

*REPORT OF EXAMINATION*

**CITY OF  
HORSESHOE BAY**

*Horseshoe Bay, Texas*

**For the Year Ended  
September 30, 2010**

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

FREDERICKSBURG, TEXAS

CITY OF HORSESHOE BAY, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2010

CITY OF HORSESHOE BAY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

## Certified Public Accountants

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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 the City of Horseshoe Bay, as of and for the year ended September 30, 2010, 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, 2010, 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 31, 2011, 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, Dooss + Company, P.C.*  
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.  
Fredericksburg, Texas

January 31, 2011

## 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, 2010. 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 \$31,095,641 (net assets). Of this amount, \$12,871,933 (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 \$2,260,941 as a result of this period's operations.
- At September 30, 2010, the City's governmental funds reported combined ending fund balances of \$9,442,342.
- At September 30, 2010, the City's Utility Fund reported unrestricted net assets of \$3,410,046.
- On November 3, 2009, the City held an election which passed by a majority vote for the adoption of an additional ¼% Sales and Use Tax to be dedicated solely for the purpose of Municipal Street Maintenance. The additional Sales and Use Tax became effective on April 1, 2010, and will expire in four years if the City does not hold a tax reauthorization election.
- In FY10, the City began the construction of a new 1.0 million gallon elevated storage tank to replace the 200,000 gallon tank located in Horseshoe Bay West. Construction is anticipated to be complete by April 2011.

### 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 \$2,514,450. 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 \$9,461,887 at September 30, 2010. This increase in governmental net assets was the result of three factors. First, the City's revenues exceeded the expenditures by \$1,949,309. Second, the City acquired capital assets in the amount of \$963,131. Third, the City recorded depreciation in the amounts of \$333,571.

Net assets of the City's business-type activities decreased from \$19,028,729 to \$18,775,220 resulting in a net loss of \$253,509. Unrestricted net assets decreased from \$5,805,108 to \$3,410,046 (\$2,395,062) due to the increase of \$2,141,553 in invested in capital assets, net of debt and the net loss of \$253,509.

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

**NET ASSETS**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 9,998	\$ 8,031	\$ 7,600	\$ 6,372	\$ 17,598	\$ 14,403
Capital Assets	2,859	2,229	21,966	20,085	24,824	22,314
Total Assets	\$ 12,856	\$ 10,260	\$ 29,566	\$ 26,457	\$ 42,422	\$ 36,717
Long-Term Liabilities	\$ -	\$ -	\$ 6,335	\$ 6,615	\$ 6,335	\$ 6,615
Other Liabilities	536	454	4,456	813	4,992	1,267
Total Liabilities	\$ 536	\$ 454	\$ 10,791	\$ 7,428	\$ 11,327	\$ 7,882
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 2,859	\$ 2,229	\$ 15,365	\$ 13,224	\$ 18,224	\$ 15,453
Restricted					-	-
Unrestricted	9,462	7,577	3,410	5,805	12,872	13,382
Total Net Assets	\$ 12,320	\$ 9,806	\$ 18,775	\$ 19,029	\$ 31,096	\$ 28,835

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

**CHANGES IN NET ASSETS**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Charges for Services	\$ 708	\$ 504	\$ 4,936	\$ 5,462	\$ 5,643	\$ 5,966
Stand-by Charges					-	-
Maintenance & Operations Taxes	5,227	5,042			5,227	5,042
Other Taxes	975	802			975	802
Penalty & Interest	63	69			63	69
Investment Earnings	47	54	25	51	72	105
Grants	15	441	311		326	441
Miscellaneous	400	119	16	23	415	142
<b>Total Revenue</b>	<b>\$ 7,434</b>	<b>\$ 7,031</b>	<b>\$ 5,288</b>	<b>\$ 5,536</b>	<b>\$ 12,722</b>	<b>\$ 12,567</b>
<b>Expenses:</b>						
General Government	\$ 967	\$ 1,100			\$ 967	\$ 1,100
Police	1,445	1,294			1,445	1,294
Fire	1,549	1,761			1,549	1,761
Streets	545	337			545	337
Development Services	329	315			329	315
Public Services	83	62			83	62
Utilities			3,878	3,710	3,878	3,710
Debt Service			281	290	281	290
Depreciation			1,382	1,369	1,382	1,369
<b>Total Expenses</b>	<b>\$ 4,920</b>	<b>\$ 4,869</b>	<b>\$ 5,541</b>	<b>\$ 5,369</b>	<b>\$ 10,460</b>	<b>\$ 10,238</b>
<b>Increase in Net Assets</b>						
Before Transfers	\$ 2,514	\$ 2,162	\$ (253)	\$ 167	\$ 2,262	\$ 2,329
Transfers	-	380	-	(380)	-	-
<b>Net Change</b>	<b>\$ 2,514</b>	<b>\$ 2,542</b>	<b>\$ (253)</b>	<b>\$ (213)</b>	<b>\$ 2,262</b>	<b>\$ 2,329</b>
Net Assets, Beginning	9,806	7,264	19,028	19,242	28,834	26,506
<b>Net Assets, Ending</b>	<b>\$ 12,320</b>	<b>\$ 9,806</b>	<b>\$ 18,775</b>	<b>\$ 19,029</b>	<b>\$ 31,096</b>	<b>\$ 28,835</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 \$9,442,342. Included in this year's total change in fund balance is an increase of \$1,949,309 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were less than budgeted amounts by \$907,476, and actual expenditures were less than budgeted amounts by \$2,240,710.

## CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2010, 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	
	2010	2009	2010	2009	2010	2009
Land	\$ 127	\$ 58	\$ 420	\$ 420	\$ 547	\$ 477
Infrastructure	134		34,683	33,620	34,817	33,620
Machinery and Equipment	2,047	1,591	1,721	1,290	3,768	2,881
Buildings and Improvements	2,244	2,178	743	180	2,986	2,358
Construction in Progress	471		2,401	665	2,872	665
Total Capital Assets	\$ 5,022	\$ 3,827	\$ 39,968	\$ 36,175	\$ 44,990	\$ 40,001
Less: Accumulated Depreciation	(2,164)	(1,545)	(18,002)	(15,301)	(20,165)	(16,846)
Capital Assets, Net	\$ 2,859	\$ 2,282	\$ 21,966	\$ 20,874	\$ 24,824	\$ 23,155

This period's major additions included:

	Governmental Activities	Business Type Activities
Land	\$ 69,671	\$
Infrastructure	107,569	922,246
Building and Improvements	64,591	513,442
Machinery and Equipment	250,210	327,278
Construction In Progress	471,090	2,252,147
TOTALS	\$ 963,131	\$ 4,015,113

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

## DEBT

For business-type activities, the City had \$6,615,000 in general obligation refunding 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 2011 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 2011. Total revenues in the General Fund budget are \$5,397,250 and expenditures are estimated to be \$7,974,700. Scheduled in estimated expenditures are the following Capital Projects: \$1,400,000 for a new Police Department Building and \$1,100,000 for three (3) Street Projects.

If these estimates are realized, the City's budgetary General fund balance is expected to decrease by \$2,577,450 by the close of 2011.

## 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, 2010

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 106,484	\$ 353,499	\$ 459,983
Investments - Current	6,226,584	6,553,247	12,779,831
Receivables (net of allowance for uncollectibles)	664,605	590,274	1,254,879
Notes Receivable	3,000,000	-	3,000,000
Inventories	-	44,492	44,492
Capitalized Debt Issuance Costs	-	58,766	58,766
Capital Assets:			
Land	127,356	419,563	546,919
Infrastructure, net	133,569	34,683,168	34,816,737
Buildings, net	2,243,508	742,976	2,986,484
Machinery and Equipment, net	2,046,732	1,721,366	3,768,098
Accumulated Depreciation	(2,163,721)	(18,001,711)	(20,165,432)
Construction in Progress	471,090	2,400,587	2,871,677
Total Assets	<u>12,856,207</u>	<u>29,566,227</u>	<u>42,422,434</u>
<b>LIABILITIES</b>			
Accounts Payable	39,156	357,865	397,021
Wages, Benefits and Payroll Taxes Payable	141,655	306,222	447,877
Compensated Absences Payable	167,511	42,223	209,734
Accrued Interest Payable	-	44,541	44,541
Deferred Revenues	120,816	154,966	275,782
Notes Payable - Current	-	3,280,000	3,280,000
Deposits	66,648	270,190	336,838
Noncurrent Liabilities			
Due in More Than One Year	-	6,335,000	6,335,000
Total Liabilities	<u>535,786</u>	<u>10,791,007</u>	<u>11,326,793</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	2,858,534	15,365,174	18,223,708
Unrestricted Net Assets	9,461,887	3,410,046	12,871,933
Total Net Assets	<u>\$ 12,320,421</u>	<u>\$ 18,775,220</u>	<u>\$ 31,095,641</u>

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

CITY OF HORSESHOE BAY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Program Revenues		
	Expenses	Charges for Services	Capital Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 967,416	\$ 107,463	\$ -
Police	1,445,205	47,411	6,997
Fire Protection	1,549,478	154,185	-
Streets	544,613	398,668	-
Public Services	82,461	-	-
Development Services	329,420	-	-
Total Governmental Activities:	4,918,593	707,727	6,997
BUSINESS-TYPE ACTIVITIES:			
Utility Fund	5,540,559	4,935,743	311,397
Total Business-Type Activities:	5,540,559	4,935,743	311,397
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 10,459,152</b>	<b>\$ 5,643,470</b>	<b>\$ 318,394</b>

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Sales Taxes
- Other Taxes
- Penalty and Interest
- Grants and Contributions Not Restricted
- Miscellaneous Revenue
- Investment Earnings

Total General Revenues

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

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
\$ (859,953)	\$ -	\$ (859,953)
(1,390,797)	-	(1,390,797)
(1,395,293)	-	(1,395,293)
(145,945)	-	(145,945)
(82,461)	-	(82,461)
(329,420)	-	(329,420)
<u>(4,203,869)</u>	<u>-</u>	<u>(4,203,869)</u>
-	(293,419)	(293,419)
-	(293,419)	(293,419)
<u>(4,203,869)</u>	<u>(293,419)</u>	<u>(4,497,288)</u>
5,227,275	-	5,227,275
726,514	-	726,514
248,559	-	248,559
62,864	-	62,864
7,926	-	7,926
398,500	14,697	413,197
46,681	25,213	71,894
<u>6,718,319</u>	<u>39,910</u>	<u>6,758,229</u>
2,514,450	(253,509)	2,260,941
9,805,971	19,028,729	28,834,700
<u>\$ 12,320,421</u>	<u>\$ 18,775,220</u>	<u>\$ 31,095,641</u>

CITY OF HORSESHOE BAY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010

	General Fund	PD Account Revenue Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 95,982	\$ 10,502	\$ 106,484
Investments - Current	6,226,584	-	6,226,584
Taxes Receivable	164,985	-	164,985
Allowance for Uncollectible Taxes (credit)	(8,249)	-	(8,249)
Receivables (Net)	461,050	-	461,050
Note Receivable	3,000,000	-	3,000,000
<b>Total Assets</b>	<b>\$ 9,940,352</b>	<b>\$ 10,502</b>	<b>\$ 9,950,854</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 39,156	-	\$ 39,156
Wages and Salaries Payable	141,655	-	141,655
Deferred Revenues	250,551	10,502	261,053
Other Current Liabilities	66,648	-	66,648
<b>Total Liabilities</b>	<b>498,010</b>	<b>10,502</b>	<b>508,512</b>
<b>Fund Balances:</b>			
<b>Unreserved and Undesignated:</b>			
Reported in the General Fund	9,442,342	-	9,442,342
<b>Total Fund Balances</b>	<b>9,442,342</b>	<b>-</b>	<b>9,442,342</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,940,352</b>	<b>\$ 10,502</b>	<b>\$ 9,950,854</b>

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, 2010

<b>Total Fund Balances - Governmental Funds</b>	\$	9,442,342
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 \$4,059,124 and the accumulated depreciation was \$1,830,150. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.		2,228,974
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 2010 capital outlays is to increase net assets.		795,620
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(333,571)
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.		187,056
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b>12,320,421</b>

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, 2010

	General Fund	PD Account Revenue Fund	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 5,248,633	\$ -	\$ 5,248,633
General Sales and Use Taxes	726,514	-	726,514
Other Taxes	248,559	-	248,559
Penalty and Interest on Taxes	62,864	-	62,864
Licenses and Permits	107,463	-	107,463
Intergovernmental Revenue and Grants	6,997	-	6,997
Charges for Services	155,335	-	155,335
Fines	47,411	-	47,411
Special Assessments	398,668	-	398,668
Investment Earnings	46,681	-	46,681
Rents	9,636	-	9,636
Contributions & Donations from Private Sources	7,925	-	7,925
Other Revenue	314,088	-	314,088
Total Revenues	7,380,774	-	7,380,774
<b>EXPENDITURES:</b>			
Current:			
General Government	907,411	-	907,411
Public Safety:			
Police	1,347,297	-	1,347,297
Fire Protection	1,389,576	-	1,389,576
Public Works:			
Streets	507,263	-	507,263
Public Services	76,235	-	76,235
Development Services	302,552	-	302,552
Capital Outlay:			
Capital Outlay	963,131	-	963,131
Total Expenditures	5,493,465	-	5,493,465
Excess of Revenues Over Expenditures	1,887,309	-	1,887,309
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of Real and Personal Property	62,000	-	62,000
Total Other Financing Sources (Uses)	62,000	-	62,000
Net Change in Fund Balances	1,949,309	-	1,949,309
Fund Balance - October 1 (Beginning)	7,493,033	-	7,493,033
Fund Balance - September 30 (Ending)	\$ 9,442,342	\$ -	\$ 9,442,342

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, 2010

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	1,949,309
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 removing the 2010 capital outlays is to increase net assets.		908,442
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.		(333,571)
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 decrease net assets.		(9,730)
 <b>Change in Net Assets of Governmental Activities</b>	 \$	 <u>2,514,450</u>

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, 2010

	Business Type Activities
	Utility Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 353,499
Investments - Current	6,553,247
Accounts Receivable-Net of Uncollectible Allowance	590,274
Inventories	44,492
Total Current Assets	<u>7,541,512</u>
<b>Noncurrent Assets:</b>	
Capitalized Debt Issuance Costs	58,766
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	34,683,168
Buildings	742,976
Machinery and Equipment	1,721,366
Accumulated Depreciation - Capital Assets	(18,001,711)
Construction in Progress	2,400,587
Total Noncurrent Assets	<u>22,024,715</u>
Total Assets	<u>29,566,227</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	357,865
Wages and Salaries Payable	306,222
Compensated Absences Payable	42,223
Accrued Interest Payable	44,541
Deferred Revenue	154,966
Notes Payable - Current	280,000
Notes Payable - General Fund	3,000,000
Deposits	270,190
Total Current Liabilities	<u>4,456,007</u>
<b>NonCurrent Liabilities:</b>	
Notes Payable - Noncurrent	6,335,000
Total Noncurrent Liabilities	<u>6,335,000</u>
Total Liabilities	<u>10,791,007</u>
<b>NET ASSETS</b>	
Investments in Capital Assets, Net of Debt	15,365,174
Unrestricted Net Assets	3,410,046
Total Net Assets	<u>\$ 18,775,220</u>

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, 2010

EXHIBIT D-2

	Business Type Activities
	Utility Fund
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 2,542,808
Charges for Sewerage Service	1,649,298
Charges for Sanitation Service	741,611
Standby Charges	2,026
Other Revenue	14,697
Total Operating Revenues	4,950,440
<b>OPERATING EXPENSES:</b>	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,233,988
Personnel Services - Employee Benefits	528,681
Purchased Professional & Technical Services	174,919
Purchased Property Services	1,637,525
Other Operating Expenses	282,519
Supplies	20,637
Total Proprietary Fund Function - Utility Fund	3,878,269
Depreciation	1,381,615
Total Operating Expenses	5,259,884
Operating Income (Loss)	(309,444)
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Bond Issuance Cost	(3,500)
Investment Earnings	25,213
Interest Expense - Non-Operating	(277,175)
Total Non-operating Revenue (Expenses)	(255,462)
Income (Loss) Before Contributions	(564,906)
Capital Contributions	311,397
Change in Net Assets	(253,509)
Total Net Assets - October 1 (Beginning)	19,028,729
 Total Net Assets - September 30 (Ending)	 \$ 18,775,220

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, 2010

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 4,979,769
Cash Received from Assessments - Standby Charges	2,026
Cash Received Other	14,697
Cash Payment to Employees for Service	(1,521,041)
Cash Payments for Suppliers	(1,480,008)
Cash Payments for Other Operating Expenses	(298,012)
Net Cash Provided by Operating Activities	<u>1,697,431</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(3,262,698)
Capital Contributed by Others	311,397
Loan Proceeds from General Fund	3,000,000
Principal Payments - Loans	(265,000)
Interest Paid	(277,952)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(494,253)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>25,213</u>
Net Increase in Cash and Cash Equivalents	1,228,391
Cash and Cash Equivalents at Beginning of the Year:	<u>5,678,355</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 6,906,746</u>

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

CITY OF HORSESHOE BAY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business Type Activities
	Utility Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income (Loss):	\$ (309,444)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,381,615
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	11,875
Decrease (increase) in Inventories	(15,493)
Increase (decrease) in Accounts Payable	353,073
Increase (decrease) in Accrued Liabilities	241,628
Increase (decrease) in Other Current Liabilities	49,979
Increase (decrease) in Deferred Revenue	(15,802)
Net Cash Provided by Operating Activities	<u>\$ 1,697,431</u>

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, 2010

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	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 3,733
Investments - Current	326,343
Total Assets	<u>\$ 330,076</u>
LIABILITIES	
Assessments Payable	<u>\$ 330,076</u>
Total Liabilities	<u>\$ 330,076</u>

The accompanying notes are an integral part of this statement.

CITY OF HORSESHOE BAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

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, 2010, the carrying amount of the City's deposits was \$459,232 and the bank balance was \$582,858. The City's cash deposits at September 30, 2010 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, 2010 was \$12,779,831 (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, 2010 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 2009 tax roll, the assessed valuation was \$1,578,610,127 and the tax rate was \$.33 per \$100 valuation (general fund only).

C. Interfund Note Receivable/Payable

On August 24, 2010 the City Council approved a motion for the General Fund to loan the Utility fund \$3,000,000 for the cost of projects. The balance of the loan on September 30, 2010 was \$3,000,000. The City intends to use proceeds from a bond sale in 2011 to repay the loan.

D. Property, Plant and Equipment

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

	Balance 10/01/09	Additions	Deletions	Balance 09/30/10
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	33,760,923	922,246		34,683,169
Machinery and Equipment	1,410,885	327,278	16,797	1,721,366
Buildings & Improvements	229,534	513,442		742,976
Construction Work In Progress	900,854	2,252,147	752,415	2,400,586
Totals	\$ 36,721,759	\$ 4,015,113	\$ 769,212	\$ 39,967,660
Accumulated Depreciation	(16,636,893)	(1,381,615)	16,797	(18,001,711)
Fixed Assets, Net	\$ 20,084,866	\$ 2,633,498	\$ 752,415	\$ 21,965,949

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2010, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 57,685	\$ 69,671	\$ -	\$ 127,356
Infrastructure	26,000	107,569	-	133,569
Machinery & Equipment	1,796,522	250,210	-	2,046,732
Buildings & Improvements	2,178,917	64,591	-	2,243,508
Construction Work in Progress		471,090		471,090
Totals at Historic Cost	\$ 4,059,124	\$ 963,131	\$ -	\$ 5,022,255
Less Accumulated Depreciation	(1,830,150)	(333,571)		(2,163,721)
Governmental Activities				
Capital Assets, Net	\$ 2,228,974	\$ 629,561	\$ -	\$ 2,858,535

F. Revenue Notes Payable

	Outstanding 10/1/09	Issued	Retired	Outstanding 9/30/10	Due Within One Year
<i>Waterworks &amp; Sewer System</i>					
<i>Revenue Notes -</i>					
General Obligation Refunding Bonds -					
Series 2007	\$ 6,880,000	\$ -	\$ 265,000	\$ 6,615,000	\$ 280,000

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:

September 30	Principal	Interest	Total
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	325,000	219,372	544,372
2016-2020	1,835,000	888,396	2,723,396
2021-2025	2,240,000	486,618	2,726,618
2026-2030	1,030,000	62,822	1,092,822
Totals	\$ 6,615,000	\$ 2,656,704	\$ 9,271,704

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, 2010 were \$121,099.

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	\$ 848,052
Contributions	185,912
Investment earnings	82,693
Withdrawals	(42,432)
Fees	<u>(6,001)</u>
Ending balance	<u>\$ 1,068,224</u>

I. 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.

J. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2010 and 2009. The City paid interest in the amount of \$277,952 in 2010 and \$288,277 in 2009.

K. 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 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 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.

The owner has assigned to the City their rights to \$1,300,000 of the proceeds of reimbursement expenditures from the PID as security for its obligation related to the construction of a high storage water tank and has pledged to assign to the City an additional amount estimated to be \$5,800,000 of the proceeds of reimbursement expenditures from the PID in the event that the owner does not timely pay the City for any amount due for future projects as defined in an agreement between the owner and the City.

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	\$ 201,362
Mixed Beverage Tax	<u>47,197</u>
	<u>\$ 248,559</u>

N. Subsequent Events

The City has evaluated subsequent events through January 31, 2011, the date which the financial statements were available to be issued.

A bid was approved for the construction of a new Police Department Building in the October 2010 Council minutes. The estimated cost of the building is \$1.4 million and the estimated expenditures for the project are included in the FY 2011 budget.

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, 2010

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 5,000,000	\$ 5,000,000	\$ 5,248,633	\$ 248,633
General Sales and Use Taxes	500,000	500,000	726,514	226,514
Other Taxes	210,000	210,000	248,559	38,559
Penalty and Interest on Taxes	32,500	32,500	62,864	30,364
Licenses and Permits	104,750	104,750	107,463	2,713
Intergovernmental Revenue and Grants	3,000	3,000	6,997	3,997
Charges for Services	154,000	154,000	155,335	1,335
Fines	22,500	22,500	47,411	24,911
Special Assessments	1,900,000	1,900,000	398,668	(1,501,332)
Investment Earnings	55,000	55,000	46,681	(8,319)
Rents	9,500	9,500	9,636	136
Contributions & Donations from Private Sources	3,000	3,000	7,925	4,925
Other Revenue	294,000	294,000	314,088	20,088
<b>Total Revenues</b>	<b>8,288,250</b>	<b>8,288,250</b>	<b>7,380,774</b>	<b>(907,476)</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,579,675	1,027,675	907,411	120,264
Public Safety:				
Police	1,404,000	1,404,000	1,347,297	56,703
Fire Protection	1,408,750	1,413,090	1,389,576	23,514
Public Works:				
Streets	490,000	540,000	507,263	32,737
Public Services	81,250	81,250	76,235	5,015
Development Services	322,750	322,750	302,552	20,198
Capital Outlay:				
Capital Outlay	2,447,750	2,570,410	963,131	1,607,279
<b>Total Expenditures</b>	<b>7,734,175</b>	<b>7,359,175</b>	<b>5,493,465</b>	<b>1,865,710</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	554,075	929,075	1,887,309	958,234
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	-	-	62,000	62,000
Transfers In	375,000	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>375,000</b>	<b>-</b>	<b>62,000</b>	<b>62,000</b>
<b>Net Change</b>	<b>929,075</b>	<b>929,075</b>	<b>1,949,309</b>	<b>1,020,234</b>
Fund Balance - October 1 (Beginning)	7,493,033	7,493,033	7,493,033	-
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 8,422,108</b>	<b>\$ 8,422,108</b>	<b>\$ 9,442,342</b>	<b>\$ 1,020,234</b>