

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

Certified Public Accountants

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MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

January 28, 2010

Honorable Mayor and Aldermen
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 for the year ended September 30, 2009, and have issued our report thereon dated January 28, 2010. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence and meeting about planning matters.

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 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 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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 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 the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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, 2010.

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.

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

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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 Aldermen
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, as of and for the year ended September 30, 2009, which collectively comprise the City of Horseshoe Bay's basic financial statements and have issued our report thereon dated January 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Horseshoe Bay's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Horseshoe Bay's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Horseshoe Bay's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Horseshoe Bay's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Horseshoe Bay's financial statements that is more than inconsequential will not be prevented or detected by the City of Horseshoe Bay's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Horseshoe Bay's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Horseshoe Bay's financial statements are free of 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*.

This report is intended solely for the information and use of management, Mayor and Aldermen, federal awarding agencies, pass-through entities and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

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

January 28, 2010

REPORT OF EXAMINATION

**CITY OF
HORSESHOE BAY**

Horseshoe Bay, Texas

**For the Year Ended
September 30, 2009**

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

FREDERICKSBURG, TEXAS

**CITY OF HORSESHOE BAY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2009**

CITY OF HORSESHOE BAY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	3
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Assets.....	9
B-1 Statement of Activities	10
Governmental Fund Financial Statements:	
C-1 Balance Sheet.....	12
C-2 Reconciliation for C-1	13
C-3 Statement of Revenues, Expenditures and Changes in Fund Balance	14
C-4 Reconciliation for C-3	15
Proprietary Fund Financial Statements:	
D-1 Statement of Net Assets.....	16
D-2 Statement of Revenues, Expenses and Changes in Fund Net Assets	17
D-3 Statement of Cash Flows	18
E-1 Statement of Fiduciary Net Assets.....	20
Notes to the Financial Statements	21
 <u>Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	31

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Independent Auditor's Report

Honorable Mayor and Aldermen
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 the City of Horseshoe Bay, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Horseshoe Bay's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of September 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2010, on our consideration of the City of Horseshoe Bay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 31, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

January 28, 2010

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, 2009. Please read it in conjunction with the independent auditors' report on page 1, and 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 \$28,834,700 (net assets). Of this amount, \$13,382,105 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net assets increased by \$2,328,034 as a result of this period's operations.
- At September 30, 2009, the City's governmental funds reported combined ending fund balances of \$7,493,033.
- At September 30, 2009, the City's Utility Fund reported unrestricted net assets of \$5,805,108.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets 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 31.

Reporting the City as a Whole

The Statement of Net Assets 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 Assets 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 assets and changes in them. The City's net assets (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 assets 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 Assets 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 Assets 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 assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased by \$2,541,615. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$7,576,997 at September 30, 2009. This increase in governmental net assets was the result of three factors. First, the City's revenues exceeded the expenditures by \$2,533,200 (including transfers from the Utility Fund of \$380,000). Second, the City acquired capital assets in the amount of \$281,962. Third, the City recorded depreciation in the amounts of \$293,397.

Net assets of the City's business-type activities decreased from \$19,242,310 to \$19,028,729. Unrestricted net assets were \$5,805,108 at September 30, 2009. This decrease in business-type net assets was the result of net loss of \$213,581 (including transfers to the general fund in the amount of \$380,000).

Table I
City of Horseshoe Bay

NET ASSETS
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 8,031	\$ 5,399	\$ 6,372	\$ 6,022	\$ 14,403	\$ 11,421
Capital Assets	2,229	2,251	20,085	20,874	22,314	23,125
Total Assets	\$ 10,260	\$ 7,650	\$ 26,457	\$ 26,896	\$ 36,717	\$ 34,546
Long-Term Liabilities	\$ -	\$ 92	\$ 6,615	\$ 6,880	\$ 6,615	\$ 6,972
Other Liabilities	454	294	813	773	1,267	1,067
Total Liabilities	\$ 454	\$ 386	\$ 7,428	\$ 7,653	\$ 7,882	\$ 8,039
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 2,229	\$ 2,251	\$ 13,224	\$ 13,802	\$ 15,453	\$ 16,053
Restricted						
Unrestricted	7,577	5,013	5,805	5,441	13,382	10,454
Total Net Assets	\$ 9,806	\$ 7,264	\$ 19,029	\$ 19,243	\$ 28,835	\$ 26,507

Table II
City of Horseshoe Bay

CHANGES IN NET ASSETS
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Charges for Services	\$ 504	\$ 297	\$ 5,462	\$ 5,284	\$ 5,966	\$ 5,581
Stand-by Charges				97	-	97
Maintenance & Operations Taxes	5,042	4,972			5,042	4,972
Other Taxes	802	738			802	738
Penalty & Interest	69	49			69	49
Investment Earnings	54	171	51	154	105	325
Grants	441	26	-	7	441	33
Miscellaneous	119	56	23	11	142	67
Total Revenue	\$ 7,032	\$ 6,309	\$ 5,536	\$ 5,553	\$ 12,568	\$ 11,862
Expenses:						
General Government	\$ 1,100	\$ 632	\$	\$	\$ 1,100	\$ 632
Police	1,294	1,311			1,294	1,311
Fire	1,761	1,297			1,761	1,297
Highways and Streets	337				337	-
Development Services	315	282			315	282
Public Services	63	22			63	22
Utilities			3,710	3,971	3,710	3,971
Debt Service			289	325	289	325
Depreciation			1,369	1,331	1,369	1,331
Total Expenses	\$ 4,871	\$ 3,544	\$ 5,369	\$ 5,627	\$ 10,239	\$ 9,171
Increase in Net Assets						
Before Transfers	\$ 2,162	\$ 2,765	\$ 167	\$ (74)	\$ 2,329	\$ 2,691
Transfers	380	(1,500)	(380)	1,500	-	-
Net Change	\$ 2,542	\$ 1,265	\$ (213)	\$ 1,426	\$ 2,329	\$ 2,691
Net Assets, Beginning	7,264	5,999	19,242	17,817	26,506	23,816
Net Assets, Ending	\$ 9,806	\$ 7,264	\$ 19,029	\$ 19,243	\$ 28,835	\$ 26,507

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 \$7,493,033. Included in this year's total change in fund balance is an increase of \$2,533,200 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues exceeded budgeted amounts by \$287,069, and actual expenditures were less than budgeted amounts by \$257,230.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2009, 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 58	\$ 27	\$ 420	\$ 420	\$ 477	\$ 447
Infrastructure	26		33,761	33,620	33,787	33,620
Machinery and Equipment	1,797	1,591	1,411	1,290	3,207	2,881
Buildings and Improvements	2,179	2,178	230	180	2,408	2,358
Construction in Progress	-		901	665	901	665
Total Capital Assets	\$ 4,059	\$ 3,796	\$ 36,722	\$ 36,175	\$ 40,781	\$ 39,971
Less: Accumulated Depreciation	(1,830)	(1,545)	(16,637)	(15,301)	(18,467)	(16,846)
Capital Assets, Net	\$ 2,229	\$ 2,251	\$ 20,085	\$ 20,874	\$ 22,314	\$ 23,125

This period's major additions included:

	Governmental Activities	Business Type Activities
Land	\$ 30,533	\$
Infrastructure	26,000	141,082
Building and Improvements		49,467
Administrative Equipment	4,490	-
Development Services Equipment	54,382	
Police Department	61,158	-
Utilities Equipment	-	154,201
Fire - Equipment	105,399	-
Construction In Progress	-	235,035
TOTALS	\$ 281,962	\$ 579,785

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

DEBT

For business-type activities, the City had \$6,880,000 in general obligation refunding bonds outstanding.

More detailed information about the City's long-term liabilities is presented in Note E 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 2010 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 2010. Total revenues in the General Fund budget are \$8,288,250 and expenditures are estimated to be \$7,359,175.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by \$929,075 by the close of 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at City of Horseshoe Bay, Horseshoe Bay, Texas.

BASIC FINANCIAL STATEMENTS

CITY OF HORSESHOE BAY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 329,132	\$ 240,676	\$ 569,808
Investments - Current	7,302,813	5,437,680	12,740,493
Receivables (net of allowance for uncollectibles)	399,545	602,149	1,001,694
Inventories	-	28,999	28,999
Capitalized Debt Issuance Costs	-	62,266	62,266
Capital Assets:			
Land	57,685	419,563	477,248
Infrastructure, net	26,000	33,760,923	33,786,923
Buildings, net	2,178,917	229,534	2,408,451
Machinery and Equipment, net	1,796,522	1,410,885	3,207,407
Accumulated Depreciation	(1,830,150)	(16,636,893)	(18,467,043)
Construction in Progress	-	900,854	900,854
Total Assets	<u>10,260,464</u>	<u>26,456,636</u>	<u>36,717,100</u>
LIABILITIES			
Accounts Payable	73,615	4,793	78,408
Wages, Benefits and Payroll Taxes Payable	109,665	65,029	174,694
Compensated Absences Payable	112,822	41,788	154,610
Accrued Interest Payable	-	45,318	45,318
Deferred Revenues	49,199	170,768	219,967
Notes Payable - Current	-	265,000	265,000
Deposits	109,192	220,211	329,403
Noncurrent Liabilities			
Due in More Than One Year	-	6,615,000	6,615,000
Total Liabilities	<u>454,493</u>	<u>7,427,907</u>	<u>7,882,400</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,228,974	13,223,621	15,452,595
Unrestricted Net Assets	7,576,997	5,805,108	13,382,105
Total Net Assets	<u>\$ 9,805,971</u>	<u>\$ 19,028,729</u>	<u>\$ 28,834,700</u>

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (951,868)	\$ -	\$ (951,868)
(1,250,041)	-	(1,250,041)
(1,186,425)	-	(1,186,425)
(161,078)	-	(161,078)
(62,438)	-	(62,438)
(315,089)	-	(315,089)
<u>(3,926,939)</u>	<u>-</u>	<u>(3,926,939)</u>
-	92,993	92,993
-	92,993	92,993
<u>(3,926,939)</u>	<u>92,993</u>	<u>(3,833,946)</u>
5,042,485	-	5,042,485
802,175	-	802,175
69,451	-	69,451
2,926	-	2,926
117,725	22,046	139,771
53,792	51,380	105,172
380,000	(380,000)	-
<u>6,468,554</u>	<u>(306,574)</u>	<u>6,161,980</u>
2,541,615	(213,581)	2,328,034
7,264,356	19,242,310	26,506,666
<u>\$ 9,805,971</u>	<u>\$ 19,028,729</u>	<u>\$ 28,834,700</u>

CITY OF HORSESHOE BAY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Grant Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 329,132	\$ -	\$ 329,132
Investments - Current	7,302,813	-	7,302,813
Taxes Receivable	190,111	-	190,111
Allowance for Uncollectible Taxes (credit)	(9,506)	-	(9,506)
Receivables (Net)	183,749	-	183,749
Total Assets	<u>\$ 7,996,299</u>	<u>\$ -</u>	<u>\$ 7,996,299</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 73,615	\$ -	\$ 73,615
Wages, Benefits and Payroll Taxes Payable	109,665	-	109,665
Deferred Revenues	210,794	-	210,794
Deposits	109,192	-	109,192
Total Liabilities	<u>503,266</u>	<u>-</u>	<u>503,266</u>
Fund Balances:			
Unreserved and Undesignated:			
Reported in the General Fund	7,493,033	-	7,493,033
Total Fund Balances	<u>7,493,033</u>	<u>-</u>	<u>7,493,033</u>
Total Liabilities and Fund Balances	<u>\$ 7,996,299</u>	<u>\$ -</u>	<u>\$ 7,996,299</u>

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 ASSETS
 SEPTEMBER 30, 2009

Total Fund Balances - Governmental Funds	\$	7,493,033
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 \$3,797,145 and the accumulated depreciation was \$1,545,579. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.		2,251,566
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2009 capital outlays is to increase net assets.		157,983
The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(293,397)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. The net effect of these reclassifications and recognitions is to increase net assets.		196,786
Net Assets of Governmental Activities	\$	9,805,971

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, 2009

	General Fund	Grant Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 5,008,632	\$ -	\$ 5,008,632
Other Taxes	802,175	-	802,175
Penalty and Interest on Taxes	69,451	-	69,451
Licenses and Permits	147,785	-	147,785
Intergovernmental Revenue and Grants	525	437,181	437,706
Charges for Services	143,306	-	143,306
Fines	44,068	-	44,068
Special Assessments	176,125	-	176,125
Investment Earnings	53,792	-	53,792
Rents	9,636	-	9,636
Contributions & Donations from Private Sources	3,450	-	3,450
Other Revenue	94,082	-	94,082
Total Revenues	6,553,027	437,181	6,990,208
EXPENDITURES:			
Current:			
General Government	1,023,854	-	1,023,854
Public Safety:			
Police	1,207,727	-	1,207,727
Fire Protection	1,276,965	373,879	1,650,844
Public Works:			
Highways and Streets	316,709	-	316,709
Public Services	59,877	-	59,877
Development Services	296,035	-	296,035
Capital Outlay:			
Capital Outlay	218,660	63,302	281,962
Total Expenditures	4,399,827	437,181	4,837,008
Excess of Revenues Over Expenditures	2,153,200	-	2,153,200
OTHER FINANCING SOURCES (USES):			
Transfers In	380,000	-	380,000
Total Other Financing Sources (Uses)	380,000	-	380,000
Net Change in Fund Balances	2,533,200	-	2,533,200
Fund Balance - October 1 (Beginning)	4,959,833	-	4,959,833
Fund Balance - September 30 (Ending)	\$ 7,493,033	\$ -	\$ 7,493,033

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, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	2,533,200
Current year capital outlays expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2009 capital outlays is to increase net assets.		249,740
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 net assets.		(293,397)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. The net effect of these reclassifications and recognitions is to increase net assets.		52,072
Change in Net Assets of Governmental Activities	\$	2,541,615

The notes to the Financial Statements are an integral part of this statement.

CITY OF HORSESHOE BAY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 240,676
Investments - Current	5,437,680
Accounts Receivable-Net of Uncollectible Allowance	602,149
Inventories	28,999
Total Current Assets	6,309,504
Noncurrent Assets:	
Capitalized Debt Issuance Costs	62,266
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	33,760,923
Buildings	229,534
Machinery and Equipment	1,410,885
Accumulated Depreciation - Capital Assets	(16,636,893)
Construction in Progress	900,854
Total Noncurrent Assets	20,147,132
Total Assets	26,456,636
LIABILITIES	
Current Liabilities:	
Accounts Payable	4,793
Wages, Benefits and Payroll Taxes Payable	65,029
Compensated Absences Payable	41,788
Accrued Interest Payable	45,318
Deferred Revenue	170,768
Notes Payable - Current	265,000
Deposits	220,211
Total Current Liabilities	812,907
NonCurrent Liabilities:	
Notes Payable - Noncurrent	6,615,000
Total Noncurrent Liabilities	6,615,000
Total Liabilities	7,427,907
NET ASSETS	
Investments in Capital Assets, Net of Debt	13,223,621
Unrestricted Net Assets	5,805,108
Total Net Assets	\$ 19,028,729

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 ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT D-2

	Business Type Activities
OPERATING REVENUES:	
Charges for Water Services	\$ 3,057,419
Charges for Sewerage Service	1,554,476
Charges for Sanitation Service	742,682
Standby Charges	107,063
Other Revenue	22,046
Total Operating Revenues	5,483,686
OPERATING EXPENSES:	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,015,501
Personnel Services - Employee Benefits	419,497
Purchased Professional & Technical Services	139,152
Purchased Property Services	1,871,530
Other Operating Expenses	252,329
Supplies	12,404
Total Proprietary Fund Function - Utility Fund	3,710,413
Depreciation	1,369,180
Total Operating Expenses	5,079,593
Operating Income	404,093
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(3,500)
Investment Earnings	51,380
Interest Expense - Non-Operating	(285,554)
Total Non-operating Revenue (Expenses)	(237,674)
Income Before Transfers	166,419
Transfers Out	(380,000)
Change in Net Assets	(213,581)
Total Net Assets - October 1 (Beginning)	19,242,310
Total Net Assets - September 30 (Ending)	\$ 19,028,729

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, 2009

	Business Type Activities
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,355,534
Cash Received from Assessments - Standby Charges	107,063
Cash Received Other	22,047
Cash Payments to Employees for Service	(1,405,406)
Cash Payments for Suppliers	(2,001,224)
Cash Payments for Other Operating Expenses	(264,733)
Net Cash Provided by Operating Activities	1,813,281
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(380,000)
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(579,785)
Principal Payments - Loans	(255,000)
Interest Paid	(288,277)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(1,123,062)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	51,381
Net Increase in Cash and Cash Equivalents	361,600
Cash and Cash Equivalents at Beginning of the Year:	5,316,755
Cash and Cash Equivalents at the End of the Year:	\$ 5,678,355

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, 2009

	Business Type Activities
<hr/>	
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	\$ 404,093
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,369,180
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	8,878
Decrease (increase) in Inventories	(7,249)
Decrease (increase) in Prepaid Expenses	6,059
Increase (decrease) in Accounts Payable	791
Increase (decrease) in Accrued Liabilities	29,592
Increase (decrease) in Other Current Liabilities	9,857
Increase (decrease) in Deferred Revenue	(7,920)
Net Cash Provided by Operating Activities	\$ 1,813,281

The notes to the Financial Statements are an integral part of this statement.

CITY OF HORSESHOE BAY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2009

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 12,475
Investments - Current	132,106
Total Assets	<u>\$ 144,581</u>
LIABILITIES	
Assessments Payable	<u>\$ 144,581</u>
Total Liabilities	<u>\$ 144,581</u>

The accompanying notes are an integral part of this statement.

CITY OF HORSESHOE BAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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 aldermen. 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 1, 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 Assets 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.

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

E. Fund Accounting

The City reports the following major governmental 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.

Proprietary Fund:

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

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 Skywater over Horseshoe Bay Public Improvement District No. 1 and Escondido Public Improvement District No. 1.

F. Other Accounting Policies

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 assets. 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
Buildings	30
Improvements	30
Equipment	7
Vehicles	5

3. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
4. 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.
5. 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.

6. 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, 2009, the carrying amount of the City's deposits was \$569,058 and the bank balance was \$542,104. The City's cash deposits at September 30, 2009 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, 2009 was \$12,740,493 (Texpool Investment Pool and Certificates of Deposit at American Bank). 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 assets 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, 2009 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 2008 tax roll, the assessed valuation was \$1,386,962,142 and the tax rate was \$.35 per \$100 valuation (general fund only).

C. Property, Plant and Equipment

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

	Balance 10/01/08	Additions	Deletions	Balance 09/30/09
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	33,619,841	141,082		33,760,923
Machinery and Equipment	1,289,657	154,201	32,973	1,410,885
Buildings & Improvements	180,067	49,467		229,534
Construction Work In Progress	665,819	235,035		900,854
Totals	\$ 36,174,947	\$ 579,785	\$ 32,973	\$ 36,721,759
Accumulated Depreciation	(15,300,685)	(1,369,181)	32,973	(16,636,893)
Fixed Assets, Net	\$ 20,874,262	\$ (789,396)	\$ -	\$ 20,084,866

D. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2009, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 27,152	\$ 30,533	\$	\$ 57,685
Infrastructure		26,000		26,000
Machinery & Equipment	1,591,076	225,429	19,983	1,796,522
Buildings & Improvements	2,178,917			2,178,917
Totals at Historic Cost	\$ 3,797,145	\$ 281,962	\$ 19,983	\$ 4,059,124
Less Accumulated Depreciation	(1,545,579)	(293,397)	8,826	(1,830,150)
Governmental Activities				
Capital Assets, Net	\$ 2,251,566	\$ (11,435)	\$ 28,809	\$ 2,228,974

E. Revenue Notes Payable

	<u>Outstanding</u> <u>10/1/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>9/30/09</u>	<u>Due Within</u> <u>One Year</u>
<i>Waterworks & Sewer System</i>					
<i>Revenue Notes -</i>					
<i>General Obligation Refunding Bonds -</i>					
Series 2007	\$ <u>7,135,000</u>	\$ _____	\$ <u>255,000</u>	\$ <u>6,880,000</u>	\$ <u>265,000</u>

The Waterworks and Sewer System Revenue Notes Series 2004, were issued to finance water system improvements. In November 2007 the City paid \$2,500,000 principal on the Series 2004 revenue notes.

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.

The annual requirements to amortize the refunding bonds are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 265,000	\$ 277,952	\$ 542,952
2011	280,000	267,246	547,246
2012	290,000	255,934	545,934
2013	300,000	244,218	544,218
2014	315,000	232,098	547,098
2015-2019	1,765,000	959,702	2,724,702
2020-2024	2,150,000	573,478	2,723,478
2025-2029	<u>1,515,000</u>	<u>124,028</u>	<u>1,639,028</u>
Totals	\$ <u>6,880,000</u>	\$ <u>2,934,656</u>	\$ <u>9,814,656</u>

F. 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, 2009 were \$121,099.

G. 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	\$ 692,552
Contributions	169,247
Investment earnings	11,534
Withdrawals	(21,080)
Fees	<u>(4,201)</u>
Ending balance	<u>\$ 848,052</u>

H. Employee Insurance Benefits

All regular full time employees of the city are eligible for coverage under the group medical program provided by the city through Blue Cross-Blue Shield of Texas and group dental insurance through Mutual of Omaha. The city pays the premium for eligible employees and 50% of eligible employee dependents premiums. Employees may, at their option, authorize payroll withholdings to pay premiums for eligible family members.

I. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2009 and 2008. The City paid interest in the amount of \$288,277 in 2009 and \$427,969 in 2008.

J. Skywater Over Horseshoe Bay Public Improvement District No. 1

On March 20, 2007 Skywater Over Horseshoe Bay Public Improvement District No. 1 was created by approved Resolution No. RES 07-03-20A. 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 statues 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 1 and August 1 of each year beginning March 1, 2009. All such disbursements of improvement assessments shall be made to the owner. No reimbursements shall be made unless the owner has submitted its request for reimbursement to the City ten days prior to such date.

K. 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.

L. Other Taxes

Other taxes consisted of the following:

<u>Description</u>	<u>Amount</u>
Sales Tax	\$ 555,222
Franchise Tax	197,165
Mixed Beverage Tax	49,788
	<u>\$ 802,175</u>

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, 2009

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 4,900,000	\$ 4,900,000	\$ 5,008,632	\$ 108,632
Other Taxes	605,000	610,000	802,175	192,175
Penalty and Interest on Taxes	37,500	37,500	69,451	31,951
Licenses and Permits	122,750	122,750	147,785	25,035
Intergovernmental Revenue and Grants	3,000	3,000	525	(2,475)
Charges for Services	125,000	125,000	143,306	18,306
Fines	22,000	22,000	44,068	22,068
Special Assessments	-	185,000	176,125	(8,875)
Investment Earnings	190,000	190,000	53,792	(136,208)
Rents	9,500	9,500	9,636	136
Contributions & Donations from Private Sources	3,000	3,000	3,450	450
Other Revenue	40,750	58,207	94,082	35,875
Total Revenues	6,058,500	6,265,957	6,553,027	287,070
EXPENDITURES:				
Current:				
General Government	1,317,000	1,147,967	1,023,854	124,113
Public Safety:				
Police	1,262,250	1,272,057	1,207,727	64,330
Fire Protection	1,240,500	1,259,000	1,276,965	(17,965)
Public Works:				
Highways and Streets	-	317,000	316,709	291
Public Services	61,500	71,500	59,877	11,623
Development Services	320,600	320,600	296,035	24,565
Capital Outlay:				
Capital Outlay	230,750	268,933	218,660	50,273
Total Expenditures	4,432,600	4,657,057	4,399,827	257,230
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,625,900	1,608,900	2,153,200	544,300
OTHER FINANCING SOURCES (USES):				
Transfers In	380,000	380,000	380,000	-
Total Other Financing Sources (Uses)	380,000	380,000	380,000	-
Net Change	2,005,900	1,988,900	2,533,200	544,300
Fund Balance - October 1 (Beginning)	4,959,833	4,959,833	4,959,833	-
Fund Balance - September 30 (Ending)	\$ 6,965,733	\$ 6,948,733	\$ 7,493,033	\$ 544,300