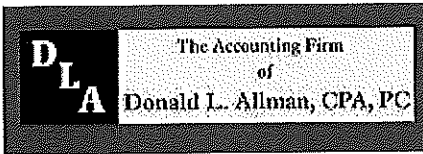


CITY OF BANDERA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2025

City of Bandera
Annual Financial Report
For the Year Ended September 30, 2025

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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the City Council
City of Bandera
511 Main Street
Bandera, Texas 78003

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bandera, Texas as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Bandera, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bandera, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Bandera, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT (Continued)

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

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

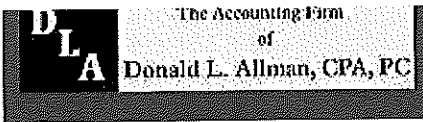
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-10 and 39 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Bandera, Texas' basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2026 on our consideration of the City of Bandera, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Bandera, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Bandera, Texas' internal control over financial reporting and compliance.

Donald L. Allman, CPA, PC

March 16, 2026
Georgetown, Texas

The City of Bandera



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Bandera's annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2025. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

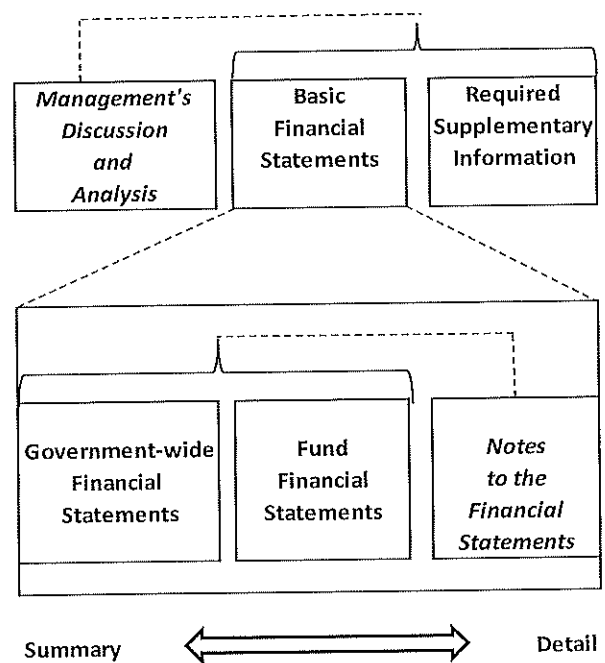
- The City's total combined net position on government-wide financial statements for both the General Fund and Proprietary Fund was \$11,820,824 at September 30, 2025. Of this amount, \$2,245,646 is unrestricted net position which may be used however the Mayor and City Council so choose to benefit the City of Bandera.
- During the year, the City of Bandera reported a net position increase of \$504,219 in government-wide financial statements, the General Fund had a decrease of \$(85,568), before transfers, and the Proprietary Fund had an increase of \$589,787, before transfers.
- The City reported a net position increase of \$338,184 on a governmental funds basis in the General Fund, with a total fund balance of \$5,145,622.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide* financial statements that provide both *long-term* and short-term information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- *Business Activities* statements provide information about for-profit activities. Proprietary fund statements are considered business activities.

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



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

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net position and how it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or *position*.

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

The government-wide financial statements of the City include the *Governmental and Business-type activities*. Most of the City's basic services are included here, such as public safety, sanitation, culture and recreation, street maintenance, water and sewer and general administration. Property taxes, charges for services, and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds* – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

The City has the following kinds of funds:

- *Governmental funds* – Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – The City provides water and sewer services to its citizens and charges fees to pay for this service. These activities are accounted for on the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$11.8 million at September 30, 2025. (See Table A-1).

Table A-1
City of Bandera's Net Position
(In thousands)

	Governmental Activities		Business - Type Activities		TOTALS Primary Government	
	2025	2024	2025	2024	2025	2024
Current assets:						
Cash and cash equivalents	393	492	1,074	563	1,467	1,050
Investments	1,720	1,651	-	-	1,720	1,651
Receivables	164	51	179	168	343	211
Due from other funds	-	5	-	332	-	337
Temporarily Restricted Assets	5,572	5,311	5,634	-	11,206	5,311
Net Pension asset	31	-	9	-	40	-
Total current assets:	7,880	7,510	6,896	1,063	14,776	8,579
Noncurrent assets:						
Land, Buildings, Infrastructure, Equipment	5,999	3,313	11,911	8,023	17,910	11,336
Less accumulated depreciation	(2,835)	-	(3,989)	-	(6,824)	-
Other assets	0	0	-	-	-	-
Total noncurrent assets	3,164	3,313	7,922	8,023	11,086	11,336
Total Assets	11,044	10,823	14,818	9,086	25,862	19,915
Deferred Outflows	39	184	12	55	51	239
Current liabilities:						
Accounts payable	39	105	119	344	158	448
Accrued expenses payable	53	-	32	-	85	-
Consumer deposits	-	-	49	-	49	-
Due to other funds	137	132	-	44	137	173
Deferred revenue	2,433	2,430	2,677	69	5,110	2,499
Total current liabilities	2,662	2,667	2,877	457	5,539	3,120
Long-term liabilities:						
Vacation & Sick Leave payable	37	37	9	9	46	46
Noncurrent liabilities due in one year	190	190	111	6	301	196
Noncurrent liabilities due more than 1 yr	5,142	5,391	2,919	48	8,061	5,437
Total Long-Term Liabilities	8,031	8,285	3,039	63	8,408	5,680
Deferred Inflows	111	21	33	6	144	21
Net Position:						
Net Investment in capital assets	1,045	742	7,870	8,008	8,915	8,750
Restricted	550	203	111	-	661	203
Unrestricted	1,346	1,756	900	607	2,246	2,362
Total Net Position	2,941	2,701	8,881	8,615	11,822	11,315

The City has restricted net position of \$660,476 that represents next year's payment from debt service of \$358,458 and \$302,318 for special revenue funds. The \$2,245,646 of unrestricted net position represents resources available to fund the programs of the City next year.

Changes in net position. The City's total revenues were \$4,905,628. A significant portion, 37 percent, of the City's revenue comes from taxes, while 50 percent relates to charges for services.

The total cost of all programs and services was \$4,401,409; 58 percent of these costs are for governmental activities.

Table A-2
City of Bandera's Changes in Net Position
(In thousands)

	Governmental Activities		Business - - Type Activities		TOTALS Primary Government	
	2025	2024	2025	2024	2025	2024
Program Revenues:						
Charges for Services-General Fund	234	177			234	177
Charges for services-Water Sewer Fund	-	-	2,058	1,940	2,058	1,940
Operating and Capital Grants		28	45	589	45	617
General Revenues						
Property Taxes	799	775		-	799	775
Sales Taxes	772	849		-	772	849
Franchise fees & Other Taxes	286	284		-	286	284
Grants and Contributions	10	2		92	10	94
Investment Earnings	332	340		-	332	340
Other revenues	45	49	18	102	63	151
Total Revenues	<u>2,478</u>	<u>2,504</u>	<u>2,121</u>	<u>2,723</u>	<u>4,599</u>	<u>5,227</u>
General Government	1,081	932		-	1,081	932
Public Safety	696	720		-	696	720
Highways and Streets	251	202		-	251	202
Municipal Court	164	138		-	164	138
Parks	227	179		-	227	179
Hotel Motel	83	152		-	83	152
Debt Service: Interest	60	61		-	60	61
Capital Outlay		174		-	-	174
Water and Sewer	-	-	1,531	1,728	1,531	1,728
Total Expenses	<u>2,562</u>	<u>2,558</u>	<u>1,531</u>	<u>1,728</u>	<u>4,093</u>	<u>4,286</u>
Excess (Deficiency) Before Other Resources, Uses and Transfers:	(84)	(54)	590	995	506	941
Other Resources (Uses)	-	-			-	-
Transfers In (Out)	324	269	(324)	(269)	-	-
Increase (Decrease) in Net Position	<u>240</u>	<u>215</u>	<u>266</u>	<u>726</u>	<u>506</u>	<u>941</u>
Net Position Beginning	<u>2,701</u>	<u>2,486</u>	<u>8,615</u>	<u>7,889</u>	<u>11,316</u>	<u>10,375</u>
Net Position Ending	<u>2,941</u>	<u>2,701</u>	<u>8,881</u>	<u>8,615</u>	<u>11,822</u>	<u>11,316</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$2.5 million, while the previous year it was \$ 2.5 million. Revenues from business-type activities totaled \$2.1 million, while the previous year it was \$2.7 million.

General fund Budgetary Highlights

Actual revenues were \$49,999 below budgeted amounts. \$1,998,996 actual versus \$2,048,995 budgeted.

Actual expenditures were \$7,044 below final budget amounts, \$2,040,774 versus \$2,047,818 budgeted.

The net result was actual revenues and expenses were \$57,043 worse than what was budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025, the City had invested \$17,910,326 in a broad range of capital assets, including land, infrastructure, equipment, buildings, and vehicles. This amount represents an increase (including additions and deductions) over last year of \$427,096.

City of Bandera Capital Assets (In thousand dollars)

	Governmental Activities		Business - Type Activities		TOTALS	
	2025	2024	2025	2024	2025	2024
Land	480,000	480,000	10,934	10,934	490,934	490,934
Buildings and Improvements	1,170,227	1,170,227	36,012	36,012	1,206,239	1,206,239
Infrastructure	2,463,765	2,438,757	11,170,541	7,562,080	13,634,306	10,000,837
Machinery & Equipment	598,112	496,171	479,000	479,000	1,077,112	975,171
Construction in Progress	1,258,299	1,258,299	-	3,494,354	1,258,299	4,752,653
Bond Issuance & Loan Origination	-	-	186,040	-	186,040	-
Right to Use Leased Assets	28,698	28,698	28,698	28,698	57,396	57,396
Total Capital Assets	5,999,101	5,872,152	11,911,225	11,611,078	17,910,326	17,483,230
Less: Accumulated Amortization	(20,631)	(14,891)	(26,832)	(14,891)	(47,463)	(29,782)
Less: Accumulated Depreciation	(2,814,127)	(2,543,887)	(3,962,314)	(3,573,361)	(6,776,441)	(6,117,248)
Net capital assets	3,164,343	3,313,374	7,922,079	8,022,826	11,086,422	11,336,200

Long Term Debt

At year-end, the City had \$8,271 million in bonds, leases and notes outstanding as shown below. More detailed information about the City's debt is presented in the notes to the financial statements.

City of Bandera Long-Term Debt

	Governmental Activities		Business - Type Activities		TOTALS	
	2025	2024	2025	2024	2025	2024
Bonds payable	5,253,000	5,437,000	3,000,000	-	8,253,000	5,437,000
Right to use Lease	8,732	14,372	8,732	14,372	17,464	28,744
Loans payable	-	-	-	-	-	-
Total bonds & notes payable	<u>5,261,732</u>	<u>5,451,372</u>	<u>3,008,732</u>	<u>14,372</u>	<u>8,270,464</u>	<u>5,465,744</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund balance is not expected to substantially change during fiscal year 2025.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Bandera at 511 Main St., Bandera, TX 78003 or 830-796-3765.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
SEPTEMBER 30, 2025

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 392,767	\$ 1,074,232	\$ 1,466,999	\$ 762,710
Investments	1,719,972	-	1,719,972	655,503
Receivables (net)	164,000	178,667	342,667	-
Due from Other Funds	-	-	-	136,851
Restricted Assets:				
Cash	5,572,374	5,633,827	11,206,201	-
Net Pension Asset	30,790	9,068	39,858	-
Capital Assets (net):				
Land	480,000	10,934	490,934	522,438
Buildings, Equipment and System, net	2,684,343	7,911,145	10,595,488	107,059
Total Assets	<u>11,044,246</u>	<u>14,817,873</u>	<u>25,862,119</u>	<u>2,184,561</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflow Related to Pensions	27,116	8,525	35,641	-
Deferred Outflow Related to OPEB	11,757	3,537	15,294	-
Total Deferred Outflow of Resources	<u>38,873</u>	<u>12,062</u>	<u>50,935</u>	<u>-</u>
LIABILITIES:				
Accounts Payable	39,166	119,429	158,595	-
Accrued Expenses payable	52,893	32,143	85,036	-
Due to Other Funds	-	-	-	-
Due to Component Unit	136,851	-	136,851	-
Noncurrent Liabilities -				
Consumer Deposits	-	48,652	48,652	-
Accrued Vacation & Sick Leave payable	36,502	8,648	45,150	-
Deferred Revenue	2,433,239	2,677,457	5,110,696	-
Net Pension Liability	-	-	-	-
Net OPEB Liability	71,044	21,407	92,451	-
Due within one year	189,678	110,678	300,356	-
Due in more than one year	5,072,054	2,898,054	7,970,108	-
Total Liabilities	<u>8,031,427</u>	<u>5,916,468</u>	<u>13,947,895</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pensions	111,098	33,237	144,335	-
Total Deferred Inflows of Resources	<u>111,098</u>	<u>33,237</u>	<u>144,335</u>	<u>-</u>
NET POSITION:				
Net Investment in Capital Assets	1,044,985	7,869,717	8,914,702	629,497
Restricted For:				
Debt Service	247,736	110,722	358,458	-
Special Revenue Funds	302,018	-	302,018	-
Unrestricted	1,345,855	899,791	2,245,646	1,555,064
Total Net Position	<u>2,940,594</u>	<u>8,880,230</u>	<u>11,820,824</u>	<u>2,184,561</u>

The accompanying notes are an integral part of this statement.



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

EXHIBIT A-2

Functions/Programs	Program Revenues			Net (Expense) Revenue and changes in Net Position			Component Unit
	Expenses	Operating Services	Capital Grants and Contributions	Operating Services	Governmental Activities	Business-type Activities	
PRIMARY GOVT							
Governmental Activities							
General Government	1,080,729	54,497	-	(1,026,232)			(1,026,232)
Public Safety	696,374	4,032	10,000	(682,342)			(682,342)
Municipal Court	163,887	72,862	-	(91,025)			(91,025)
Streets	250,754	21,455	-	(229,299)			(229,299)
Parks	227,247	81,267	-	(145,980)			(145,980)
Hotel Motel	82,984	-	-	(82,984)			(82,984)
Interest and Fiscal Exp	59,589	-	-	(59,507)	(82)		(59,589)
Total Govt. Activities	2,561,564	234,113	10,000	(2,317,369)	(82)		(2,317,451)
Business-type Activities:							
Water & Sewer	1,839,845	2,366,658	-	45,000	-	571,813	571,813
Total Bus.-type Act.	1,839,845	2,366,658	-	45,000	-	571,813	571,813
Total Primary Govt.	4,401,409	2,600,771	10,000	(2,317,369)	571,731		(1,745,638)

COMPONENT UNIT:
EDC \$ 125,660 \$ - \$ - \$ - \$ - \$(125,660)

General Revenues							
Property Taxes	799,017	-	-	799,017	-	-	-
Sales Taxes	771,704	-	-	771,704	-	-	438,055
Franchise Taxes	135,884	-	-	135,884	-	-	-
Alcoholic Beverage Taxes	60,818	-	-	60,818	-	-	-
Taxes, Hotel-Motel	88,951	-	-	88,951	-	-	-
Investment Earnings	331,566	-	-	331,566	-	-	27,792
Miscellaneous	43,861	18,056	-	61,917	-	-	56,336
Transfers	324,420	(324,420)	-	-	-	-	-
Total General Revenues and Transfers	2,556,221	(306,364)	-	2,249,857	-	-	522,183
Change in Net Position	238,852	265,367	-	504,219	-	-	396,523
Net Position - Beginning	2,701,742	8,614,863	-	11,316,605	-	-	1,788,038
Prior Period Adjustments	-	-	-	-	-	-	-
Net Position - Ending	2,940,594	8,880,230	-	11,820,824	-	-	2,184,561

The accompanying notes are an integral part of this statement.

CITY OF BANDERA
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

EXHIBIT A-3

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ (106,441)	\$ 499,208	-	\$ 392,767
Investments	1,719,972		-	1,719,972
Property Tax receivable	38,103		3,239	41,342
Other Receivables (net)	115,840	-	6,818	122,658
Due from Other Funds	-	-	-	-
Restricted Cash		5,217,676	354,698	5,572,374
Total Assets	\$ 1,767,474	\$ 5,716,884	364,755	\$ 7,849,113
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 37,668	\$ -	1,498	\$ 39,166
Accrued Expenses	52,893			52,893
Deferred Revenues		2,433,239		2,433,239
Due to Component Unit	136,851			136,851
Due to Other Funds	-	-	-	-
Total Liabilities	227,412	2,433,239	1,498	2,662,149
Deferred Inflows of Resources				
Unavailable Revenue-Property Taxes	38,103		3,239	41,342
Total Deferred Inflows of Resources	38,103	-	3,239	41,342
Fund Balances:				
Restricted for Special Revenue Funds			302,018	302,018
Restricted for Capital Projects Fund	-	3,283,645		3,283,645
Restricted for Debt Service			58,000	58,000
Unassigned	1,501,959			1,501,959
Total Fund Balance	1,501,959	3,283,645	360,018	5,145,622
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 1,767,474	\$ 5,716,884	364,755	\$ 7,849,113

The accompanying notes are an integral part of this statement

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

EXHIBIT A-4

Total fund balances - governmental funds balance sheet	\$ 5,145,622
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Accrued Vacation & Sick Leave payable not recognized in governmental funds	(36,502)
Net Pension Asset is not recognized in governmental funds	30,790
Capital assets used in governmental activities are not reported in the funds:	3,164,343
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	38,103
Various other reclassifications and eliminations are necessary for differences in governmental funds	3,239
Payables for notes which are not due in the current period are not reported in the funds.	(5,261,732)
Recognition of the City's proportionate share of the net OPEB liability is not reported in the funds.	(71,044)
Deferred Inflow of Resources related to the pension plan are not reported in the funds.	(111,098)
Deferred Outflows of Resources for OPEB is not reported in governmental funds	38,873
	-
Net position of governmental activities - Statement of Net Position	<u>\$ 2,940,594</u>

The accompanying notes are an integral part of this statement.

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

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds
Revenue:				
Taxes:				
General Property Taxes	\$ 742,731	\$ -	51,777	\$ 794,508
General Sales and Use Taxes	771,704	-	-	771,704
Franchise Taxes	135,884	-	-	135,884
Alcoholic Beverages	60,818	-	-	60,818
Taxes, Hotel-Motel	-	-	88,951	88,951
License and Permits	21,522	-	-	21,522
Miscellaneous	43,861	-	-	43,861
Charges for Services	74,193	-	69,696	143,889
Fines	68,702	-	4,160	72,862
Investment Earnings	69,581	261,985	-	331,566
Contributions and Donations & Grants	10,000	-	-	10,000
Total Revenues	<u>1,998,996</u>	<u>261,985</u>	<u>214,584</u>	<u>2,475,565</u>
Expenditures:				
Current:				
General Government	854,500	-	-	854,500
Public Safety	620,781	-	-	620,781
Municipal Court	140,267	-	12,209	152,476
Streets	182,924	-	-	182,924
Parks	140,803	-	68,078	208,881
Hotel Motel	-	-	70,290	70,290
Debt Service:				
Principal	-	-	184,000	184,000
Interest and Fiscal Charges	-	-	61,000	61,000
Capital Outlay:				
Equipment	101,499	25,450	-	126,949
Total Expenditures	<u>2,040,774</u>	<u>25,450</u>	<u>395,577</u>	<u>2,461,801</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(41,778)</u>	<u>236,535</u>	<u>(180,993)</u>	<u>13,764</u>
Other Financing Sources (Uses):				
Transfers Out	(714,267)	-	-	(714,267)
Transfers	324,420	376,189	338,078	1,038,687
Total Other Financing Sources (Uses)	<u>(389,847)</u>	<u>376,189</u>	<u>338,078</u>	<u>324,420</u>
Net Change in Fund Balances	(431,625)	612,724	157,085	338,184
Fund Balances - Beginning	1,933,584	2,670,921	202,933	4,807,438
Fund Balances - Ending	<u>\$ 1,501,959</u>	<u>\$ 3,283,645</u>	<u>360,018</u>	<u>\$ 5,145,622</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds

Amounts reported for governmental activities in the statement of Activities ("SOA") are different because:	\$ 338,184
Capital outlays are not reported as expenses in the SOA.	126,949
The depreciation of capital assets used in governmental activities is not reported in the funds.	(275,980)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	4,509
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	-
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	184,000
Changes in Net Pension Liability/Pension Assets, Deferred Outflows of Resources and Deferred Inflows of Resources are not included in governmental funds.	(138,810)
Accrued Vacation & Sick Leave expense not included in governmental funds	-
Change in net position of governmental activities - Statement of Activities	<u>\$ 238,852</u>

The accompanying notes are an integral part of this statement.

CITY OF BANDERA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2025

EXHIBIT A-7

	Enterprise Fund <u>Water and Sewer Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 1,074,232
Investments	-
Receivables (net of allowances for uncollectibles)	178,667
Due from other funds	-
Total Current Assets	<u>\$ 1,252,899</u>
Noncurrent Assets:	
Restricted Cash, Cash Equivalents and Investments -	
Cash	5,633,827
Net Pension Asset	9,068
Capital Assets:	
Land	10,934
Property, Plant and Equipment-Net	7,911,145
Total Noncurrent Assets	<u>13,564,974</u>
Total Assets	<u>14,817,873</u>
Deferred Outflows of Resources	12,062
LIABILITIES:	
Current Liabilities:	
Accounts payable	119,429
Consumer deposits	48,652
Accrued expenses payable	32,143
Total Current Liabilities	<u>200,224</u>
Current Liabilities Payable from Restricted Assets-	
General Obligation Bonds Payable	<u>110,678</u>
Total Current Liabilities Payable	
From Restricted Assets	<u>110,678</u>
Vacation & Sick Leave payable	8,648
Deferred Revenues	2,677,457
Net OPEB Liability	21,407
Noncurrent Liabilities Payable from Restricted Assets	
General Obligation Bonds Payable	<u>2,898,054</u>
Total Noncurrent Liabilities	<u>2,898,054</u>
Total Liabilities	<u>5,916,468</u>
Deferred Inflows of Resources	33,237
NET POSITION:	
Net Investment in Capital Assets	7,869,717
Restricted For:	
Debt Service	110,722
Unrestricted	899,791
Total Net Position	<u>\$ 8,880,230</u>

The accompanying notes are an integral part of this statement.

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

	Enterprise Fund <u>Water and Sewer Fund</u>
OPERATING REVENUES:	
Water	\$ 1,204,332
Sewer	467,192
Sanitation	695,134
Total Operating Revenues	<u>2,366,658</u>
OPERATING EXPENSES:	
Personnel Services	437,262
Other Services & Charges	203,175
Supplies & Materials & Repairs	179,830
Depreciation	400,894
Sanitation	618,684
Total Operating Expenses	<u>1,839,845</u>
Operating Income	<u>526,813</u>
NON-OPERATING REVENUES (EXPENSES):	
Intergovernmental & miscellaneous Revenue	18,056
Grant revenues	45,000
Interest Revenue	-
Interest Expense & Fees	(82)
Total Non-operating Revenues (Expenses)	<u>62,974</u>
Income Before Transfers	589,787
Transfers In/(Out)	(324,420)
Change in Net Position	<u>265,367</u>
Total Net Position - Beginning	8,614,863
Total Net Position - Ending	<u>\$ 8,880,230</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT A-9

	Enterprise Fund <u>Water and Sewer Fund</u>
Cash Flows from Operating Activities	
<i>Cash Received from Customers</i>	\$ 2,188,765
<i>Cash Payments to Employees for Services</i>	(437,262)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,110,532)
Net Cash Provided (Used) by Operating Activities	<u>992,132</u>
Cash Flows from Non-capital Financing Activities:	
<i>Intergovernmental & Miscellaneous Revenue</i>	11,068
<i>Grant proceeds</i>	45,000
Net Cash Provided (Used) by Non-capital Financing Activities	<u>56,068</u>
Cash Flows from Capital and Related Financing Activities	
Bond Proceeds	3,000,000
Capital assets purchased	(300,147)
<i>Principal Paid</i>	(5,640)
<i>Interest Paid</i>	(82)
Transfers out	(324,420)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>2,369,711</u>
Cash Flows from Investing Activities:	
<i>Increase in Deferred Revenues</i>	2,677,457
<i>Decrease/(Increase) in restricted cash</i>	(5,633,827)
<i>Pension Activity</i>	50,776
Net Cash Provided (Used) for Investing Activities	<u>(2,905,594)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	512,317
Cash and Cash Equivalents at Beginning of Year	561,915
Cash and Cash Equivalents at End of Year	<u>\$ 1,074,232</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	526,813
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
<i>Depreciation</i>	400,894
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(10,996)
<i>Decrease (Increase) in Due Froms</i>	331,999
<i>Increase (Decrease) in Accounts Payable</i>	(191,091)
<i>Increase (Decrease) in Accrued expenses</i>	(44,798)
<i>Increase (Decrease) in Consumer Deposits</i>	(20,689)
Total Adjustments	<u>465,319</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 992,132</u>

The accompanying notes are an integral part of this statement.

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

A. Summary of Significant Accounting Policies

The financial statements of the City of Bandera (the “City”) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City of Bandera, Texas (“City”) was incorporated in 1964. The City is a municipal corporation governed by an elected Mayor and five members of the city council, and provides the following services: Public Safety (law enforcement), public transportation (streets), health, culture, recreation, public facilities, water and sewer, legal, election functions, and general administrative services.

Component Units:

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations, thus, data from these units would be combined with the date of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. As of September 30, 2025, the City had one component unit that is discretely presented in these financial statements.

Bandera Economic Development Corporation:

Based on these criteria, the City has one component unit, The Economic Development Corporation of Bandera. Their financial statements can be obtained at 511 Main Street, Bandera, Texas 78003. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City’s funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

The City reports the following major governmental funds:

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

Capital Projects Fund – is used to account for financial resources used for the acquisition of major capital improvements.

The City also reports the following non-major funds:

Debt Service Fund – is used to account for the payment of long-term debt principal and interest.

Special Revenue Funds – are used to account for resources and expenditures which are legally or contractually restricted for specific expenditures.

The City reports the following major enterprise funds.

Water, and Sewer Fund. This is the City's primary enterprise operating fund and accounts for all expenditures and resources of the enterprise fund.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. 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 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. Property tax revenues are considered available when they become due or past due and receivable within the current period.

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the 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. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	40
Building Improvements	40
Vehicles	7
Office Equipment	5
Computer Equipment	5

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Pensions

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

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

g. **Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfer" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. **Compensated Absences**

On retirement or death of certain employees, the City pays an accrued vacation leave in a lump case payment to such employee or his/her estate. Accrued sick leave payment is recorded as used.

i. **Use of Estimates**

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

j. **Fund Balances – Governmental Funds**

Fund balances of the governmental funds are classified as follows:

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

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

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

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

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

k. **Deferred Outflows and Inflows of Resources**

In addition to assets, the statements of financial position (the government-wide statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

B. Compliance and Accountability

1. **Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. **Deficit Fund Balance of Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

C. Deposits and Investments

The City’s funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City’s agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

Cash Deposits:

At September 30, 2025, the carrying amount of the City’s deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was \$1,466,999 and the bank balance was \$1,466,999. The City’s cash deposits at September 30, 2025 and during the year ended September 30, 2025, were entirely covered by FDIC insurance or by pledged collateral held by the City’s agent bank in the City’s name.

Restricted Assets:

Restricted assets consist of cash balances that are dedicated to the following:

- TWDB Flood Infrastructure Fund: Debt Proceeds -General Fund - \$2,780,257
- TWDB Flood Infrastructure Fund: Loan Forgiveness – General Fund - \$2,540,949
- TWDB Drinking Water State Revolving Fund – General Fund - \$251,168
- Combination Tax & Surplus Revenue CO, Series 2025A – Proprietary Fund - \$2,826,988
- Combination Tax & Surplus Revenue CO, Series 2025A – Principal Forgiveness – Proprietary Fund \$1,400,000
- Wastewater Treatment Plant – Proprietary Fund - \$2,475,800
- Wastewater Treatment Plant – Proprietary Fund - \$ 191,039

Investments:

The City is required by Government code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity’s funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds, Investment Act (“Act”) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, 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, and (10) common trust funds.

The City’s investments at September 30, 2025 are shown below.

<u>Investment or Investment Type</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Bandera Bank C.D’s	\$ 980,115	\$ 980,115
TXN Bank C.D’s	\$ 739,857	\$ 739,857
Total Investments	<u>\$1,719,972</u>	<u>\$1,719,972</u>

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

- a. **Credit Risk**
 Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

At September 30, 2025, the City’s investments, other than those which are obligations of or guaranteed by the U.S. Government, have no credit risk.

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

A year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA- or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Note D. Receivables

Receivables at September 30, 2025, consist of the following:

Property Taxes	\$ 41,342	Accounts Receivable Utility Customers	\$178,667
Sales Tax	108,402		
Accounts Receivable	<u>14,256</u>		
	\$164,000		

Note E. Property Taxes

Sec. 4. CITIES AND TOWNS WITH POPULATION OF 5,000 OR LESS: CHARTERED BY GENERAL LAW; TAXES; FINES, FORFEITURES, AND PENALTIES. Cities and towns having a population of five thousand or less may be chartered alone by general law. They may levy, assess and collect such taxes as may be authorized by law, but no tax for any purpose shall ever be lawful for any one year which shall exceed one and one-half per cent of the taxable property of such city; and all taxes shall be collectible only in current money, and all licenses and occupation taxes levied, and all fines, forfeitures and penalties accruing to said cities and towns shall be collectible only in current money.

The City is permitted, by Article XI, Section 5 of the State of Texas Constitution and the City Charter, to levy property taxes up to \$1.50 per \$100 of assessed valuation for general governmental services. Within the \$1.50 maximum levy, there is no legal limit upon the amount of property taxes which can be levied for debt service. Property taxes attach as an enforceable lien on property as of February 1. Taxes are levied on October 1 and are payable by January 31. After which time they become delinquent, and penalties and interest may be assessed by the City.

Property taxes are collected and remitted to the city by the Bandera County Tax Assessor-Collector. The Bandera County Appraisal District appraises property values for the City. Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Code. Current taxes become delinquent on February 1 following the tax year. The City's Ad Valorem Tax Rate for 2024 was \$0.47 per \$100.00 assessed valuation. The adjusted original tax roll was \$796,947 on total taxable assessed value of \$169,563,191.

Property taxes as of September 30, 2025, are as follows:

Current Taxes Receivable \$18,430, Delinquent Taxes Receivable \$22,911 Total \$41,342.

Note E. Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 480,000	\$ -	\$ -	\$ 480,000
Total capital assets not being depreciated	<u>480,000</u>	<u>-</u>	<u>-</u>	<u>480,000</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	2,438,757	25,008	-	2,463,765
Buildings and improvements	1,170,227	-	-	1,170,227
Machinery & Equipment	496,171	101,941	-	598,112
Right to Use Leased Equipment	28,698	-	-	28,698
Construction in Progress	1,258,299	-	-	1,258,299
Total capital assets being depreciated	<u>5,392,152</u>	<u>126,949</u>	<u>-</u>	<u>5,519,101</u>
Less accumulated depreciation for:				
Infrastructure	(1,669,048)	(108,926)	-	(1,777,974)
Buildings and improvements	(541,499)	(60,120)	-	(601,619)
Equipment	(333,340)	(59,241)	-	(392,581)
Right to use Leased Equipment Amortization	(14,891)	(5,740)	-	(20,631)
Construction in Progress	-	(41,953)	-	(41,953)
Total accumulated depreciation & amortization	<u>(2,558,778)</u>	<u>(275,980)</u>	<u>-</u>	<u>(2,834,758)</u>
Total capital assets being depreciated, net	<u>2,833,374</u>	<u>(149,031)</u>	<u>-</u>	<u>2,684,343</u>
Governmental activities capital assets, net	<u>\$ 3,313,374</u>	<u>\$ (149,031)</u>	<u>\$ -</u>	<u>\$ 3,164,343</u>
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	10,934	-	-	10,934
Construction in progress	3,494,354	-	3,494,354	-
Total capital assets not being depreciated	<u>3,505,288</u>	<u>-</u>	<u>3,494,354</u>	<u>10,934</u>
<i>Capital assets being depreciated:</i>				
Water & Sewer System	7,562,080	3,608,461	-	11,170,541
Machinery & Equipment	479,000	-	-	479,000
Right to Lease Equipment	28,698	-	-	28,698
Bond Issuance & Loan Origination Fees	-	186,040	-	186,040
Buildings	36,012	-	-	36,012
Total capital assets being depreciated	<u>8,105,790</u>	<u>3,794,501</u>	<u>-</u>	<u>11,900,291</u>
Less accumulated depreciation for:				
Water & Sewer System	(3,263,944)	(337,146)	-	(3,601,090)
Machinery & Equipment	(273,405)	(51,807)	-	(325,212)
Right to Lease Equipment Amortization	(14,891)	(5,740)	-	(20,631)
Bond Issuance Amortization	-	(6,201)	-	(6,201)
Buildings	(36,012)	-	-	(36,012)
Total accumulated depreciation	<u>(3,588,252)</u>	<u>(400,894)</u>	<u>-</u>	<u>(3,989,146)</u>
Total capital assets being depreciated, net	<u>4,517,538</u>	<u>3,393,607</u>	<u>-</u>	<u>7,911,145</u>
Business-type activities capital assets, net	<u>\$ 8,022,826</u>	<u>\$ 3,393,607</u>	<u>\$ 3,494,354</u>	<u>\$ 7,922,079</u>
Depreciation was charged to functions as follows:				
General Government	\$ 84,946			
Public Safety	75,593			
Highways and Streets	67,830			
Municipal Court	11,411			
Parks	18,366			
Hotel Motel	12,694			
	<u>\$ 270,840</u>			

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

F. Long-Term Obligations

I. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2025, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Certificates of Obligation, Series 2018	\$2,665,000	\$ -	\$ 85,000	\$2,580,000	\$ 85,000
Certificates of Obligation, Series 2021	2,772,000		99,000	2,673,000	99,000
Right-to-use Lease liability	14,372		5,640	8,732	5,678
Net Pension Liability	52,703		52,703	-	
Total OPEB Liability	76,500		5,456	71,044	
Compensated Absences	36,502	-	-	36,502	-
Total governmental activities:	<u>\$5,617,077</u>	<u>\$ -</u>	<u>\$ 247,799</u>	<u>\$5,369,278</u>	<u>\$ 189,678</u>
Amounts					
	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Business-type activities:</u>					
Combination Tax and Surplus Revenue	-	3,000,000	-	3,000,000	105,000
Right-to-Use Lease Liability	14,372	-	5,640	8,732	5,678
Net Pension Liability	15,871	-	15,871	-	
Total OPEB Liability	23,037		1,630	21,407	
Compensated Absences	\$ 8,648	\$ -	\$ -	\$ 8,648	\$ -
Total business-type activities	<u>\$ 61,928</u>	<u>\$ -</u>	<u>\$ 5,640</u>	<u>\$3,038,787</u>	<u>\$ 110,678</u>

Leases-Governmental

<u>Year Ending September 30,</u>	Governmental Activities		
	Principal	Interest	Total
2026	5,678	44	5,722
2027	3,054	7	3,061
Thereafter	-	-	-
Totals	<u>\$ 8,732</u>	<u>\$ 51</u>	<u>\$ 8,783</u>

Leases – Business-Type Activities

<u>Year Ending September 30,</u>	Business-Type Activities		
	Principal	Interest	Total
2026	5,678	44	5,722
2027	3,054	7	3,061
Thereafter	-	-	-
Totals	<u>\$ 8,732</u>	<u>\$ 51</u>	<u>\$ 8,783</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Bonds

\$3,000,000 Combination Tax & Surplus Revenue Certificate of Obligation, Series 2018 for improvements to City's water system. Interest rate of 1.02% and payments up to \$147,772, maturing 2-01-2048.

\$2,970,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2021 for flood drainage improvements. Interest rate of 0%, payments of \$99,000, maturing 2-01-2052.

\$3,000,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2025A for improvements to the City's water system. Interest rate of 0%, payments from \$100,000 to \$105,000, maturing 2-01-2054.

Leases

\$32,637 lease for a postage machine for 60 months, with quarterly payments of \$1,661 with an interest rate of 0.6857%, maturing October 1, 2026.

\$24,759 lease for a copier for 63 months, with monthly payments of \$621 with an interest rate of 0.6857%, maturing January 1, 2027.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2025 are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2026	184,000	58,014	242,014
2027	189,000	56,460	245,460
2028	189,000	54,781	243,781
2029	189,000	53,026	242,026
2030	194,000	51,152	245,152
Thereafter	4,308,000	492,809	4,800,809
Totals	\$ 5,253,000	\$ 766,242	\$ 6,019,242

Year Ending September 30,	Business-type Activities		
	Principal	Interest	Total
2026	105,000	-	105,000
2027	105,000	-	105,000
2028	105,000	-	105,000
2029	105,000	-	105,000
2030	105,000	-	105,000
Thereafter	2,475,000	-	2,475,000
Totals	\$ 3,000,000	\$ -	\$ 3,000,000

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2026	5,678	44	5,722
2027	3,054	7	3,061
Thereafter	-	-	-
Totals	\$ 8,732	\$ 51	\$ 8,783

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2026	5,678	44	5,722
2027	3,054	7	3,061
Thereafter	-	-	-
Totals	\$ 8,732	\$ 51	\$ 8,783

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

F. 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, and natural disasters. During fiscal year 2025, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (“TML”). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

G. Pension Plan

1. **Plan Description** The City participates as one of 936 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title B, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’ defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.trms.com.
 All eligible employees of the City are required to participate in TMRS.
2. **Benefits Provided**
 TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

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

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	34
Active employees	23
Total covered employees	75

3. Contributions

The contribution rates for employees in TRMS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.94% and 9.64% in calendar years 2025 and 2024, respectively. The City’s contributions to TMRS for the year ended September 30, 2025 were \$133,950 and were equal to the required contributions.

4. 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.

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000. Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2024, valuation were based on the results of actuarial investigation of TMRS over the four year period from December 31, 2018 to December 31, 2022. They were adopted in 2023 and first used in the December 31, 2023 actuarial valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2024 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

CITY OF BANDERA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Discount Rate

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2023	\$ 3,692,403	\$ 3,623,829	\$ 68,574
Changes for the year			
Service cost	252,284	-	252,284
Interest	252,062	-	252,062
Change of benefit terms	-	-	-
Difference between expected and actual experience	(11,431)	-	(11,431)
Changes of assumptions	-	-	-
Contributions - employer	-	133,950	(133,950)
Contributions - employee	-	94,236	(94,236)
Net investment income	-	375,632	(375,632)
Benefit payments, including refunds of employee contributions	(168,574)	(168,574)	-
Administrative expense	-	(2,415)	2,415
Other changes	-	(56)	56
Net changes	324,341	432,773	(108,432)
Balance at 12/31/2024	\$ 4,016,744	\$ 4,056,602	\$ (39,858)

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	Discount Rate	1% Increase in Discount Rate
	5.75%	6.75%	7.75%
City's net pension liability	\$ 556,834	\$ (39,858)	\$ (523,589)

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

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

For the year ended September 30, 2025, the City recognized pension expense of \$192,974.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

CITY OF BANDERA
SCHEDULE OF PENSION EXPENSE
SEPTEMBER 30, 2025

1.	Total Service Cost	252,284
2.	Interest on the Total Pension Liability	252,062
3.	Changes in Current Period Benefits	-
4.	Employee Contributions	(94,236)
5.	Projected earnings on Plan Investments	(244,608)
6.	Administrative Expense	2,415
7.	Other Changes in Fiduciary Net Position	56
8.	Recognition of Current Year Outflow (Inflow) of Resources-Liab	(5,577)
9.	Recognition of Current Year Outflow (Inflow) of Resources-Assets	(26,205)
10.	Amortization of Prior Year Outflows (Inflows) of Resources-Liab	33,963
11.	Amortization of Prior Year Outflows (Inflows) of Resources-Assets	22,820
12.	Total Pension Expense (Income)	<u>192,974</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ -	\$ (5,854)
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	-	(104,818)
Contributions subsequent to the measurement date	-	-
Total	<u>\$ -</u>	<u>\$ (110,672)</u>

Year ended Dec. 31:	
2025	\$ (4,314)
2026	\$ 39,214
2027	\$ (57,428)
2028	\$ (26,203)
2029	\$ -
Thereafter	\$ -
	<u>(48,731)</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Net Other Post Employment Benefits Liability.

Actuarial Assumptions

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>23</u>
Total covered employees	46

Actuarial assumptions were developed from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2019 to December 31, 2023. These assumptions were adopted in 2023 and first used in the December 31, 2023 valuation.

All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

The Mortality Experience Investigation Study covering 2019 through 2023 is used as the basis for the post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs). Mortality Rates for service employees uses the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Inflation	2.50% per year
Overall payroll growth	3.60 to 11.85% per year including inflation
Discount rate	4.08%

Changes in the Net Other Post Employment Benefits Liability

	Increase (Decrease) Total OPEB Liability
Balance at 12/31/23	\$99,537
Changes for the year	
Service Cost	3,096
Interest on Total OPEB liability	3,727
Changes of benefit terms	0
Differences between expected and actual experience	(4,910)
Changes in assumption or other inputs	(4,556)
Benefit payments	<u>(4,443)</u>
Net changes	(7,086)
Total OPEB Liability – 12/31/24	\$ 92,451
Total OPEB Liability as a Percentage of Covered Payroll	6.87%
Covered Payroll	\$1,346,231
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 current discount rate of 4.08% as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.08%) or -1 percentage point higher (5.08%) than the current rate. Because the SDBF is considered an unfunded trust, the relevant discount rate to calculate the total OPEB liability is based on the Fidelity Index's 20 year Municipal GO AA Index.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2025

1% Decrease in		1% Increase in	
	Discount Rate (3.08%)	Discount Rate (4.08%)	Discount Rate (5.08%)
Total OPEB liability	\$108,497	\$92,451	\$79,902

**CITY OF BANDERA
 SCHEDULE OF OPEB EXPENSE
 SEPTEMBER 30, 2025**

1.	Total Service Cost	3,096
2.	Interest on the Total OPEB Liability	3,727
3.	Changes in Benefit terms	-
4.	Employer administrative costs	-
5.	Recognition of deferred outflows/inflows of resources	
6.	Difference between expected and actual experience	3,502
7.	Changes in assumptions or other inputs	(13,006)
8.	Total OPEB Expense	(2,681)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ -	\$ (3,507)
Changes in assumptions and other inputs	-	(3,254)
Contributions subsequent to the measurement date	<u>N/A</u>	<u>City to provide</u>
Total	<u>\$ -</u>	<u>\$ (6,761)</u>

Year ended Dec. 31:	
2025	\$ (2,415)
2026	\$ (2,705)
2027	\$ (1,351)
2028	\$ -
2029	\$ -
Thereafter	\$ -
	(6,471)

Other Information

Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:

Total covered payroll * retiree Portion of SDB Contribution (Rate)

Interfund Receivables and Payables and Transfers

<u>Due to Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
Component Unit	General Fund	\$ 136,851
		<u>\$ 136,851</u>
<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Water & Sewer Fund	General Fund	\$ 324,420
		<u>\$ 324,420</u>

Utility Agreements

The City entered into a contract with Republic Services for garbage collection services. Fees are billed monthly to the City based upon a fee schedule included in the contract. For the year ended September 30, 2025 payments made by the City for this contract totaled \$618,684.

Risk Management

The City's risk management program includes coverage for property, general liability, auto liability, public official's liability, and employee dishonesty bonds. The City participates in the Texas Municipal League joint self-insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Commitments and Contingencies

Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Unearned Revenues

Unspent Texas Water Development Board Loan Forgiveness funds in the amount of \$2,430,000 are classified as unearned revenue in the Capital Projects Fund. The funds are for the completion of the flood infrastructure project.

Unspent Series 2025A Certificates of Obligation Loan Forgiveness funds in the amount of \$2,677,457 are classified as unearned revenues in the Proprietary Fund. The funds are for the completion of Water and Sewer system improvements.

Subsequent Events

No subsequent events were identified through March 16, 2026 that would have a material effect on these financial statements.

Pending Litigation

No pending litigation was noted as of March 16, 2026 that would have a material effect on these financial statements.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered part of the basic financial statements

CITY OF BANDERA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2025

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
General Property Taxes	\$ 696,250	\$ 696,250	\$ 742,731	\$ 46,481
General Sales and Use Taxes	891,000	891,000	771,704	(119,296)
Franchise Taxes	125,000	125,000	135,884	10,884
Alcoholic Beverages	-	-	60,818	60,818
License and Permits	53,175	53,175	21,522	(31,653)
Charges for Services	28,650	28,650	74,193	45,543
Fines	52,500	52,500	68,702	16,202
Investment Earnings	50,000	50,000	69,581	19,581
Miscellaneous	152,420	152,420	43,861	(108,559)
Contributions and Donations	-	-	10,000	10,000
Total Revenues	<u>2,048,995</u>	<u>2,048,995</u>	<u>1,998,996</u>	<u>(49,999)</u>
Expenditures:				
Current:				
General Government	826,099	826,099	854,500	(28,401)
Public Safety	706,620	706,620	620,781	85,839
Municipal Court	132,206	132,206	140,267	(8,061)
Streets	208,853	208,853	182,924	25,929
Parks	174,040	174,040	140,803	33,237
Principal	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Capital Outlay	-	-	101,499	(101,499)
Total Expenditures	<u>2,047,818</u>	<u>2,047,818</u>	<u>2,040,774</u>	<u>7,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,177</u>	<u>1,177</u>	<u>(41,778)</u>	<u>(42,955)</u>
Other Financing Sources (Uses):				
Loan Proceeds	-	-	-	-
Transfers in	-	-	(389,847)	(389,847)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(389,847)</u>	<u>(389,847)</u>
Net Change in Fund Balances	1,177	1,177	(431,625)	(432,802)
Prior Period Adjustment	-	-	-	-
Fund Balances - Beginning	1,933,584	1,933,584	1,933,584	-
Fund Balances - Ending	<u>\$ 1,934,761</u>	<u>\$ 1,934,761</u>	<u>\$ 1,501,959</u>	<u>\$ (432,802)</u>

CITY OF BANDERA
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

City of Bandera

Schedule of Changes in Net Pension Liability and Related Ratios

Last ten years

Total pension liability	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1. Service Cost	105,027	115,052	133,649	156,901	176,266	182,482	161,291	162,905	210,676	252,284
2. Interest (on the Total Pension Liability)	129,866	131,450	139,654	153,681	167,539	180,083	193,718	208,018	228,312	252,062
3. Changes of benefit terms	-	-	-	-	-	-	-	-	8,624	-
4. Difference between expected and actual	(59,432)	(42,351)	22,573	8,989	(17,486)	(15,120)	(7,515)	62,545	102,602	(11,431)
5. Changes of assumptions	22,547	-	-	-	(5,647)	-	-	-	(24,530)	-
6. Benefit payments	<u>(141,267)</u>	<u>(80,432)</u>	<u>(103,364)</u>	<u>(96,028)</u>	<u>(151,887)</u>	<u>(123,977)</u>	<u>(145,718)</u>	<u>(127,203)</u>	<u>(203,439)</u>	<u>(168,574)</u>
7. Net change in total pension liability	56,741	123,719	192,512	223,543	168,785	223,468	201,776	306,265	322,245	324,341
8. Total pension liability	1,873,349	1,930,090	2,053,809	2,246,321	2,469,864	2,638,649	2,862,117	3,063,893	3,370,158	3,692,403
9. Total pension liability	<u>1,930,090</u>	<u>2,053,809</u>	<u>2,246,321</u>	<u>2,469,864</u>	<u>2,638,649</u>	<u>2,862,117</u>	<u>3,063,893</u>	<u>3,370,158</u>	<u>3,692,403</u>	<u>4,016,744</u>
Plan fiduciary net position										
1. Contributions - employer	68,224	70,443	71,944	81,995	100,945	106,211	98,552	104,494	125,837	133,950
2. Contributions - employee	43,246	50,337	54,646	60,714	67,944	68,713	60,996	65,424	86,242	94,236
3. Net investment income	2,906	131,111	292,075	(72,525)	370,211	211,017	396,523	(251,655)	374,999	375,632
4. Benefit payments	(141,267)	(80,432)	(103,364)	(96,028)	(151,887)	(123,977)	(145,718)	(127,203)	(203,439)	(168,574)
5. Administrative Expense	(1,770)	(1,481)	(1,516)	(1,403)	(2,094)	(1,366)	(1,835)	(2,180)	(2,388)	(2,415)
6. Other	<u>(87)</u>	<u>(80)</u>	<u>(77)</u>	<u>(75)</u>	<u>(63)</u>	<u>(53)</u>	<u>13</u>	<u>2,601</u>	<u>(17)</u>	<u>(56)</u>
7. Net change in plan fiduciary net position	(28,748)	169,898	313,708	(27,322)	385,056	260,545	408,531	(208,519)	381,234	432,773
8. Plan fiduciary net position	<u>1,969,447</u>	<u>1,940,699</u>	<u>2,110,597</u>	<u>2,424,305</u>	<u>2,396,983</u>	<u>2,782,039</u>	<u>3,042,584</u>	<u>3,451,115</u>	<u>3,242,596</u>	<u>3,623,830</u>
9. Plan fiduciary net position	<u>1,940,699</u>	<u>2,110,597</u>	<u>2,424,305</u>	<u>2,396,983</u>	<u>2,782,039</u>	<u>3,042,584</u>	<u>3,451,115</u>	<u>3,242,596</u>	<u>3,623,830</u>	<u>4,056,603</u>

Net pension liability [A.9-B.9] (10,609) (56,788) (177,984) (72,881) (143,390) (180,467) (387,222) 127,562 68,573 (39,859)

Plan fiduciary net position as a % of the total pension liability [B.9 / A.9] 100.55% 102.77% 107.90% 97.05% 105.43% 106.31% 112.64% 96.21% 98.14% 100.99%

Covered-employee payroll 617,805 678,770 780,661 867,337 970,627 \$ 981,613 871,372 934,625 1,232,024 1,346,231

Net pension liability as a percentage of covered employee payroll [C / E] -1.72% -8.37% -22.80% 8.40% -14.77% -18.38% -44.44% 13.65% 5.57% -2.96%

EXHIBIT B-3

CITY OF BANDERA
 SCHEDULE OF CITY CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS

	Fiscal Year									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Contractually required contribution	\$ 73,228	\$ 70,242	\$ 75,805	\$ 97,594	\$ 104,246	\$ 98,649	\$ 102,555	\$ 120,911	\$ 132,516	\$ 133,950
Contributions in relation to the contractually required contribution	(73,228)	(70,242)	(75,805)	(97,594)	(104,246)	(98,649)	(102,555)	(120,911)	(194,056)	(133,950)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (61,540)	\$ -
City's covered-employee payroll	\$ 720,301	\$ 739,384	\$ 819,793	\$ 967,448	\$ 973,348	\$ 883,628	\$ 914,987	\$ 1,156,929	\$ 1,320,349	\$ 1,346,031
Contributions as a percentage of covered-employee payroll	10.17%	9.50%	9.25%	10.09%	10.71%	11.16%	11.21%	10.45%	10.04%	9.95%

CITY OF BANDERA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2025

Budget

The official budget was prepared for adoption for the General Fund, and the Debt Service Fund. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data:

- a. Prior to September 30 of the preceding fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Council is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Council.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Council. Amendments are presented to the Board at its regular meetings.

Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Council and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Council. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions

There were changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

*Combining Statements
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF BANDERA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2025

EXHIBIT C-1

	Hotel Motel Tax Fund	Opiod Abatement Fund	Street Improvement Fund	Court Security Fund	Court Technology Fund	Nightmare on Maple Fund
ASSETS:						
Cash and Cash Equivalents	115,979	1,947	143,141	3,531	7,368	10,014
Taxes Receivable						
Receivables (net)	6,819	-	-			
Total Assets	122,798	1,947	143,141	3,531	7,368	10,014
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable						604
Deferred Revenue - Property Tax	-	-	-	-	-	-
Total Liabilities	-	-	-	-	-	604
FUND BALANCES:						
Nonspendable Fund Balance	-	-	-			
Restricted for Special Revenue	122,798	1,947	143,141	3,531	7,368	9,410
Restricted for Debt Service	-	-	-			
Total Fund Balance	122,798	1,947	143,141	3,531	7,368	9,410
Total Liabilities and Fund Balance	122,798	1,947	143,141	3,531	7,368	10,014

EXHIBIT C-1

CITY OF BANDERA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2025

	LEOSE Fund	Truancy Prevention Fund	Marshal Seizure Fund	Christmas in the Park Fund	Debt Service Fund	Total NonMajor Funds
ASSETS:						
Cash and Cash Equivalents	2,337	7,371	5,009	-	58,001	354,698
Taxes Receivable					3,238	3,238
Receivables (net)	-	-	-		-	6,819
Total Assets	<u>2,337</u>	<u>7,371</u>	<u>5,009</u>	<u>-</u>	<u>61,239</u>	<u>364,755</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable				894		1,498
Deferred Revenue - Property Tax	-	-	-	-	3,239	3,239
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>894</u>	<u>3,239</u>	<u>4,737</u>
FUND BALANCES:						
Nonspendable Fund Balance	-	-	-			
Restricted for Special Revenue	2,337	7,371	5,009	(894)		302,018
Restricted for Debt Service	-	-	-		58,000	58,000
Total Fund Balance	<u>2,337</u>	<u>7,371</u>	<u>5,009</u>	<u>(894)</u>	<u>58,000</u>	<u>360,018</u>
Total Liabilities and Fund Balance	<u>2,337</u>	<u>7,371</u>	<u>5,009</u>	<u>-</u>	<u>61,239</u>	<u>364,755</u>

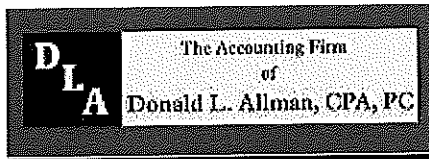
EXHIBIT C-2

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

	Hotel Motel Tax Fund	Opiod Abatement Fund	Street Improvement Fund	Court Security	Court Technology	Nightmare on Maple Fund
Revenue:						
Taxes:						
General Property Taxes	-	-	-	-	-	-
Hotel Occupancy Tax	88,951	-	-	-	-	-
Other revenues	-	862	21,456	1,470	1,211	6,500
Total Revenues:	88,951	862	21,456	1,470	1,211	6,500
Expenditures:						
Parks						5,488
Debt Service Principal		-	-	-	-	-
Debt Service Interest		-	-	-	-	-
Hotel Motel	70,290	-	-	-	-	-
Municipal Court				9,141	3,068	
Public Safety	-	-	-	-	-	-
Total Expenditures	70,290	-	-	9,141	3,068	5,488
Excess (Deficiency) of Revenues Over (Under) Expenditures	18,661	862		(7,671)	(1,857)	1,012
Other Financing Sources (Uses):						
Transfers (Out)/In	-	-	121,685	-	-	8,398
Total Other Financing Sources (Uses)	-	-	121,685	-	-	8,398
Net Change in Fund Balances	18,661	862	143,141	(7,671)	(1,857)	9,410
Fund Balances - Beginning	104,137	1,085	-	11,202	9,225	-
Fund Balances - Ending	122,798	1,947	143,141	3,531	7,368	9,410

CITY OF BANDERA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2025

	LEOSE Fund	Truancy Prevention Fund	Marshal Seizure Fund	Christmas in the Park Fund	Debt Service Fund	Total Nonmajor Funds
Revenue:						
Taxes:						
General Property Taxes	-	-	-	-	51,777	51,777
Hotel Occupancy Tax	-	-	-	-	-	88,951
Other revenues	1,878	1,479	-	39,000	-	73,856
Total Revenues:	1,878	1,479	-	39,000	51,777	214,584
Expenditures:						
Parks	-	-	-	62,590	-	68,078
Debt Service Principal	-	-	-	-	184,000	184,000
Debt Service Interest	-	-	-	-	59,425	59,425
Hotel Motel	-	-	-	-	-	70,290
Municipal Court	-	-	-	-	-	12,209
General Government	-	-	-	-	1,575	1,575
Total Expenditures	-	-	-	62,590	245,000	395,577
Excess (Deficiency) of Revenues						
Over (Under) Expenditures	1,878	1,479	-	(23,590)	(193,223)	(180,993)
Other Financing Sources (Uses):						
Transfers (Out)/In	-	-	-	22,696	185,300	338,079
Total Other Financing Sources (Uses)	-	-	-	22,696	185,300	338,079
Net Change in Fund Balances	1,878	1,479	-	(894)	(7,923)	157,086
Fund Balances - Beginning	459	5,892	5,009	-	65,923	202,932
Fund Balances - Ending	2,337	7,371	5,009	(894)	58,000	360,018



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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditors' 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

City Council
City of Bandera
511 Main Street
Bandera, Texas 78003

Members of the City Council
City of Bandera, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bandera, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City of Bandera, Texas' basic financial statements, and have issued our report thereon dated March 16, 2026.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Bandera, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Bandera, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bandera, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Donald L. Allman, CPA, PC

Liberty Hill, Texas
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