

REPORT OF EXAMINATION

**CITY OF
HORSESHOE BAY**

Horseshoe Bay, Texas

**For the Year Ended
September 30, 2011**

CITY OF HORSESHOE BAY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011

CITY OF HORSESHOE BAY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

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

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, as of and for the year ended September 30, 2011, 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, 2011, 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 26, 2012, 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 26, 2012

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, 2011. 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 \$32,046,194 (net assets). Of this amount, \$10,335,678 (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 \$950,553 as a result of this period's operations.
- At September 30, 2011, the City's governmental funds reported combined ending fund balances of \$13,784,287.
- At September 30, 2011, the City's Utility Fund reported unrestricted net assets of \$6,696,925.

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 \$650,982. 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 \$3,638,753 at September 30, 2011. This increase in governmental net assets was the result of three factors. First, the City's revenues exceeded the expenditures by \$4,341,945. Second, the City acquired capital assets in the amount of \$2,728,138. Third, the City recorded depreciation in the amounts of \$403,668.

Net assets of the City's business-type activities increased from \$18,775,220 to \$19,074,791 resulting in net income of \$299,571. Unrestricted net assets increased from \$3,410,046 to \$6,696,925.

Table I
City of Horseshoe Bay

NET ASSETS
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 14,229	\$ 9,998	\$ 7,620	\$ 7,600	\$ 21,849	\$ 17,598
Capital Assets	5,140	2,859	22,297	21,966	27,437	24,825
Total Assets	\$ 19,369	\$ 12,857	\$ 29,918	\$ 29,566	\$ 49,286	\$ 42,423
Long-Term Liabilities	\$ 6,107	\$ -	\$ 9,845	\$ 6,335	\$ 15,952	\$ 6,335
Other Liabilities	290	536	998	4,456	1,288	4,992
Total Liabilities	\$ 6,397	\$ 536	\$ 10,843	\$ 10,791	\$ 17,240	\$ 11,327
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 5,140	\$ 2,859	\$ 12,270	\$ 15,365	\$ 17,410	\$ 18,224
Restricted	4,193		108		4,301	-
Unrestricted	3,639	9,461	6,697	3,410	10,336	12,871
Total Net Assets	\$ 12,971	\$ 12,320	\$ 19,075	\$ 18,775	\$ 32,046	\$ 31,095

Table II
City of Horseshoe Bay

CHANGES IN NET ASSETS
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Charges for Services	\$ 314	\$ 708	\$ 6,108	\$ 4,936	\$ 6,422	\$ 5,644
Stand-by Charges					-	-
Maintenance & Operations Taxes	3,891	5,227			3,891	5,227
Other Taxes	990	975			990	975
Penalty & Interest	46	63			46	63
Investment Earnings	15	47	9	25	24	72
Grants	11	15	-	311	11	326
Miscellaneous	299	400	28.17	16	327	416
Total Revenue	\$ 5,566	\$ 7,435	\$ 6,145	\$ 5,288	\$ 11,711	\$ 12,723
Expenses:						
General Government	\$ 962	\$ 967			\$ 962	\$ 967
Police	1,553	1,445			1,553	1,445
Fire	1,545	1,549			1,545	1,549
Streets	370	545			370	545
Development Services	343	329			343	329
Public Services	117	83			117	83
Utilities			4,056	3,878	4,056	3,878
Debt Service	25		291	281	316	281
Depreciation			1,498	1,382	1,498	1,382
Total Expenses	\$ 4,915	\$ 4,918	\$ 5,845	\$ 5,541	\$ 10,760	\$ 10,459
Increase in Net Assets	\$ 651	\$ 2,514	\$ 300	\$ (253)	\$ 951	\$ 2,261
Net Assets, Beginning	12,320	9,806	18,775	19,028	31,095	28,834
Net Assets, Ending	\$ 12,971	\$ 12,320	\$ 19,075	\$ 18,775	\$ 32,046	\$ 31,095

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 \$13,784,287. Included in this year's total change in fund balance is a decrease of \$5,875,891 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts by \$212,248, and actual expenditures were less than budgeted amounts by \$679,311.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2011, 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	
	2011	2010	2011	2010	2011	2010
Land	\$ 127	\$ 127	\$ 420	\$ 420	\$ 547	\$ 547
Infrastructure	901	134	38,489	34,683	39,390	34,817
Machinery and Equipment	2,218	2,047	1,974	1,721	4,192	3,768
Buildings and Improvements	3,694	2,244	826	743	4,521	2,987
Construction in Progress	716	471	50	2,401	766	2,872
Total Capital Assets	\$ 7,657	\$ 5,023	\$ 41,758	\$ 39,968	\$ 49,415	\$ 44,991
Less: Accumulated Depreciation	(2,517)	(2,164)	(19,461)	(18,002)	(21,978)	(20,166)
Capital Assets, Net	\$ 5,140	\$ 2,859	\$ 22,297	\$ 21,966	\$ 27,437	\$ 24,825

This period's major additions included:

	Governmental Activities	Business Type Activities
Infrastructure	\$ 767,672	\$ 1,445,251
Building and Improvements	1,056,782	83,465
Machinery and Equipment	265,166	293,329
Construction In Progress	638,518	9,465
TOTALS	\$ 2,728,138	\$ 1,831,510

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

DEBT

For governmental activities, the City had \$6,000,000 in combination tax and revenue bonds outstanding.

For business-type activities, the City had \$10,135,000 in general obligation refunding bonds and combination tax and revenue bonds outstanding.

More detailed information about the City's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012 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 2012. Total revenues in the General Fund budget are \$5,956,750 and expenditures are estimated to be \$5,757,750.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by \$199,000 by the close of 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at P.O. Box 7765, City of Horseshoe Bay, Horseshoe Bay, Texas 78657.

BASIC FINANCIAL STATEMENTS

CITY OF HORSESHOE BAY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 193,764	\$ 369,859	\$ 563,623
Investments - Current	3,113,306	6,153,184	9,266,490
Receivables (net of allowance for uncollectibles)	703,809	770,248	1,474,057
Inventories	-	70,963	70,963
Prepaid Items	40	-	40
Capitalized Debt Issuance Costs	-	148,306	148,306
Restricted Assets:			
Restricted Asset - Capital Aquisition	10,217,836	107,871	10,325,707
Capital Assets:			
Land	127,356	419,563	546,919
Infrastructure, net	901,241	38,488,630	39,389,871
Buildings, net	3,694,110	826,441	4,520,551
Machinery and Equipment, net	2,218,029	1,973,690	4,191,719
Accumulated Depreciation	(2,516,743)	(19,461,041)	(21,977,784)
Construction in Progress	715,788	49,841	765,629
Total Assets	<u>19,368,536</u>	<u>29,917,555</u>	<u>49,286,091</u>
LIABILITIES			
Accounts Payable	86,127	264,726	350,853
Accrued Interest Payable	24,967	63,748	88,715
Deferred Revenues	114,090	137,807	251,897
Note Payable - Current	-	290,000	290,000
Other Current Liabilities	64,727	241,483	306,210
Noncurrent Liabilities			
Due Within One Year	240,000	150,000	390,000
Due in More Than One Year	5,867,222	9,695,000	15,562,222
Total Liabilities	<u>6,397,133</u>	<u>10,842,764</u>	<u>17,239,897</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	5,139,781	12,269,995	17,409,776
Restricted for Capital Aquisition	4,192,869	107,871	4,300,740
Unrestricted Net Assets	3,638,753	6,696,925	10,335,678
Total Net Assets	<u>\$ 12,971,403</u>	<u>\$ 19,074,791</u>	<u>\$ 32,046,194</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, 2011

	Expenses	Program Revenues <u>Charges for Services</u>
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,078,028	\$ 64,954
Police	1,552,704	36,215
Fire Protection	1,545,422	204,798
Streets	369,511	8,340
Development Services	343,482	-
Bond Interest	24,967	-
Total Governmental Activities:	4,914,114	314,307
BUSINESS-TYPE ACTIVITIES:		
Utility Fund	5,845,084	6,107,588
Total Business-Type Activities:	5,845,084	6,107,588
TOTAL PRIMARY GOVERNMENT:	\$ 10,759,198	\$ 6,421,895

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
\$ (1,013,074)	\$ -	\$ (1,013,074)
(1,516,489)	-	(1,516,489)
(1,340,624)	-	(1,340,624)
(361,171)	-	(361,171)
(343,482)	-	(343,482)
(24,967)	-	(24,967)
<u>(4,599,807)</u>	<u>-</u>	<u>(4,599,807)</u>
-	262,504	262,504
-	262,504	262,504
<u>(4,599,807)</u>	<u>262,504</u>	<u>(4,337,303)</u>
3,890,699	-	3,890,699
730,818	-	730,818
259,107	-	259,107
46,213	-	46,213
10,575	-	10,575
298,280	28,173	326,453
15,097	8,894	23,991
<u>5,250,789</u>	<u>37,067</u>	<u>5,287,856</u>
650,982	299,571	950,553
<u>12,320,421</u>	<u>18,775,220</u>	<u>31,095,641</u>
<u>\$ 12,971,403</u>	<u>\$ 19,074,791</u>	<u>\$ 32,046,194</u>

CITY OF HORSESHOE BAY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

EXHIBIT C-1

	General Fund	Capital Projects	PD Account Revenue Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 183,244	\$ -	\$ 10,520	\$ 193,764
Investments - Current	3,113,306	-	-	3,113,306
Taxes Receivable	158,580	-	-	158,580
Allowance for Uncollectible Taxes (credit)	(7,929)	-	-	(7,929)
Receivables (Net)	500,734	-	-	500,734
Prepaid Items	40	-	-	40
Restricted Assets:				
Restricted Asset - Capital Aquisition	-	10,217,836	-	10,217,836
Total Assets	\$ 3,947,975	\$ 10,217,836	\$ 10,520	\$ 14,176,331
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 19,618	\$ -	\$ -	\$ 19,618
Wages and Salaries Payable	66,509	-	-	66,509
Deferred Revenues	230,670	-	10,520	241,190
Other Current Liabilities	64,727	-	-	64,727
Total Liabilities	381,524	-	10,520	392,044
Fund Balances:				
Restricted Fund Balance:				
Capital Acquisition	-	10,217,836	-	10,217,836
Unassigned Fund Balance	3,566,451	-	-	3,566,451
Total Fund Balances	3,566,451	10,217,836	-	13,784,287
Total Liabilities and Fund Balances	\$ 3,947,975	\$ 10,217,836	\$ 10,520	\$ 14,176,331

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, 2011

Total Fund Balances - Governmental Funds	\$	13,784,287
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 \$5,022,255 and the accumulated depreciation was \$2,163,721. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		2,858,534
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to decrease net assets.		2,728,138
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(403,667)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		(5,995,889)
Net Assets of Governmental Activities	\$	12,971,403

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, 2011

	General Fund	Capital Projects	PD Account Revenue Fund	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 3,903,836	\$ -	\$ -	\$ 3,903,836
General Sales and Use Taxes	730,818	-	-	730,818
Other Taxes	259,107	-	-	259,107
Penalty and Interest on Taxes	46,213	-	-	46,213
Licenses and Permits	64,954	-	-	64,954
Charges for Services	208,319	-	-	208,319
Fines	36,215	-	-	36,215
Special Assessments	8,340	-	-	8,340
Investment Earnings	13,643	1,454	-	15,097
Rents and Royalties	9,636	-	-	9,636
Contributions and Donations from Private Sources	10,575	-	-	10,575
Other Revenue	317,842	-	-	317,842
Total Revenues	5,609,498	1,454	-	5,610,952
EXPENDITURES:				
Current:				
General Government	988,006	-	-	988,006
Public Safety:				
Police	1,424,018	-	-	1,424,018
Fire Protection	1,478,412	-	-	1,478,412
Public Works:				
Streets	339,374	-	-	339,374
Development Services	315,959	-	-	315,959
Capital Outlay:				
Capital Outlay	2,089,620	638,518	-	2,728,138
Total Expenditures	6,635,389	638,518	-	7,273,907
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,025,891)	(637,064)	-	(1,662,955)
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	6,000,000	-	6,000,000
Transfers In	-	4,850,000	-	4,850,000
Other Resources	-	4,900	-	4,900
Transfers Out (Use)	(4,850,000)	-	-	(4,850,000)
Total Other Financing Sources (Uses)	(4,850,000)	10,854,900	-	6,004,900
Net Change in Fund Balances	(5,875,891)	10,217,836	-	4,341,945
Fund Balance - October 1 (Beginning)	9,442,342	-	-	9,442,342
Fund Balance - September 30 (Ending)	\$ 3,566,451	\$ 10,217,836	\$ -	\$ 13,784,287

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	4,341,945
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to decrease net assets.		2,728,138
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.		(403,667)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.		(6,015,434)
Change in Net Assets of Governmental Activities	\$	650,982

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, 2011

EXHIBIT D-1

Business Type
Activities

Utility
Fund

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 369,859
Investments - Current	6,153,184
Restricted Assets - Current:	
Restricted Asset - Capital Aquisition	107,871
Accounts Receivable-Net of Uncollectible Allowance	770,248
Inventories	70,963
Total Current Assets	7,472,125

Noncurrent Assets:

Capitalized Debt Issuance Costs	148,306
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	38,488,630
Buildings	826,441
Machinery and Equipment	1,973,690
Accumulated Depreciation - Capital Assets	(19,461,041)
Construction in Progress	49,841
Total Noncurrent Assets	22,445,430

Total Assets

29,917,555

LIABILITIES

Current Liabilities:

Accounts Payable	7,392
Wages and Salaries Payable	215,918
Compensated Absences Payable	41,416
Accrued Interest Payable	63,748
Deferred Revenue	137,807
Notes Payable - Current	290,000
Bonds Payable - Current:	
Bonds Payable - Current	150,000
Deposits	241,483
Total Current Liabilities	1,147,764

NonCurrent Liabilities:

Bonds Payable - Noncurrent	3,650,000
Notes Payable - Noncurrent	6,045,000
Total Noncurrent Liabilities	9,695,000

Total Liabilities

10,842,764

NET ASSETS

Investments in Capital Assets, Net of Debt	12,269,995
Restricted for Capital Aquisition	107,871
Unrestricted Net Assets	6,696,925
Total Net Assets	\$ 19,074,791

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, 2011

EXHIBIT D-2

	Business Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 3,476,152
Charges for Wastewater Service	1,853,580
Charges for Sanitation Service	772,017
Standby Charges	5,839
Other Revenue	28,173
Total Operating Revenues	6,135,761
OPERATING EXPENSES:	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,309,889
Personnel Services - Employee Benefits	589,544
Purchased Professional & Technical Services	121,342
Purchased Property Services	1,725,477
Other Operating Expenses	289,653
Supplies	19,794
Total Proprietary Fund Function - Utility Fund	4,055,699
Depreciation	1,498,561
Total Operating Expenses	5,554,260
Operating Income	581,501
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(4,371)
Investment Earnings	8,894
Interest Expense	(286,453)
Total Non-operating Revenue (Expenses)	(281,930)
Change in Net Assets	299,571
Total Net Assets - October 1 (Beginning)	18,775,220
Total Net Assets - September 30 (Ending)	\$ 19,074,791

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, 2011

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,904,616
Cash Received from Assessments - Standby Charges	5,839
Cash Received Other	28,173
Cash Payments to Employees for Service	(1,990,544)
Cash Payments for Suppliers	(2,252,470)
Cash Payments for Other Operating Expenses	(309,447)
Net Cash Provided by Operating Activities	<u>1,386,167</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,829,736)
Bond Issue	3,800,000
Principal Payments - Loans	(3,280,000)
Interest Paid	(361,157)
Increase in Restricted Assets	(107,871)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,778,764)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>8,894</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(383,703)
Cash and Cash Equivalents at Beginning of the Year:	<u>6,906,746</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 6,523,043</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, 2011

	Business Type Activities
	Utility Fund
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	\$ 581,501
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,498,561
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(179,974)
Decrease (increase) in Inventories	(26,471)
Decrease (increase) in Accounts Payable	(350,473)
Increase (decrease) in Accrued Liabilities	(91,111)
Increase (decrease) in Other Current Liabilities	(28,707)
Increase (decrease) in Deferred Revenue	(17,159)
Net Cash Provided by Operating Activities	<u>\$ 1,386,167</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, 2011

Agency
Funds

ASSETS

Cash and Cash Equivalents

\$ 2,541

Investments - Current

490,531

Total Assets

\$ 493,072

LIABILITIES

Assessments Payable

\$ 493,072

Total Liabilities

\$ 493,072

The accompanying notes are an integral part of this statement.

CITY OF HORSESHOE BAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Horseshoe Bay, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The *Government Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Creation of the City

At a special election held on September 10, 2005, voters approved incorporation of the City of Horseshoe Bay as a Type A, General-Law-Municipality. At a special election held on November 8, 2005, voters elected a mayor and five Council Members. In January, 2006, the City approved a strategic partnership agreement with the Lake LBJ Municipal Utility District. Pursuant to the terms of the agreement, on March 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.

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.
2. **Capital Projects Fund** – The Capital Projects Fund accounts for all financial resources to acquire and construct street improvements throughout the City.

Proprietary Fund:

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

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. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:
 - Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
 - Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
 - Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
 - Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
 - Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

4. 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, 2011, the carrying amount of the City's deposits was \$562,872 and the bank balance was \$735,778. The City's cash deposits at September 30, 2011 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, 2011 was \$20,082,728 (Texpool Investment Pool and Deposits 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, 2011 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 2010 tax roll, the assessed valuation was \$1,563,990,341 and the tax rate was \$.25 per \$100 valuation (general fund only).

C. Restricted Assets

Restricted assets represent cash that has been set aside for future payment of capital improvements. A summary of restricted assets at September 30, 2011 appears below:

Utility Fund	107,871
Capital Projects Fund	10,217,836

D. Property, Plant and Equipment

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

	Balance 10/01/10	Additions	Deletions	Balance 09/30/11
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	34,683,169	3,805,461		38,488,630
Machinery and Equipment	1,721,366	293,329	41,005	1,973,690
Buildings & Improvements	742,976	83,465		826,441
Construction Work In Progress	2,400,586	9,465	2,360,210	49,841
Totals	\$ 39,967,660	\$ 4,191,720	\$ 2,401,215	\$ 41,758,165
Accumulated Depreciation	(18,001,711)	(1,498,561)	39,231	(19,461,041)
Fixed Assets, Net	\$ 21,965,949	\$ 2,693,159	\$ 2,361,984	\$ 22,297,124

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2011, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 127,356	\$	\$	\$ 127,356
Infrastructure	133,569	767,672		901,241
Machinery & Equipment	2,046,732	265,166	93,869	2,218,029
Buildings & Improvements	2,243,508	1,450,602		3,694,110
Construction Work in Progress	471,090	638,518	393,820	715,788
Totals at Historic Cost	\$ 5,022,255	\$ 3,121,958	\$ 487,689	\$ 7,656,524
Less Accumulated Depreciation	(2,163,721)	(403,668)	50,645	(2,516,744)
Governmental Activities				
Capital Assets, Net	\$ 2,858,534	\$ 2,718,290	\$ 538,334	\$ 5,139,780

F. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Combination Tax & Revenue					
Bonds - Series 2011	\$	\$ 6,000,000	\$	\$ 6,000,000	\$ 240,000
Compensated Absences	167,511	20,906		188,417	
Governmental Activity					
Long-Term Debt	\$ 167,511	\$ 6,020,906	\$ -	\$ 6,188,417	\$ 240,000

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Waterworks & Sewer System					
Revenue Notes -					
General Obligation Refunding Bonds -					
Series 2007	\$ 6,615,000	\$	\$ 280,000	\$ 6,335,000	\$ 290,000
Combination Tax & Revenue					
Bonds - Series 2011		3,800,000		3,800,000	150,000
Business-Type Activity					
Long-Term Debt	\$ 6,615,000	\$ 3,800,000	\$ 280,000	\$ 10,135,000	\$ 440,000

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.

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

The annual requirements to amortize the debt are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 680,000	\$ 558,706	\$ 1,238,706
2013	715,000	520,361	1,235,361
2014	740,000	501,409	1,241,409
2015	755,000	480,664	1,235,664
2016	780,000	458,834	1,238,834
2017-2021	4,280,000	1,908,259	6,188,259
2022-2026	5,085,000	1,117,334	6,202,334
2027-2031	3,100,000	222,200	3,322,200
	<u>\$ 16,135,000</u>	<u>\$ 5,767,767</u>	<u>\$ 21,902,767</u>

G. Risk Management

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

The City contracts with the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) to provide insurance coverage for identified risks. TMLIRP is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TMLIRP. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2011 were \$138,331.

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	\$ 1,068,224
Contributions	208,082
Investment earnings	1,072
Withdrawals	(57,174)
Fees	<u>(7,984)</u>
Ending balance	<u>\$ 1,212,220</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 2011 and 2010. The City paid interest in the amount of \$361,157 in 2011 and \$277,952 in 2010.

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. All such disbursements of improvement assessments shall be made to the owner or the owner's assignee. No reimbursements shall be made unless the owner has submitted its request for reimbursement to the City ten days prior to such date. No reimbursements have been made from the PID.

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

L. Escondido Public Improvement District No. 1

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

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

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

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

M. Other Taxes

Other taxes consisted of the following:

<u>Description</u>	<u>Amount</u>
Franchise Tax	\$ 214,308
Mixed Beverage Tax	44,799
	<u>\$ 259,107</u>

N. Subsequent Events

The City has evaluated subsequent events through January 26, 2012, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

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, 2011

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 3,800,000	\$ 3,800,000	\$ 3,903,836	\$ 103,836
General Sales and Use Taxes	610,000	610,000	730,818	120,818
Other Taxes	234,500	234,500	259,107	24,607
Penalty and Interest on Taxes	50,000	50,000	46,213	(3,787)
Licenses and Permits	106,750	103,250	64,954	(38,296)
Intergovernmental Revenue and Grants	-	1,500	-	(1,500)
Charges for Services	210,000	213,500	208,319	(5,181)
Fines	38,000	38,000	36,215	(1,785)
Special Assessments	-	-	8,340	8,340
Investment Earnings	45,000	45,000	13,643	(31,357)
Rents and Royalties	-	9,500	9,636	136
Contributions and Donations from Private Sources	1,500	3,000	10,575	7,575
Other Revenue	301,500	289,000	317,842	28,842
Total Revenues	<u>5,397,250</u>	<u>5,397,250</u>	<u>5,609,498</u>	<u>212,248</u>
EXPENDITURES:				
Current:				
General Government	1,732,150	1,416,150	988,006	428,144
Public Safety:				
Police	1,443,750	1,443,750	1,424,018	19,732
Fire Protection	1,439,000	1,479,000	1,478,412	588
Public Works:				
Streets	485,000	485,000	339,374	145,626
Development Services	330,800	330,800	315,959	14,841
Capital Outlay:				
Capital Outlay	2,955,000	2,160,000	2,089,620	70,380
Total Expenditures	<u>8,385,700</u>	<u>7,314,700</u>	<u>6,635,389</u>	<u>679,311</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,988,450)</u>	<u>(1,917,450)</u>	<u>(1,025,891)</u>	<u>891,559</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	411,000	-	-	-
Transfers Out (Use)	-	(4,850,000)	(4,850,000)	-
Total Other Financing Sources (Uses)	<u>411,000</u>	<u>(4,850,000)</u>	<u>(4,850,000)</u>	<u>-</u>
Net Change	<u>(2,577,450)</u>	<u>(6,767,450)</u>	<u>(5,875,891)</u>	<u>891,559</u>
Fund Balance - October 1 (Beginning)	<u>9,442,342</u>	<u>9,442,342</u>	<u>9,442,342</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 6,864,892</u>	<u>\$ 2,674,892</u>	<u>\$ 3,566,451</u>	<u>\$ 891,559</u>