

CITY OF DODD CITY, TEXAS  
ANNUAL FINANCIAL REPORT  
Year Ended September 30, 2025

CITY OF DODD CITY, TEXAS  
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Year Ended September 30, 2025

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George H. Struve, CPA  
Debra J. Wilder, CPA  
Teffany A. Kavanaugh, CPA  
April J. Hatfield, CPA  
Brittany L. Martin, CPA

Steven W. Mohundro, CPA,  
of Counsel

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members  
of the City Council  
City of Dodd City, Texas

### Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Dodd City, Texas (the City) as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City as of September 30, 2025, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note I.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Emphasis of Matter – Basis of Accounting

We draw attention to Note I of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note I, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Honorable Mayor and Members  
of the City Council  
City of Dodd City, Texas

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

In performing an audit with generally accepted auditing standards, we:

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

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

### **Other Matters**

#### *Other Information*

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

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

*McClanahan and Holmes, LLP*  
Certified Public Accountants

Bonham, Texas  
March 3, 2026

CITY OF DODD CITY, TEXAS  
Statement of Net Position - Modified Cash Basis  
September 30, 2025

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 181,702	\$ 56,687	\$ 238,389
Restricted Assets - Cash and Cash Equivalents	-	47,823	47,823
Internal Balances	8,299	(8,299)	-
Capital Assets Not Being Depreciated:			
Land	24,830	16,912	41,742
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Improvements	6,269	-	6,269
Furniture, Equipment, and Vehicles	-	68,338	68,338
Water Distribution System	-	1,910,532	1,910,532
Infrastructure	26,396	-	26,396
Total Assets	<u>247,496</u>	<u>2,091,993</u>	<u>2,339,489</u>
<b>LIABILITIES</b>			
Payroll Tax Payable	-	630	630
Sales Tax Payable	513	-	513
Customers' Deposits	-	39,164	39,164
Noncurrent Liabilities:			
Due Within One Year	-	29,219	29,219
Due in More Than One Year	-	1,100,000	1,100,000
Total Liabilities	<u>513</u>	<u>1,169,013</u>	<u>1,169,526</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	57,495	875,222	932,717
Unrestricted	189,488	47,758	237,246
Total Net Position	<u>\$ 246,983</u>	<u>\$ 922,980</u>	<u>\$ 1,169,963</u>

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

CITY OF DODD CITY, TEXAS  
Statement of Activities - Modified Cash Basis  
Year Ended September 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 89,871	\$ -	\$ -	\$ -	\$ (89,871)	\$ -	\$ (89,871)
Sanitation	23,946	28,421	-	-	4,475	-	4,475
Total Governmental Activities	<u>113,817</u>	<u>28,421</u>	<u>-</u>	<u>-</u>	<u>(85,396)</u>	<u>-</u>	<u>(85,396)</u>
Business-Type Activities:							
Water and Sewer	310,195	236,336	-	-	-	(73,859)	(73,859)
Total Business-Type Activities	<u>310,195</u>	<u>236,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(73,859)</u>	<u>(73,859)</u>
Total Primary Government	<u>\$ 424,012</u>	<u>\$ 264,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(85,396)</u>	<u>(73,859)</u>	<u>(159,255)</u>
General Revenues:							
Property Taxes					77,883	-	77,883
Sales Taxes					22,495	-	22,495
Franchise Taxes					16,361	-	16,361
Miscellaneous					1,675	-	1,675
Interest on Investments					-	31	31
Insurance Proceeds					-	40,531	40,531
Transfers					(54,421)	54,421	-
Total General Revenues and Transfers					<u>63,993</u>	<u>94,983</u>	<u>158,976</u>
Change in Net Position					<u>(21,403)</u>	<u>21,124</u>	<u>(279)</u>
Net Position - Beginning					<u>268,386</u>	<u>901,856</u>	<u>1,170,242</u>
Net Position - Ending					<u>\$ 246,983</u>	<u>\$ 922,980</u>	<u>\$ 1,169,963</u>

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

CITY OF DODD CITY, TEXAS  
Balance Sheet - Modified Cash Basis  
Governmental Funds  
September 30, 2025

	General	Debt Service	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 181,702	\$ -	\$ 181,702
Due from Other Funds	8,299	-	8,299
Total Assets	\$ 190,001	\$ -	\$ 190,001
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 513	\$ -	\$ 513
Total Liabilities	513	-	513
<b>FUND BALANCES</b>			
Unassigned	189,488	-	189,488
Total Fund Balances	189,488	-	189,488
Total Liabilities and Fund Balances	\$ 190,001	\$ -	\$ 190,001
Total Fund Balances - Governmental Funds (above)			\$ 189,488
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The detail is as follows:			
Land		\$ 24,830	
Buildings and Improvements		28,579	
Less: Accumulated Depreciation - Buildings and Improvements		(22,310)	
Furniture, Equipment, and Vehicles		7,505	
Less: Accumulated Depreciation - Furniture, Equipment, and Vehicles		(7,505)	
Infrastructure		49,076	
Less: Accumulated Depreciation - Infrastructure		(22,680)	57,495
Net Position of Governmental Activities			\$ 246,983

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

CITY OF DODD CITY, TEXAS  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Modified Cash Basis  
Governmental Funds  
Year Ended September 30, 2025

	General	Debt Service	Total Governmental Funds
REVENUES			
Property Taxes	\$ 26,091	\$ 51,792	\$ 77,883
Sales Taxes	22,495	-	22,495
Franchise Taxes	16,361	-	16,361
License and Permits	1,270	-	1,270
Sanitation Fees	28,421	-	28,421
Miscellaneous	405	-	405
Total Revenues	95,043	51,792	146,835
EXPENDITURES			
Current:			
General Government	88,143	-	88,143
Sanitation	23,946	-	23,946
Total Expenditures	112,089	-	112,089
Excess (Deficiency) of Revenues over Expenditures	(17,046)	51,792	34,746
OTHER FINANCING SOURCES (USES)			
Transfers Out	(2,629)	(51,792)	(54,421)
Total Other Financing Sources (Uses)	(2,629)	(51,792)	(54,421)
Net Change in Fund Balances	(19,675)	-	(19,675)
Fund Balances - Beginning	209,163	-	209,163
Fund Balances - Ending	\$ 189,488	\$ -	\$ 189,488
Net Change in Fund Balances - Total Governmental Funds			\$ (19,675)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$1,728) exceeded capital outlays (\$ -) in the current year.			(1,728)
Change in Net Position of Governmental Activities			\$ (21,403)

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

CITY OF DODD CITY, TEXAS  
 Statement of Net Position - Modified Cash Basis  
 Proprietary Fund  
 September 30, 2025

	Business - Type Activities
	Water and Sewer
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 56,687
Restricted Cash and Cash Equivalents	47,823
Total Current Assets	104,510
Noncurrent Assets:	
Capital Assets Not Being Depreciated:	
Land	16,912
Capital Assets Being Depreciated:	
Furniture, Equipment, and Vehicles	136,615
Water Distribution System	3,259,206
Less Accumulated Depreciation	(1,416,951)
Total Noncurrent Assets	1,995,782
Total Assets	2,100,292
<b>LIABILITIES</b>	
Current Liabilities:	
Payroll Tax Payable	630
Time Warrants Payable - Current	9,219
Combination Tax and Certificates of Obligation - Current	20,000
Customer Deposits Payable - Restricted Assets	39,164
Due to Other Funds	8,299
Total Current Liabilities	77,312
Noncurrent Liabilities:	
Combination Tax and Certificates of Obligation	1,100,000
Total Noncurrent Liabilities	1,100,000
Total Liabilities	1,177,312
<b>NET POSITION</b>	
Net Investment in Capital Assets	875,222
Unrestricted	47,758
Total Net Position	\$ 922,980

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

CITY OF DODD CITY, TEXAS  
Statement of Revenues, Expenses, and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Fund  
Year Ended September 30, 2025

	Business - Type Activities
	Water and Sewer Fund
OPERATING REVENUES	
Charges for Services	\$ 236,336
Total Operating Revenues	236,336
OPERATING EXPENSES	
Salaries and Related Expenses	43,563
Contract Services	24,403
Repairs and Supplies - System	35,344
Repairs - Equipment	111
Fuel	1,675
Professional Fees	6,138
Utilities	44,403
Insurance	10,272
Office Expense	5,805
Licenses and Permits	1,495
Lab Fees	12,752
Depreciation	84,191
Total Operating Expenses	270,152
Operating Income (Loss)	(33,816)
NONOPERATING REVENUES (EXPENSES)	
Investment Earnings	31
Interest Expense	(40,043)
Insurance Proceeds	40,531
Total Nonoperating Revenues (Expenses)	519
Income (Loss) Before Transfers	(33,297)
Transfers In	54,421
Change in Net Position	21,124
Net Position - Beginning	901,856
Net Position - Ending	\$ 922,980

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

CITY OF DODD CITY, TEXAS  
Statement of Cash Flows - Modified Cash Basis  
Proprietary Fund  
Year Ended September 30, 2025

	Water and Sewer Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 238,836
Payments to Suppliers and Service Providers	(142,398)
Payments to Employees for Salaries and Benefits	(43,563)
Net Cash Provided by (Used for) Operating Activities	52,875
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from Other Funds	62,720
Net Cash Provided by (Used for) Noncapital Financing Activities	62,720
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	(135,597)
Principal Paid on Capital Debt	(43,096)
Interest Paid on Capital Debt	(40,043)
Insurance Proceeds Received	40,531
Net Cash Provided by (Used for) Capital and Related Financing Activities	(178,205)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Investments	31
Net Cash Provided by (Used for) Investing Activities	31
Net Increase (Decrease) in Cash and Cash Equivalents	(62,579)
Cash and Cash Equivalents - Beginning	167,089
Cash and Cash Equivalents - Ending	\$ 104,510
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:	
Operating Income (Loss)	\$ (33,816)
Adjustments to Reconcile Operating Income (Loss) to Provided by (Used For) Operating Activities:	
Depreciation Expense	84,191
(Decrease) Increase in Customer Meter Deposits	2,500
Total Adjustments	86,691
Net Cash Provided by (Used For) Operating Activities	\$ 52,875

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

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements  
September 30, 2025

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Dodd City, Texas (the City) was incorporated on July 28, 1879. The City is a municipal corporation governed by an elected mayor and six-member governing council (the Council). The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

Except for the use of the modified cash basis of accounting as discussed in Note I.E., the City complies with accounting principles generally accepted in the United States of America as applicable to governments. Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities), report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary fund.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The debt service fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The government reports the following major proprietary fund:

The water and sewer fund accounts for the water distribution and sewer system as well as the billings and collections for those services.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

I. Summary of Significant Accounting Policies (Continued)

D. Basis of Presentation – Fund Financial Statements (Continued)

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (the governmental and debt service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The City prepares its financial statements on the modified cash basis of accounting. The modified cash basis recognizes revenue when collected rather than when it is earned, and expenses are generally recognized when paid rather than when the obligation is incurred. Therefore, the financial statements generally do not reflect receivables, payables, and accrued items. However, payroll liabilities and other amounts that the City collects and distributes to third parties are shown as accruals. Depreciation of fixed assets is presented in the government-wide statements and the proprietary fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund balance is classified as net position.

F. Budgetary Information

1. Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with the modified cash basis of accounting for the general fund and debt service fund. The appropriated budget is prepared by fund and department. After public hearings are held, the budget is adopted in September prior to the beginning of its subsequent fiscal year.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

I. Summary of Significant Accounting Policies (Continued)

F. Budgetary Information (Continued)

2. Excess of Expenditures over Appropriations

For the year ended September 30, 2025, the City's expenditures exceeded appropriation at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Appraisal and Tax Collection	\$ 19
Insurance	3,869
Office Expenditures	775
Professional Fees	8,375
Equipment Maintenance	4,912
Contract Labor	6,043
State Sales Tax	151
Sanitation	2,946
Transfers	2,629

The over-expenditures were funded by available fund balance.

G. Assets, Liabilities, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The government'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.

2. Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury, direct obligations of the State of Texas, other obligations guaranteed or insured by the State of Texas or the United States, obligations of states and political subdivisions of any state meeting certain rating requirements, certificates of deposit, and fully collateralized direct repurchase agreements having a defined termination date.

The City did not engage in repurchase or reverse repurchase agreement transactions during the current year.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

I. Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities, and Net Position/Fund Balance (Continued)

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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 cost of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Infrastructure assets acquired since October 1, 2003, are recorded at cost.

Property, plant, and equipment of the primary government is being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	20-40 Years
Furniture, Equipment, and Vehicles	5 Years
Water Distribution System	30-40 Years
Infrastructure	20 Years

4. Restricted Assets

The ordinance authorizing the issuance of the Certificates of Obligation provides for monthly deposits to an interest and sinking fund sufficient to pay maturing principal and interest. The Certificates were issued for the purpose of paying costs associated with the acquisition and construction of a new waste water treatment plant for the City.

An analysis of restricted assets at September 30, 2025, follows:

<u>Proprietary Fund</u>	<u>Cash</u>
Customer Deposits	\$ 39,164
Sewer Savings Account	<u>8,659</u>
Total	<u>\$ 47,823</u>

5. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

I. Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities, and Net Position/Fund Balance (Continued)

6. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unassigned fund balance. Further, when the components of unassigned fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance.

7. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance), assignment (assigned fund balance), or a restriction (restricted fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. The City does not have any restricted fund balances by enabling legislation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The restricted fund balance classification includes amounts that can only be spent for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The City does not have any restricted fund balances by enabling legislation.

Unassigned fund balance includes all other spendable amounts.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as programs revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

I. Summary of Significant Accounting Policies (Continued)

H. Revenues and Expenditures/Expenses (Continued)

2. Property Taxes

The City's property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Tax rates per \$100 valuation for the 2024 levy amounted to .08899 for maintenance and operations and .17641 for the interest and sinking fund. The 2024 net taxable assessed valuation was \$29,635,569.

3. Proprietary Fund Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. Stewardship, Compliance, and Accountability

Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended September 30, 2025. It also explains the provision provided by law that was used to remedy the violation.

III. Detailed Notes on All Activities and Funds

A. Cash Deposits With Financial Institutions

Custodial credit risk-deposits: In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions that are domiciled in the State of Texas. Collateral agreements must be approved prior to deposit of funds as provided by law.

The City Council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of the City Council.

As of September 30, 2025, the City had deposits with a carrying amount of \$286,212, and the bank's balances were \$316,253. As of September 30, 2025, the City was not exposed to custodial credit risk since \$250,000 was insured by FDIC and \$66,253 was secured by pledged collateral.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

III. Detailed Notes on All Activities and Funds (Continued)

B. Investments

At September 30, 2025, the City had invested in only an interest-bearing deposit account issued by a state or national bank insured by FDIC, which is reflected as restricted cash and cash equivalents on the statement of net position.

The City is required by Government Code Chapter 2256, The Public Funds Investment Act (the Act), to adopt, implement, and publicize an investment policy. The policy must be written, primarily to emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investment in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity. The City has not reviewed and annually approved an investment policy, therefore the City lacks the requirements to be in compliance with the requirements of the Texas Public Funds Investment Act as of September 30, 2025. During the fiscal year, an investment officer was designated, and the required training was completed within the first twelve months of designation.

C. Capital Assets

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

Governmental Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 24,830	\$ -	\$ -	\$ 24,830
Total Capital Assets, Not Being Depreciated	<u>24,830</u>	<u>-</u>	<u>-</u>	<u>24,830</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	28,579	-	-	28,579
Furniture, Equipment, and Vehicles	7,505	-	-	7,505
Infrastructure	49,076	-	-	49,076
Total Capital Assets, Being Depreciated	<u>85,160</u>	<u>-</u>	<u>-</u>	<u>85,160</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(21,809)	(501)	-	(22,310)
Furniture, Equipment, and Vehicles	(7,505)	-	-	(7,505)
Infrastructure	(21,453)	(1,227)	-	(22,680)
Total Accumulated Depreciation	<u>(50,767)</u>	<u>(1,728)</u>	<u>-</u>	<u>(52,495)</u>
Total Capital Assets, Being Depreciated (Net)	<u>34,393</u>	<u>(1,728)</u>	<u>-</u>	<u>32,665</u>
Governmental Activities Capital Assets (Net)	<u>\$ 59,223</u>	<u>\$ (1,728)</u>	<u>\$ -</u>	<u>\$ 57,495</u>

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

Governmental Activities:

    General Government \$ 1,728

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

III. Detailed Notes on All Activities and Funds (Continued)

C. Capital Assets (Continued)

Business-Type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 16,912	\$ -	\$ -	\$ 16,912
Total Capital Assets, Not Being Depreciated	<u>16,912</u>	<u>-</u>	<u>-</u>	<u>16,912</u>
Capital Assets, Being Depreciated:				
Furniture, Equipment, and Vehicles	62,620	73,995	-	136,615
Water Distribution System	3,197,604	61,602	-	3,259,206
Total Capital Assets, Being Depreciated	<u>3,260,224</u>	<u>135,597</u>	<u>-</u>	<u>3,395,821</u>
Less Accumulated Depreciation for:				
Furniture, Equipment, and Vehicles	(62,620)	(5,657)	-	(68,277)
Water Distribution System	(1,270,140)	(78,534)	-	(1,348,674)
Total Accumulated Depreciation	<u>(1,332,760)</u>	<u>(84,191)</u>	<u>-</u>	<u>(1,416,951)</u>
Total Capital Assets, Being Depreciated (Net)	<u>1,927,464</u>	<u>51,406</u>	<u>-</u>	<u>1,978,870</u>
Governmental Activities Capital Assets (Net)	<u>\$ 1,944,376</u>	<u>\$ 51,406</u>	<u>\$ -</u>	<u>\$ 1,995,782</u>

D. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases insurance coverage from commercial insurers to limit risk of loss in these areas. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. There has been no significant reduction in insurance coverage during the year ended September 30, 2025. There have been no settlements in excess of insurance coverage in any of the prior three fiscal years.

E. Long-Term Liabilities

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Presently, the City's long-term debt consists of time warrants and Certificates of Obligation.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

III. Detailed Notes on All Activities and Funds (Continued)

E. Long-Term Liabilities (Continued)

The ordinance authorizing the issuance of Combination Tax and Surplus Revenue Certificates of Obligation, Taxable Series 2016, created an interest and sinking fund. The ordinance requires the City to levy and collect an amount of property tax which will be sufficient to pay principal and interest as it comes due, but never less than 2% of the original principal amount. The net revenues of the Waterworks and Sewer System are pledged to the payments of principal and interest on the Certificates as they become due to the extent the taxes shall ever be insufficient or unavailable.

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

Business-Type Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Time Warrants	\$ 32,315	\$ -	\$ 23,096	\$ 9,219	\$ 9,219
Certificates of Obligation	1,140,000	-	20,000	1,120,000	20,000
Total Debt	<u>\$ 1,172,315</u>	<u>\$ -</u>	<u>\$ 43,096</u>	<u>\$ 1,129,219</u>	<u>\$ 29,219</u>

Long-term debt is comprised of the following:

\$300,000, Time Warrants, dated February 23, 2006, due in monthly installments of \$2,022, through 2026, interest at 5.25%. \$ 9,219

\$1,255,000, Series 2016 Combination Tax and Surplus Revenue Certificates Of Obligation, dated November 2016, due in annual installments of \$5,000 to \$60,000 through 2056, interest from .920% to 3.65%. 1,120,000  
\$ 1,129,219

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CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

III. Detailed Notes on All Activities and Funds (Continued)

E. Long-Term Liabilities (Continued)

The annual requirements to retire debt obligations are as follows:

Fiscal Year Due	Principal	Interest	Total
2026	\$ 29,219	\$ 39,070	\$ 68,289
2027	20,000	38,158	58,158
2028	25,000	37,714	62,714
2029	25,000	37,109	62,109
2030	25,000	36,452	61,452
2031-2035	130,000	171,158	301,158
2036-2040	155,000	147,884	302,884
2041-2045	185,000	118,300	303,300
2046-2050	215,000	82,490	297,490
2051-2055	260,000	39,968	299,968
2056	60,000	2,190	62,190
	\$1,129,219	\$ 750,493	\$1,879,712

F. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenue/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

G. Interfund Receivables and Payables

Interfund transfers for the year ended September 30, 2025, consisted of the following individual amounts:

Transfers to Water and Sewer Fund From:	
General	\$ 2,629
Debt Service	51,792
Total Transferred to Water and Sewer Fund	\$ 54,421

During the year, transfers are used to 1) transfer to and from the Water and Sewer Fund to the General Fund for general operating expenses and sanitation revenue and 2) to transfer to and from the Debt Service Fund and General Fund to the Water and Sewer Fund to reimburse debt payments.

CITY OF DODD CITY, TEXAS  
Notes to Financial Statements (Continued)  
September 30, 2025

III. Detailed Notes on All Activities and Funds (Continued)

H. Number of Water and Sewer System Customers

At September 30, 2025, 252 customers were connected to the water system and 147 to the sewer system.

I. Related Party Transactions

During the year, the City conducted business with an immediate relative of a council member. The individual performed services for the City including meter installations, line installations, and leak repairs. The total amount paid by the City to the individual, including payroll, amounts to \$23,914 for the year ending September 30, 2025.

J. Commitments and Contingencies

In the normal course of operations, the City receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Accordingly, the City's compliance with applicable grant requirements has not yet been established. The amount, if any, of reimbursements which may be required by the granting agencies cannot be determined at this time.

*Asset Retirement Obligation*

The City has incurred asset retirement obligations related to the disposal of their wastewater treatment plant, per state regulations. The City is on the modified cash basis of accounting and therefore has not recorded a liability for the legally required closure costs of these facilities. Further, the estimated liability of the legally required closure costs for the wastewater treatment plant cannot be reasonably estimated as of September 30, 2025, since the specific legally required costs of retirement have not yet been identified. As of September 30, 2025, the City has not begun any retirement procedures related to the disposal of these assets.

K. Subsequent Events

The City of Dodd City, Texas has evaluated subsequent events through March 3, 2026, the date which the financial statements were available to be issued.

CITY OF DODD CITY, TEXAS  
Other Information  
Budgetary Comparison Schedule - Modified Cash Basis - General Fund  
Year Ended September 30, 2025

	Original and Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>			
Property Taxes	\$ 26,374	\$ 26,091	\$ (283)
Sales Taxes	30,000	22,495	(7,505)
Franchise Taxes	15,000	16,361	1,361
License and Permits	1,500	1,270	(230)
Sanitation Fees	24,000	28,421	4,421
Miscellaneous	400	405	5
Total Revenues	97,274	95,043	(2,231)
<b>EXPENDITURES</b>			
Appraisal and Tax Collection	2,500	2,519	(19)
Election Expenditures	1,500	-	1,500
Insurance	7,000	10,869	(3,869)
Fuel	1,800	289	1,511
Office Expenditures	2,950	3,725	(775)
Professional Fees	16,000	24,375	(8,375)
Street Maintenance and Improvements	20,000	12,642	7,358
Equipment Maintenance	5,000	9,912	(4,912)
Equipment Purchase	1,200	100	1,100
Contract Labor	4,000	10,043	(6,043)
State Sales Tax	2,100	2,251	(151)
Travel	700	357	343
Telephone and Utilities	11,943	11,061	882
Sanitation	21,000	23,946	(2,946)
Total Expenditures	97,693	112,089	(14,396)
Excess of Revenues over Expenditures	(419)	(17,046)	(16,627)
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In (Out)	-	(2,629)	(2,629)
Total Other Financing Sources (Uses)	-	(2,629)	(2,629)
Net Change in Fund Balances	(419)	(19,675)	(19,256)
Fund Balances - Beginning of Year	209,163	209,163	-
Fund Balances - End of Year	\$ 208,744	\$ 189,488	\$ (19,256)