No. 101 was applied retroactively, as required by the standard. As a result, beginning net position as of October 1, 2024 was restated by $84,368.

(13) Restatements and changes in accounting principle

In accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections,* the below items have been adjusted through a restatement of beginning net position and fund balances as of October 1, 2024.

General fund:

The beginning fund balance of the general fund has been restated to correct accounts receivables, due to other funds, and developer deposits. A reconciliation of the prior period ending fund balance to the current year beginning fund balance is as follows:

Beginning fund balance	$ 7,841,784
Correction of error-accounts receivables	225,962
Correction of error-due to other funds	(32,000)
Correction of error-developer deposits	(216,241)
Beginning fund balance, as restated	$ 7,819,505

The beginning fund balance of the nonmajor governmental funds has been restated to correct accounts receivables and developer deposits. A reconciliation of the prior period ending fund balance to the current year beginning fund balance is as follows:

Beginning fund balance	$ 6,496,488
Correction of error-accounts receivables	(121,620)
Correction of error-developer deposits	282,757
Beginning fund balance, as restated	$ 6,657,625

(13) Restatements and changes in accounting principle (continued)

The beginning net position of the governmental activities has been restated to correct accounts receivables, due to other funds, developer deposits, and required GASB 101 implementation. A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

Beginning net position	$ 54,040,648
Correction of error-accounts receivables	104,342
Correction of error-due to other funds	(32,000)
Correction of error-developer deposits	66,516
Change in accounting principle-GASB 101	(83,388)
Beginning net position, as restated	$ 54,096,118

The beginning net position of the business-type activities has been restated to correct accounts receivables, developer deposits, and required GASB 101 implementation. A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

Beginning net position	$ 51,840,038
Correction of error-accounts receivables	155,902
Correction of error-developer deposits	(102,846)
Change in accounting principle-GASB 101	(980)
Beginning net position, as restated	$ 51,892,114

The beginning net position of the fiduciary activities has been restated to correct prior year expenditures incorrectly recorded. A reconciliation of the prior period ending net position to the current year beginning net position is as follows:

Beginning net position	$ (1,867,305)
Correction of error-prior year expenditures	1,914,207
Beginning net position, as restated	$ 46,902

REQUIRED SUPPLEMENTARY INFORMATION

FINAL DRAFT

DRIPPING SPRINGS
Texas

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FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND

For the year ended September 30, 2025

	Budget Amounts		2025	Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Taxes:				
Ad valorem	$ 3,711,357	$ 3,739,695	$ 3,195,917	$ (543,778)
Sales and use taxes	4,500,000	4,900,000	3,979,650	(920,350)
Franchise taxes	55,000	60,000	40,978	(19,022)
Mixed drink tax	100,000	26,977	26,977	-
Licenses and permits	2,393,075	2,359,823	2,642,556	282,733
Intergovernmental revenues	1,010,000	1,337,000	794,238	(542,762)
Charges for services	216,140	267,210	444,919	177,709
Interest income	150,000	210,000	212,077	2,077
Donations	5,500	5	7,876	7,871
Miscellaneous	40,000	40,000	484,274	444,274
Total revenues	12,181,072	12,940,710	11,829,462	(1,111,248)
Expenditures:				
Current:				
General government	6,227,223	5,676,934	3,532,433	2,144,501
Public safety	83,410	83,699	186,779	(103,080)
Public works	440,930	356,130	1,181,854	(825,724)
Development services	926,500	1,189,000	2,135,026	(946,026)
Culture and recreation	1,490,809	1,748,486	2,097,365	(348,879)
Capital outlay	2,080,500	2,956,657	2,742,465	214,192
Debt service:				
Principal	865,000	425,530	693,181	(267,651)
Interest	486,042	486,042	242,955	243,087
Total expenditures	12,600,414	12,922,478	12,812,058	110,420
Excess (deficiency) of revenues over (under) expenditures	(419,342)	18,232	(982,596)	(1,000,828)
Other financing sources (uses):				
Transfers in	169,000	864,500	-	(864,500)
Transfers out	(2,107,192)	(2,103,192)	(300,000)	1,803,192
Total other financing sources (uses)	(1,938,192)	(1,238,692)	(300,000)	938,692
Net change in fund balances	(2,357,534)	(1,220,460)	(1,282,596)	(62,136)
Total fund balance-beginning of year	7,841,784	7,841,784	7,841,784	-
Restatement of fund balance	-	-	(22,279)	(22,279)
Total fund balance-end of year	$ 5,484,250	$ 6,621,324	$ 6,536,909	$ (84,415)

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BUDGET (GAAP BASIS) AND ACTUAL – DRIPPING SPRINGS RANCH PARK

For the year ended September 30, 2025

	Budget Amounts		2025	Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Charges for services	$ 231,000	$ 239,577	$ 249,611	$ 10,034
Interest income	4,500	6,748	7,737	989
Miscellaneous	541,609	508,902	531,872	22,970
Total revenues	777,109	755,227	789,220	33,993
Expenditures:				
Current:				
Parks and community services	869,679	972,000	841,486	130,514
Capital outlay	320,000	170,000	260,345	(90,345)
Total expenditures	1,189,679	1,142,000	1,101,831	40,169
Excess (deficiency) of revenues over (under) expenditures	(412,570)	(386,773)	(312,611)	74,162
Other financing sources (uses):				
Transfers in	330,000	446,000	330,000	116,000
Transfers out	(31,906)	(31,906)	(31,906)	-
Total other financing sources (uses)	298,094	414,094	298,094	116,000
Net change in fund balances	(114,476)	27,321	(14,517)	(41,838)
Total fund balance-beginning of year	124,979	124,979	124,979	-
Total fund balance-end of year	$ 10,503	$ 152,300	$ 110,462	$ (41,838)

CITY OF DRIPPING SPRINGS, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the year ended September 30, 2025

Budgetary Controls and Procedures

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Public hearings are conducted to obtain taxpayer comments.

2. Prior to October 1, the budget is legally enacted through passage of an ordinance.

3. The City Council must authorize amendments to budgeted amounts between departments within any fund. Therefore, the department level is the legal level of control and budget to actual expenditure comparisons is reported at the department level.

4. All transfers to and from budgeted funds must be approved by the City Council unless related to grant or bond activities.

5. Budgeted amounts are as originally adopted or as amended by the City Council. During 2025, individual amendments were not material in relation to the original appropriations for expenditures. All budget appropriations automatically lapse at year end.

6. Formal budgetary integration is employed as a management control device during the year. The legally adopted budget is adopted on a basis consistent with generally accepted accounting principles.

7. During the year ended September 30, 2025, the City's actual expenditures exceeded final budget in public safety, public works, development services, culture and recreation, and debt service.

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM

*Last 10 fiscal years

	For the Measurement Year Ended December 31,			
	2024	2023	2022	2021
Total pension liability (asset)				
Service cost	$ 489,038	$ 392,995	$ 315,849	$ 248,908
Interest on the total pension liability (asset)	185,249	147,248	118,043	95,314
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	(26,518)	31,703	(26,727)	(21,189)
Change of assumptions	-	(23,307)	-	-
Benefit payments, including refunds of employee contributions	(61,155)	(6,216)	(19,914)	(19,657)
Net change in total pension liability (asset)	586,614	542,423	387,251	303,376
Total pension liability - beginning	2,530,490	1,988,067	1,600,816	1,297,440
Total pension liability - ending (a)	$ 3,117,104	$ 2,530,490	$ 1,988,067	$ 1,600,816
Plan fiduciary net position				
Contributions - employer	$ 245,811	$ 202,358	$ 160,588	$ 130,324
Contributions - employee	258,295	206,839	166,091	132,987
Net investment income	251,575	209,050	(117,534)	157,083
Benefit payments, including refunds of employee contributions	(61,155)	(6,216)	(19,914)	(19,657)
Administrative expense	(1,598)	(1,316)	(1,010)	(723)
Other	(37)	(9)	1,206	5
Net change in plan fiducidary net position	692,890	610,706	189,427	400,019
Plan fiduciary net position - beginning	2,398,534	1,787,828	1,598,401	1,198,382
Plan fiduciary net position - ending (b)	3,091,424	2,398,534	1,787,828	1,598,401
Net pension liability (asset) (a) - (b)	$ 25,680	$ 131,956	$ 200,239	$ 2,415
Plan fiduciary net position as a percentage of total pension liability (asset)	99.18%	94.79%	89.93%	99.85%
Covered payroll	$ 4,304,916	$ 3,447,323	$ 2,768,174	$ 2,216,455
Net pension liability (asset) as a percentage of total covered payroll	0.60%	3.83%	7.23%	0.11%

For the Measurement Year Ended December 31,					
2020	2019	2018	2017	2016	2015
$ 215,769	$ 163,515	$ 129,750	$ 67,410	$ 50,354	$ 30,743
74,816	59,115	48,199	38,747	29,124	24,446
-	-	-	62,645	-	-
12,809	(6,464)	(14,071)	18,543	(4,706)	1,741
-	3,380	-	-	-	15,501
(12,910)	(13,212)	(24,895)	(6,768)	-	-
290,484	206,334	138,983	180,577	74,772	72,431
1,006,956	800,622	661,639	481,062	406,290	333,859
$ 1,297,440	$ 1,006,956	$ 800,622	$ 661,639	$ 481,062	$ 406,290
$ 114,507	$ 92,626	$ 78,968	$ 28,309	$ 14,212	$ 8,735
115,077	87,441	68,470	55,761	38,205	24,994
69,581	100,230	(16,201)	56,460	22,471	440
(12,910)	(13,212)	(24,895)	(6,768)	-	-
(448)	(564)	(313)	(292)	(253)	(268)
(18)	(18)	(17)	(15)	(14)	(13)
285,789	266,503	106,012	133,455	74,621	33,888
912,593	646,090	540,078	406,623	332,002	298,114
1,198,382	912,593	646,090	540,078	406,623	332,002
$ 99,058	$ 94,363	$ 154,532	$ 121,561	$ 74,439	$ 74,288
92.37%	90.63%	80.70%	81.63%	84.53%	81.72%
$ 1,917,948	$ 1,457,351	$ 1,141,163	$ 984,086	$ 764,092	$ 499,885
5.16%	6.47%	13.54%	12.35%	9.74%	14.86%

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

SCHEDULE OF CONTRIBUTIONS – TEXAS MUNICIPAL RETIREMENT SYSTEM - PENSION

*Last 10 fiscal years

	For the Fiscal Year Ended September 30,			
	2025	2024	2023	2022
Actuarially determined contributions	$ 276,617	$ 243,741	$ 194,451	$ 158,663
Contributions in relation to the actuarially determined contributions	276,617	243,741	194,451	158,663
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 4,895,325	$ 4,062,356	$ 3,240,857	$ 2,644,390
Contributions as a percentage of covered payroll	5.65%	6.00%	6.00%	6.00%

For the Fiscal Year Ended September 30,					
2021	2020	2019	2018	2017	2016
$ 229,584	$ 180,067	$ 147,438	$ 84,070	$ 52,417	$ 33,729
229,584	180,067	147,438	84,070	52,417	33,729
$ -	$ -	$ -	$ -	$ -	$ -
$ 1,917,948	$ 1,457,351	$ 1,141,163	$ 984,086	$ 764,092	$ 499,885
11.97%	12.36%	12.92%	8.54%	6.86%	6.75%

CITY OF DRIPPING SPRINGS, TEXAS

SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT BENEFITS LIABILITY (OPEB) AND RELATED RATIOS - TEXAS MUNICIPAL RETIREMENT SYSTEM

*Last 10 fiscal years

	For the Measurement Year Ended December 31,			
	2024	2023	2022	2021
Total OPEB liability				
Service cost	$ 8,179	$ 6,205	$ 9,135	$ 8,201
Interest on the total OPEB liability	1,616	1,310	868	844
Changes of benefit terms	-	-		-
Difference between expected and actual experience	1,569	206	(2,086)	(5,943)
Change of assumptions	(3,346)	2,206	(20,975)	1,650
Benefit payments	(430)	(345)	(277)	(222)
Net change in total OPEB liability	7,588	9,582	(13,335)	4,530
Total OPEB liability - beginning	38,993	29,411	42,746	38,216
Total OPEB liability - ending	$ 46,581	$ 38,993	$ 29,411	$ 42,746
Covered payroll	$ 4,304,916	$ 3,447,323	$ 2,768,174	$ 2,216,455
Total OPEB liability as a percentage of covered payroll	1.08%	1.13%	1.06%	1.93%

*GASB 75 requires 10 fiscal years of data to be provide in this schedule. This is the eighth year of implementation of GASB 75. The City will develop the schedule prospectively.

For the Measurement Year Ended December 31,			
2020	2019	2018	2017
$ 6,329	$ 2,769	$ 2,511	$ 1,968
732	589	588	496
-	-	-	-
1,190	(114)	(3,494)	-
6,621	5,872	(1,534)	1,905
(192)	(146)	-	-
14,680	8,970	(1,929)	4,369
23,536	14,566	16,495	12,126
$ 38,216	$ 23,536	$ 14,566	$ 16,495
$ 1,917,948	$ 1,457,351	$ 1,141,163	$ 984,086
1.99%	1.61%	1.28%	1.68%

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS CONTRIBUTIONS

*Last 10 fiscal years

	For the Fiscal Year Ended September 30,			
	2025	2024	2023	2022
Actuarially determined contributions	$ 430	$ 407	$ 322	$ 265
Contributions in relation to the actuarially determined contributions	430	407	322	265
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 4,304,916	$ 4,062,356	$ 3,240,857	$ 2,644,390
Contributions as a percentage of covered payroll	0.01%	0.01%	0.01%	0.01%

*GASB 75 requires 10 fiscal years of data to be provide in this schedule. This is the fourth year of implementation of GASB 75. The City will develop the schedule prospectively.

OTHER SUPPLEMENTARY INFORMATION

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2025

		Special Revenue Funds			
	Debt Service Fund	Hotel/Motel Tax	PEG Fund	Reserve Fund	Farmers Market
Assets:					
Cash and cash equivalents	$ 107,299	$ 1,055,261	$ 173,633	$ 3,338,828	$ 17,205
Due from other funds	-	-	-	-	-
Total assets	$ 107,299	$ 1,055,261	$ 173,633	$ 3,338,828	$ 17,205
Liabilities:					
Accounts payable	$ -	$ 1,661	-	$ -	$ 291
Due to other funds	-	-	-	-	2,875
Total liabilities	-	1,661	-	-	3,166
Fund balances:					
Restricted for:					
Debt service	107,299	-	-	-	-
Development	-	-	173,633	-	-
Culture and recreation	-	-	-	-	14,039
Tourism	-	1,053,600	-	-	-
Committed to:	-	-	-	-	-
Other	-	-	-	-	-
Reserve	-	-	-	3,338,828	-
Unassigned	-	-	-	-	-
Total fund balances	107,299	1,053,600	173,633	3,338,828	14,039
Total liabilities and fund balances	$ 107,299	$ 1,055,261	$ 173,633	$ 3,338,828	$ 17,205

Special Revenue Funds					
Dripping Springs Visitors Bureau	Town Center TIRZ (TIRZ #1)	Arrowhead TIRZ (TIRZ #2)	Agriculture Facility Fund	Landscaping Facility Fund	Sidewalk Fund
$ 245,878	$ 1,435,321	$ 2,392,714	$ -	$ 112,261	$ 16,056
-	-	-	6,700	-	-
$ 245,878	$ 1,435,321	$ 2,392,714	$ 6,700	$ 112,261	$ 16,056
$ 9,613	$ 105,802	$ 42,287	$ -	$ -	$ -
36,422	-	-	-	21,073	-
46,035	105,802	42,287	-	21,073	-
-	-	-	-	-	-
-	1,329,519	2,350,427	-	-	-
-	-	-	-	-	-
199,843	-	-	-	-	-
-	-	-	-	-	-
-	-	-	6,700	91,188	16,056
-	-	-	-	-	-
-	-	-	-	-	-
199,843	1,329,519	2,350,427	6,700	91,188	16,056
$ 245,878	$ 1,435,321	$ 2,392,714	$ 6,700	$ 112,261	$ 16,056

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

September 30, 2025

	Special Revenue Funds				
	Parkland Dedication Fund	Parkland Development Fund	Vehicle Replacement Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	$ 154,440	$ -	$ -	$ 8,941,597	$ 9,048,896
Due from other funds	84,084	31,752	82,451	204,987	204,987
Total assets	$ 238,524	$ 31,752	$ 82,451	$ 9,146,584	$ 9,253,883
Liabilities:					
Accounts payable	$ -	$ -	$ -	$ 159,654	$ 159,654
Due to other funds	-	-	-	60,370	60,370
Total liabilities	-	-	-	220,024	220,024
Fund balances:					
Restricted for:					
Debt service	-	-	-	-	107,299
Development	-	-	-	3,853,579	3,853,579
Culture and recreation	-	-	-	14,039	14,039
Tourism	-	-	-	1,253,443	1,253,443
Committed to:	-	-	-	-	-
Other	238,524	31,752	82,451	466,671	466,671
Reserve	-	-	-	3,338,828	3,338,828
Unassigned	-	-	-	-	-
Total fund balances	238,524	31,752	82,451	8,926,560	9,033,859
Total liabilities and fund balances	$ 238,524	$ 31,752	$ 82,451	$ 9,146,584	$ 9,253,883

FINAL DRAFT

DRIPPING SPRINGS
Texas

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FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

COMBINING STATEMENT OF REVENUES AND EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the year ended September 30, 2025

		Special Revenue Funds			
	Debt Service Fund	Hotel/Motel Tax	PEG Fund	Reserve Fund	Farmers Market
Revenues:					
Taxes:					
Ad valorem taxes	$ -	$ -	$ -	$ -	$ -
Hotel/motel taxes	-	1,101,769	-	-	-
Franchise taxes	-	-	14,087	-	-
Interest income	2,878	27,682	5,168	92,665	1,932
Charges for services	-	-	-	-	49,254
Donations	-	-	-	-	425
Miscellaneous	-	-	-	-	336
Total revenues	2,878	1,129,451	19,255	92,665	51,947
Expenditures:					
Current:					
Development	-	-	-	-	-
Culture and recreation	-	-	-	-	83,412
Tourism	-	106,855	-	-	-
Capital outlay	-	-	-	-	-
Debt service:					
Principal	75,000	-	-	-	-
Interest and fiscal charges	13,488	-	-	-	-
Total expenditures	88,488	106,855	-	-	83,412
Excess (deficiency) of revenues over (under) expenditures	(85,610)	1,022,596	19,255	92,665	(31,465)
Other financing sources (uses)					
Transfers in	90,375	-	-	300,000	-
Transfers to other funds	-	(970,375)	-	-	-
Bonds issued	-	-	-	-	-
Total other financing sources	90,375	(970,375)	-	300,000	-
Net change in fund balance	4,765	52,221	19,255	392,665	(31,465)
Total fund balance - beginning	102,534	1,122,999	154,378	2,946,163	45,504
Restatement of fund balance	-	(121,620)	-	-	-
Total fund balance - ending	$ 107,299	$ 1,053,600	$ 173,633	$ 3,338,828	$ 14,039

Special Revenue Funds					
Dripping Springs Visitors Bureau	Town Center TIRZ (TIRZ #1)	Arrowhead TIRZ (TIRZ #2)	Agriculture Facility Fund	Landscaping Facility Fund	Sidewalk Fund
$ -	$ 833,031	$ 1,077,115	$ -	$ -	$ -
-	-	-	-	-	-
-	-	-	-	-	-
14,385	44,002	47,260	-	-	-
18,365	-	-	-	-	-
81,432	-	-	-	-	-
17,871	617,714	-	6,700	-	-
132,053	1,494,747	1,124,375	6,700	-	-
-	363,925	140,248	-	-	-
468,456	-	-	-	21,073	-
-	-	-	-	-	-
-	147,672	-	-	-	-
-	208,000	117,000	-	-	-
-	65,221	35,774	-	-	-
468,456	784,818	293,022	-	21,073	-
(336,403)	709,929	831,353	6,700	(21,073)	-
550,000	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
550,000	-	-	-	-	-
213,597	709,929	831,353	6,700	(21,073)	-
(13,754)	619,590	1,519,074	-	-	-
-	-	-	-	112,261	16,056
$ 199,843	$ 1,329,519	$ 2,350,427	$ 6,700	$ 91,188	$ 16,056

FINAL DRAFT

CITY OF DRIPPING SPRINGS, TEXAS

COMBINING STATEMENT OF REVENUES AND EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

For the year ended September 30, 2025

	Special Revenue Funds				
	Parkland Dedication Fund	Parkland Development Fund	Vehicle Replacement Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
Revenues:					
Taxes:					
Ad valorem taxes	$ -	$ -	$ -	$ 1,910,146	$ 1,910,146
Hotel/motel taxes	-	-	-	1,101,769	1,101,769
Franchise taxes	-	-	-	14,087	14,087
Interest income	-	-	-	233,094	235,972
Charges for services	-	-	-	67,619	67,619
Donations	-	-	-	81,857	81,857
Miscellaneous	84,084	31,752	-	758,457	758,457
Total revenues	84,084	31,752	-	4,167,029	4,169,907
Expenditures:					
Current:					
Development	-	-	-	504,173	504,173
Culture and recreation	-	-	-	572,941	572,941
Tourism	-	-	-	106,855	106,855
Capital outlay	-	-	-	147,672	147,672
Debt service:				-	-
Principal	-	-	-	325,000	400,000
Interest and fiscal charges	-	-	-	100,995	114,483
Total expenditures	-	-	-	1,757,636	1,846,124
Excess (deficiency) of revenues over (under) expenditures	84,084	31,752	-	2,409,393	2,323,783
Other financing sources (uses)					
Transfers in	-	-	82,451	932,451	1,022,826
Transfers to other funds	-	-	-	(970,375)	(970,375)
Tax notes issued	-	-	-	-	-
Total other financing sources	-	-	82,451	(37,924)	52,451
Net change in fund balance	84,084	31,752	82,451	2,371,469	2,376,234
Total fund balance - beginning	-	-	-	6,393,954	6,496,488
Restatement of fund balance	154,440	-	-	161,137	161,137
Total fund balance - ending	$ 238,524	$ 31,752	$ 82,451	$ 8,926,560	$ 9,033,859

COMPLIANCE SECTION

FINAL DRAFT

DRIPPING SPRINGS
Texas

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

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, 2025, and the related notes to the financial statements, which collectively comprise the City of Dripping Springs, Texas' basic financial statements, and have issued our report thereon dated March 17, 2026.

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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a material weakness.

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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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.*

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Antonio, Texas
March 17, 2026

CITY OF DRIPPING SPRINGS, TEXAS

SCHEDULE OF AUDIT FINDINGS

For the year ended September 30, 2025

Finding 2025-001 **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 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, accounts payable, 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:

CITY OF DRIPPING SPRINGS, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended September 30, 2025

Finding 2024-001 **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 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, accounts payable, 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 has developed and implemented a "Journal Entry Policy" which requires two approvals for each journal entry. Each entry is prepared and approved prior to being made and the appropriate paperwork is maintained for each approved entry.

Status: The City did not properly implement year end closing procedures related to financial reporting which allowed for a number of misstatements to the general ledger and resulted in required audit adjustments to correct. This remains a finding, see finding 2025-001.