

CITY OF HORSESHOE BAY, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2015

CITY OF HORSESHOE BAY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

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, 2015, 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, 2015, 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 33 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, P.C.  
Fredericksburg, Texas

June 22, 2016

## 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, 2015. 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 \$33,517,941 (net position). Of this amount, \$8,913,143 (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 \$532,681 as a result of this period's operations.
- At September 30, 2015, the City's governmental funds reported combined ending fund balances of \$3,599,413.
- At September 30, 2015, the City's Utility Fund reported unrestricted net position of \$5,331,855.

### 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 21) 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 33.

## **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 \$5,172,386. 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 \$3,581,288 at September 30, 2015. This increase in governmental net position was the result of: Capital assets (principally part of the street improvement plan) were acquired aggregating \$5,854,086 which resulted in expenditures exceeding revenues by \$4,941,472 and the recording of depreciation expense of \$1,276,027.

Net position of the City's business-type activities decreased from \$19,911,108 to \$14,206,041 resulting in net loss of \$5,705,067. Unrestricted net position decreased from \$7,757,163 to \$5,331,855.

**Table I**  
**City of Horseshoe Bay**

**NET POSITION**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$ 4,294	\$ 4,789	\$ 5,518	\$ 11,258	\$ 9,812	\$ 16,047
Capital Assets	26,009	21,436	22,179	22,617	48,188	44,053
Total Assets	\$ 30,303	\$ 26,225	\$ 27,697	\$ 33,875	\$ 58,000	\$ 60,101
Long-Term Liabilities	\$ 9,974	\$ 10,371	\$ 12,148	\$ 12,790	\$ 22,122	\$ 23,161
Other Liabilities	1,006	1,704	1,343	1,174	2,349	2,878
Total Liabilities	\$ 10,980	\$ 12,075	\$ 13,491	\$ 13,964	\$ 24,471	\$ 26,039
Deferred Inflow of Resources						
Unavailable Revenue -						
Property Taxes	11	11			11	11
Total Deferred Inflows of Resources	11	11	-	-	11	11
Net Position						
Net Investment in						
Capital Assets	\$ 15,598	\$ 10,685	\$ 8,874	\$ 9,233	\$ 24,472	\$ 19,918
Restricted	132	17		2,921	132	2,938
Unrestricted	3,582	3,438	5,332	7,757	8,914	11,195
Total Net Position	\$ 19,312	\$ 14,140	\$ 14,206	\$ 19,911	\$ 33,518	\$ 34,051

**Table II**  
**City of Horseshoe Bay**

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
Charges for Services	\$ 1,808	\$ 1,698	\$ 5,999	\$ 5,740	\$ 7,807	\$ 7,438
Stand-by Charges					-	-
Property Tax	4,071	3,953			4,071	3,953
Other Taxes	1,285	1,322			1,285	1,322
Penalty & Interest	23	29			23	29
Investment Earnings	4	3	4	2	8	5
Miscellaneous	77	112	29	13	106	125
<b>Total Revenue</b>	<b>\$ 7,268</b>	<b>\$ 7,117</b>	<b>\$ 6,032</b>	<b>\$ 5,755</b>	<b>\$ 13,300</b>	<b>\$ 12,872</b>
<b>Expenses:</b>						
General Government	\$ 1,704	\$ 1,567			\$ 1,704	\$ 1,567
Police	1,845	1,823			1,845	1,823
Fire	1,792	1,761			1,792	1,761
Streets	1,147	837			1,147	837
Development Services	318	261			318	261
Mowing and Clearing	521	483			521	483
Utilities			4,701	4,420	4,701	4,420
Debt Service	331	248	472	363	803	611
Capital Outlay	105	101			105	101
Depreciation			1,439	1,483	1,439	1,483
<b>Total Expenses</b>	<b>\$ 7,763</b>	<b>\$ 7,081</b>	<b>\$ 6,612</b>	<b>\$ 6,266</b>	<b>\$ 14,375</b>	<b>\$ 13,347</b>
<b>Increase in Net Position</b>						
Before Transfers & Capital Grants	\$ (495)	\$ 36	\$ (580)	\$ (511)	\$ (1,075)	\$ (475)
Capital Contributions	500		42	202	542	202
Transfers	5,167		(5,167)		-	-
<b>Change in Net Position</b>	<b>5,172</b>	<b>36</b>	<b>(5,705)</b>	<b>(309)</b>	<b>(533)</b>	<b>(273)</b>
Net Position, Beginning	14,140	14,104	19,911	20,220	34,051	34,324
<b>Net Position, Ending</b>	<b>\$ 19,312</b>	<b>\$ 14,140</b>	<b>\$ 14,206</b>	<b>\$ 19,911</b>	<b>\$ 33,518</b>	<b>\$ 34,051</b>

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 \$3,599,413. Included in this year's total change in fund balance is an increase of \$111,957 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts by \$265,940, and actual expenditures were less than budgeted amounts by \$229,486.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2015, 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 127	\$ 127	\$ 420	\$ 420	\$ 547	\$ 547
Infrastructure	23,321	16,508	42,844	42,477	66,165	58,984
Machinery and Equipment	2,500	2,408	2,848	2,680	5,349	5,088
Buildings and Improvements	3,895	3,895	874	874	4,768	4,769
Construction in Progress	2,158	3,236	527	61	2,685	3,297
Total Capital Assets	\$ 32,002	\$ 26,174	\$ 47,512	\$ 46,511	\$ 79,514	\$ 72,685
Less: Accumulated Depreciation	(5,992)	(4,738)	(25,333)	(23,894)	(31,325)	(28,632)
Capital Assets, Net	\$ 26,009	\$ 21,436	\$ 22,179	\$ 22,617	\$ 48,188	\$ 44,053

This period's major additions included:

	Governmental Activities	Business Type Activities
Infrastructure	\$ 192,605	\$ 366,624
Machinery and Equipment	119,271	168,473
Construction In Progress	5,542,210	465,528
TOTALS	\$ 5,854,086	\$ 1,000,625

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 \$10,118,236 in combination tax and revenue bonds outstanding.

For business-type activities, the City had \$12,788,092 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 2016 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 2016. Total revenues in the General Fund budget are \$6,789,250 and expenditures are estimated to be \$6,738,750. The General Fund fund balance should increase by \$50,500.

## 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, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 324,850	\$ 500,420	\$ 825,270
Investments - Current	4,657,265	2,331,819	6,989,084
Receivables (net of allowance for uncollectibles)	422,034	812,499	1,234,533
Internal Balances	(1,110,286)	1,110,286	-
Inventories	-	93,982	93,982
Capitalized Debt Issuance Costs	-	152,348	152,348
Restricted Assets:			
Restricted Asset-Capital Improvements	-	516,893	516,893
Capital Assets:			
Land	127,356	419,563	546,919
Infrastructure	23,321,233	41,048,235	64,369,468
Buildings	3,894,538	873,955	4,768,493
Improvements other than Buildings	-	1,795,404	1,795,404
Machinery and Equipment	2,500,377	2,848,269	5,348,646
Accumulated Depreciation	(5,992,365)	(25,332,832)	(31,325,197)
Construction in Progress	2,158,058	526,576	2,684,634
Total Assets	<u>30,303,060</u>	<u>27,697,417</u>	<u>58,000,477</u>
<b>LIABILITIES</b>			
Accounts Payable	365,687	209,482	575,169
Accrued Interest Payable	39,123	69,503	108,626
Unearned Revenues	42,794	58,224	101,018
Other Current Liabilities	143,394	366,075	509,469
Noncurrent Liabilities			
Due Within One Year	415,000	640,000	1,055,000
Due in More Than One Year	9,974,161	12,148,092	22,122,253
Total Liabilities	<u>10,980,159</u>	<u>13,491,376</u>	<u>24,471,535</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	11,000	-	11,000
Total Deferred Inflows of Resources	<u>11,000</u>	<u>-</u>	<u>11,000</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	15,598,520	8,874,186	24,472,706
Restricted for Debt Service	132,092	-	132,092
Unrestricted Net Position	3,581,289	5,331,855	8,913,144
Total Net Position	<u>\$ 19,311,901</u>	<u>\$ 14,206,041</u>	<u>\$ 33,517,942</u>

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Revenues		
Expenses	Charges for Services	Capital Grants and Contributions	
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,703,259	\$ 426,764	\$ -
Police	1,844,811	121,625	-
Fire Protection	1,792,278	257,436	-
Highways and Streets	1,146,781	598,738	-
Development Services	318,557	93,445	-
Mowing & Clearing	521,054	310,374	-
Bond Interest	331,499	-	-
Capital Outlay	104,724	-	500,000
Total Governmental Activities:	7,762,963	1,808,382	500,000
BUSINESS-TYPE ACTIVITIES:			
Water Utility	6,611,869	5,999,377	41,419
Total Business-Type Activities:	6,611,869	5,999,377	41,419
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 14,374,832</b>	<b>\$ 7,807,759</b>	<b>\$ 541,419</b>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

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
\$ (1,276,495)	\$ -	\$ (1,276,495)
(1,723,186)	-	(1,723,186)
(1,534,842)	-	(1,534,842)
(548,043)	-	(548,043)
(225,112)	-	(225,112)
(210,680)	-	(210,680)
(331,499)	-	(331,499)
395,276	-	395,276
<u>(5,454,581)</u>	<u>-</u>	<u>(5,454,581)</u>
-	(571,073)	(571,073)
-	(571,073)	(571,073)
<u>(5,454,581)</u>	<u>(571,073)</u>	<u>(6,025,654)</u>
3,615,350	-	3,615,350
455,308	-	455,308
977,437	-	977,437
307,814	-	307,814
23,170	-	23,170
10,500	-	10,500
66,769	28,850	95,619
3,949	3,826	7,775
<u>5,166,670</u>	<u>(5,166,670)</u>	<u>-</u>
<u>10,626,967</u>	<u>(5,133,994)</u>	<u>5,492,973</u>
5,172,386	(5,705,067)	(532,681)
14,139,514	19,911,108	34,050,622
<u>\$ 19,311,900</u>	<u>\$ 14,206,041</u>	<u>\$ 33,517,941</u>

CITY OF HORSESHOE BAY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015

EXHIBIT C-1

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 287,859	\$ 28,103	\$ 8,888	\$ 324,850
Investments - Current	4,525,173	-	132,092	4,657,265
Taxes Receivable	97,681	-	12,320	110,001
Allowance for Uncollectible Taxes (credit)	(4,884)	-	(616)	(5,500)
Receivables (Net)	279,459	-	-	279,459
Due from Other Funds	-	216,926	-	216,926
<b>Total Assets</b>	<b>\$ 5,185,288</b>	<b>\$ 245,029</b>	<b>\$ 152,684</b>	<b>\$ 5,583,001</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 39,648	\$ 242,257	\$ -	\$ 281,905
Wages and Salaries Payable	81,010	2,772	-	83,782
Due to Other Funds	1,327,212	-	-	1,327,212
Unearned Revenues	33,906	-	8,888	42,794
Other Current Liabilities	143,394	-	-	143,394
<b>Total Liabilities</b>	<b>1,625,170</b>	<b>245,029</b>	<b>8,888</b>	<b>1,879,087</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	92,797	-	11,704	104,501
<b>Total Deferred Inflows of Resources</b>	<b>92,797</b>	<b>-</b>	<b>11,704</b>	<b>104,501</b>
<b>FUND BALANCES</b>				
Retirement of Long-Term Debt	-	-	132,092	132,092
Unassigned Fund Balance	3,467,321	-	-	3,467,321
<b>Total Fund Balances</b>	<b>3,467,321</b>	<b>-</b>	<b>132,092</b>	<b>3,599,413</b>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b>\$ 5,185,288</b>	<b>\$ 245,029</b>	<b>\$ 152,684</b>	<b>\$ 5,583,001</b>

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

CITY OF HORSESHOE BAY, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	3,599,413
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 \$26,174,162 and the accumulated depreciation was \$4,737,689. 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.		10,684,919
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 2015 capital outlays and debt principal payments is to increase net position.		6,234,088
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,276,027)
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.		69,507
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>19,311,900</b>

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 3,612,853	\$ -	\$ 455,308	\$ 4,068,161
General Sales and Use Taxes	977,437	-	-	977,437
Other Taxes	307,814	-	-	307,814
Penalty and Interest on Taxes	20,882	-	2,289	23,171
Licenses and Permits	85,686	-	-	85,686
Intergovernmental Revenue and Grants	-	500,000	-	500,000
Charges for Services	1,033,371	-	-	1,033,371
Fines	87,675	-	-	87,675
Special Assessments	598,738	-	-	598,738
Investment Earnings	3,629	272	48	3,949
Rents and Royalties	9,000	-	-	9,000
Contributions & Donations from Private Sources	10,500	-	-	10,500
Other Revenue	63,105	-	-	63,105
Total Revenues	6,810,690	500,272	457,645	7,768,607
<b>EXPENDITURES:</b>				
Current:				
General Government	1,592,858	-	-	1,592,858
Public Safety:				
Police	1,712,123	-	-	1,712,123
Fire Protection	1,671,690	-	-	1,671,690
Public Works:				
Highways and Streets	264,205	200,059	-	464,264
Development Services	295,852	-	-	295,852
Mowing & Clearing	487,099	-	-	487,099
Debt Service:				
Bond Principal	-	-	380,000	380,000
Bond Interest	-	-	339,988	339,988
Capital Outlay:				
Capital Outlay	119,270	5,646,935	-	5,766,205
Total Expenditures	6,143,097	5,846,994	719,988	12,710,079
Excess (Deficiency) of Revenues Over (Under) Expenditures	667,593	(5,346,722)	(262,343)	(4,941,472)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	20,000	5,346,722	375,584	5,742,306
Transfers Out (Use)	(575,636)	-	-	(575,636)
Total Other Financing Sources (Uses)	(555,636)	5,346,722	375,584	5,166,670
Net Change in Fund Balances	111,957	-	113,241	225,198
Fund Balance - October 1 (Beginning)	3,355,364	-	18,851	3,374,215
Fund Balance - September 30 (Ending)	\$ 3,467,321	\$ -	\$ 132,092	\$ 3,599,413

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

CITY OF HORSESHOE BAY, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	225,198
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 2015 capital outlays and debt principal payments is to increase the change in net position.		6,234,088
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.		(1,276,027)
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.		(10,873)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>5,172,386</b>

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2015

EXHIBIT D-1

	Business Type Activities
	Water Utility Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 500,420
Investments - Current	2,331,819
Restricted Assets - Current:	
Restricted Asset-Capital Improvements	516,893
Accounts Receivable-Net of Uncollectible Allowance	812,499
Due from Other Funds	1,110,286
Inventories	93,982
Total Current Assets	5,365,899
<b>Noncurrent Assets:</b>	
Capitalized Debt Issuance Costs	152,348
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	41,048,235
Buildings	873,955
Improvements other than Buildings	1,795,404
Machinery and Equipment	2,848,269
Accumulated Depreciation - Capital Assets	(25,332,832)
Construction in Progress	526,576
Total Noncurrent Assets	22,331,518
Total Assets	27,697,417
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	114,953
Wages and Salaries Payable	59,567
Compensated Absences Payable	34,962
Accrued Interest Payable	69,503
Unearned Revenue	58,224
Bonds Payable - Current	640,000
Other Current Liabilities	366,075
Total Current Liabilities	1,343,284
<b>NonCurrent Liabilities:</b>	
Bonds Payable - Noncurrent	12,110,000
Unamortized Premiums (Discounts) on Bonds	38,092
Total Noncurrent Liabilities	12,148,092
Total Liabilities	13,491,376
<b>NET POSITION</b>	
Net Investment in Capital Assets	8,874,186
Unrestricted Net Position	5,331,855
Total Net Position	\$ 14,206,041

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT D-2

	Business Type Activities
	Water Utility Fund
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 3,080,812
Charges for Sewerage Service	2,119,734
Charges for Sanitation Service	798,027
Standby Charges	804
Other Revenue	28,850
Total Operating Revenues	6,028,227
<b>OPERATING EXPENSES:</b>	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,265,193
Personnel Services - Employee Benefits	553,787
Purchased Professional & Technical Services	655,477
Purchased Property Services	1,922,605
Other Operating Expenses	276,678
Supplies	13,043
Total Proprietary Fund Function - Utility Fund	4,686,783
Depreciation	1,438,722
Total Operating Expenses	6,125,505
Operating Income (Loss)	(97,278)
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Bond Issuance Cost	(14,243)
Investment Earnings	3,826
Interest Expense - Non-Operating	(472,121)
Total Non-operating Revenue (Expenses)	(482,538)
Income (Loss) Before Contributions & Transfers	(579,816)
Capital Contributions	41,419
Transfers Out	(5,166,670)
Change in Net Position	(5,705,067)
Total Net Position - October 1 (Beginning)	19,911,108
 Total Net Position - September 30 (Ending)	 \$ 14,206,041

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities
	Water Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,927,836
Cash Received from Others	28,850
Cash Payments to Employees for Services	(1,821,091)
Cash Payments for Suppliers	(23,817)
Cash Payments for Other Operating Expenses	(3,468,404)
Net Cash Provided by Operating Activities	<u>643,374</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(5,166,670)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,000,625)
Capital Contributed by Others	41,419
Restricted Assets	2,404,486
Bond Principal Payments	(595,000)
Interest Paid	(473,730)
Net Cash Provided by Capital and Related Financing Activities	<u>376,550</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>3,826</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(4,142,920)
Cash and Cash Equivalents at Beginning of the Year:	<u>6,975,159</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 2,832,239</u>

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Business Type Activities
	Water Utility Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income (Loss):	\$ (97,278)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,438,722
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(100,623)
Decrease (increase) in Inventories	(10,774)
Decrease (increase) in Due From Other Funds	(710,487)
Increase (decrease) in Accounts Payable	96,843
Increase (decrease) in Accrued Liabilities	2,526
Increase (decrease) in Compensated Absences	(4,637)
Increase (decrease) in Other Current Liabilities	39,219
Increase (decrease) in Unearned Revenue	(10,137)
Net Cash Provided by Operating Activities	<u>\$ 643,374</u>

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

CITY OF HORSESHOE BAY, TEXAS  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2015

EXHIBIT E-1

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	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 4,133
Investments - Current	1,313,848
Total Assets	<u>\$ 1,317,981</u>
LIABILITIES	
Contracts Payable	\$ 1,317,981
Total Liabilities	<u>\$ 1,317,981</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, 2015

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, 2015, the carrying amount of the City's deposits was \$824,490 and the bank balance was \$1,152,770. The City's cash deposits at September 30, 2015 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, 2015 was \$7,505,977 (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, 2015 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 Appraisal District for the collection of taxes. For the 2014 tax roll, the assessed valuation was \$1,631,759,665 and the tax rate was \$.25 per \$100 valuation (general fund - .222; debt service fund - .028).

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, 2015 appears below:

Utility Fund	\$	516,893
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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 10/01/14	Additions	Deletions	Balance 09/30/15
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	42,477,015	366,624		42,843,639
Machinery and Equipment	2,679,796	168,473		2,848,269
Buildings & Improvements	873,955			873,955
Construction Work In Progress	61,048	465,528		526,576
Totals	\$ 46,511,377	\$ 1,000,625	\$ -	\$ 47,512,002
Accumulated Depreciation	(23,894,110)	(1,438,722)		(25,332,832)
Fixed Assets, Net	\$ 22,617,267	\$ (438,097)	\$ -	\$ 22,179,170

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2015, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 127,356	\$	\$	\$ 127,356
Streets	16,508,427	6,812,806		23,321,233
Machinery & Equipment	2,407,792	119,271	26,686	2,500,377
Buildings & Improvements	3,894,538			3,894,538
Construction Work in Progress	3,236,049	5,542,210	6,620,201	2,158,058
Totals at Historic Cost	\$ 26,174,162	\$ 12,474,287	\$ 6,646,887	\$ 32,001,562
Less Accumulated Depreciation	(4,737,689)	(1,276,027)	21,351	(5,992,365)
Governmental Activities				
Capital Assets, Net	\$ 21,436,473	\$ 11,198,260	\$ 6,668,238	\$ 26,009,197

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 111,034
Police	119,348
Fire Protection	116,530
Development Services	20,623
Streets	874,537
Lot Mowing and Clearing	33,955
	\$ 1,276,027

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	\$ 159,902	\$ 5,245,000	\$ -	\$ 265,000	\$ 4,980,000	\$ 270,000
Combination Tax & Revenue								
Bonds - Series 2014	2.0 - 4.0%	5,210,000	180,085	5,210,000	-	115,000	5,095,000	145,000
Premium Tax & Revenue								
Bonds - Series 2014	N/A	45,672	N/A	45,063	-	1,827	43,236	N/A
Compensated Absences	N/A	N/A	N/A	251,491	-	-	251,491	N/A
Governmental Activity								
Long-Term Debt		\$ 11,255,672	\$ 339,987	\$ 10,751,554	\$ -	\$ 381,827	\$ 10,369,727	\$ 415,000

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
General Obligation Refunding Bonds -								
Series 2007	4.0%	\$ 7,500,000	\$ 219,372	\$ 5,430,000	\$ -	\$ 325,000	\$ 5,105,000	\$ 340,000
Combination Tax & Revenue								
Bonds - Series 2011	1.5%	3,800,000	101,390	3,325,000	-	165,000	3,160,000	170,000
Combination Tax & Revenue								
Bonds - Series 2014	2.0 - 4.0%	4,590,000	158,595	4,590,000	-	105,000	4,485,000	130,000
Premium Tax & Revenue								
Bonds - Series 2014	N/A	40,237	N/A	39,701	-	1,609	38,092	N/A
Business-Type Activity								
Long-Term Debt		\$ 15,930,237	\$ 479,357	\$ 13,384,701	\$ -	\$ 596,609	\$ 12,788,092	\$ 640,000

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	
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	450,000	269,715	725,000	354,124	1,798,839
2021-2025	2,505,000	1,156,594	4,040,000	1,381,867	9,083,461
2026-2030	2,965,000	716,926	3,155,000	648,122	7,485,048
2031-2035	1,245,000	341,127	1,090,000	301,125	2,977,252
2036-2040	1,195,000	91,008	1,060,000	80,356	2,426,364
	<u>\$ 10,075,000</u>	<u>\$ 3,756,252</u>	<u>\$ 12,750,000</u>	<u>\$ 4,402,928</u>	<u>\$ 30,984,180</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, 2015 were \$157,243.

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	\$ 3,268,558
Contributions	416,329
Investment earnings	22,063
Withdrawals	(260,850)
Fees	<u>(584)</u>
Ending balance	<u>\$ 3,445,516</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 Blue Cross Blue Shield 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 2015 and 2014. The City paid interest in the amount of \$473,730 in 2015 and \$339,910 in 2014.

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	\$ 232,243
Mixed Beverage Tax	75,571
	<u>\$ 307,814</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. Subsequent to the audit period, the letter of credit was returned to Summit Rock Communities, LLC.

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 items Fire Protection, Streets and Capital Outlay but not in total.

Q. Subsequent Events

The City has evaluated subsequent events through June 22, 2016, 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.

CITY OF HORSESHOE BAY, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(GAAP BASIS)	Final Budget Positive or (Negative)
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 3,573,500	\$ 3,573,500	\$ 3,612,853	\$ 39,353
General Sales and Use Taxes	835,000	835,000	977,437	142,437
Other Taxes	257,000	257,000	307,814	50,814
Penalty and Interest on Taxes	25,000	25,000	20,882	(4,118)
Licenses and Permits	89,250	89,250	85,686	(3,564)
Charges for Services	1,175,750	1,175,750	1,033,371	(142,379)
Fines	38,500	38,500	87,675	49,175
Special Assessments	510,500	510,500	598,738	88,238
Investment Earnings	5,000	5,000	3,629	(1,371)
Rents and Royalties	9,000	9,000	9,000	-
Contributions & Donations from Private Sources	10,000	10,000	10,500	500
Other Revenue	16,250	16,250	63,105	46,855
<b>Total Revenues</b>	<b>6,544,750</b>	<b>6,544,750</b>	<b>6,810,690</b>	<b>265,940</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,717,000	1,717,000	1,592,858	124,142
Public Safety:				
Police	1,756,500	1,762,333	1,712,123	50,210
Fire Protection	1,669,500	1,669,500	1,671,690	(2,190)
Public Works:				
Highways and Streets	230,000	230,000	264,205	(34,205)
Development Services	316,250	316,250	295,852	20,398
Mowing & Clearing	615,000	615,000	487,099	127,901
Capital Outlay:				
Capital Outlay	62,500	62,500	119,270	(56,770)
<b>Total Expenditures</b>	<b>6,366,750</b>	<b>6,372,583</b>	<b>6,143,097</b>	<b>229,486</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	178,000	172,167	667,593	495,426
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	20,000	20,000
Transfers Out (Use)	-	-	(575,636)	(575,636)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(555,636)</b>	<b>(555,636)</b>
<b>Net Change</b>	<b>178,000</b>	<b>172,167</b>	<b>111,957</b>	<b>(60,210)</b>
Fund Balance - October 1 (Beginning)	3,355,364	3,355,364	3,355,364	-
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 3,533,364</b>	<b>\$ 3,527,531</b>	<b>\$ 3,467,321</b>	<b>\$ (60,210)</b>

SUPPLEMENTARY INFORMATION

CITY OF HORSESHOE BAY, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2015

EXHIBIT H-1

	PD Account Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 8,888	\$ -	\$ 8,888
Investments - Current	-	132,092	132,092
Taxes Receivable	-	12,320	12,320
Allowance for Uncollectible Taxes (credit)	-	(616)	(616)
Total Assets	<u>\$ 8,888</u>	<u>\$ 143,796</u>	<u>\$ 152,684</u>
<b>LIABILITIES</b>			
Unearned Revenues	\$ 8,888	\$ -	\$ 8,888
Total Liabilities	<u>8,888</u>	<u>-</u>	<u>8,888</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	-	11,704	11,704
Total Deferred Inflows of Resources	<u>-</u>	<u>11,704</u>	<u>11,704</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	132,092	132,092
Total Fund Balances	<u>-</u>	<u>132,092</u>	<u>132,092</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 8,888</u>	<u>\$ 143,796</u>	<u>\$ 152,684</u>

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

CITY OF HORSESHOE BAY, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	PD Account Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ -	\$ 455,308	\$ 455,308
Penalty and Interest on Taxes	-	2,289	2,289
Investment Earnings	-	48	48
Total Revenues	<u>-</u>	<u>457,645</u>	<u>457,645</u>
<b>EXPENDITURES:</b>			
Current:			
Debt Service:			
Bond Principal	-	380,000	380,000
Bond Interest	-	339,988	339,988
Total Expenditures	<u>-</u>	<u>719,988</u>	<u>719,988</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(262,343)</u>	<u>(262,343)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	-	375,584	375,584
Total Other Financing Sources (Uses)	<u>-</u>	<u>375,584</u>	<u>375,584</u>
Net Change in Fund Balance	-	113,241	113,241
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>18,851</u>	<u>18,851</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 132,092</u>	<u>\$ 132,092</u>

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