

*REPORT OF EXAMINATION*

**CITY OF  
BANDERA**

*Bandera, Texas*

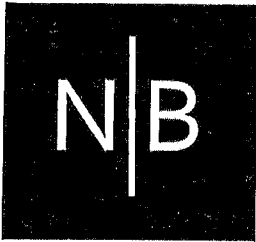
For the Year Ended  
September 30, 2021

CITY OF BANDERA, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2021

CITY OF BANDERA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	3
 <u>Basic Financial Statements</u>	
<b>Government Wide Statements:</b>	
A-1 Statement of Net Position.....	9
B-1 Statement of Activities .....	10
<b>Governmental Fund Financial Statements:</b>	
C-1 Balance Sheet.....	12
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	14
C-3 Statement of Revenues, Expenditures and Changes in Fund Balance .....	15
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	17
<b>Proprietary Fund Financial Statements:</b>	
D-1 Statement of Net Position.....	18
D-2 Statement of Revenues, Expenses and Changes in Fund Net Position.....	19
D-3 Statement of Cash Flows .....	20
Notes to the Financial Statements.....	22
 <u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund .....	40
G-2 Schedule of Changes in Net Pension Liability and Related Ratios.....	41
G-3 Schedule of Employer Contributions.....	43
Notes to the Schedule of Contributions.....	45
G-4 Schedule of Changes in Total OPEB Liability and Related Ratios.....	46
Notes to the Schedule of Changes in Total OPEB Liability and Related Ratios.....	47
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	 48



# NEFFENDORF & BLOCKER, P.C.

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of  
the City Council  
City of Bandera, Texas  
Bandera, TX 78003

### Report on the Financial Statements

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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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### *Opinions*

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, 2021, 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.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Employer Contributions and the Schedule of Changes in Total Other Post-Employment Benefits Liability and Related Ratios on pages 3-8 and 40-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

#### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2022, on our consideration of the City of Bandera's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provides an opinion on the effectiveness of the City of Bandera's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bandera's internal control over financial reporting and compliance.

*Neffendorf & Blocker, P.C.*

NEFFENDORF & BLOCKER, P.C.  
Fredericksburg, Texas

July 25, 2022

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bandera, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2021. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$8,721,564 (net position). Of this amount, \$1,562,504 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$571,700 as a result of this year's operations.
- At September 30, 2021, the City's governmental funds reported combined ending fund balances of \$7,026,042, an increase of \$2,321,174 in comparison with the prior year.
- At September 30, 2021, the City's Enterprise Funds reported unrestricted net position of \$5,099,030, an increase of \$534,043 in comparison with the prior year.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 through 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (general fund), Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Employer Contributions and the Schedule of Changes in Total OPEB Liability and Related Ratios are presented as required supplementary information on page 40 through 47.

## Reporting the City as a Whole

### *The Statement of Net Position and the Statement of Activities*

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

- Governmental activity - Most of the City's basic services are reported here, including the public safety, municipal court and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.
- Business-type activity - The City's water and sewer system and sanitation are reported as a business-type activity since the fees charged to customers cover the cost of services provided.

## Reporting the City's Most Significant Funds

### *Fund Financial Statements*

The fund financial statements provide detailed information about the 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.

The City has two kinds of funds:

- Governmental funds - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's utility fund (Water, Sewer, and Sanitation) is a business-type activity and provides both long and short-term financial information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from \$3,584,877 to \$3,622,534. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$1,194,686 at September 30, 2021. This increase in governmental net position was the result of six factors. First, the City's revenues exceeded the expenditures by \$2,321,174. Second the City acquired capital assets in the amount of \$740,565. Third, the City recorded depreciation in the amounts of \$152,708. Fourth, due to the entries required by GASB Statement No. 68 a decrease in expenses was necessary in the amount of \$32,707. Fifth, due to the entries required by GASB Statement No. 75 an increase in expenses was necessary in the amount of \$11,492. Sixth, the City issued certificates of obligation in the amount of \$2,970,000.

Net position of the City's business-type activities increased from \$4,564,987 to \$5,099,030. Unrestricted net position was \$367,818 at September 30, 2021. This increase in business-type net position was the result of net income of \$534,043.

Table I  
City of Bandera

### NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2021	2020	2021	2020	2021	2020
Current and Restricted Assets	\$ 9,859	\$ 5,105	\$ 458	\$ 225	\$ 10,317	\$ 5,330
Capital Assets	2,428	1,840	4,731	4,681	7,159	6,521
Net Pension Asset	130	97	51	46	181	143
Total Assets	\$ 12,417	\$ 7,042	\$ 5,240	\$ 4,952	\$ 17,657	\$ 11,994
Deferred Outflow of Resources						
Pension Plan	51	53	20	25	71	78
OPEB Plan	12	8	5	4	17	12
Total Deferred Outflows of Resources	\$ 63	\$ 61	\$ 25	\$ 29	\$ 88	\$ 90
Long-Term Liabilities	\$ 5,890	\$ 3,000	\$ -	\$ -	\$ 5,890	\$ 3,000
OPEB Liability	78	64	30	31	108	95
Other Liabilities	2,821	386	109	352	2,930	738
Total Liabilities	\$ 8,789	\$ 3,450	\$ 139	\$ 383	\$ 8,928	\$ 3,833
Deferred Inflow of Resources						
Pension Plan	\$ 64	\$ 66	\$ 25	\$ 32	\$ 89	\$ 98
OPEB Plan	4	3	2	1	6	4
Total Deferred Inflows of Resources	\$ 68	\$ 69	\$ 27	\$ 33	\$ 95	\$ 102
Net Position:						
Net Investment in Capital Assets	\$ 2,306	\$ 1,547	\$ 4,731	\$ 4,681	\$ 7,037	\$ 6,228
Restricted	122	116	-	-	122	116
Unrestricted	1,195	1,921	368	(116)	1,563	1,805
Total Net Position	\$ 3,623	\$ 3,584	\$ 5,099	\$ 4,565	\$ 8,722	\$ 8,149



Table II  
City of Bandera

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Property Taxes	\$ 505	\$ 498	\$	\$	\$ 505	\$ 498
Sales Tax	767	650			767	650
Other Taxes	183	118			183	118
Charges for Services	341	331	1,689	1,591	2,030	1,922
Miscellaneous	4	54	5	14	9	68
Grants and Contributions	99	374	40		139	374
Interest Earnings	4	13			4	13
<b>Total Revenue</b>	<b>\$ 1,903</b>	<b>\$ 2,038</b>	<b>\$ 1,734</b>	<b>\$ 1,605</b>	<b>\$ 3,637</b>	<b>\$ 3,643</b>
<b>Expenses:</b>						
General and Administrative	\$ 727	\$ 646	\$	\$	\$ 727	\$ 646
Marshal/Police Protection	458	447			458	447
Municipal Court	123	111			123	111
Fire Department Donation	8	8			8	8
Streets Department	272	393			272	393
Animal Control	1	1			1	1
Parks	195	215			195	215
Hotel/Motel	27	24			27	24
Water and Sewer	-	-	1,245	1,411	1,245	1,411
Debt Service - Interest	63	64	-	1	63	65
Capital Outlay	63	155			63	
<b>Total Expenses</b>	<b>\$ 1,937</b>	<b>\$ 2,064</b>	<b>\$ 1,245</b>	<b>\$ 1,412</b>	<b>\$ 3,182</b>	<b>\$ 3,321</b>
<b>Increase (Decrease) in Net Position</b>						
Before Transfers & Capital Contributions	\$ (34)	\$ (26)	\$ 489	\$ 193	\$ 455	\$ 167
Transfers	73	158	(73)	(157)		
Insurance Recovery	-	-	54			
Capital Contributions	-	-	64	359	64	359
<b>Net Change</b>	<b>39</b>	<b>132</b>	<b>534</b>	<b>395</b>	<b>519</b>	<b>526</b>
Net Position - Beginning	3,584	3,744	4,565	3,878	8,149	7,622
Prior Period Adjustment		(292)		292	-	-
<b>Net Position - Ending</b>	<b>\$ 3,623</b>	<b>\$ 3,584</b>	<b>\$ 5,099</b>	<b>\$ 4,565</b>	<b>\$ 8,668</b>	<b>\$ 8,148</b>

The cost of all governmental activities this year was \$1,939,894. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$1,271,269 because the other costs were paid by other taxes (\$182,896), user charges (\$341,480), grants (\$98,509), interest (\$4,360) and other miscellaneous (\$6,208).

#### THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a fund balance of \$7,026,042, which is more than last year's total of \$4,704,868. Included in this year's total change in fund balance is an increase of \$72,448 in the City's General Fund. The increase in the General Fund balance was caused by the excess of revenues over expenditures. The City's Capital Projects Fund fund balance increased \$2,228,936 mainly due to the issuance of the Certificates of Obligation, Series 2021 in the amount of \$2,970,000.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts and actual expenditures were less than the budgeted amounts.

#### CAPITAL ASSETS

At September 30, 2021, the City had the following amounts invested in capital assets, net of depreciation:

#### CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2021	2020	2021	2020	2021	2020
	Land and Improvements	\$ 480,000	\$ 480,000	\$ 10,934	\$ 10,934	\$ 490,934
Buildings and Improvements	937,128	683,731	36,012	36,012	973,140	719,743
Infrastructure	2,419,257	2,010,526	6,847,475	6,793,506	9,266,732	8,804,032
Machinery & Equipment	462,480	422,087	334,596	290,854	797,076	712,941
Construction In Progress	281,524	243,480	610,090	499,076	891,614	742,556
Total Capital Assets	\$ 4,580,389	\$ 3,839,824	\$ 7,839,107	\$ 7,630,382	\$ 12,419,496	\$ 11,470,206
Less: Accumulated Depreciation	(2,152,881)	(2,000,173)	(3,107,895)	(2,949,782)	(5,260,776)	(4,949,955)
Capital Assets, Net	\$ 2,427,508	\$ 1,839,651	\$ 4,731,212	\$ 4,680,600	\$ 7,158,720	\$ 6,520,251

More detailed information about the City's capital assets is presented in Note E and F to the financial statements.

#### DEBT

At September 30, 2021, the City had the following outstanding debt:

#### OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2021	2020	2021	2020	2021	2020
	Bonds Payable	\$ 5,890,000	\$ 3,000,000	\$ -	\$ -	\$ 5,890,000
Total Outstanding Debt	\$ 5,890,000	\$ 3,000,000	\$ -	\$ -	\$ 5,890,000	\$ 3,000,000

For business-type activities, the City paid \$80,000 in principal payments on long-term debt.

More detailed information about the City's long-term liabilities is presented in Notes H and I to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2022 budget and tax rates. The major factors are the assessed property valuation and population growth. These indicators were taken into account when adopting the General Fund budget for 2022. Amounts available for appropriation in the General Fund budget are \$1,724,235 and expenditures are estimated to be \$1,724,235.

If these estimates are realized, the City's budgetary General fund balance is to remain the same by the close of 2022.

## 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 show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at City of Bandera, Texas.

## BASIC FINANCIAL STATEMENTS

CITY OF BANDERA, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2021

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 629,300	\$ 489,465	\$ 1,118,765	\$ 385,210
Investments - Current	1,113,121	-	1,113,121	104,550
Accounts Receivable, Net	59,550	188,333	247,883	-
Due from Other Governments	103,573	-	103,573	-
Due from Other Funds	222,672	(222,672)	-	95,053
Inventories	-	3,000	3,000	-
Temporarily Restricted Asset- TWDB FIF	5,278,252	-	5,278,252	-
Temporarily Restricted Asset- TWDB DWSRF	2,452,502	-	2,452,502	-
Capital Assets:				
Land	480,000	10,934	490,934	508,659
Buildings	937,128	36,012	973,140	-
Infrastructure	2,419,257	6,847,475	9,266,732	30,455
Machinery and Equipment	462,480	334,596	797,075	34,957
Accumulated Depreciation	(2,152,881)	(3,107,895)	(5,260,775)	(34,991)
Construction in Progress	281,524	610,090	891,614	-
Net Pension Asset	129,953	50,514	180,467	-
<b>Total Assets</b>	<b>12,416,431</b>	<b>5,239,852</b>	<b>17,656,283</b>	<b>1,123,893</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Outflow Related to Pension Plan	50,529	19,641	70,170	-
Deferred Outflow Related to OPEB	12,208	4,745	16,953	-
<b>Total Deferred Outflows of Resources</b>	<b>62,737</b>	<b>24,386</b>	<b>87,123</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts Payable	138,150	38,911	177,061	985
Wages and Salaries Payable	6,706	2,347	9,053	-
Compensated Absences Payable	25,000	6,003	31,003	-
Intergovernmental Payable	-	3,770	3,770	-
Due to Others	315	44,558	44,873	-
Due to Component Unit	95,053	-	95,053	-
Accrued Interest Payable	10,344	-	10,344	-
Deferred Revenues	2,541,887	-	2,541,887	-
Other Current Liabilities	3,327	12,923	16,250	-
Noncurrent Liabilities:				
Due Within One Year	85,000	-	85,000	41,000
Due in More than One Year:				
Debt Due in More Than One Year	5,805,000	-	5,805,000	41,000
Net OPEB Liability	77,644	30,182	107,826	-
<b>Total Liabilities</b>	<b>8,788,426</b>	<b>138,694</b>	<b>8,927,120</b>	<b>82,985</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred Inflow Related to Pension Plan	64,247	24,974	89,221	-
Deferred Inflow Related to OPEB	3,961	1,540	5,501	-
<b>Total Deferred Inflows of Resources</b>	<b>68,208</b>	<b>26,514</b>	<b>94,722</b>	<b>-</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	2,306,030	4,731,212	7,037,242	539,080
Restricted:				
Restricted for Special Revenue	121,818	-	121,818	-
Restricted for Economic Development	-	-	-	501,828
Unrestricted	1,194,686	367,818	1,562,504	-
<b>Total Net Position</b>	<b>\$ 3,622,534</b>	<b>\$ 5,099,030</b>	<b>\$ 8,721,564</b>	<b>\$ 1,040,908</b>

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
\$ (8,071)	\$ -	\$ (8,071)	\$ -
(425,795)	-	(425,795)	-
(142,828)	-	(142,828)	-
(49,654)	-	(49,654)	-
(75,951)	-	(75,951)	-
(453,235)	-	(453,235)	-
(8,021)	-	(8,021)	-
(120,400)	-	(120,400)	-
42,670	-	42,670	-
(110,235)	-	(110,235)	-
23	-	23	-
49,639	-	49,639	-
(64,289)	-	(64,289)	-
(27,730)	-	(27,730)	-
(63,716)	-	(63,716)	-
(1,175)	-	(1,175)	-
(63,560)	-	(63,560)	-
<u>(1,522,328)</u>	<u>-</u>	<u>(1,522,328)</u>	<u>-</u>
-	507,171	507,171	-
-	507,171	507,171	-
<u>(1,522,328)</u>	<u>507,171</u>	<u>(1,015,157)</u>	<u>-</u>
-	-	-	(233,065)
-	-	-	(233,065)
433,956	-	433,956	-
70,644	-	70,644	-
766,669	-	766,669	383,277
182,896	-	182,896	-
2,113	-	2,113	-
22,423	40,000	62,423	-
4,095	59,701	63,796	-
4,360	-	4,360	1,188
72,829	(72,829)	-	-
<u>1,559,985</u>	<u>26,872</u>	<u>1,586,857</u>	<u>384,465</u>
37,657	534,043	571,700	151,400
3,584,877	4,564,987	8,149,864	889,508
<u>\$ 3,622,534</u>	<u>\$ 5,099,030</u>	<u>\$ 8,721,564</u>	<u>\$ 1,040,908</u>

Hotel Motel Fund	Total Governmental Funds
\$ 91,408	\$ 629,300
-	1,113,121
-	38,992
12,060	12,060
-	103,573
-	752,270
-	5,278,252
-	2,452,502
<u>\$ 103,468</u>	<u>\$ 10,380,070</u>
\$ -	\$ 138,150
-	6,706
5,384	529,598
-	315
-	95,053
-	2,541,887
-	3,327
<u>5,384</u>	<u>3,315,036</u>
-	38,992
-	38,992
-	21,082
-	2,652
98,084	98,084
-	4,947,136
-	36,345
-	1,920,743
<u>98,084</u>	<u>7,026,042</u>
<u>\$ 103,468</u>	<u>\$ 10,380,070</u>

CITY OF BANDERA, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2021

<b>Total Fund Balances - Governmental Funds</b>	\$	7,026,042
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.		(1,160,349)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2021 capital outlays and debt principal payments is to increase net position.		820,565
The City is required to report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension asset of \$129,953, a Deferred Resource Inflow of \$64,247 and a Deferred Resource Outflow of \$50,529. The net effect of these was to increase the ending net position by \$116,235.		116,235
The City is required to report their OPEB liability in the Government Wide Statement of Net Position. The items reported included an OPEB liability of \$77,644, a Deferred Resource Inflow of \$3,961 and a Deferred Resource Outflow of \$12,208. The net effect of these was to decrease the ending net position by \$69,397.		(69,397)
The 2021 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(152,708)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(2,957,854)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>3,622,534</b>

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



Hotel Motel Fund	Total Governmental Funds
\$ -	\$ 494,317
-	766,669
50,425	50,425
-	106,482
-	25,989
-	2,113
-	82,651
-	82,190
-	193,676
-	65,153
-	4,360
-	300
-	16,319
-	13,599
50,425	1,904,243
-	7,408
-	463,918
-	133,603
-	126,311
-	67,826
-	465,448
-	7,362
-	112,121
-	16,772
-	679,817
-	738
-	121,884
-	59,010
27,730	33,290
-	80,000
-	63,849
-	1,175
-	63,560
27,730	2,504,092
22,695	(599,849)
-	2,970,000
-	72,829
-	(121,806)
-	2,921,023
22,695	2,321,174
75,389	4,704,868
\$ 98,084	\$ 7,026,042

CITY OF BANDERA, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	2,321,174
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase the change in net position.		820,565
The entries required by GASB 68 to record the City's proportional share of the net pension liability required that some expenses on B-1 be adjusted. The net effect on the change in net position on Exhibit B-1 is an increase of \$32,707.		32,707
The entries required by GASB 75 to record the City's proportional share of the OPEB liability required that some expenses on B-1 be adjusted. The net effect on the change in net position on Exhibit B-1 is a decrease of \$11,492.		(11,492)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(152,708)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(2,972,589)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>37,657</u></b>

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

CITY OF BANDERA, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2021

EXHIBIT D-1

	Business Type Activities
	Water, Sewer & Sanitation Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 489,465
Accounts Receivable, Net	188,333
Due from Other Funds	52,328
Inventories	3,000
Total Current Assets	733,126
Noncurrent Assets:	
Capital Assets:	
Land	10,934
Buildings	36,012
Infrastructure	6,847,475
Machinery and Equipment	334,596
Accumulated Depreciation	(3,107,895)
Construction in Progress	610,090
Net Pension Asset	50,514
Total Noncurrent Assets	4,781,726
Total Assets	5,514,852
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflow Related to Pension Plan	19,641
Deferred Outflow Related to OPEB	4,745
Total Deferred Outflows of Resources	24,386
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	38,911
Wages and Salaries Payable	2,347
Compensated Absences Payable	6,003
Intergovernmental Payable	3,770
Due to Other Funds	275,000
Due to Others	44,558
Other Current Liabilities	12,923
Total Current Liabilities	383,512
Noncurrent Liabilities:	
Net OPEB Liability	30,182
Total Noncurrent Liabilities	30,182
Total Liabilities	413,694
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflow Related to Pension Plan	24,974
Deferred Inflow Related to OPEB	1,540
Total Deferred Inflows of Resources	26,514
<b>NET POSITION</b>	
Net Investment in Capital Assets	4,731,212
Unrestricted	367,818
Total Net Position	\$ 5,099,030

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

CITY OF BANDERA, TEXAS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

EXHIBIT D-2

	Business-Type Activities
	Water & Sewer Fund
<b>OPERATING REVENUES:</b>	
Intergovernmental Revenue and Grants	\$ 40,000
Charges for Services	1,689,005
Other Revenue	5,170
Total Operating Revenues	1,734,175
<b>OPERATING EXPENSES:</b>	
Proprietary Fund Function - Water	
Personnel Services - Salaries and Wages	124,947
Personnel Services - Employee Benefits	50,438
Purchased Professional & Technical Services	15,504
Purchased Property Services	50,473
Other Operating Costs	69,132
Supplies	11,808
Total Proprietary Fund Function - Water	322,302
Proprietary Fund Function- Solid Waste	
Purchased Professional & Technical Services	462,485
Proprietary Fund Function- Wastewater	
Personnel Services - Salaries and Wages	113,961
Personnel Services - Employee Benefits	49,423
Purchased Professional & Technical Services	65,705
Purchased Property Services	10,348
Other Operating Costs	37,792
Supplies	12,900
Total Proprietary Fund Function- Wastewater	290,129
Proprietary Fund Function - Utility Admin	
Other Operating Costs	12,365
Depreciation	158,113
Total Operating Expenses	1,245,394
Operating Income	488,781
<b>NONOPERATING REVENUES (EXPENSES):</b>	
Insurance Recovery	54,531
Total NonOperating Revenue (Expenses)	54,531
Income Before Contributions & Transfers	543,312
Capital Contributions	63,560
Transfers Out	(72,829)
Change in Net Position	534,043
Total Net Position - October 1 (Beginning)	4,564,987
Total Net Position - September 30 (Ending)	\$ 5,099,030

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

CITY OF BANDERA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Business-Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,674,931
Cash Received from Others	45,170
Cash Payments to Employees for Services	(356,395)
Cash Payments for Professional & Technical Service	(543,694)
Cash Payments for Suppliers	(24,708)
Cash Payments for Other Operating Expenses	(189,335)
Net Cash Provided by Operating Activities	<u>605,969</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase (Decrease) in Insurance Recovery	54,531
Operating Transfer Out	(72,829)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(18,298)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(208,725)
Capital Contributed by Other Funds	63,560
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(145,165)</u>
Net Increase in Cash and Cash Equivalents	442,506
Cash and Cash Equivalents at the Beginning of the Year	<u>46,959</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 489,465</u>

CITY OF BANDERA, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

EXHIBIT D-3

		Business-Type Activities
		Water, Sewer & Sanitation Fund
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
Operating Income	\$	488,781
Effect of Increases and Decreases in Current Assets and Liabilities:		
Depreciation		158,113
Decrease (Increase) in Receivables		(14,074)
Decrease (Increase) in Due From Other Funds		(52,328)
Increase (Decrease) in Intergovernmental Payable		3,770
Increase (Decrease) in Accounts Payable		(13,508)
Increase (Decrease) in Payroll Deductions		(10,359)
Increase (Decrease) in Compensated Absences		(1,413)
Increase (Decrease) in Customer Deposits		2,978
Increase (Decrease) in Due to Other Funds		43,833
Increase (Decrease) in OPEB Liability		(927)
Increase (Decrease) in Net Pension Liability		(4,927)
Increase (Decrease) in Due to Others		6,030
Net Cash Provided by Operating Activities	\$	605,969

CITY OF BANDERA, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Bandera, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

- A. 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, if any existed, would be combined with data 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, 2021, the City had one component unit that is discretely presented in these financial statements:

Bandera Economic Development Corporation

The City appoints a voting majority to, and exerts significant control over, the Economic Development Corporation (EDC), a legally separate entity. This qualifies the EDC as a component unit, which is presented in a separate column in the government-wide financial statements. The EDC collects a ½ cent sales tax to promote the economic growth in the City of Bandera. The EDC issues standalone financial statements that can be obtained by contacting Bandera Economic Development Corporation at 511 Main Street, Bandera, Texas 78003

- B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Bandera nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

D. Fund Accounting

The City reports the following major governmental funds:

**General Fund** – The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

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

**Hotel Motel Fund**- The Hotel Motel Fund is a special revenue fund used to account for the promotion of tourism.



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

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

**Proprietary Fund:**

**Enterprise Fund-** The Enterprise Fund is used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's enterprise fund is the Water, Sewer and Sanitation Fund (used to account for the operating activities of the City's water utilities, sewer services, and solid waste management).

The Proprietary Fund is accounted for using the accrual basis of account as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**E. Other Accounting Policies**

1. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

2. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.
3. Investments – State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d). Statutes also allow investing in local government-investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City

has all its monies in interest bearing checking accounts, savings accounts, and certificates of deposit. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair market value except for certificates of deposit which are carried at amortized cost.

4. Accounts Receivable – Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, and past due after January 31. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are shown net of an allowance for uncollectible accounts in the amount of zero.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Revenues for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are billable services for certain contracts, and billable services for the City's water utilities, sewer services, and solid waste management. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts.

5. Short-term Interfund Receivables/Payables - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."
6. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Infrastructure	5-50
Buildings and Improvements	10-45
Machinery and Equipment	5-10

7. Compensated Absences – Employees earn vacation leave at varying rates depending on length of service: 5 days leave for year 1 (not available for use until first year of service is completed), an additional 5 days for each year from year 2 through 5, and an additional

day per year of service thereafter up to a maximum of 20 days per year. Annual leave exceeding 5 days will not be carried over, except with City Administrator approval.

Employees earn sick leave at the rate of 1 day per month starting on date of employment. No sick leave days are paid when an employee leaves city employment and no liability is reported for unpaid sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

8. The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

9. Deferred Inflows/ Deferred Outflows

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

Revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Revenues are not expected to be available for the current period are reflected as deferred revenue. Unavailable revenues arise when assets are recognized before revenue recognition criteria has been satisfied.

10. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
11. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report.

12. Pensions. For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
13. Other Post-Employment Benefits. GASB 75 requires the recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. The City participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund.
14. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2021, the carrying amount of the City's deposits was \$1,118,765 and the bank balance was \$1,099,705. The City's cash deposits held at September 30, 2021 and during the year ended September 30, 2021 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have

independent auditors perform test procedures related to investment practices as provided by the Act. The City was not in compliance with the requirements of the Act and with local policies.

The City's temporary investments at September 30, 2021, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
Certificates of Deposit-				
Bandera Bank	\$ 459,224	\$ 459,224	\$ 250,000	\$ 209,224
Texas Partners Bank	322,278	322,278	250,000	72,278
Hondo National Bank	331,619	331,619	250,000	81,619
Total	<u>\$ 1,113,121</u>	<u>\$ 1,113,121</u>	<u>\$ 750,000</u>	<u>\$ 363,121</u>

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

**Custodial Credit Risk - Deposits:** This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

**Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments (certificates of deposit) were secured by FDIC insurance and pledged securities.

**Other Credit Risk:** There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2021, the City was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

B. Restricted Assets

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

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
TWDB Flood Infrastructure Fund- Debt Proceeds	\$ 5,278,252	\$ -	\$ 5,278,252
TWDB Flood Infrastructure Fund- Loan Forgiveness			
TWDB Drinking Water State Revolving Fund	2,452,502	-	2,452,502
	<u>\$ 7,730,754</u>	<u>\$ -</u>	<u>\$ 7,730,754</u>

C. Property Taxes

Property taxes are levied by October 1 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 the 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.

The City contracted with the Bandera County Appraisal District for the appraisal of taxes and Bandera County Tax Assessor for the collection of taxes. For the 2020 tax roll, the assessed valuation was \$103,033,687. The tax rate was \$.495014 per \$100 valuation (\$.425143 for maintenance and operations and \$.069871 for interest and sinking).

D. Court Fines and Fees Receivable

With the implementation of GASB Statement Number 34, the City has determined the amount of court fines and receivable to be \$77,649. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$69,151, resulting in a net receivable of \$8,498.

E. Land, Structures and Equipment-Enterprise Funds

A summary of changes in fixed assets for the enterprise funds appears below:

	Balance 10/1/20	Additions	Deletions	Balance 9/30/2021
Land	\$ 10,934	\$ -	\$ -	\$ 10,934
Buildings	36,012	-	-	36,012
Utility Improvements	6,793,506	53,969		6,847,475
Machinery and Equipment	290,854	43,742		334,596
Construction in Progress	499,076	111,014		610,090
Totals	\$ 7,630,382	\$ 208,725	\$ -	\$ 7,839,107
Accumulated Depreciation	(2,949,782)	(158,113)		(3,107,895)
Fixed Assets, Net	\$ 4,680,600	\$ 50,612	\$ -	\$ 4,731,212

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2021, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 480,000	\$ -	\$ -	\$ 480,000
Buildings and Improvements	683,731	253,397		937,128
Infrastructure	2,010,526	408,731		2,419,257
Machinery and Equipment	422,087	40,393		462,480
Construction in Progress	243,480	281,524	(243,480)	281,524
Totals	3,839,824	984,045	(243,480)	4,580,389
Accumulated Depreciation	(2,000,173)	(152,708)		(2,152,881)
Capital Assets, Net	\$ 1,839,651	\$ 831,337	\$ (243,480)	\$ 2,427,508

Depreciation expense was charged to governmental functions as follows:

City Council	\$ 663
Administrator	41,516
City Secretary	11,956
Municipal Court	11,304
Finance Department	6,070
Marshal's Department	41,653
Fire Department	659
Code Compliance	10,034
Permitting Department	1,501
Streets Department	11,100
Animal Control	66
Parks Department	10,907
Seasonal Parks Department	5,279
	<u>\$ 152,708</u>

G. Deferred Outflows and Inflows of Resources

The financial statements report separate sections for deferred outflows and inflows of resources. Deferred outflows represent an acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows represent an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time.

Deferred outflows on the Statement of Net Position consists of the TMRS pension deferred outflow of \$70,170 (see note K) and the TMRS OPEB deferred outflow of \$16,953 (see note L).

Deferred inflows on the Statement of Net Position consists of the TMRS pension deferred inflow of \$89,221 (see note K), the TMRS OPEB deferred inflow of \$5,501(see Note L).

Deferred inflows on the Balance Sheet-Governmental Funds consist of:

	<u>Delinquent Property Tax</u>
General Fund	\$ 33,533
Debt Service Fund	5,459
Total Deferred Inflows- Exhibit C-1	<u>\$ 38,992</u>

H. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2021 follows:

<u>Description</u>	<u>Amounts Outstanding 10/1/20</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amounts Outstanding 9/30/21</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
<u>Bonds Payable</u>					
Certificates of Obligation					
Series 2018	\$ 3,000,000	\$ -	\$ (80,000)	\$ 2,920,000	\$ 85,000
Series 2021	-	2,970,000	-	2,970,000	-
Subtotal	<u>\$ 3,000,000</u>	<u>\$ 2,970,000</u>	<u>\$ (80,000)</u>	<u>\$ 5,890,000</u>	<u>\$ 85,000</u>
Total OPEB Liability	63,741	13,903	-	77,644	-
Compensated Absences	21,799	3,201	-	25,000	-
Total Governmental Activities	<u>\$ 3,085,540</u>	<u>\$ 2,987,104</u>	<u>\$ (80,000)</u>	<u>\$ 5,992,644</u>	<u>\$ 85,000</u>
<u>Description</u>	<u>Amounts Outstanding 10/1/20</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amounts Outstanding 9/30/21</u>	<u>Due in One Year</u>
<b>Business-Type Activities:</b>					
Total OPEB Liability	30,717	-	(535)	30,182	-
Compensated Absences	7,416	-	(1,413)	6,003	-
Total Business Type Activities	<u>\$ 38,133</u>	<u>\$ -</u>	<u>\$ (1,948)</u>	<u>\$ 36,185</u>	<u>\$ -</u>

I. Long-term Debt

The City issued \$3,000,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018 for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City's water system. The Certificates were issued at an interest rate of 1.02% to 2.46%. The Certificates are payable from the levy and collection of ad valorem taxes and from a pledge of the City's surplus water and sewer system revenues. The financial assistance from the Texas Water Development Board consisted of a loan in the amount of \$3,000,000.

The City issued \$2,970,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 221 for the purpose of paying contractual obligations incurred for the purpose of planning, designing, constructing, and installing flood drainage improvements throughout the City along with related

infrastructure and for paying professional services for legal, fiscal, and engineering fees in connection with this project. The Certificates were issued at 0% interest. The Certificates are payable from the levy and collection of ad valorem taxes and from a pledge of the City's surplus water and sewer system revenues.

Debt service requirements are as follows:

Year Ended September 30	Bonds Payable		Total
	Principal	Interest	
2022	85,000	62,948	147,948
2023	184,000	61,903	245,903
2024	184,000	60,726	244,726
2025	184,000	59,425	243,425
2026	184,000	58,014	242,014
2027-2031	955,000	264,590	1,219,590
2032-2036	1,015,000	212,619	1,227,619
2037-2041	1,075,000	148,775	1,223,775
2042-2046	1,145,000	75,178	1,220,178
2047-2051	780,000	7,066	787,066
2052	99,000	-	99,000
	<u>\$ 5,890,000</u>	<u>\$ 1,011,244</u>	<u>\$ 6,901,244</u>

J. RETIREMENT PLAN

Plan Description

The City of Bandera, Texas participates as one of 895 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Comprehensive Annual Financial Report (Annual Report) that can be obtained at [tmrs.com](http://tmrs.com).

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2019	Plan Year 2020
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	2 to1	2 to1



Years required for vesting	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

***Employees covered by benefit terms.***

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	38
Active employees	<u>20</u>
	70

**Contributions**

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

Employees for the City of Bandera, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Bandera, Texas were 10.82% and 11.31% in calendar years 2020 and 2021, respectively. The city's contributions to TMRS for the year ended September 30, 2021, were \$98,649, and were equal to the required contributions.

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 through December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-

retirement mortality assumption for health annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

#### Discount Rate

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

#### Schedule of Changes in Net Pension Liability/(Asset)

	Increase/(Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balances as of December 31, 2019	\$2,638,649	\$ 2,782,039	\$ (143,390)
Changes for the year:			
Service cost	182,482		182,482
Interest	180,083		180,083
Changes of Benefit Terms	-		-
Difference between Expected and Actual Experience	(15,120)		-
Changes in Assumptions	-		-
Contributions - Employer		106,211	(106,211)
Contributions - Employee		68,713	(68,713)
Net investment income		211,017	(211,017)
Benefit Payments, Including Refunds of			
Employee Contributions	(123,977)	(123,977)	-
Administrative Expense		(1,366)	1,366
Other Changes		(53)	53
	-		-
Net Changes	223,468	260,545	(21,957)
Balances as of December 31, 2020	\$2,862,117	\$ 3,042,584	\$ (180,467)

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 5.75%	Discount Rate 6.75%	1% Increase 7.75%
City's Net Pension Liability	\$ 238,759	\$ (180,467)	\$ (521,236)

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at [tmrs.com](http://tmrs.com).

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

For the year ended September 30, 2021, the City recognized pension expense of \$114,970.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 9,418	\$ -
Changes of assumptions	715	-
Net difference between projected and actual earnings	79,088	-
Contributions made subsequent to measurement date	-	70,170
	<u>\$ 89,221</u>	<u>\$ 70,170</u>

\$70,170 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2021	\$ (39,151)
2022	904
2023	(46,328)
2024	(4,646)
2025	-
Thereafter	-
Total	<u>\$ (89,221)</u>

K. **Defined Other Post-Employment Benefit Plan**

**Benefit Plan Description.** Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). The plan is a cost-sharing multiple-employer defined benefit group life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide supplemental death benefits for their active Members with optional coverage for their retirees. The death benefit for active Members provides a lump-sum payment approximately equal to the Member's annual salary (calculated based on the Member's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The participating city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all Members covered by the SDBF and the demographics specific to the workforce of the city. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. As such, contributions fund the covered active Member and retiree death on a pay-as-you-go basis.

All eligible employees of the city are required to participate in the SDBF.

The City's contributions to the TMRS SDBF for the year ended 2021 and 2020 were \$4,221 and \$2,913 respectively, which equaled the required contributions each year.

**Employees covered by benefit terms.**

At the December 31, 2020 valuation and measurement date, the following employees were covered by benefit terms:

Inactive employees currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	6
Active Employees	20
<b>Total</b>	<b>38</b>

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2020 and was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The TOL in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Discount Rate*	2.00%
Retirees' share of benefit-related cost	\$0
Administrative Expenses	All administrative expenses are paid through the Pension trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates- service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates- disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

\* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

Discount Rate

Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

Covered Payroll	\$ 981,613
Total OPEB Liability- Beginning of Year	94,458
Changes for the year	
Service Cost	4,614
Interest on Total OPEB Liability	2,645
Changes of benefit terms	-
Differences between expected and actual experience	(5,641)
Changes in assumptions or other inputs	12,928
Benefit Payments**	(1,178)
Net Changes	<u>13,368</u>
Total OPEB Liability- End of Year	107,826
 Total OPEB Liability as a Percentage of Covered Payroll	 10.98%

\*\* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Sensitivity of the Total OPEB Liability to changes in the discount rate

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 2.00%, 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 (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

	1% Decrease (1.00%)	Current Discount Rate (2.00%)	1% Increase (3.00%)
City's Total OPEB Liability	\$ 129,580	\$ 107,826	\$ 91,125

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2021, the City recognized OPEB expense of \$11,626.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 4,837	\$ -
Changes in assumption and other inputs	664	16,208
Contributions made subsequent to measurement date		745
Total	<u>\$ 5,501</u>	<u>\$ 16,953</u>

\$745 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2021	\$ 4,718
2022	5,002
2023	987
2024	-
2025	-
Thereafter	-
Total	<u>\$ 10,707</u>

L. Interfund Receivable and Payables

Interfund balances at September 30, 2021, consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
<u>General Fund -</u>		
Hotel Motel Fund	5,384	
Debt Service Fund		12,110
Capital Projects Fund	459,776	
Component Unit		95,053
Utility Fund	275,000	
<u>Hotel Motel Fund</u>		
General Fund		5,384
<u>Debt Service Fund</u>		
General Fund	12,110	
Utility Fund		12,110
<u>Capital Projects Fund</u>		
General Fund		459,776
Utility Fund		40,218
<u>Component Unit -</u>		
General Fund	95,053	
<u>Utility Fund</u>		
General Fund		275,000
Debt Service Fund	12,110	
Capital Projects Fund	40,218	
	<u>899,651</u>	<u>899,651</u>
Totals	<u>\$ 899,651</u>	<u>\$ 899,651</u>

M. Discretely Presented Component Unit

Bandera Economic Development Corporation (the "Bandera EDC")

The carrying amount of the Bandera Economic Development Corporation's deposits was \$385,210 and the bank balance was \$386,088.

The Bandera Economic Development Corporation's temporary investments at September 30, 2021, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
Certificates of Deposit-				
Bandera Bank	\$ 104,550	\$ 104,550	\$ 104,550	\$ -

Capital assets activity for the Bandera EDC for the year ended September 30, 2021 was as shown on the following page:

	Balane		Balance	
	10/1/20	Additions	Deletions	9/30/21
Land	\$ 508,659	\$	\$	\$ 508,659
Infrastructure	30,455			30,455
Equipment	34,957			34,957
Totals	\$ 574,071	\$ -	\$ -	\$ 574,071
Accumulated Depreciation	(28,639)	(6,352)		(34,991)
Capital Assets, Net	\$ 545,432	\$ (6,352)	\$ -	\$ 539,080

The Corporation also approved a \$205,000 loan to JW Land Development for wastewater infrastructure in July, 2018. The loan will be paid at a rate of \$41,000 per year for five year (0% interest).

The following is a summary of the changes in long-term debt outstanding in the City's component unit, Bandera EDC, as of September 30, 2021.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/20	Additions	Deletions	Amounts Outstanding 9/30/21	Due in One Year
Component Unit:								
Installment Agreement Payable								
JW Land Development	0%	205,000	-	123,000		(41,000)	82,000	41,000
Total		\$ 205,000	\$ -	\$ 123,000	\$ -	\$ (41,000)	\$ 82,000	\$ 41,000

Debt service requirements for the City's component unit, Bandera Economic Development Corporation, are as follows:

Component Unit:			
Year Ended	Bonds Payable		
September 30	Principal	Interest	Total
2022	41,000	-	41,000
2023	41,000	-	41,000
	\$ 82,000	\$ -	\$ 82,000

The Corporation has an outstanding performance requirement and a rent assistance agreement that will require future funding if the entity complies with the terms and conditions of the agreement. A schedule of the total amount awarded, amount paid and the remaining liability are as follows:

Entity	Award Amount	Paid as of 9/30/21	Balance
Bandera Natural History Museum Performance Agreement	\$ 30,000	\$ 20,000	\$ 10,000
Main Street Shops & Lofts Infrastructure Agreement	120,000	60,000	60,000
Performance Agreement	120,000	-	120,000
	\$ 270,000	\$ 80,000	\$ 190,000

N. 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. During the year ended September 30, 2021, payments made by the City under the contract totaled \$462,485.

O. Risk Management

The City's risk management program includes coverage for property, general liability, automobile liability, public officials' 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.

P. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Q. Unearned Revenues

Unspent Coronavirus State and Local Fiscal Recovery funds in the amount of \$111,887 are classified as deferred revenues in the General Fund. These funds are for response to the COVID-19 public health emergency.

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.

R. Subsequent Events

The City has evaluated subsequent events through July 25, 2022, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BANDERA, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 478,755	\$ 478,755	\$ 425,599	\$ (53,156)
General Sales and Use Taxes	575,000	575,000	766,669	191,669
Franchise Tax	78,500	78,500	106,482	27,982
Other Taxes	16,558	12,000	25,989	13,989
Penalty and Interest on Taxes	65,572	65,572	1,541	(64,031)
Licenses and Permits	55,400	112,696	82,651	(30,045)
Intergovernmental Revenue and Grants	2,700	77,700	76,630	(1,070)
Charges for Services	167,400	167,400	193,676	26,276
Fines	56,000	56,000	65,153	9,153
Investment Earnings	11,000	11,000	4,275	(6,725)
Rents and Royalties	500	500	300	(200)
Contributions & Donations from Private Sources	1,000	1,000	16,319	15,319
Other Revenue	48,313	48,313	13,599	(34,714)
Total Revenues	1,556,698	1,684,436	1,778,883	94,447
<b>EXPENDITURES:</b>				
Current:				
City Council	8,290	8,290	7,408	882
Administrator	221,662	454,216	463,918	(9,702)
City Secretary	138,770	138,770	133,603	5,167
Municipal Court	100,115	98,620	126,311	(27,691)
Finance Department	72,615	72,615	67,826	4,789
Marshal's Department	472,631	472,631	465,448	7,183
Fire Department	7,500	7,500	7,362	138
Code Compliance	108,755	108,755	112,121	(3,366)
Permitting Department	19,005	19,005	16,772	2,233
Streets Department	210,200	210,200	124,034	86,166
Animal Control	4,250	4,250	738	3,512
Parks Department	164,700	164,700	121,884	42,816
Seasonal Parks Department	28,200	28,200	59,010	(30,810)
Total Expenditures	1,556,693	1,787,752	1,706,435	81,317
Excess (Deficiency) of Revenues Over (Under) Expenditures	5	(103,316)	72,448	175,764
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	227,996	-	(227,996)
Total Other Financing Sources (Uses)	-	227,996	-	(227,996)
Net Change in Fund Balances	5	124,680	72,448	(52,232)
Fund Balance - October 1 (Beginning)	1,908,374	1,908,374	1,908,374	-
Fund Balance - September 30 (Ending)	\$ 1,908,379	\$ 2,033,054	\$ 1,980,822	\$ (52,232)

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

FY 2018 Plan Year 2017		FY 2017 Plan Year 2016		FY 2016 Plan Year 2015		FY 2015 Plan Year 2014	
\$	133,649	\$	115,052	\$	105,027	\$	92,055
	139,654		131,450		129,866		125,838
	-		-		-		-
	22,573		(42,351)		(59,432)		(55,268)
	-		-		22,547		-
	(103,364)		(80,432)		(141,267)		(81,879)
\$	192,512	\$	123,719	\$	56,741	\$	80,746
	2,053,809		1,930,090		1,873,349		1,792,603
\$	2,246,321	\$	2,053,809	\$	1,930,090	\$	1,873,349
\$	71,944	\$	70,443	\$	68,224	\$	80,188
	54,646		50,337		43,246		39,471
	292,075		131,111		2,906		104,581
	(103,364)		(80,432)		(141,267)		(81,879)
	(1,516)		(1,481)		(1,770)		(1,092)
	(77)		(80)		(87)		(90)
\$	313,708	\$	169,898	\$	(28,748)	\$	141,179
	2,110,597		1,940,699		1,969,447		1,828,268
\$	2,424,305	\$	2,110,597	\$	1,940,699	\$	1,969,447
\$	(177,984)	\$	(56,788)	\$	(10,609)	\$	(96,098)
	107.92%		102.77%		100.55%		105.13%
\$	780,661	\$	678,770	\$	617,805	\$	563,871
	(22.80%)		(8.37%)		(1.72%)		(17.04%)

	2017	2016	2015	2014
\$	75,805	\$ 70,242	\$ 73,228	\$ 66,553
	(75,805)	(70,242)	(73,228)	(66,553)
\$	-	\$ -	\$ -	-
\$	819,793	\$ 739,384	\$ 720,301	\$ 551,758
	9.25%	9.50%	10.16%	12.06%

CITY OF BANDERA, TEXAS  
 NOTES TO THE SCHEDULE OF CONTRIBUTIONS  
 SEPTEMBER 30, 2021

**Valuation Date:**

Notes Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and assumptions used to determine contribution rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	20 Years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes There were no benefit changes during the year.

CITY OF BANDERA, TEXAS  
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 FOR THE YEAR ENDED SEPTEMBER 30, 2021

	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
<b>Total OPEB Liability</b>				
Service Cost	\$ 4,614	\$ 3,106	\$ 5,551	\$ 4,606
Interest on the Total OPEB Liability	2,645	2,861	2,592	2,505
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	(5,641)	(1,187)	(1,928)	-
Changes of Assumptions	12,928	14,706	(4,996)	5,484
Benefit Payments*	(1,178)	(1,165)	(1,214)	(859)
Net Change in Total OPEB Liability	13,368	18,321	5	11,736
Total OPEB Liability - Beginning	94,458	76,137	76,132	64,396
Total OPEB Liability - Ending	\$ 107,826	\$ 94,458	\$ 76,137	\$ 76,132
<b>Covered Payroll</b>	\$ 981,613	\$ 970,627	\$ 867,337	\$ 780,661
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	10.98%	9.73%	8.78%	9.75%

\*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF BANDERA, TEXAS  
 NOTES TO THE SCHEDULE OF CONTRIBUTIONS  
 SEPTEMBER 30, 2021

**Valuation Date:**

Notes Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and assumptions used to determine contribution rates:**

Inflation	2.5%
Salary Increases	3.50% to 11.50% including inflation.
Discount rate*	2.00%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates- service retirees	2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis with Scale UMP.
Mortality rates- disabled retirees	2019 Municipal Retirees of Texas mortality tables with a 4 year set-forward for males and a 3-year set-forward for males. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect impairment for younger members who become disabled males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020

**Other Information:**

Notes There were no benefit changes during the year.



# NEFFENDORF & BLOCKER, P.C.

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

Honorable Mayor and Members of  
the City Council  
City of Bandera, Texas  
Bandera, TX 78003

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, 2021, 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 July 25, 2022.

### 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 that we consider to be material weaknesses.

### 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-002.

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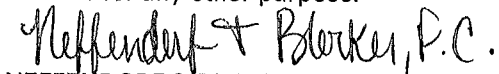


### City of Bandera, Texas' Response to Findings

City of Bandera, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City Bandera, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

  
NEFFENDORF & BLOCKER, P.C.

Fredericksburg, Texas  
July 25, 2022

CITY OF BANDERA, TEXAS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

I. Findings Related to the Financial Statements Which Are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*,

2021-001

**Condition:** Inadequate design of monitoring controls.

**Criteria:** Monitoring of internal controls is performed through application of both ongoing evaluations and separate evaluations. These evaluations ascertain whether other components of internal control continue to function as designed and intended. In addition, these evaluations facilitate identification of internal control deficiencies and communicate them to appropriate officials responsible for taking corrective action.

**Effect:** The financial information was materially misstated.

**Cause:** Lack of monitoring by management and those charged with governance.

**Recommendation:** We recommend ongoing reviews and evaluations be conducted to ensure financial information is complete and controls are functioning as designed and intended.

2021-002

**Condition:** Failure to file annual financial reports with the Texas Water Development Board in accordance with bond covenants.

**Criteria:** Filing annual financial reports on time with regulatory agencies is required to maintain compliance with debt covenants.

**Effect:** The City's annual financial report was delinquent.

**Cause:** Lack of monitoring by management and those charged with governance for compliance of debt covenants.

**Recommendation:** We recommend the City monitor compliance requirements for all debt issued to ensure that reports are filed timely and the City remains in compliance with covenants.

CITY OF BANDERA, TEXAS  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Findings

2021-001 and 2021-002

Contact person responsible for corrective action: Suzanne Schumann, Mayor  
(830) 796-3765

Corrective Action Planned:

2021-001

The City is aware of internal control issues, this is due to the City Administrator and City Treasurer positions not being filled. The city is in the process of interviewing and hiring for both positions. It is our intention once these administrative positions are filled to have the internal control that is desired through evaluations and reviews.

2021-002

City of Bandera sent unaudited financial reports to the Texas Water Development Board and plans to send the final audited report when it is complete. The city intends to comply with this requirement in the future once we have proper management in place.



# NEFFENDORF & BLOCKER, P.C.

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Honorable Mayor and Members of  
the City Council  
City of Bandera, Texas  
Bandera, TX 78003

We have audited 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 for the year ended September 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 26, 2022. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Matters

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Bandera, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates.

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

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Significant journal entries (some of which were material) were made to correct and record balance to the financial statements. Management has agreed and corrected all such misstatements.

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### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 25, 2022.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Recommendations*

#### Public Funds Investment Act

The City Treasurer is the designated Investment Officer. The required investment officer training was not completed. We recommend the Investment Officer complete the required training to comply with the Public Funds Investment Act.

The Investment Policy was not approved for the 2020-2021 year. This is a requirement of the Public Funds Investment Act. We recommend the City adopt and approve the investment policy annually.

#### Capital Projects Fund

The City did not record the Series 2021 certificates of obligation proceeds and related expenditures. We recommend that the City record the proceeds and expenditures when debt is issued.

#### Financial Accounting and Controls

The City has not adopted a written policy manual for financial accounting, reporting and controls. We again recommend that the City adopt a written manual for policies and procedures to address all financial aspects (reporting, recording, budgeting, utility billing, municipal court, payroll); internal controls and proper review and approvals.

#### Inventory of Fixed Assets and Supplies

1. The City had not performed an actual physical inventory of all fixed assets (compare and update depreciation schedule). We again recommend the City take a physical inventory annually (at year-end).

We also again recommend that the City adopt a fixed asset policy to provide a dollar limit on what is capitalized (i.e. items purchased over \$500 or \$1,000) and what is expensed as part of the supplies (or non-capital) inventory and to establish internal control over these assets.

2. The City has not taken a physical inventory of materials and supplies. Although the amount maybe immaterial, we again recommend that the City take an annual physical inventory (at year-end) for possible recording in the general ledger.

Restricted Cash- TWDB Escrow Account

The City did not record the transactions that occurred in the TWDB escrow accounts during the year. We recommend that the City record these transactions to reflect accurate TWDB escrow restricted cash balances.

Debt Service Fund

The City did not record the I&S tax collections or debt service payments in the debt service fund. We recommend the City record these transactions in the debt service fund.

Grants and Capital Projects

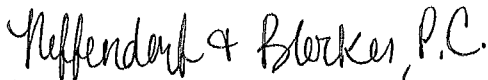
The City does not prepare a reconciliation of grant projects or capital projects. We recommend a reconciliation for each grant and each capital project be prepared that entails the cost and status on a quarterly basis. We also recommend these reconciliations be reviewed and approved by Mayor and Council.

Credit Card Policy

City credit cards were used by several employees. During our test of transactions we found numerous charge that did not have a receipt or invoice for the purchase. We recommend that the City adopt a policy for credit card purchases and the required documentation.

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

Very truly yours,



NEFFENDORF & BLOCKER, P.C.  
Fredericksburg, Texas