

CITY OF HORSESHOE BAY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013

CITY OF HORSESHOE BAY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Horseshoe Bay, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

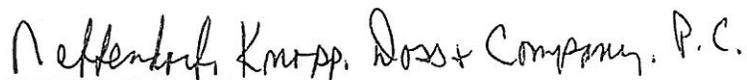
Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


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

March 6, 2014

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, 2013. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$34,324,203 (net position). Of this amount, \$10,455,007 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$1,426,368 as a result of this period's operations.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of \$3,875,926.
- At September 30, 2013, the City's Utility Fund reported unrestricted net position of \$6,500,925.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (general fund) is presented as required supplementary information on page 32.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the period's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the period. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

- Governmental activity - All of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, other taxes and user charges finance most of these activities.
- Business-type activity - The City's utility system is reported as a business-type activity since the fees charged to customers cover the cost of services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

- Governmental funds - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's enterprise fund (Utility) is a business-type activity and provides both long and short-term financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased by \$235,869. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - were \$3,954,082 at September 30, 2013. This increase in governmental net position was the result of: Capital assets (principally part of the street improvement plan) were acquired aggregating \$5,529,687 which resulted in expenditures exceeding revenues by \$4,793,729 and the recording of depreciation expense of \$823,023.

Net position of the City's business-type activities increased from \$19,029,943 to \$20,220,442 resulting in net income of \$1,190,499. Unrestricted net position decreased from \$7,149,063 to \$6,500,925.

Table I
City of Horseshoe Bay

NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 4,266	\$ 9,504	\$ 7,118	\$ 7,873	\$ 11,384	\$ 17,377
Capital Assets	15,839	11,163	22,954	21,576	38,793	32,739
Total Assets	\$ 20,105	\$ 20,667	\$ 30,072	\$ 29,449	\$ 50,177	\$ 50,117
Long-Term Liabilities	\$ 5,468	\$ 5,960	\$ 8,755	\$ 9,395	\$ 14,223	\$ 15,355
Other Liabilities	525	840	1,097	1,024	1,622	1,864
Total Liabilities	\$ 5,993	\$ 6,800	\$ 9,852	\$ 10,419	\$ 15,845	\$ 17,219
Deferred Inflow of Resources						
Unavailable Revenue -						
Property Taxes	7	-	-	-	7	-
Total Deferred Inflows of Resources	7	-	-	-	7	-
Net Position						
Net Investment in						
Capital Assets	\$ 10,113	\$ 5,274	\$ 13,719	\$ 11,881	\$ 23,832	\$ 17,155
Restricted	37	4,205	-	-	37	4,205
Unrestricted	3,954	4,388	6,501	7,149	10,455	11,537
Total Net Position	\$ 14,104	\$ 13,867	\$ 20,220	\$ 19,030	\$ 34,324	\$ 32,897

Table II
City of Horseshoe Bay

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for Services	\$ 1,176	\$ 833	\$ 5,883	\$ 5,949	\$ 7,059	\$ 6,782
Stand-by Charges			18	4	18	4
Maintenance & Operations Taxes	3,771	3,840			3,771	3,840
Other Taxes	1,203	1,060			1,203	1,060
Penalty & Interest	34	33			34	33
Investment Earnings	8	15	7	9	15	24
Miscellaneous	288	424	18	23	306	447
Total Revenue	\$ 6,480	\$ 6,205	\$ 5,926	\$ 5,984	\$ 12,406	\$ 12,190
Expenses:						
General Government	\$ 1,814	\$ 1,168			\$ 1,814	\$ 1,168
Police	1,861	1,725			1,861	1,725
Fire	1,807	1,702			1,807	1,702
Streets	252	278			252	278
Development Services	448	351			448	351
Public Services		1			-	1
Utilities			4,309	4,184	4,309	4,184
Debt Service	168	182	357	376	525	558
Capital Outlay	95				95	-
Depreciation			1,444	1,556	1,444	1,556
Total Expenses	\$ 6,445	\$ 5,407	\$ 6,110	\$ 6,116	\$ 12,555	\$ 11,523
Increase in Net Position						
Before Transfers & Capital Grants	\$ 35	\$ 798	\$ (184)	\$ (132)	\$ (149)	\$ 666
Capital Contributions	41	98	1,534	87	1,575	185
Transfers	160		(160)		-	-
Change in Net Position	236	896	1,190	(45)	1,426	851
Net Position, Beginning	13,868	12,971	19,030	19,075	32,898	32,046
Net Position, Ending	\$ 14,104	\$ 13,867	\$ 20,220	\$ 19,030	\$ 34,324	\$ 32,897

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$3,875,926. Included in this year's total change in fund balance is a decrease of \$465,438 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts by \$97,044, and actual expenditures were less than budgeted amounts by \$321,518.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2013, 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 127	\$ 127	\$ 420	\$ 420	\$ 547	\$ 547
Infrastructure	12,441	6,992	39,650	38,814	52,090	45,806
Machinery and Equipment	2,341	2,320	2,563	2,280	4,904	4,600
Buildings and Improvements	3,781	3,748	866	866	4,647	4,614
Construction in Progress	870	900	1,909	205	2,779	1,105
Total Capital Assets	\$ 19,560	\$ 14,087	\$ 45,407	\$ 42,585	\$ 64,967	\$ 56,672
Less: Accumulated Depreciation	(3,722)	(2,924)	(22,452)	(21,009)	(26,174)	(23,933)
Capital Assets, Net	\$ 15,839	\$ 11,163	\$ 22,955	\$ 21,576	\$ 38,793	\$ 32,739

This period's major additions included:

	Governmental Activities	Business Type Activities
Infrastructure	\$ 33,555	\$ 176,280
Building and Improvements	77,686	282,783
Machinery and Equipment	5,418,446	2,363,201
Construction In Progress		
TOTALS	\$ 5,529,687	\$ 2,822,264

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 \$5,505,000 in combination tax and revenue bonds outstanding.

For business-type activities, the City had \$9,235,000 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 2014 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 2014. Total revenues in the General Fund budget are \$6,417,600 and expenditures are estimated to be \$6,297,000. The General Fund fund balance should increase by \$120,600.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 53,753	\$ 643,202	\$ 696,955
Investments - Current	3,622,363	5,063,141	8,685,504
Receivables (net of allowance for uncollectibles)	589,589	599,783	1,189,372
Internal Balances	(601,178)	601,178	-
Inventories	-	78,740	78,740
Capitalized Debt Issuance Costs	-	131,856	131,856
Restricted Assets:			
Restricted Asset - Capital Acquisition	601,431	-	601,431
Capital Assets:			
Land	127,356	419,563	546,919
Infrastructure, net	12,440,556	39,649,924	52,090,480
Buildings, net	3,781,156	865,671	4,646,827
Machinery and Equipment, net	2,340,943	2,563,066	4,904,009
Accumulated Depreciation	(3,721,690)	(22,452,295)	(26,173,985)
Construction in Progress	870,310	1,908,588	2,778,898
Total Assets	<u>20,104,589</u>	<u>30,072,417</u>	<u>50,177,006</u>
LIABILITIES			
Accounts Payable	130,018	185,551	315,569
Accrued Interest Payable	20,888	56,338	77,226
Deferred Revenues	20,990	79,367	100,357
Notes Payable - Current	-	315,000	315,000
Other Current Liabilities	93,624	295,719	389,343
Noncurrent Liabilities			
Due Within One Year	260,000	165,000	425,000
Due in More Than One Year	5,467,721	8,755,000	14,222,721
Total Liabilities	<u>5,993,241</u>	<u>9,851,975</u>	<u>15,845,216</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	7,587	-	7,587
Total Deferred Inflows of Resources	<u>7,587</u>	<u>-</u>	<u>7,587</u>
NET POSITION			
Net Investment in Capital Assets	10,112,695	13,719,517	23,832,212
Restricted for:			
Restricted for Debt Service	16,984	-	16,984
Restricted for Dog Park	20,000	-	20,000
Unrestricted Net Position	3,954,082	6,500,925	10,455,007
Total Net Position	<u>\$ 14,103,761</u>	<u>\$ 20,220,442</u>	<u>\$ 34,324,203</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, 2013

	Program Revenues		
Expenses	Charges for Services	Capital Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,813,892	\$ 134,078	\$ -
Police	1,861,269	179,869	-
Fire Protection	1,806,637	375,541	-
Streets	251,859	449,128	-
Development Services	448,016	36,987	-
Bond Interest	168,537	-	-
Capital Outlay	95,211	-	-
Total Governmental Activities:	6,445,421	1,175,603	-
BUSINESS-TYPE ACTIVITIES:			
Utility Fund	6,110,271	5,900,941	1,534,009
Total Business-Type Activities:	6,110,271	5,900,941	1,534,009
TOTAL PRIMARY GOVERNMENT:	\$ 12,555,692	\$ 7,076,544	\$ 1,534,009

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,679,814)	\$ -	\$ (1,679,814)
(1,681,400)	-	(1,681,400)
(1,431,096)	-	(1,431,096)
197,269	-	197,269
(411,029)	-	(411,029)
(168,537)	-	(168,537)
(95,211)	-	(95,211)
<u>(5,269,818)</u>	<u>-</u>	<u>(5,269,818)</u>
-	1,324,679	1,324,679
-	1,324,679	1,324,679
<u>(5,269,818)</u>	<u>1,324,679</u>	<u>(3,945,139)</u>
3,337,610	-	3,337,610
433,943	-	433,943
937,157	-	937,157
265,521	-	265,521
34,475	-	34,475
41,485	-	41,485
287,354	18,712	306,066
8,162	7,088	15,250
159,980	(159,980)	-
<u>5,505,687</u>	<u>(134,180)</u>	<u>5,371,507</u>
235,869	1,190,499	1,426,368
13,867,892	19,029,943	32,897,835
<u>\$ 14,103,761</u>	<u>\$ 20,220,442</u>	<u>\$ 34,324,203</u>

CITY OF HORSESHOE BAY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

EXHIBIT C-1

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 23,277	\$ 1,606	\$ 28,870	\$ 53,753
Investments - Current	3,605,379	-	16,984	3,622,363
Taxes Receivable	67,518	-	8,345	75,863
Allowance for Uncollectible Taxes (credit)	(3,376)	-	(417)	(3,793)
Receivables (Net)	444,189	-	-	444,189
Restricted Asset - Capital Acquisition	-	601,431	-	601,431
Total Assets	\$ 4,136,987	\$ 603,037	\$ 53,782	\$ 4,793,806
LIABILITIES				
Accounts Payable	\$ 41,301	\$ -	\$ -	\$ 41,301
Wages and Salaries Payable	86,858	1,859	-	88,717
Due to Other Funds	-	601,178	-	601,178
Unavailable Revenues	12,120	-	8,870	20,990
Other Current Liabilities	93,624	-	-	93,624
Total Liabilities	233,903	603,037	8,870	845,810
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	64,142	-	7,928	72,070
Total Deferred Inflows of Resources	64,142	-	7,928	72,070
FUND BALANCES				
Restricted Fund Balance:				
Restricted for Dog Park	-	-	20,000	20,000
Retirement of Long-Term Debt	-	-	16,984	16,984
Unassigned Fund Balance	3,838,942	-	-	3,838,942
Total Fund Balances	3,838,942	-	36,984	3,875,926
Total Liabilities, Deferred Inflows & Fund Balances	\$ 4,136,987	\$ 603,037	\$ 53,782	\$ 4,793,806

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

CITY OF HORSESHOE BAY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	\$	3,875,926
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 \$14,087,689 and the accumulated depreciation was \$2,924,393. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		5,181,883
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 2013 capital outlays and debt principal payments is to increase net position.		5,731,162
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(823,023)
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, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		137,813
Net Position of Governmental Activities	\$	14,103,761

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, 2013

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 3,390,168	\$ -	\$ 433,943	\$ 3,824,111
General Sales and Use Taxes	937,157	-	-	937,157
Other Taxes	265,521	-	-	265,521
Penalty and Interest on Taxes	31,729	-	2,746	34,475
Licenses and Permits	70,403	-	-	70,403
Charges for Services	703,802	-	-	703,802
Fines	41,167	-	-	41,167
Special Assessments	430,634	-	-	430,634
Investment Earnings	5,470	2,595	97	8,162
Rents	9,000	-	-	9,000
Contributions & Donations from Private Sources	21,485	-	20,000	41,485
Other Revenue	207,243	-	-	207,243
Total Revenues	6,113,779	2,595	456,786	6,573,160
EXPENDITURES:				
Current:				
General Government	1,569,342	-	-	1,569,342
Public Safety:				
Police	1,608,817	-	-	1,608,817
Fire Protection	1,552,253	-	-	1,552,253
Public Works:				
Streets	218,006	-	-	218,006
Development Services	387,559	-	-	387,559
Debt Service:				
Bond Principal	-	-	255,000	255,000
Bond Interest	-	-	169,015	169,015
Capital Outlay:				
Capital Outlay	93,240	5,513,657	-	5,606,897
Total Expenditures	5,429,217	5,513,657	424,015	11,366,889
Excess (Deficiency) of Revenues Over (Under) Expenditures	684,562	(5,511,062)	32,771	(4,793,729)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	1,309,980	-	1,309,980
Transfers Out (Use)	(1,150,000)	-	-	(1,150,000)
Total Other Financing Sources (Uses)	(1,150,000)	1,309,980	-	159,980
Net Change in Fund Balances	(465,438)	(4,201,082)	32,771	(4,633,749)
Fund Balance - October 1 (Beginning)	4,304,380	4,201,082	4,213	8,509,675
Fund Balance - September 30 (Ending)	\$ 3,838,942	\$ -	\$ 36,984	\$ 3,875,926

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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	(4,633,749)
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 2013 capital outlays and debt principal payments is to increase the change in net position.		5,731,162
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(823,023)
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, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(38,521)
Change in Net Position of Governmental Activities	\$	235,869

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

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 643,202
Investments - Current	5,063,141
Accounts Receivable-Net of Uncollectible Allowance	599,783
Due from Other Funds	601,178
Inventories	78,740
Total Current Assets	<u>6,986,044</u>
Noncurrent Assets:	
Capitalized Debt Issuance Costs	131,856
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	39,649,924
Buildings	865,671
Machinery and Equipment	2,563,066
Accumulated Depreciation - Capital Assets	(22,452,295)
Construction in Progress	1,908,588
Total Noncurrent Assets	<u>23,086,373</u>
Total Assets	<u>30,072,417</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	18,428
Wages and Salaries Payable	128,786
Compensated Absences Payable	38,337
Accrued Interest Payable	56,338
Deferred Revenue	79,367
Notes Payable - Current	315,000
Bonds Payable - Current	165,000
Deposits	295,719
Total Current Liabilities	<u>1,096,975</u>
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	3,325,000
Notes Payable - Noncurrent	5,430,000
Total Noncurrent Liabilities	<u>8,755,000</u>
Total Liabilities	<u>9,851,975</u>
NET POSITION	
Net Investment in Capital Assets	13,719,517
Unrestricted Net Position	6,500,925
Total Net Position	<u>\$ 20,220,442</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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT D-2

	Business Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 3,175,007
Charges for Sewerage Service	1,931,012
Charges for Sanitation Service	776,748
Standby Charges	18,174
Other Revenue	18,712
Total Operating Revenues	5,919,653
OPERATING EXPENSES:	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,157,866
Personnel Services - Employee Benefits	493,416
Purchased Professional & Technical Services	617,622
Purchased Property Services	1,757,941
Other Operating Expenses	271,281
Supplies	11,344
Total Proprietary Fund Function - Utility Fund	4,309,470
Depreciation	1,443,625
Total Operating Expenses	5,753,095
Operating Income	166,558
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(8,250)
Investment Earnings	7,088
Interest Expense - Non-Operating	(348,926)
Total Non-operating Revenue (Expenses)	(350,088)
Income (Loss) Before Contributions & Transfers	(183,530)
Capital Contributions	1,534,009
Transfers Out	(159,980)
Change in Net Position	1,190,499
Total Net Position -October 1 (Beginning)	19,029,943
Total Net Position September 30 (Ending)	\$ 20,220,442

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, 2013

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,925,534
Cash Received from Assessments - Standby Charges	18,174
Cash Received Other	18,712
Cash Payments for Employees for Service	(1,711,001)
Cash Payments for Suppliers	(11,344)
Cash Payments for Other Operating Expenses	(3,285,546)
Net Cash Provided by Operating Activities	<u>954,529</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(159,980)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(2,822,262)
Capital Contributed by Other Funds	1,534,009
Principal Payments - Loans	(300,000)
Bond Payments	(160,000)
Interest Paid	(351,346)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(2,099,599)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>7,088</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(1,297,962)
Cash and Cash Equivalents at Beginning of the Year:	<u>7,004,305</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 5,706,343</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, 2013

	Business Type Activities
	Utility Fund
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 166,558
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,443,625
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	9,116
Decrease (increase) in Inventories	(6,993)
Decrease (increase) in Due From Other Funds	(601,178)
Increase (decrease) in Accounts Payable	(30,531)
Increase (decrease) in Accrued Liabilities	(58,313)
Increase (decrease) in Compensated Absences	(1,406)
Increase (decrease) in Other Current Liabilities	33,651
Net Cash Provided by Operating Activities	<u>\$ 954,529</u>

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

CITY OF HORSESHOE BAY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2013

EXHIBIT E-1

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 1,001
Investments - Current	867,799
Total Assets	<u>\$ 868,800</u>
LIABILITIES	
Assessments Payable	\$ 868,800
Total Liabilities	<u>\$ 868,800</u>

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

CITY OF HORSESHOE BAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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 Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Horseshoe Bay nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

E. Fund Accounting

The City reports the following major funds:

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

Proprietary Fund:

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

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

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

Fiduciary Funds:

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

F. 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 position. Bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

2. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

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

3. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

4. Implementation of new GASB Accounting Standard:

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

Implementation resulted in the reclassification of \$72,070 (deferred ad valorem tax revenue which is expected to be collected in future years) to deferred inflow of resources in the Governmental Funds Balance Sheet.

5. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

7. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2013, the carrying amount of the City's deposits was \$696,204 and the bank balance was \$1,137,389. The City's cash deposits at September 30, 2013 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, 2013 was \$9,286,935 (Texpool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to

compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2013 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 2012 tax roll, the assessed valuation was \$1,562,601,838 and the tax rate was \$.25 per \$100 valuation (general fund - .222; debt service fund - .028).

C. Restricted Assets

Restricted assets represent cash that has been set aside for future payment of capital improvements. A summary of restricted assets at September 30, 2013 appears below:

Capital Projects Fund	\$ 601,431
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D. Property, Plant and Equipment

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

	Balance 10/01/12	Additions	Deletions	Balance 09/30/13
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	38,813,713	836,211		39,649,924
Machinery and Equipment	2,280,283	282,783		2,563,066
Buildings & Improvements	865,671			865,671
Construction Work In Progress	205,318	2,363,201	659,931	1,908,588
Totals	\$ 42,584,548	\$ 3,482,195	\$ 659,931	\$ 45,406,812
Accumulated Depreciation	(21,008,670)	(1,443,625)		(22,452,295)
Fixed Assets, Net	\$ 21,575,878	\$ 2,038,570	\$ 659,931	\$ 22,954,517

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 127,356	\$	\$	\$ 127,356
Streets	6,992,369	5,448,189		12,440,558
Machinery & Equipment	2,320,309	77,686	57,053	2,340,942
Buildings & Improvements	3,747,602	33,555		3,781,157
Construction Work in Progress	900,053	5,418,446	5,448,189	870,310
Totals at Historic Cost	\$ 14,087,689	\$ 10,977,876	\$ 5,505,242	\$ 19,560,323
Less Accumulated Depreciation	(2,924,393)	(823,023)	25,724	(3,721,692)
Governmental Activities				
Capital Assets, Net	\$ 11,163,296	\$ 10,154,853	\$ 5,530,966	\$ 15,838,631

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 242,056
Police	248,144
Fire Protection	239,420
Development Services	59,777
Streets	33,626
	\$ 823,023

F. Changes in Long-Term Liabilities

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

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:								
Combination Tax & Revenue Bonds - Series 2011	1.5%	\$ 6,000,000	\$ 169,015	\$ 5,760,000	\$	\$ 255,000	\$ 5,505,000	\$ 260,000
Compensated Absences	N/A	N/A	N/A	200,048	22,673		222,721	N/A
Governmental Activity Long-Term Debt		\$ 6,000,000	\$ 169,015	\$ 5,960,048	\$ 22,673	\$ 255,000	\$ 5,727,721	\$ 260,000

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

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Waterworks & Sewer System Revenue Notes - General Obligation Refunding Bonds - Series 2007	4.0%	\$ 7,500,000	\$ 244,218	\$ 6,045,000	\$	\$ 300,000	\$ 5,745,000	\$ 315,000
Combination Tax & Revenue Bonds - Series 2011	1.5%	3,800,000	107,128	3,650,000		160,000	3,490,000	165,000
Business-Type Activity Long-Term Debt		\$ 11,300,000	\$ 351,346	\$ 9,695,000	\$ -	\$ 460,000	\$ 9,235,000	\$ 480,000

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

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

The annual requirements to amortize the debt are as follows:

September 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2014	\$ 260,000	\$ 164,827	\$ 480,000	\$ 336,582	\$ 1,241,409
2015	265,000	159,902	490,000	320,762	1,235,664
2016	270,000	154,552	510,000	304,282	1,238,834
2017	275,000	148,415	530,000	286,659	1,240,074
2018	280,000	141,478	545,000	267,879	1,234,357
2019-2023	1,530,000	588,959	3,040,000	1,029,722	6,188,681
2024-2028	1,810,000	323,508	3,120,000	408,949	5,662,457
2029-2033	815,000	31,877	520,000	20,347	1,387,224
	\$ 5,505,000	\$ 1,713,518	\$ 9,235,000	\$ 2,975,182	\$ 19,428,700

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, 2013 were \$150,451.

H. Retirement Plan

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

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

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

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

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

A summary of transactions is shown below:

Beginning balance	\$ 2,392,073
Contributions	407,858
Investment earnings	374,841
Withdrawals	(457,141)
Fees	(50)
	<hr/>
Ending balance	\$ <u>2,717,581</u>

I. Employee Insurance Benefits

All regular and full time employees of the City are eligible to choose a medical plan from three plan options provided through Blue Cross-Blue Shield. The City provides a base plan; employees can choose the base plan or a high-deductible plan with a Health Saving

Account (HSA) or a lower deductible plan that allows the employee to pay for the increase in premium. The City pays the base plan's premium amount for employees regardless of the plan selected and 50% of the base plan premium amount for eligible dependents. The City provides group dental insurance through Mutual of Omaha and pays the premium for eligible employees and 50% of the premium for eligible dependents.

J. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2013 and 2012. The City paid interest in the amount of \$351,346 in 2013 and \$373,372 in 2012.

K. Summit Rock Public Improvement District No. 1

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

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

The City shall make aggregate disbursements solely to pay for improvement costs up to \$20,750,000. Reimbursements to the owner for authorized owner expenditures shall be made by the City on March 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	\$ 213,418
Mixed Beverage Tax	52,103
	<u>\$ 265,521</u>

N. Letters of Credit

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

O. Contracts

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

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

P. Subsequent Events

The City has evaluated subsequent events through March 6, 2014, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HORSESHOE BAY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 3,450,000	\$ 3,453,000	\$ 3,390,168	\$ (62,832)
General Sales and Use Taxes	735,000	791,000	937,157	146,157
Other Taxes	254,250	254,250	265,521	11,271
Penalty and Interest on Taxes	34,500	34,500	31,729	(2,771)
Licenses and Permits	54,250	69,250	70,403	1,153
Charges for Services	653,500	653,500	703,802	50,302
Fines	38,000	38,000	41,167	3,167
Special Assessments	410,500	410,500	430,634	20,134
Investment Earnings	5,000	5,000	5,470	470
Rents	9,000	9,000	9,000	-
Contributions & Donations from Private Sources	4,500	13,485	21,485	8,000
Other Revenue	285,250	285,250	207,243	(78,007)
Total Revenues	5,933,750	6,016,735	6,113,779	97,044
EXPENDITURES:				
Current:				
General Government	1,688,000	1,700,500	1,569,342	131,158
Public Safety:				
Police	1,608,750	1,623,750	1,608,817	14,933
Fire Protection	1,587,500	1,587,500	1,552,253	35,247
Public Works:				
Streets	295,000	295,000	218,006	76,994
Development Services	443,500	436,000	387,559	48,441
Capital Outlay:				
Capital Outlay	45,000	107,985	93,240	14,745
Total Expenditures	5,667,750	5,750,735	5,429,217	321,518
Excess (Deficiency) of Revenues Over (Under) Expenditures	266,000	266,000	684,562	418,562
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	(1,250,000)	(1,250,000)	(1,150,000)	100,000
Total Other Financing Sources (Uses)	(1,250,000)	(1,250,000)	(1,150,000)	100,000
Net Change	(984,000)	(984,000)	(465,438)	518,562
Fund Balance - October 1 (Beginning)	4,304,380	4,304,380	4,304,380	-
Fund Balance - September 30 (Ending)	\$ 3,320,380	\$ 3,320,380	\$ 3,838,942	\$ 518,562

SUPPLEMENTARY INFORMATION

CITY OF HORSESHOE BAY
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013

	11	6	Total
	Dog Park	PD Account Revenue Fund	Nonmajor Special Revenue Funds
ASSETS			
Cash and Cash Equivalents	\$ 20,000	\$ 8,870	\$ 28,870
Investments - Current	-	-	-
Taxes Receivable	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-
Total Assets	<u>\$ 20,000</u>	<u>\$ 8,870</u>	<u>\$ 28,870</u>
LIABILITIES			
Unavailable Revenues	\$ -	\$ 8,870	\$ 8,870
Total Liabilities	<u>-</u>	<u>8,870</u>	<u>8,870</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
Restricted for Dog Park	20,000	-	20,000
Retirement of Long-Term Debt	-	-	-
Total Fund Balances	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 20,000</u>	<u>\$ 8,870</u>	<u>\$ 28,870</u>

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

8 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 28,870
16,984	16,984
8,345	8,345
(417)	(417)
<u>\$ 24,912</u>	<u>\$ 53,782</u>
<u>\$ -</u>	<u>\$ 8,870</u>
<u>-</u>	<u>8,870</u>
<u>7,928</u>	<u>7,928</u>
<u>7,928</u>	<u>7,928</u>
-	20,000
16,984	16,984
<u>16,984</u>	<u>36,984</u>
<u>\$ 24,912</u>	<u>\$ 53,782</u>

CITY OF HORSESHOE BAY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	11 Dog Park	6 PD Account Revenue Fund	Total Nonmajor Special Revenue Funds
REVENUES:			
Taxes:			
Property Taxes	\$ -	\$ -	\$ -
Penalty and Interest on Taxes	-	-	-
Investment Earnings	-	-	-
Contributions & Donations from Private Sources	20,000	-	20,000
Total Revenues	<u>20,000</u>	<u>-</u>	<u>20,000</u>
EXPENDITURES:			
Current:			
Debt Service:			
Bond Principal	-	-	-
Bond Interest	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	20,000	-	20,000
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>

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

8 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 433,943	\$ 433,943
2,746	2,746
97	97
-	20,000
436,786	456,786
255,000	255,000
169,015	169,015
424,015	424,015
12,771	32,771
4,213	4,213
16,984	36,984
\$ 16,984	\$ 36,984

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

Certified Public Accountants

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MEMBER
TEXAS SOCIETY OF
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Horseshoe Bay, Texas's basic financial statements, and have issued our report thereon dated March 6, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Horseshoe Bay, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results

of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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


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

March 6, 2014

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

Certified Public Accountants

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March 6, 2014

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 9, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Horseshoe Bay, Texas are described in Note 1 to the financial statements. The City implemented new GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The application of existing policies was not changed during the year ended September 31, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 6, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sinking Fund Requirement

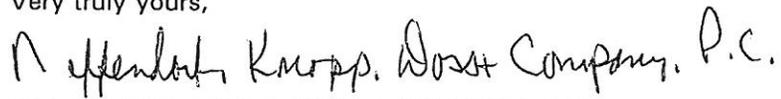
In accordance with section 2.01 of the Series 2011 Bond Ordinance the City is required to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their redemption at maturity or a sinking fund of two percent (2%) per annum (whichever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

Municipal Court

Testing procedures revealed a significant number of old outstanding warrants. Inquiries as to the nature of the warrants indicated there is currently no procedure for following up on old warrants. We recommend the City put procedures in place to attempt to collect these monies.

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

Very truly yours,



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