

REPORT OF EXAMINATION

**CITY OF
HORSESHOE BAY**

Horseshoe Bay, Texas

**For the Year Ended
September 30, 2014**

CITY OF HORSESHOE BAY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014

CITY OF HORSESHOE BAY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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Certified Public Accountants

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Independent Auditor's Report

Honorable Mayor and Council Members
City of Horseshoe Bay, Texas
Horseshoe Bay, TX 78657

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Horseshoe Bay, Texas, as of and for the year ended September 30, 2014, 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. 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.

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, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas, as of September 30, 2014, 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 and budgetary comparison information on pages 3–8 and 34 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Neffendorf, Knopp, Dooss & Company, P.C.
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

January 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Horseshoe Bay, 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, 2014. 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 \$34,050,622 (net position). Of this amount, \$11,194,775 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position decreased by \$273,581 as a result of this period's operations.
- At September 30, 2014, the City's governmental funds reported combined ending fund balances of \$3,374,215.
- At September 30, 2014, the City's Utility Fund reported unrestricted net position of \$7,757,163.
- The City issued Combination Tax and Revenue Certificates of Obligation, Series 2014 in the amount of \$9,800,000 for street improvements and utility infrastructure improvements.

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 and 10). 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) is presented as required supplementary information on page 34.

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 period'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 period. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current period'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** - All of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, other taxes and user charges finance most of these activities.
- **Business-type activity** - The City's utility system is 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 enterprise fund (Utility) 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 by \$35,754. 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 – were \$3,437,612 at September 30, 2014. This increase in governmental net position was the result of: Capital assets (principally part of the street improvement plan) were acquired aggregating \$6,679,108 which resulted in expenditures exceeding revenues by \$5,757,383 and the recording of depreciation expense of \$1,061,618.

Net position of the City's business-type activities decreased from \$20,220,442 to \$19,911,107 resulting in net loss of \$309,335. Unrestricted net position increased from \$6,500,925 to \$7,757,163.

Table I
City of Horseshoe Bay

NET POSITION in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 4,789	\$ 4,266	\$ 11,258	\$ 7,118	\$ 16,047	\$ 11,384
Capital Assets	21,436	15,839	22,617	22,954	44,053	38,793
Total Assets	\$ 26,225	\$ 20,105	\$ 33,875	\$ 30,072	\$ 60,100	\$ 50,178
Long-Term Liabilities	\$ 10,371	\$ 5,468	\$ 12,790	\$ 8,755	\$ 23,161	\$ 14,223
Other Liabilities	1,704	525	1,174	1,097	2,878	1,622
Total Liabilities	\$ 12,075	\$ 5,993	\$ 13,964	\$ 9,852	\$ 26,039	\$ 15,845
Deferred inflow of Resources						
Unavailable Revenue -						
Property Taxes	11	7			11	7
Total Deferred Inflows of Resources	11	7	-	-	11	7
Net Position						
Net Investment in						
Capital Assets	\$ 10,685	\$ 10,113	\$ 9,233	\$ 13,719	\$ 19,918	\$ 23,832
Restricted	17	37	2,921	-	2,938	37
Unrestricted	3,438	3,954	7,757	6,501	11,195	10,455
Total Net Position	\$ 14,140	\$ 14,104	\$ 19,911	\$ 20,220	\$ 34,051	\$ 34,324

Table II
City of Horseshoe Bay

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
	Revenues:					
Charges for Services	\$ 1,698	\$ 1,176	\$ 5,740	\$ 5,883	\$ 7,438	\$ 7,059
Stand-by Charges				18	-	18
Property Tax	3,953	3,771			3,953	3,771
Other Taxes	1,322	1,203			1,322	1,203
Penalty & Interest	29	34			29	34
Investment Earnings	3	8	2	7	5	15
Miscellaneous	112	288	13	18	125	306
Total Revenue	\$ 7,117	\$ 6,480	\$ 5,755	\$ 5,925	\$ 12,872	\$ 12,406
Expenses:						
General Government	\$ 1,567	\$ 1,814			\$ 1,567	\$ 1,814
Police	1,823	1,861			1,823	1,861
Fire	1,761	1,807			1,761	1,807
Streets	837	252			837	252
Development Services	261	448			261	448
Mowing and Clearing	483	-			483	-
Utilities			4,420	4,309	4,420	4,309
Debt Service	248	168	363	357	611	525
Capital Outlay	101	95			101	95
Depreciation			1,483	1,444	1,483	1,444
Total Expenses	\$ 7,081	\$ 6,445	\$ 6,266	\$ 6,110	\$ 13,347	\$ 12,555
Increase in Net Position						
Before Transfers & Capital Grants	\$ 36	\$ 35	\$ (511)	\$ (184)	\$ (475)	\$ (149)
Capital Contributions		41	202	1,534	202	1,575
Transfers		160		(160)	-	-
Change in Net Position	36	236	(309)	1,190	(273)	1,426
Net Position, Beginning	14,104	13,868	20,220	19,030	34,324	32,898
Net Position, Ending	\$ 14,140	\$ 14,104	\$ 19,911	\$ 20,220	\$ 34,051	\$ 34,324

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$3,374,215. Included in this year's total change in fund balance is a decrease of \$483,578 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts by \$304,011, and actual expenditures were less than budgeted amounts by \$603,523.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2014, the City had the following amounts invested in capital assets, net of depreciation:

	CAPITAL ASSETS					
	In thousands					
	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 127	\$ 127	\$ 420	\$ 420	\$ 547	\$ 547
Infrastructure	16,508	12,441	42,477	39,650	58,985	52,090
Machinery and Equipment	2,408	2,341	2,680	2,563	5,088	4,904
Buildings and Improvements	3,895	3,781	874	866	4,768	4,647
Construction in Progress	3,236	870	61	1,909	3,297	2,779
Total Capital Assets	\$ 26,174	\$ 19,560	\$ 46,511	\$ 45,407	\$ 72,686	\$ 64,967
Less: Accumulated Depreciation	(4,738)	(3,722)	(23,894)	(22,452)	(28,632)	(26,174)
Capital Assets, Net	\$ 21,436	\$ 15,838	\$ 22,617	\$ 22,955	\$ 44,054	\$ 38,793

This period's major additions included:

	Governmental Activities	Business Type Activities
Infrastructure	\$ 4,067,869	\$ 948,609
Building and Improvements	113,382	8,284
Machinery and Equipment	132,118	157,525
Construction In Progress	2,365,739	30,942
TOTALS	\$ 6,679,108	\$ 1,145,360

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

DEBT

For governmental activities, the City had \$10,500,063 in combination tax and revenue bonds outstanding.

For business-type activities, the City had \$13,384,701 in general obligation refunding bonds and combination tax and revenue bonds outstanding.

More detailed information about the City's long-term liabilities is presented in Note F 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 2015 budget and tax rates. The major factors are the assessed property values and population growth. These indicators were taken into account when adopting the General Fund budget for 2015. Total revenues in the General Fund budget are \$6,544,750 and expenditures are estimated to be \$6,366,750. The General Fund fund balance should increase by \$178,000.

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 P.O. Box 7765, City of Horseshoe Bay, Horseshoe Bay, Texas 78657.

BASIC FINANCIAL STATEMENTS

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 160,302	\$ 588,350	\$ 748,652
Investments - Current	4,582,656	6,386,809	10,969,465
Receivables (net of allowance for uncollectibles)	446,054	711,876	1,157,930
Internal Balances	(399,799)	399,799	-
Inventories	-	83,208	83,208
Capitalized Debt Issuance Costs	-	166,591	166,591
Restricted Assets:			
Restricted Asset - Capital Improvements	-	2,921,379	2,921,379
Capital Assets:			
Land	127,356	419,563	546,919
Infrastructure, net	16,508,425	40,062,214	56,570,639
Buildings, net	3,894,538	989,081	4,883,619
Improvements other than Buildings, net	-	1,795,404	1,795,404
Machinery and Equipment, net	2,407,792	2,792,804	5,200,596
Capital Assets, net	(4,737,687)	(23,894,110)	(28,631,797)
Construction in Progress	3,236,049	452,310	3,688,359
Total Assets	<u>26,225,686</u>	<u>33,875,278</u>	<u>60,100,964</u>
LIABILITIES			
Accounts Payable	1,117,524	109,123	1,226,647
Accrued Interest Payable	45,785	75,130	120,915
Deferred Revenues	35,709	68,361	104,070
Notes Payable - Current	-	325,000	325,000
Other Current Liabilities	124,893	326,856	451,749
Noncurrent Liabilities			
Due Within One Year	380,000	270,000	650,000
Due in More Than One Year	10,371,554	12,789,701	23,161,255
Total Liabilities	<u>12,075,465</u>	<u>13,964,171</u>	<u>26,039,636</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	10,706	-	10,706
Total Deferred Inflows of Resources	<u>10,706</u>	<u>-</u>	<u>10,706</u>
NET POSITION			
Net Investment in Capital Assets	10,684,919	9,232,565	19,917,484
Restricted for:			
Restricted for Debt Service	16,984	-	16,984
Restricted for Capital Improvements	-	2,921,379	2,921,379
Unrestricted Net Position	3,437,612	7,757,163	11,194,775
Total Net Position	<u>\$ 14,139,515</u>	<u>\$ 19,911,107</u>	<u>\$ 34,050,622</u>

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,072,765)	\$ -	\$ (1,072,765)
(1,738,945)	-	(1,738,945)
(1,502,675)	-	(1,502,675)
(310,744)	-	(310,744)
(20,000)	-	(20,000)
(252,703)	-	(252,703)
(137,528)	-	(137,528)
(189,116)	-	(189,116)
(58,951)	-	(58,951)
(100,500)	-	(100,500)
<u>(5,383,927)</u>	<u>-</u>	<u>(5,383,927)</u>
-	(325,039)	(325,039)
-	(325,039)	(325,039)
<u>(5,383,927)</u>	<u>(325,039)</u>	<u>(5,708,966)</u>
3,521,387	-	3,521,387
431,950	-	431,950
998,535	-	998,535
323,330	-	323,330
29,029	-	29,029
12,500	-	12,500
99,798	13,412	113,210
3,152	2,292	5,444
<u>5,419,681</u>	<u>15,704</u>	<u>5,435,385</u>
35,754	(309,335)	(273,581)
14,103,761	20,220,442	34,324,203
<u>\$ 14,139,515</u>	<u>\$ 19,911,107</u>	<u>\$ 34,050,622</u>

CITY OF HORSESHOE BAY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

EXHIBIT C-1

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 123,320	\$ 28,103	\$ 8,879	\$ 160,302
Investments - Current	4,563,805	-	18,851	4,582,656
Taxes Receivable	96,357	-	10,706	107,063
Allowance for Uncollectible Taxes (credit)	(4,818)	-	(535)	(5,353)
Receivables (Net)	309,183	-	-	309,183
Due from Other Funds	-	927,413	-	927,413
Total Assets	\$ 5,087,847	\$ 955,516	\$ 37,901	\$ 6,081,264
LIABILITIES				
Accounts Payable	\$ 55,203	\$ 953,143	\$ -	\$ 1,008,346
Wages and Salaries Payable	106,806	2,373	-	109,179
Due to Other Funds	1,327,212	-	-	1,327,212
Unearned Revenues	26,830	-	8,879	35,709
Other Current Liabilities	124,893	-	-	124,893
Total Liabilities	1,640,944	955,516	8,879	2,605,339
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	91,539	-	10,171	101,710
Total Deferred Inflows of Resources	91,539	-	10,171	101,710
FUND BALANCES				
Restricted Fund Balance:				
Retirement of Long-Term Debt	-	-	18,851	18,851
Unassigned Fund Balance	3,355,364	-	-	3,355,364
Total Fund Balances	3,355,364	-	18,851	3,374,215
Total Liabilities, Deferred Inflows & Fund Balances	\$ 5,087,847	\$ 955,516	\$ 37,901	\$ 6,081,264

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

CITY OF HORSESHOE BAY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2014

Total Fund Balances - Governmental Funds	\$	3,374,215
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$19,560,323 and the accumulated depreciation was \$3,721,692. 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 increase net position.		10,090,022
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 2014 capital outlays and debt principal payments is to increase net position.		1,610,730
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,061,618)
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 increase net position.		126,166
Net Position of Governmental Activities	\$	14,139,515

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

CITY OF HORSESHOE BAY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 3,503,058	\$ -	\$ 423,758	\$ 3,926,816
General Sales and Use Taxes	998,535	-	-	998,535
Other Taxes	323,330	-	-	323,330
Penalty and Interest on Taxes	26,125	-	2,904	29,029
Licenses and Permits	87,315	-	-	87,315
Charges for Services	1,121,365	-	-	1,121,365
Fines	49,959	-	-	49,959
Special Assessments	526,681	-	-	526,681
Investment Earnings	2,443	675	33	3,151
Rents and Royalties	8,250	-	-	8,250
Contributions & Donations from Private Sources	12,500	-	-	12,500
Other Revenue	62,050	-	-	62,050
Total Revenues	6,721,611	675	426,695	7,148,981
EXPENDITURES:				
Current:				
General Government	1,442,412	-	-	1,442,412
Public Safety:				
Police	1,698,867	-	-	1,698,867
Fire Protection	1,615,301	-	-	1,615,301
Public Works:				
Streets	172,659	-	-	172,659
Administration	-	-	20,000	20,000
Development Services	243,934	-	-	243,934
Mowing & Clearing	449,804	-	-	449,804
Debt Service:				
Bond Principal	-	-	260,000	260,000
Bond Interest	-	-	164,828	164,828
Issuance Costs	-	58,951	-	58,951
Capital Outlay:				
Capital Outlay	245,500	6,534,108	-	6,779,608
Total Expenditures	5,868,477	6,593,059	444,828	12,906,364
Excess (Deficiency) of Revenues Over (Under) Expenditures	853,134	(6,592,384)	(18,133)	(5,757,383)
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	5,255,672	-	5,255,672
Transfers In	-	1,336,712	-	1,336,712
Transfers Out (Use)	(1,336,712)	-	-	(1,336,712)
Total Other Financing Sources (Uses)	(1,336,712)	6,592,384	-	5,255,672
Net Change in Fund Balances	(483,578)	-	(18,133)	(501,711)
Fund Balance - October 1 (Beginning)	3,838,942	-	36,984	3,875,926
Fund Balance - September 30 (Ending)	\$ 3,355,364	\$ -	\$ 18,851	\$ 3,374,215

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

CITY OF HORSESHOE BAY
 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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	(501,711)
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 2014 capital outlays and debt principal payments is to increase the change in net position.		1,610,730
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.		(1,061,618)
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.		(11,647)
Change in Net Position of Governmental Activities	<u>\$</u>	<u>35,754</u>

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

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 588,350
Investments - Current	6,386,809
Restricted Assets - Current:	
Restricted Asset - Capital Improvements	2,921,379
Accounts Receivable-Net of Uncollectible Allowance	711,876
Due from Other Funds	399,799
Inventories	83,208
Total Current Assets	<u>11,091,421</u>
Noncurrent Assets:	
Capitalized Debt Issuance Costs	166,591
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	40,062,214
Buildings	989,081
Improvements other than Buildings	1,795,404
Machinery and Equipment	2,792,804
Accumulated Depreciation - Capital Assets	(23,894,110)
Construction in Progress	452,310
Total Noncurrent Assets	<u>22,783,857</u>
Total Assets	<u>33,875,278</u>

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

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014

	Business Type Activities
	Utility Fund
LIABILITIES	
Current Liabilities:	
Accounts Payable	18,110
Wages and Salaries Payable	51,414
Compensated Absences Payable	39,599
Accrued Interest Payable	75,130
Unearned Revenue	68,361
Notes Payable - Current	325,000
Bonds Payable - Current	270,000
Other Current Liabilities	326,856
Total Current Liabilities	1,174,470
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	7,645,000
Notes Payable - Noncurrent	5,105,000
Unamortized Premiums (Discounts) on Bonds	39,701
Total Noncurrent Liabilities	12,789,701
Total Liabilities	13,964,171
NET POSITION	
Net Investment in Capital Assets	9,232,565
Restricted for Capital Improvements	2,921,379
Unrestricted Net Position	7,757,163
Total Net Position	\$ 19,911,107

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

CITY OF HORSESHOE BAY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT D-2

	Business Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 2,924,531
Charges for Sewerage Service	2,046,792
Charges for Sanitation Service	768,765
Standby Charges	219
Other Revenue	13,412
Total Operating Revenues	5,753,719
OPERATING EXPENSES:	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,233,043
Personnel Services - Employee Benefits	535,311
Purchased Professional & Technical Services	622,285
Purchased Property Services	1,760,739
Other Operating Expenses	258,928
Supplies	11,034
Total Proprietary Fund Function - Utility Fund	4,421,340
Depreciation	1,482,610
Total Operating Expenses	5,903,950
Operating Income (Loss)	(150,231)
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(8,831)
Investment Earnings	2,292
Interest Expense - Non-Operating	(354,838)
Total Non-operating Revenue (Expenses)	(361,377)
Income (Loss) Before Contributions	(511,608)
Capital Contributions	202,273
Change in Net Position	(309,335)
Total Net Position - October 1 (Beginning)	20,220,442
Total Net Position - September 30 (Ending)	\$ 19,911,107

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

CITY OF HORSESHOE BAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,616,989
Cash Received from Assessments - Standby Charges	219
Cash Received Other	13,412
Cash Payments to Employees for Services	(1,767,092)
Cash Payments for Suppliers	(11,034)
Cash Payments for Other Operating Expenses	(2,491,594)
Net Cash Provided by Operating Activities	<u>1,360,900</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,145,360)
Capital Contributed by Other Funds Restricted Assets	202,273
Series 2014 Bond Proceeds	(2,921,379)
Bond Payments	4,590,000
Interest Paid	(480,000)
Interest Paid	(339,910)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(94,376)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>2,292</u>
Net Increase in Cash and Cash Equivalents	1,268,816
Cash and Cash Equivalents at Beginning of the Year:	<u>5,706,343</u>
Cash and Cash Equivalents at the End of the Year:	<u><u>\$ 6,975,159</u></u>

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

CITY OF HORSESHOE BAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business Type Activities
	Utility Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income (Loss):	\$ (150,231)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,482,610
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(112,093)
Decrease (increase) in Inventories	(4,468)
Decrease (increase) in Due From Other Funds	201,379
Increase (decrease) in Accounts Payable	(318)
Increase (decrease) in Accrued Liabilities	(77,372)
Increase (decrease) in Compensated Absences	1,262
Increase (decrease) in Other Current Liabilities	31,137
Increase (decrease) in Deferred Revenue	(11,006)
Net Cash Provided by Operating Activities	<u>\$ 1,360,900</u>

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

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2014

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 1,001
Investments - Current	1,085,215
Total Assets	<u>\$ 1,086,216</u>
LIABILITIES	
Wages and Salaries Payable	\$ 5
Contracts Payable	1,086,211
Total Liabilities	<u>\$ 1,086,216</u>

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

CITY OF HORSESHOE BAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The financial statements of the City of Horseshoe Bay, 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. Creation of the City

At a special election held on September 10, 2005, voters approved incorporation of the City of Horseshoe Bay as a Type A, General-Law-Municipality. At a special election held on November 8, 2005, voters elected a mayor and five Council Members. In January, 2006, the City approved a strategic partnership agreement with the Lake LBJ Municipal Utility District. Pursuant to the terms of the agreement, on March 6, 2006, the City annexed the Lake LBJ Municipal Utility District. All assets, liabilities and equity of the District were transferred to the City and the District was subsequently dissolved. The City became a Home Rule City when a majority of the voters approved the Home Rule Charter at a special election held on May 9, 2009.

B. Reporting Entity

In evaluating how to define the government, for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

C. 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 Horseshoe Bay nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, 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.

D. 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.

E. Fund Accounting

The City reports the following major funds:

1. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Capital Projects Fund** – The Capital Projects Fund accounts for all financial resources to acquire and construct street improvements throughout the City.

Proprietary Fund:

1. **Enterprise Fund** - The Water Utility Fund is operated as an Enterprise Fund.

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

1. **Special Revenue Funds** – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Fiduciary Funds:

1. **Agency Funds** - The City accounts for resources held for others in a custodial capacity in agency funds. The City's Agency Funds are Summit Rock Public Improvement District No. 1 and Escondido Public Improvement District No. 1.

F. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position

1. In the government-wide financial statements in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

2. 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 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:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-40
Streets	20
Buildings	30
Improvements	30
Equipment	7
Vehicles	5

3. Beginning with fiscal year end September 30, 2011, 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).

4. Implementation of GASB Accounting Standard:

The City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

5. 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.

6. 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. Unencumbered appropriations lapse at the end of each year.

7. 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

Legal and Contractual Provisions Governing 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, 2014, the carrying amount of the City's deposits was \$747,902 and the bank balance was \$837,460. The City's cash deposits at September 30, 2014 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 is in compliance with the requirements of the Act and with local policies.

The carrying value of investments at September 30, 2014 was \$13,890,844 (Texpool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

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 and during the year ended September 30, 2014 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. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, Texpool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City fiscal year.

The City contracted with the Llano Central Appraisal District and the Burnet Central Appraisal District for the appraisal and with Llano County Tax Assessor and Burnet County Tax Assessor for the collection of taxes. For the 2013 tax roll, the assessed valuation was \$1,586,832,001 and the tax rate was \$.25 per \$100 valuation (general fund - .223; debt service fund - .027).

C. Restricted Assets

Restricted assets represent cash that has been set aside for future payment of capital improvements. A summary of restricted assets at September 30, 2014 appears below:

Utility Fund	\$	2,921,379
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D. Property, Plant and Equipment

A summary of changes in property, plant and equipment accounts in the Water Utilities Fund follows:

	Balance 10/01/13	Additions	Deletions	Balance 09/30/14
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	39,649,924	2,827,091		42,477,015
Machinery and Equipment	2,563,066	157,525	40,795	2,679,796
Buildings & Improvements	865,671	8,284		873,955
Construction Work In Progress	1,908,588	30,942	1,878,482	61,048
Totals	\$ 45,406,812	\$ 3,023,842	\$ 1,919,277	\$ 46,511,377
Accumulated Depreciation	(22,452,295)	(1,482,610)	40,795	(23,894,110)
Fixed Assets, Net	\$ 22,954,517	\$ 1,541,232	\$ 1,878,482	\$ 22,617,267

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2014, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 127,356	\$	\$	\$ 127,356
Streets	12,440,558	4,067,869		16,508,427
Machinery & Equipment	2,340,942	132,118	65,269	2,407,791
Buildings & Improvements	3,781,157	113,382		3,894,539
Construction Work in Progress	870,310	2,365,739		3,236,049
Totals at Historic Cost	\$ 19,560,323	\$ 6,679,108	\$ 65,269	\$ 26,174,162
Less Accumulated Depreciation	(3,721,692)	(1,061,618)	45,621	(4,737,689)
Governmental Activities Capital Assets, Net	\$ 15,838,631	\$ 5,617,490	\$ 110,890	\$ 21,436,473

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 105,586
Police	124,358
Fire Protection	118,241
Development Services	17,856
Streets	662,652
Lot Mowing and Clearing	32,925
	\$ 1,061,618

F. Changes in Long-Term Liabilities

A summary of changes in long-term debt of the Governmental Funds follows:

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:								
Combination Tax & Revenue								
Bonds - Series 2011	1.5%	\$ 6,000,000	\$ 164,827	\$ 5,505,000	\$ -	\$ 260,000	\$ 5,245,000	\$ 265,000
Combination Tax & Revenue								
Bonds - Series 2014	2.0 - 4.0%	5,210,000	-	-	5,210,000	-	5,210,000	115,000
Premium Tax & Revenue								
Bonds - Series 2014	N/A	45,672	N/A	-	45,672	609	45,063	N/A
Compensated Absences	N/A	N/A	N/A	222,721	28,770		251,491	N/A
Governmental Activity								
Long-Term Debt		\$ 11,255,672	\$ 164,827	\$ 5,727,721	\$ 5,284,442	\$ 260,609	\$ 10,751,554	\$ 380,000

A summary of changes in long-term debt of the Utility Fund follows:

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Waterworks & Sewer System								
Revenue Notes -								
General Obligation Refunding Bonds -								
Series 2007	4.0%	\$ 7,500,000	\$ 232,098	\$ 5,745,000	\$ -	\$ 315,000	\$ 5,430,000	\$ 325,000
Combination Tax & Revenue								
Bonds - Series 2011	1.5%	3,800,000	104,484	3,490,000	-	165,000	3,325,000	165,000
Combination Tax & Revenue								
Bonds - Series 2014	2.0 - 4.0%	4,590,000	-	-	4,590,000	-	4,590,000	105,000
Premium Tax & Revenue								
Bonds - Series 2014	N/A	40,237	N/A	-	40,237	536	39,701	N/A
Business-Type Activity								
Long-Term Debt		\$ 15,930,237	\$ 336,582	\$ 9,235,000	\$ 4,630,237	\$ 480,536	\$ 13,384,701	\$ 595,000

During 2007, the City issued \$7,500,000 General Obligation Refunding Bonds, Series 2007 for the purpose of providing funds to refund the outstanding Revenue Notes, Series 2004. These revenue notes were called and were redeemed on December 27, 2007 by depositing \$7,527,563 into an escrow account. The Series 2004 notes have been defeased and removed as a liability of the City. The Series 2007 bonds mature on August 1, each of the years 2008 through 2027, bearing interest at 4.04%. The refunding bonds resulted in gross debt service savings of \$130,366 and the net present value savings of \$102,804.

During 2011, the City issued \$9,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2011 to acquire and construct street improvements and related drainage improvements throughout the City and to reimburse for improvements made to the City's water and wastewater system. The Certificates of Obligation were rated AA by Standard and Poor's. The repayment of the certificates is secured through the levy of a direct and continuing ad valorem tax against all taxable property within the City. Surplus Revenues are irrevocably pledged equally and ratable to the payment of the principal of and interest on the certificates, as the same become due to the extent the taxes shall ever be insufficient or unavailable.

During 2014, the City issued \$9,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 to acquire and construct street improvements and expand utility infrastructure. The Certificates of Obligation were rated AA+ by Standard and Poor's. The repayment of the certificates is secured through the levy of a direct and continuing ad valorem tax against all taxable property within the City. The Certificates are also secured by a limited pledge of not to exceed \$1,000 of the surplus revenues of the City's water and wastewater system remaining after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City's water and wastewater system.

The annual requirements to amortize the debt are as follows:

<u>September 30</u>	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2015	\$ 380,000	\$ 339,987	\$ 595,000	479,357	\$ 1,794,344
2016	415,000	309,548	640,000	440,718	1,805,266
2017	425,000	300,461	660,000	420,495	1,805,956
2018	430,000	290,524	680,000	399,065	1,799,589
2019	445,000	280,349	700,000	377,056	1,802,405
2020-2024	2,420,000	1,224,584	3,895,000	1,516,535	9,056,119
2025-2029	2,865,000	818,238	3,565,000	781,032	8,029,270
2030-2034	1,610,000	391,372	1,315,000	343,259	3,659,631
2035-2039	1,465,000	141,176	1,295,000	124,768	3,025,944
	<u>\$ 10,455,000</u>	<u>\$ 4,096,239</u>	<u>\$ 13,345,000</u>	<u>\$ 4,882,285</u>	<u>\$ 32,778,524</u>

G. Risk Management

The City of Horseshoe Bay is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God and personnel risks which relate to workers compensation.

The City contracts with the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) to provide insurance coverage for identified risks. TMLIRP is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TMLIRP. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2014 were \$147,364.

H. Retirement Plan

Beginning with the first day of employment, the City will accrue, on behalf of the employee, an amount currently equal to 5% of the employee's regular base salary, not including overtime, until the employee's first anniversary date. The City will then distribute the total accrual for the first year of employment into the effective pension plan on behalf of the employee.

The City will continue to contribute an amount currently equal to 5% of the employee's regular base salary, not including overtime, into the effective pension plan until the employee's five-year anniversary date. After five (5) years of continuous employment, the City's contribution to the currently effective pension plan will be increased by 2.5% of the regular salary, a current total of 7.5%.

All City contributions paid into the pension plan on behalf of the employee are vested 100% to the individual employee after the employee's first anniversary date. However, if an employee terminates employment with the City at any time prior to their first anniversary date, they are not entitled to any of the City's accrued pension amount.

The City will match each employee's contribution to the currently effective pension plan in an amount not to exceed 5% of the employee's regular base salary, not including overtime, starting as soon as the employee begins to contribute to the plan. If the employee contributes during the first year of employment, matching funds will be accrued and paid to the current pension plan after completion of the first year of employment.

The plan is administered by Nationwide Retirements Solutions, Inc. A copy of the annual report is available for review at the City Office.

A summary of transactions is shown below:

Beginning balance	\$ 2,717,581
Contributions	421,510
Investment earnings	258,252
Withdrawals	(128,762)
Fees	(23)
	<hr/>
Ending balance	\$ <u>3,268,558</u>

I. Employee Insurance Benefits

All regular and full time employees of the City are eligible to choose a medical plan from three plan options provided through Blue Cross-Blue Shield. The City provides a base plan; employees can choose the base plan or a high-deductible plan with a Health Saving Account (HSA) or a lower deductible plan that allows the employee to pay for the increase in premium. The City pays the base plan's premium amount for employees regardless of the plan selected and 50% of the base plan premium amount for eligible dependents. The City provides group dental insurance through Mutual of Omaha and pays the premium for eligible employees and 50% of the premium for eligible dependents.

J. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2014 and 2013. The City paid interest in the amount of \$339,910 in 2014 and \$351,346 in 2013.

K. Summit Rock Public Improvement District No. 1

On March 20, 2007 Summit Rock Public Improvement District No. 1 was created by approved Resolution No. RES 07-03-20A. In February 2012, the City approved an ordinance changing the name from Skywater Over Horseshoe Bay Public Improvement District No. 1 to Summit Rock Public Improvement District No. 1. The City will levy, as special assessments, maximum assessments of \$20,750,000 on all of the assessable property within the District to pay the improvement costs as set forth.

As the improvement assessments are levied by the City and collected by the Llano County Tax Assessor-Collector and such improvement assessments are delivered to the City, the City shall require that such improvement assessments be irrevocably placed into an interest bearing segregated bank account with a financial institution selected in accordance with applicable state statutes as required. The improvement assessments shall be held in trust and shall not be withdrawn except upon written authorization and certification from the City that such funds are necessary; to reimburse the owner for its authorized owner expenditures (as defined in the Development Agreement) for improvement costs or, to pay administration costs of the District.

The City shall make aggregate disbursements solely to pay for improvement costs up to \$20,750,000. Reimbursements to the owner for authorized owner expenditures shall be made by the City on March 6 and August 1 of each year. All such disbursements of improvement assessments shall be made to the owner or the owner's assignee. No reimbursements shall be made unless the owner has submitted its request for reimbursement to the City ten days prior to such date. No reimbursements have been made from the PID.

Pursuant to the November 29, 2011 Water and Wastewater Agreement, the owner assigned and transferred all rights to the City to reimbursement from the PID until a \$5.4 million note payable to the City and all obligations related thereto are fully satisfied.

L. Escondido Public Improvement District No. 1

On October 16, 2007, the City Council passed and approved resolutions (RES-07-10-16B and RES 07-11-13B) approving and authorizing the creation of the Escondido Public Improvement District (PID) to finance the PID costs for the benefit of certain property in the PID, all of which is located within the corporate limits of the City.

The Service and Assessment Plan has been prepared pursuant to the required section codes of chapter 372 of the Texas Local Government Code. MuniCap, Inc., of Columbia, Maryland has been appointed and designated as the initial Administrator of the Service and Assessment Plan and the assessments levied.

On September 30, 2008 Special Assessment Revenue Bonds, Series 2008 in the amount of \$5,475,000 were issued, in accordance with the above resolutions. The bonds will be payable solely from, and secured solely by, the pledged revenues. Pledged revenues means those revenues pledged as security for the payment of the bonds pursuant to the Indenture, consisting primarily of, with respect to each parcel of land against which an assessment has been levied, the portion of each annual payment of such assessment allocated to principal and interest, as shown on the assessment roll. The bonds will not be general obligations of the City and will not constitute a debt within the meaning of the constitution of the state or a pledge of faith and credit of the City.

The City will certify the assessment roll upon receipt from the Administrator of the assessment roll. After certifying the assessment roll, the City will forward it to Llano County Tax Collector/Assessor for preparation and distribution of bills. Collections by Llano County Tax Collector/Assessor will be remitted to the City and, the City will remit collections to the Administrator.

M. Other Taxes

Other taxes consisted of the following:

<u>Description</u>	<u>Amount</u>
Franchise Tax	\$ 244,577
Mixed Beverage Tax	78,753
	<u>\$ 323,330</u>

N. Letters of Credit

Summit Rock Communities, LLC has established an irrevocable standby letter of credit with the IBC Bank for the benefit of the City of Horseshoe Bay, Texas. The letter of credit was issued on December 12, 2011 in the amount of \$2,000,000, to secure the funding of a new water tank, with an expiration date of December 15, 2015.

O. Contracts

Firm Water Contract – The City entered into a firm water contract with the Lower Colorado River Authority in September , 2010. The contract is for a term of forty (40) years ending in 2050.

Solid Waste Collection and Disposal Contract – The City entered into a solid waste collection and disposal contract with Progressive Waste Solutions of TX, Inc. in November, 2012. The contract is for a term of forty-seven (47) months ending September 30, 2016.

P. Excess of Expenditures Over Appropriations

Actual expenditures exceeded appropriations in the General Fund line item Capital Outlay but not in total.

Q. Subsequent Events

The City has evaluated subsequent events through January 28, 2015, 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 HORSESHOE BAY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 3,430,000	\$ 3,430,000	\$ 3,503,058	\$ 73,058
General Sales and Use Taxes	805,000	805,000	998,535	193,535
Other Taxes	255,000	255,000	323,330	68,330
Penalty and Interest on Taxes	34,000	34,000	26,125	(7,875)
Licenses and Permits	69,250	69,250	87,315	18,065
Charges for Services	1,206,500	1,206,500	1,121,365	(85,135)
Fines	38,500	38,500	49,959	11,459
Special Assessments	510,500	510,500	526,681	16,181
Investment Earnings	5,000	5,000	2,443	(2,557)
Rents and Royalties	9,000	9,000	8,250	(750)
Contributions & Donations from Private Sources	10,000	10,000	12,500	2,500
Other Revenue	44,850	44,850	62,050	17,200
Total Revenues	6,417,600	6,417,600	6,721,611	304,011
EXPENDITURES:				
Current:				
General Government	1,780,250	1,780,250	1,442,412	337,838
Public Safety:				
Police	1,713,000	1,713,000	1,698,867	14,133
Fire Protection	1,634,750	1,634,750	1,615,301	19,449
Public Works:				
Streets	250,000	250,000	172,659	77,341
Development Services	244,500	244,500	243,934	566
Mowing & Clearing	615,000	615,000	449,804	165,196
Capital Outlay:				
Capital Outlay	59,500	234,500	245,500	(11,000)
Total Expenditures	6,297,000	6,472,000	5,868,477	603,523
Excess (Deficiency) of Revenues Over (Under) Expenditures	120,600	(54,400)	853,134	907,534
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	(1,336,712)	(1,336,712)
Total Other Financing Sources (Uses)	-	-	(1,336,712)	(1,336,712)
Net Change	120,600	(54,400)	(483,578)	(429,178)
Fund Balance - October 1 (Beginning)	3,838,942	3,838,942	3,838,942	-
Fund Balance - September 30 (Ending)	\$ 3,959,542	\$ 3,784,542	\$ 3,355,364	\$ (429,178)

SUPPLEMENTARY INFORMATION

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 8,879
18,851	18,851
10,706	10,706
(535)	(535)
<u>\$ 29,022</u>	<u>\$ 37,901</u>
<u>\$ -</u>	<u>\$ 8,879</u>
<u>-</u>	<u>8,879</u>
<u>10,171</u>	<u>10,171</u>
<u>10,171</u>	<u>10,171</u>
<u>18,851</u>	<u>18,851</u>
<u>18,851</u>	<u>18,851</u>
<u>\$ 29,022</u>	<u>\$ 37,901</u>

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 423,758	\$ 423,758
2,904	2,904
<u>33</u>	<u>33</u>
<u>426,695</u>	<u>426,695</u>
-	20,000
260,000	260,000
<u>164,828</u>	<u>164,828</u>
<u>424,828</u>	<u>444,828</u>
1,867	(18,133)
<u>16,984</u>	<u>36,984</u>
<u>\$ 18,851</u>	<u>\$ 18,851</u>

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

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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*

Independent Auditor's Report

Honorable Mayor and Council Members
City of Horseshoe Bay, Texas
Horseshoe Bay, TX 78657

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Horseshoe Bay, Texas's basic financial statements, and have issued our report thereon dated January 28, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Neffendorf, Knopp, Doss + Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

January 28, 2015

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Certified Public Accountants

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January 28, 2015

Honorable Mayor and Council Members
City of Horseshoe Bay, Texas
Horseshoe Bay, TX 78657

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 December 2, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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 Horseshoe Bay, 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 the year ended September 31, 2014. 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.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 January 28, 2015.

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.

We did find non-material weakness, included for information purposes as follows:

Recommendations

Sinking Fund Requirement

In accordance with section 2.01 of the Series 2011 and Series 2014 Bond Ordinances the City is required to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their redemption at maturity or a sinking fund of two percent (2%) per annum (whichever amount is the greater), when due and payable, full allowance being made for delinquencies and cost of collection. Since a portion of the debt is allocated to the Utility Fund, the appropriate transfer should be made to the Interest and Sinking Fund account prior to payment. We recommend the City comply with this requirement.

Review and Approval of Financial Reports

Several account balances in the general ledger had posting errors. We made 43 journal entries totaling \$24,776,942. Apparently, the basic financial statements (balance sheet; revenues & expenditures) were not reviewed on a monthly basis either by management or the City Council. An important internal control feature is for review and approval of financial reports by management and the City Council. We recommend that management and City Council review and approve monthly financial statements. Subsequent to the audit, the Finance Director does review the financial reports with a councilman each month and provides a detailed quarterly financial report to the Council.

As part of the financial reporting and internal control system, the following areas need monthly review and approval by management (Finance Director):

1. Monthly review and approval of all bank and investment reconciliations to verify transactions and balances are recorded properly in the general ledger.
2. Monthly review and approval of all journal entries to verify transactions and account codes are recorded properly in the general ledger.

Investment Report

The monthly Investment Report is prepared from the cash and investment reconciliations by the Accounting Supervisor and signed and approved by the Finance Director. During our audit test we determined the monthly report is not compared and reconciled to the general ledger. During our audit test we found cash and investment accounts posted incorrectly in the general ledger. We recommend the report be compared and reconciled with the general ledger each month.

Debt Transactions

The City issued Combination Tax and Revenue Certificates of Obligation, Series 2014 in the amount of \$9,800,000. The debt issue and transactions were not recorded correctly in the general ledger accounts. We recommend for future debt transactions the entries be reviewed by the Finance Director for proper recording.

Related Party

The City currently has no procedures for determining possible related party relationships. We recommend a form be developed for new vendors regarding possible related party relationships.

Capital Assets

Capital assets are not reviewed and properly accounted for (added to or deleted from the depreciation schedules) during the fiscal year. We recommend procedures be put in place for review and proper recording of capital assets during the fiscal year.

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

Very truly yours,

Neffendorf, Knopp, Dooss + Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas