ANNUAL FINANCIAL REPORT

of the

City of Horseshoe Bay, Texas

For the Year Ended
September 30, 2018

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City of Horseshoe Bay, Texas

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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Horseshoe Bay, Texas:

Report on the Financial Statements

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, Texas (the "City") as of and for the year ended September 30, 2018, 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

The City's 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.

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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 as of September 30, 2018, 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.

Emphasis of Matter

As discussed in Note V.E. to the financial statements, the City restated the beginning net position of governmental activities and business-type activities, and the beginning fund balance of several governmental funds and the proprietary fund due to accounting errors occurring in the prior year and the change in the presentation of the City's public improvement districts. Our opinion is not modified with respect to these matters.

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 for the general fund 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Horseshoe Bay's basic financial statements. The combining schedule of fund statements for nonmajor governmental funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of fund statements for nonmajor governmental funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BrooksWatson & Co.

BrooksWatson & Co.
Certified Public Accountants
Houston, Texas
March 15, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

As management of the City of Horseshoe Bay (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

Financial Highlights

- The City's total combined net position is $27,733,997 at September 30, 2018. Of this, $6,043,068 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.

- As of the end of the year, the unassigned fund balance of the general fund was $4,704,313 or 63% of total general fund expenditures.

- The City had an overall increase in net position of $494,723, which is primarily due to strong general and utility revenues.

The government adopted a policy for the general fund that requires a minimum cash flow reserve equal to or greater than $2,500,000 or three months of total operating expenses, plus debt service reserves as required by debt indentures. As of September 30, 2018, the unassigned fund balance for the general fund was $4,704,063, which was 63% of total general fund expenditures or approximately 7.5 months of total operating expenditures. The general fund currently doesn't have any debt service obligations as those obligations are being serviced by the debt service fund.

The government also adopted a policy for the water utility fund that requires excess funds each year to create a cash reserve. The target amount of the reserve fund will be three months of personnel and operating expenses. It is recognized that the utility fund may not be able to achieve this target level in a single year. As of September 30, 2018, the cash balance for the water utility fund was $758,324, which is 15% of total water utility fund expenses, or approximately 1.75 months of personnel and operating expenses.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, and public works. The business-type activities of the City include water, wastewater and solid waste recycling operations.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Horseshoe Bay. They are usually segregated for specific activities or objectives. The City of Horseshoe Bay uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Horseshoe Bay maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service, capital projects, Summit Rock Public Improvement District, Escondido Public Improvement District, and police department seizure funds. The general, capital projects, and Summit Rock Public Improvement District funds are considered to be major funds.

The City of Horseshoe Bay adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided to demonstrate compliance with the general fund budget.

Proprietary Funds

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses a proprietary fund to account for its utility services. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, utility production and distribution. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI that GASB Statement No. 34 requires is a budgetary comparison schedule. RSI can be found after the basic financial statements.

The City restated prior year balances for error corrections and a change in reporting of the City's public improvement districts "PID"s, as special revenue funds in the current year rather than as fiduciary funds as reported in the prior year.

The PID special revenue funds, and their debt obligations consisting of the PID special assessment bond and note payable to the water utility fund, are still being solely funded by property assessments paid for by homeowners. The City is not obligated for repayment of these debts. This change in reporting for these public improvement district entities was necessary due to a different interpretation from prior years that they are a part of the City rather than separate and autonomous governmental entities. City council is the governing body over the PID's, the City is the account holder for PID funds, and is the responsible party for management of the PID activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Horseshoe Bay, assets exceeded liabilities by $27,733,997 as of September 30, 2018, in the primary government.

The largest portion of the City's net position, $20,156,401, reflects its investments in capital assets (e.g., land, city hall, fire station, police building, water plant, sewer system, as well as the machinery and equipment), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, $1,534,528, represents resources that are subject to external restrictions on how they may be used. The remaining balance of $6,043,068 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current assets of governmental activities as of September 30, 2018 and September 30, 2017 were $8,267,567 and $7,578,390, respectively. The increase of $689,177 was primarily attributed to increased cash on hand as a direct result of the increase in net position.

Current assets of business-type activities as of September 30, 2018 and September 30, 2017 were $1,866,764 and $1,711,482, respectively. The increase of $155,282 was primarily attributable to positive cash flows from operations.

Other liabilities for governmental activities as of September 30, 2018 and September 30, 2017 were $1,382,577 and $56,553, respectively. The increase of $1,326,024 was primarily a result of increased vendor payables due to ongoing construction projects in the current year.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

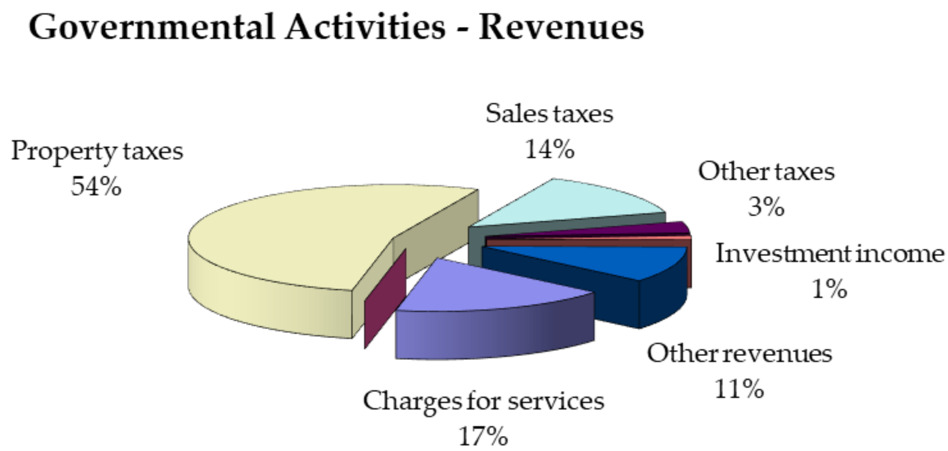
	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 8,267,567	$ 1,866,764	$ 10,134,331	$ 7,578,390	$ 1,711,482	$ 9,289,872
Internal balances	(4,337,770)	4,337,770	-	(5,255,931)	5,255,931	-
Capital assets, net	26,159,961	21,831,265	47,991,226	26,782,740	21,741,656	48,524,396
Total Assets	30,089,758	28,035,799	58,125,557	29,105,199	28,709,069	57,814,268
Other liabilities	1,382,577	976,925	2,359,502	56,553	952,344	1,008,897
Long-term liabilities	14,350,559	13,681,499	28,032,058	15,005,275	14,542,441	29,547,716
Total Liabilities	15,733,136	14,658,424	30,391,560	15,061,828	15,494,785	30,556,613
Deferred Inflows of Resources	-	-	-	18,381	-	18,381
Net Position:						
Net investment in capital assets	11,956,124	8,200,277	20,156,401	11,777,465	7,611,655	19,389,120
Restricted	1,534,528	-	1,534,528	1,454,931	-	1,454,931
Unrestricted	865,970	5,177,098	6,043,068	792,594	5,602,629	6,395,223
Total Net Position	$ 14,356,622	$ 13,377,375	$ 27,733,997	$ 14,024,990	$ 13,214,284	$ 27,239,274

Statement of Activities:

The following table provides a summary of the City's changes in net position:

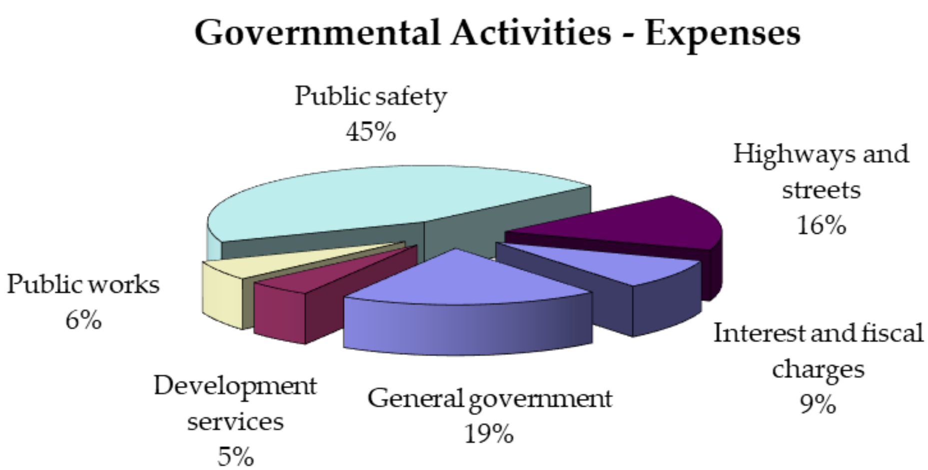
	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	$ 1,615,992	$ 7,606,899	$ 9,222,891	$ 1,420,086	$ 6,882,836	$ 8,302,922
Grants and contributions	-	-	-	31,503	-	31,503
General revenues:						
Property taxes	5,064,749	-	5,064,749	4,693,645	-	4,693,645
Sales taxes	1,297,645	-	1,297,645	1,087,720	-	1,087,720
Franchise and other taxes	324,390	-	324,390	284,984	-	284,984
Investment income	133,640	213,218	346,858	44,764	355,346	400,110
Other revenues	1,033,628	66,666	1,100,294	1,047,095	32,000	1,079,095
Total Revenues	9,470,044	7,886,783	17,356,827	8,609,797	7,270,182	15,879,979
Expenses						
General government	1,874,256	-	1,874,256	1,804,643	-	1,804,643
Development services	480,801	-	480,801	517,021	-	517,021
Public works	560,534	-	560,534	525,097	-	525,097
Public safety	4,399,342	-	4,399,342	3,997,451	-	3,997,451
Highways and streets	1,609,486	-	1,609,486	1,638,690	-	1,638,690
Interest and fiscal charges	847,993	462,490	1,310,483	833,677	475,790	1,309,467
Water utility	-	6,627,202	6,627,202	-	5,892,591	5,892,591
Total Expenses	9,772,412	7,089,692	16,862,104	9,316,579	6,368,381	15,684,960
Change in Net Position Before Transfers	(302,368)	797,091	494,723	(706,782)	901,801	195,019
Transfers	634,000	(634,000)	-	1,570,616	(1,570,616)	-
Total	634,000	(634,000)	-	1,570,616	(1,570,616)	-
Change in Net Position	331,632	163,091	494,723	863,834	(668,815)	195,019
Beginning Net Position	14,024,990	13,214,284	27,239,274	13,161,156	13,883,099	27,044,255
Ending Net Position	$ 14,356,622	$ 13,377,375	$ 27,733,997	$ 14,024,990	$ 13,214,284	$ 27,239,274

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.



For the year ended September 30, 2018, revenues from governmental activities totaled $9,470,044. Property tax, sales tax and charges for services are the City's largest revenue sources. Charges for services increased $195,906 or 14% primarily due to an increase in mowing revenue in the current year. Property tax increased by $371,104 or 8% due to an increase in the property tax rates and higher property values. Sales taxes and franchise taxes increased by $209,925 and $39,406, respectively due to economic growth within the City. Investment income increased by $88,876 primarily due to an increase interest rates realized in the current year. All other revenues remained relatively stable when compared to the previous year.

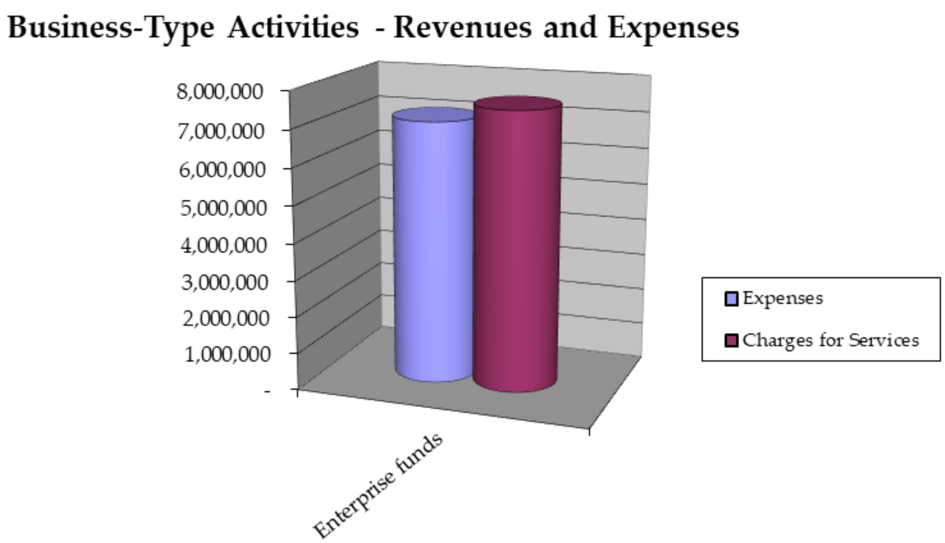
This graph shows the governmental function expenses of the City:



For the year ended September 30, 2018, expenses for governmental activities totaled $9,772,412. This represents an increase of $455,833 or 5% from the prior year. The City's largest functional expense is public safety of $4,399,342, which includes operational expenses for the police, fire, and animal control departments. Public safety expenses increased by $401,891 or 10% primarily due to increases in wages, supplies, professional fees, and animal management expenses. General government expenses increased by $69,613 or 4% primarily as a result of nonrecurring technology services expenses in the current year. Development expenses decreased by $36,220 or 7% primarily due to a decrease in personnel expenses in the current year. Interest and fiscal charges increased $14,316 or 2% primarily due to the Summit Rock PID's recognition of interest expense on outstanding debt recorded in the water utility fund. All other expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

For the year ended September 30, 2018, charges for services by business-type activities totaled $7,606,899. This is an increase of $724,063, or 11%, from the previous year. The increase was primarily due to the increase in water and sewer consumption.



Total expenses increased $721,311 or approximately 11%, due primarily to increases in personnel, contract, and depreciation expenses for water and wastewater expenses in the current year compared to the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

<u>Governmental Funds</u> - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of the end of the year the general fund reflected a total fund balance of $4,760,063. Of this, $7,728 is restricted for municipal court, $42,008 is restricted for PEG, and $6,014 is restricted for child safety. Unassigned fund balance totaled $4,704,313 as of yearend. The general fund decreased by $649,241 primarily due to transfers to other funds.

The capital projects fund reflected an ending balance of $825,094, an increase of $802,729. This increase is primarily attributed to transfers in from other funds.

The Summit Rock PID fund reflected an ending deficit fund balance of $4,309,417 as of September 30, 2018. This was an improvement of $70,799 when compared to the deficit in fund balance as of September 30, 2017. This improvement is primarily attributed to special assessment revenue exceeding expenditures.

The Escondido PID fund reflected an ending fund balance of $1,379,624, an increase of $75,046 . This increase is primarily attributed to special assessment revenue exceeding expenditures.

There was an increase in governmental fund balance of $232,204 over the prior year. The increase was primarily due to transfers received from the proprietary fund.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive budget variance of $1,462,759 in the general fund. This is a combination of a positive revenue variance of $526,690, a positive expenditure variance of $218,819, and a positive variance of $717,250 in other financing sources and uses. The most significant revenue variances were for property taxes, sales taxes, charges for services, investment income, police department, and fire, which all had positive variances for the City. The most significant expense variances were for general government and fire.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested $26,159,961 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested $21,831,265 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Phase II street improvements in the amount of $618,773.

- Central Fire Station #1 remodeling investments totaling $167,675.
- Purchase of new equipment and tools for the public safety department totaling $96,449.
- Investment in street sealcoating for $197,657.
- Wastewater treatment plant expansion investment for $466,752.
- Purchase of new equipment and tools for the water utility department totaling $146,428.
- Purchase of new sewer system machinery and equipment for $163,602.
- Investment in high storage tank rehabilitation for $503,480.
- Purchase of new water meters for $99,975

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds outstanding of $27,356,000. During the year, the City had principal payments on bonds of $1,509,000. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Horseshoe Bay and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Horseshoe Bay's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City's business office by phone at (830) 598-8741 or in person at 1 Community Drive, Horseshoe Bay, Texas 78657.

FINANCIAL STATEMENTS

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City of Horseshoe Bay, Texas

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	$ 2,200,931	$ 758,324	$ 2,959,255
Restricted cash	1,399,421	-	1,399,421
Investments	4,152,809	-	4,152,809
Receivables, net	514,406	1,108,440	1,622,846
Internal balances	(4,337,770)	4,337,770	-
Total Current Assets	3,929,797	6,204,534	10,134,331
Capital assets:			
Non-depreciable	979,908	886,315	1,866,223
Net depreciable capital assets	25,180,053	20,944,950	46,125,003
	26,159,961	21,831,265	47,991,226
Total Assets	30,089,758	28,035,799	58,125,557
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	$ 759,143	$ 405,624	$ 1,164,767
Accrued interest payable	359,688	65,404	425,092
Unearned revenue	5,671	27,239	32,910
Customer and permit deposits	258,075	478,658	736,733
Long term debt due within one year	826,050	905,460	1,731,510
Total Current Liabilities	2,208,627	1,882,385	4,091,012
Noncurrent liabilities:			
Debt due in more than one year	13,524,509	12,776,039	26,300,548
	13,524,509	12,776,039	26,300,548
Total Liabilities	15,733,136	14,658,424	30,391,560
Net Position			
Net investment in capital assets	11,956,124	8,200,277	20,156,401
Restricted for:			
Debt service	62,898	-	62,898
PID activities, including debt service	1,406,962	-	1,406,962
Other purposes	64,668	-	64,668
Unrestricted	865,970	5,177,098	6,043,068
Total Net Position	$ 14,356,622	$ 13,377,375	$ 27,733,997

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

		Program Revenues
Functions/Programs	**Expenses**	**Charges for Services**
Primary Government		
Governmental Activities		
General government	$ 1,874,256	$ 9,000
Development services	480,801	204,818
Public works	560,534	552,958
Public safety	4,399,342	380,999
Highways and streets	1,609,486	468,217
Interest and fiscal charges	847,993	-
Total Governmental Activities	9,772,412	1,615,992
Business-Type Activities		
Water Utility	7,089,692	7,606,899
Total Business-Type Activities	7,089,692	7,606,899
Total Primary Government	$ 16,862,104	$ 9,222,891

General Revenues:
Taxes
Property taxes
Sales taxes
Franchise and local taxes
PID assessment revenue
Investment income
Other revenues
Transfers
Total General Revenues and Transfers

Change in Net Position

Beginning Net Position
Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (1,865,256)	$ -	$ (1,865,256)
(275,983)	-	(275,983)
(7,576)	-	(7,576)
(4,018,343)	-	(4,018,343)
(1,141,269)	-	(1,141,269)
(847,993)	-	(847,993)
(8,156,420)	-	(8,156,420)
-	517,207	517,207
-	517,207	517,207
(8,156,420)	517,207	(7,639,213)
5,064,749	-	5,064,749
1,297,645	-	1,297,645
324,390	-	324,390
838,382	-	838,382
133,640	213,218	346,858
195,246	66,666	261,912
634,000	(634,000)	-
8,488,052	(354,116)	8,133,936
331,632	163,091	494,723
14,024,990	13,214,284	27,239,274
$ 14,356,622	$ 13,377,375	$ 27,733,997

City of Horseshoe Bay, Texas

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	General	Summit Rock PID	Escondido PID	Capital Projects
Assets				
Cash and cash equivalents	$ 178,944	$ -	$ -	$ 1,948,171
Restricted cash	-	19,503	1,379,918	-
Investments	4,152,809	-	-	-
Receivables, net	462,695	5,600	27,338	-
Due from other funds	600,294	2,000	-	-
Total Assets	$ 5,394,742	$ 27,103	$ 1,407,256	$ 1,948,171
Liabilities				
Accounts payable and accrued liabilities	$ 242,017	$ -	$ -	$ 517,126
Unearned revenue	5,671	-	-	-
Permit deposits	258,075	-	-	-
Advances from other funds	-	4,205,954	-	-
Due to other funds	899	124,966	294	605,951
Total Liabilities	506,662	4,330,920	294	1,123,077
Deferred Inflows of Resources				
Unavailable revenue				
Property taxes	128,017	-	-	-
PID property assessments	-	5,600	27,338	-
Total Deferred Inflows of Resources	128,017	5,600	27,338	-
Fund Balances				
Restricted for:				
Court technology	3,391	-	-	-
Court security	4,337	-	-	-
Police department seizures	-	-	-	-
PEG	42,008	-	-	-
Child safety	6,014	-	-	-
PID activities, including debt service	-	-	1,379,624	-
Debt service	-	-	-	-
Committed for:				
Capital projects	-	-	-	825,094
Unassigned reported in:				
General fund	4,704,313	-	-	-
Summit Rock PID fund	-	(4,309,417)	-	-
Total Fund Balances	4,760,063	(4,309,417)	1,379,624	825,094
Total Liabilities, Deferred Inflows, and Fund Balances	$ 5,394,742	$ 27,103	$ 1,407,256	$ 1,948,171

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
$ 73,816	$ 2,200,931
-	1,399,421
-	4,152,809
18,773	514,406
-	602,294
$ 92,589	$ 8,869,861
$ -	$ 759,143
-	5,671
-	258,075
-	4,205,954
2,000	734,110
2,000	5,962,953
18,773	146,790
-	32,938
18,773	179,728
-	3,391
-	4,337
8,918	8,918
-	42,008
-	6,014
-	1,379,624
62,898	62,898
-	825,094
-	4,704,313
-	(4,309,417)
71,816	2,727,180
$ 92,589	$ 8,869,861

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City of Horseshoe Bay, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS

September 30, 2018

Fund Balances - Total Governmental Funds	$	2,727,180
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		979,908
Capital assets - net depreciable		25,180,053
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		
Property tax receivable		146,790
Assessments receivable		32,938
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(359,688)
Compensated absences		(146,722)
Bond premium		(137,837)
Non-current liabilities due in one year		(694,000)
Non-current liabilities due in more than one year		(13,372,000)
	$	14,356,622

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General	Summit Rock PID	Escondido PID
Revenues			
Property tax	$ 4,268,451	$ -	$ -
Sales tax	1,297,645	-	-
Franchise and local taxes	324,390	-	-
License and permits	204,818	-	-
Charges for services	1,030,175	-	-
Fire and police	380,999	-	-
PID property assessments	-	264,913	540,531
Investment income	96,480	3,656	18,735
Other revenue	195,232	-	-
Total Revenues	7,798,190	268,569	559,266
Expenditures			
Current:			
General government	1,687,027	-	13,390
Police department	1,859,298	-	-
Development services	477,243	-	-
Fire	2,167,020	-	-
Animal control	179,835	-	-
Streets	348,961	-	-
Mowing and clearing	530,553	-	-
Technology services	194,744	-	-
Debt service:			
Principal	-	-	144,000
Interest	-	197,770	326,830
Capital outlay	-	-	-
Total Expenditures	7,444,681	197,770	484,220
Excess of Revenues Over (Under) Expenditures	353,509	70,799	75,046
Other Financing Sources (Uses)			
Transfers in	634,000	-	-
Transfers (out)	(1,636,750)	-	-
Total Other Financing Sources (Uses)	(1,002,750)	-	-
Net Change in Fund Balances	(649,241)	70,799	75,046
Beginning fund balances	5,409,304	(4,380,216)	1,304,578
Ending Fund Balances (Deficit)	$ 4,760,063	$ (4,309,417)	$ 1,379,624

See Notes to Financial Statements.

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 772,054	$ 5,040,505
-	-	1,297,645
-	-	324,390
-	-	204,818
-	-	1,030,175
-	-	380,999
-	-	805,444
10,392	4,377	133,640
-	14	195,246
10,392	776,445	9,412,862
-	-	1,700,417
-	-	1,859,298
-	-	477,243
-	-	2,167,020
-	-	179,835
1,929	-	350,890
-	-	530,553
-	-	194,744
-	525,000	669,000
-	318,574	843,174
842,484	-	842,484
844,413	843,574	9,814,658
(834,021)	(67,129)	(401,796)
1,636,750	-	2,270,750
-	-	(1,636,750)
1,636,750	-	634,000
802,729	(67,129)	232,204
22,365	138,945	2,494,976
$ 825,094	$ 71,816	$ 2,727,180

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City of Horseshoe Bay, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances - total governmental funds	$	232,204
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		1,197,523
Depreciation expense		(1,820,300)
Revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in the funds.		
Property tax receivable		24,244
PID property assessments receivable		32,938
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		842
Accrued interest		(19,089)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Amortization of premium on debt		14,270
Principal payments		669,000
Change in Net Position of Governmental Activities	$	331,632

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2018

	Water Utility
Assets	
Current Assets	
Cash and cash equivalents	$ 758,324
Receivables, net	1,108,440
Due from other funds	131,816
Total Current Assets	1,998,580
Noncurrent Assets	
Capital assets:	
Advance to other funds	4,205,954
Non-depreciable	886,315
Net depreciable capital assets	20,944,950
Total Noncurrent Assets	26,037,219
Total Assets	28,035,799
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	405,624
Accrued interest	65,404
Customer deposits	478,658
Unearned revenue	27,239
Long-term debt due within a year	905,460
Total Current Liabilities	1,882,385
Noncurrent Liabilities	
Long-term debt due in more than a year	12,776,039
Total Liabilities	14,658,424
Net Position	
Net investment in capital assets	8,200,277
Unrestricted	5,177,098
Total Net Position	$ 13,377,375

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND

For the Year Ended September 30, 2018

	Water Utility
Operating Revenues	
Charges for services	$ 7,606,899
Other revenue	18,062
Total Operating Revenues	7,624,961
Operating Expenses	
Administration	1,007,741
Water production	829,602
Water distribution	940,562
Wastewater treatment	381,937
Wastewater collection	1,238,697
Solid waste recycling	743,381
Depreciation	1,485,282
Total Operating Expenses	6,627,202
Operating Income (Loss)	997,759
Nonoperating Revenues (Expenses)	
Investment income	213,218
Gain on sale of property	48,604
Interest expense	(462,490)
Total Nonoperating Revenues (Expenses)	(200,668)
Income (Loss) Before Transfers	797,091
Transfers (out)	(634,000)
Change in Net Position	163,091
Beginning net position	13,214,284
Ending Net Position	$ 13,377,375

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 1 of 2)

For the Year Ended September 30, 2018

	Water Utility
Cash Flows from Operating Activities	
Receipts from customers	$ 7,490,541
Payments to suppliers	(4,132,671)
Payments to employees	(965,580)
Payments/receipts from other funds	905,446
Net Cash Provided by Operating Activities	3,297,736
Cash Flows from Noncapital Financing Activities	
Operating transfers out	(634,000)
Net Cash Provided (Used) by Noncapital Financing Activities	(634,000)
Cash Flows from Capital and Related Financing Activities	
Capital purchases	(1,574,893)
Proceeds from sale of capital assets	48,604
Collections of advance to other funds	103,219
Principal paid on debt	(840,000)
Interest paid on debt	(491,467)
Net Cash (Used) by Capital and Related Financing Activities	(2,754,537)
Cash Flows from Investing Activities	
Sale of investments, net	415,766
Interest on investments	213,218
Net Cash Provided by Investing Activities	628,984
Net Increase (Decrease) in Cash and Cash Equivalents	538,183
Beginning cash and cash equivalents	220,141
Ending Cash and Cash Equivalents	$ 758,324

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUND (Page 2 of 2)

For the Year Ended September 30, 2018

		Water Utility
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$	997,759
Adjustments to reconcile operating income to net cash provided:		
Depreciation		1,485,282
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable		(123,369)
Due from/to other funds		905,446
Increase (Decrease) in:		
Accounts payable and accrued liabilities		1,508
Compensated absences		4,294
Unearned revenues		(11,051)
Customer deposits		37,867
Net Cash Provided by Operating Activities	$	3,297,736

See Notes to Financial Statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

At a special election held on September 10, 2005, voters approved incorporation of the City of Horseshoe Bay, Texas (the "City") 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 Lake LBJ Municipal Utility District (the "District"). Pursuant to the terms of the agreement, on March 6, 2006, the City annexed the 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.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

C. Basis of Presentation Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government’s water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government’s funds. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

<u>Governmental Funds</u>

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and other taxes, licenses and permits, and charges for services. Expenditures include general government, public safety, and public works.

Capital Projects Fund

The capital projects fund is used to account for all financial resources to acquire and construct street improvements throughout the City.

Summit Rock PID Fund

The Summit Rock PID fund is used to account for all activities of the Summit Rock Public Improvement District.

Escondido PID Fund

The Escondido PID fund is used to account for all activities of the Escondido Public Improvement District.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The proprietary fund types used by the City include enterprise funds.

The government reports the following major enterprise fund:

Water Utility Fund

This fund is used to account for the provision of water, wastewater and solid waste recycling services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system, water collection and treatment systems, and solid waste recycling services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using 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 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. 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 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. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the average cost method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 years
Equipment	7 years
Infrastructure	20-40 years
Street improvements	20 years
Buildings and improvements	30 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue,* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and EMS revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

9. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the City Manager to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The government adopted a policy for the general fund that requires a minimum cash flow reserve equal to or greater than $2,500,000 or three months of total operating expenses, plus debt service reserves as required by debt indentures.

The government also adopted a policy for the water utility fund that requires excess funds each year to create a cash reserve. The target amount of the reserve fund will be three months of personnel and operating expenses. It is recognized that the utility fund may not be able to achieve this target level in a single year.

11. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are expensed as incurred in accordance with GASB statement no. 65.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Estimates

The preparation 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental and enterprise funds.

The appropriated budget is prepared by fund, function, and department. The legal level of control is the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General Fund:		
General government	$	85,277

B. Deficit Fund Equity

The Summit PID fund had a deficit fund balance of $4,309,417 as of September 30, 2018 due to an advance owed to the Water Utility fund. The advance is being repaid with annual property assessments as planned. The deficit in fund balance as of September 30, 2017 was $4,380,216.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the primary government had the following investments:

Investment Type	Value	Average Maturity (Years)
External investment pools	$ 6,842,544	0.08
Total value	$ 6,842,544	
Portfolio weighted average maturity		0.08

Interest rate risk – In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk – The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, 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. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Summit Rock PID	Escondido PID	Nonmajor Governmental	Water Utility	Total
Property taxes	$ 128,016	$ -	$ -	$ 18,773	$ -	$ 146,789
Sales tax	226,881	-	-	-	-	226,881
Assessments	-	5,600	27,338	-	-	32,938
Liens	42,490	-	-	-	-	42,490
Accounts	-	-	-	-	1,170,561	1,170,561
Other	107,798	-	-	-	-	107,798
Allowance	(42,490)	-	-	-	(62,121)	(104,611)
	$ 462,695	$ 5,600	$ 27,338	$ 18,773	$ 1,108,440	$ 1,622,846

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ 167,406	$ 19,500	$ -	$ 186,906
Construction in progress	-	793,002	-	793,002
Total capital assets not being depreciated	167,406	812,502	-	979,908
Capital assets, being depreciated:				
Infrastructure	28,171,996	197,657	-	28,369,653
Buildings and improvements	4,141,695	86,750	-	4,228,445
Machinery and equipment	3,292,148	100,614	-	3,392,762
Total capital assets being depreciated	35,605,839	385,021	-	35,990,860
Less accumulated depreciation				
Infrastructure	4,834,682	1,456,253	-	6,290,935
Buildings and improvements	2,234,195	144,962	-	2,379,157
Machinery and equipment	1,921,630	219,085	-	2,140,715
Total accumulated depreciation	8,990,507	1,820,300	-	10,810,807
Net capital assets being depreciated	26,615,332	(1,435,279)	-	25,180,053
Total Capital Assets	$ 26,782,738	$ (622,777)	$ -	$ 26,159,961

Depreciation was charged to governmental functions as follows:

General government	$ 66,686
Public safety	293,803
Highways and streets	1,456,253
Development services	3,558
Total Governmental Activities Depreciation Expense	$ 1,820,300

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Disposals / Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ 419,563	$ -	$ -	$ 419,563
Construction in progress	1,688,035	466,752	(1,688,035)	466,752
Total capital assets not being depreciated	2,107,598	466,752	(1,688,035)	886,315
Capital assets, being depreciated:				
Infrastructure	42,077,615	829,324	1,688,035	44,594,974
Buildings and improvements	1,115,789	29,723	-	1,145,512
Machinery and equipment	2,936,077	249,094	(5,495)	3,179,676
Total capital assets being depreciated	46,129,481	1,108,141	1,682,540	48,920,162
Less accumulated depreciation				
Infrastructure	23,912,840	1,167,187	-	25,080,027
Buildings and improvements	525,230	50,141	-	575,371
Machinery and equipment	2,057,355	267,954	(5,495)	2,319,814
Total accumulated depreciation	26,495,425	1,485,282	(5,495)	27,975,212
Net capital assets being depreciated	19,634,056	(377,141)	1,688,035	20,944,950
Total Capital Assets	$ 21,741,654	$ 89,611	$ -	$ 21,831,265

Depreciation was charged to business-type activities as follows:

Water Utility	$ 1,485,282
Total Business-type Activities Depreciation Expense	$ 1,485,282

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. The City uses the debt service fund to liquidate the majority of governmental activities debts.

	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
Combination Tax and Revenue					
Certificates of Obligation	$ 10,155,000	$ -	$ (525,000)	$ 9,630,000	$ 540,000
PID Special Assessments Bond	4,580,000	-	(144,000)	4,436,000	154,000
Less deferred amounts:					
For issuance premiums	152,107	-	(14,270)	137,837	-
	14,887,107	-	(683,270)	14,203,837	694,000
Other liabilities:					
Compensated absences	147,564	-	(842)	146,722	132,050
Total Governmental Activities	$ 15,034,671	$ -	$ (684,112)	$ 14,350,559	$ 826,050
Long-term liabilities due in more than one year				$ 13,524,509	
Business-Type Activities:					
General Obligation Bonds	$ 4,410,000	$ -	$ (365,000)	$ 4,045,000	$ 380,000
Tax and Revenue Bonds	9,720,000	-	(475,000)	9,245,000	480,000
Less deferred amounts:					
For issuance premiums	366,224	-	(25,236)	340,988	-
	14,496,224	-	(865,236)	13,630,988	860,000
Other liabilities:					
Compensated absences	46,217	4,294	-	50,511	45,460
Total Business-Type Activities	$ 14,542,441	$ 4,294	$ (865,236)	$ 13,681,499	$ 905,460
Long-term liabilities due in more than one year				$ 12,776,039	

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
Certificates of Obligation:			
$9,800,000 Certificates of Obligation, Series 2011,			
due in annual installments through 2030, interest at 1.5-3.90%	$ 4,155,000	$ 2,635,000	$ 6,790,000
$9,800,000 Certificates of Obligation, Series 2014,			
due in annual installments through 2039, interest at 2-3.75%	4,650,000	4,090,000	8,740,000
$3,770,000 Certificates of Obligation, Series 2016,			
due in annual installments through 2031, interest at 2-4%	825,000	2,520,000	3,345,000
Total Certificates of Obligation	$ 9,630,000	$ 9,245,000	$ 18,875,000
PID Special Assessment Bond:			
$5,475,000 PID Special Assessment Bond, Series 2008,			
due in annual installments through 2034, interest at 3-7%	$ 4,436,000	$ -	$ 4,436,000
General Obligation Bonds:			
$7,500,000 General Obligation, Series 2007,			
due in installments through 2027, interest at 4.04%	$ -	$ 4,045,000	$ 4,045,000
Total General Obligation Bonds	$ -	$ 4,045,000	$ 4,045,000
Less deferred amounts:			
Issuance premium	$ 137,837	$ 340,988	$ 478,825
Total deferred amounts	$ 137,837	$ 340,988	$ 478,825
Compensated Absences	146,722	50,511	197,233
Total Debt	$ 14,350,559	$ 13,681,499	$ 28,032,058

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The annual requirements to amortize governmental activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Governmental Activities						
	2011 C.O. Bond		2014 C.O. Bond		2016 C.O. Bond		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2019	$ 290,000	$ 134,353	$ 155,000	$ 145,996	$ 95,000	$ 26,150	$ 846,499
2020	295,000	126,819	155,000	142,896	95,000	24,250	838,965
2021	305,000	118,564	165,000	139,696	100,000	22,350	850,610
2022	315,000	109,493	170,000	136,346	100,000	19,350	850,189
2023	325,000	99,730	175,000	132,896	105,000	16,350	853,976
2024	335,000	89,249	180,000	128,896	105,000	13,200	851,345
2025	350,000	77,855	185,000	123,871	110,000	9,000	855,726
2026	365,000	65,518	190,000	118,246	115,000	4,600	858,364
2027	375,000	52,380	195,000	112,471	-	-	734,851
2028	385,000	38,508	205,000	106,215	-	-	734,723
2029	400,000	23,785	215,000	99,390	-	-	738,175
2030	415,000	8,093	220,000	92,321	-	-	735,414
2031	-	-	230,000	85,009	-	-	315,009
2032	-	-	240,000	77,131	-	-	317,131
2033	-	-	245,000	68,765	-	-	313,765
2034	-	-	260,000	60,054	-	-	320,054
2035	-	-	270,000	50,169	-	-	320,169
2036	-	-	280,000	39,169	-	-	319,169
2037	-	-	290,000	28,313	-	-	318,313
2038	-	-	305,000	17,528	-	-	322,528
2039	-	-	320,000	6,000	-	-	326,000
	$ 4,155,000	$ 944,344	$ 4,650,000	$ 1,911,380	$ 825,000	$ 135,250	$ 12,620,973

Year ending September 30,	Governmental Activities 2008 PID Property Assessments Bond Principal	Interest	Total
2019	$ 154,000	$ 321,610	$ 475,610
2020	169,000	310,445	479,445
2021	179,000	298,193	477,193
2022	194,000	285,215	479,215
2023	204,000	271,150	475,150
2024	219,000	256,360	475,360
2025	239,000	240,483	479,483
2026	253,000	223,155	476,155
2027	273,000	204,813	477,813
2028	293,000	185,020	478,020
2029	313,000	163,778	476,778
2030	338,000	141,085	479,085
2031	363,000	116,580	479,580
2032	388,000	90,263	478,263
2033	412,000	62,133	474,133
2034	445,000	32,263	477,263
	$ 4,436,000	$ 3,202,546	$ 7,638,546

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	Business-Type Activities 2007 G.O. Bond Principal	Interest	Total
2019	$ 380,000	$ 163,418	$ 543,418
2020	395,000	148,066	543,066
2021	415,000	132,108	547,108
2022	430,000	115,342	545,342
2023	445,000	97,970	542,970
2024	465,000	79,992	544,992
2025	485,000	61,206	546,206
2026	505,000	41,612	546,612
2027	525,000	21,210	546,210
	$ 4,045,000	$ 860,924	$ 4,905,924

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds are from taxes levied on all taxable property located within the City.

The PID special assessment bond is secured solely by the pledged property assessments revenue for the related properties within the Escondido PID area. The debt is repaid with property assessments by the respective homeowners. The City is not obligated to pay the bonds from any funds raised from taxation or from any other revenues available to the City. The City through their designated trustee and third-party administrator set up a separate fund used to service the bond, collect the property assessments, and for initiating any future foreclosures.

Year ending	Business-Type Activities						
September 30,	2011 C.O. Bond		2014 C.O. Bond		2016 C.O. Bond		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2019	$ 185,000	$ 85,153	$ 135,000	$ 128,485	$ 160,000	$ 89,200	$ 782,838
2020	190,000	80,323	140,000	125,735	165,000	86,000	787,058
2021	195,000	75,026	145,000	122,885	165,000	82,700	785,611
2022	200,000	69,248	150,000	119,935	170,000	77,750	786,933
2023	205,000	63,070	150,000	116,935	175,000	72,650	782,655
2024	215,000	56,399	155,000	113,498	185,000	67,400	792,296
2025	220,000	49,165	165,000	109,085	190,000	60,000	793,250
2026	225,000	41,488	165,000	104,135	200,000	52,400	788,023
2027	235,000	33,320	175,000	99,035	205,000	44,400	791,755
2028	245,000	24,558	180,000	93,485	215,000	36,200	794,243
2029	255,000	15,180	185,000	87,554	220,000	27,600	790,334
2030	265,000	5,168	195,000	81,379	230,000	18,800	795,346
2031	-	-	200,000	74,960	240,000	9,600	524,560
2032	-	-	210,000	68,088	-	-	278,088
2033	-	-	220,000	60,670	-	-	280,670
2034	-	-	225,000	52,994	-	-	277,994
2035	-	-	235,000	44,413	-	-	279,413
2036	-	-	250,000	34,713	-	-	284,713
2037	-	-	260,000	25,000	-	-	285,000
2038	-	-	270,000	15,394	-	-	285,394
2039	-	-	280,000	5,250	-	-	285,250
	$ 2,635,000	$ 598,095	$ 4,090,000	$ 1,683,625	$ 2,520,000	$ 724,700	$ 12,251,420

E. Interfund Transactions

Transfers between the primary government funds during the 2018 year were as follows:

	Transfer In		
Transfer out:	**General**	**Capital Projects**	**Total**
Water Utility	$ 634,000	$ -	$ 634,000
General	-	1,636,750	1,636,750
	$ 634,000	$ 1,636,750	$ 2,270,750

Transfers between funds were primarily to support street improvement projects and operation of funds.

The compositions of interfund due to/from balances as of the year ended September 30, 2018 were as follows:

	Receivable Fund			
Payable Fund	**General**	**Summit Rock PID**	**Water Utility**	**Total**
Capital projects	$ 600,000	$ -	$ 5,951	$ 605,951
Escondido PID	294	-	-	294
Summit Rock PID	-	-	124,966	124,966
Nonmajor governmental	-	2,000	-	2,000
General	-	-	899	899
Total	$ 600,294	$ 2,000	$ 131,816	$ 734,110

Interfund balances resulted from the timing difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be paid in the subsequent year.

The compositions of interfund advances to/from balances as of the year ended September 30, 2018 were as follows:

Advances to:	Advances from: Water Utility	Total
Summit Rock PID	$ 4,205,954	$ 4,205,954
Total	$ 4,205,954	$ 4,205,954

The amount indicated as an "advance to/from" within the table above relates to the remaining balance of the note between the Summit Rock PID and the City to finance water and wastewater capital improvements for the Summit Rock PID area. This note accrues interest between 3% and 7% at an interest rate of prime, and is being repaid with annual property assessments collected by the Summit Rock PID.

F. Restricted/Committed Fund Equity

The City records fund balance restrictions on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The following is a list of fund balances restricted/committed by the City:

	Restricted	Committed
* Court technology and security	$ 7,728	$ -
* PEG	42,008	-
* Child safety	6,014	-
* Police department seizures	8,918	-
PID activities, including debt service	1,379,624	-
Debt service	62,898	-
Capital projects	-	825,094
	$ 1,507,190	$ 825,094

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

C. Construction Commitments

The City has active construction projects as of September 30, 2018. The projects include fire station remodels, street improvements, and safety improvements. At year end the City's commitments with contractors are as follows:

Project	Vendor	Remaining Commitment
Remodel of Central Fire Station - Phase 1	Roan Commercial Group	$ 31,716
	Project Total	31,716
Street Improvement - Phase 2	Aaron Concrete Contractors	801,617
	Project Total	801,617
Golden Nugget Safety Improvements	Aaron Concrete Contractors	207,449
	Project Total	207,449
	Total	$ 1,040,782

D. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

E. Restatement

The City restated the beginning net position of governmental activities and business-type activities, and the beginning fund balances of several governmental funds and the water utility fund due to accounting errors related to capital assets, inventory, sales tax, utility billing receivables, debt premiums, and the change in the presentation of the City's PID funds to special revenue funds.

The PID special revenue funds, and their debt obligations consisting of the PID special assessment bond and note payable to the water utility fund, are still being solely funded by property assessments paid for by homeowners. The City is not obligated for repayment of these debts. This change in reporting for these public improvement district entities was necessary due to a different interpretation from prior years that they are a part of the City rather than separate and autonomous governmental entities. City council is the governing body over the PID's, the City is the account holder for PID funds, and is the responsible party for management of the PID activities.

The City has restated net position and fund balances as follows:

	Governmental Activities	Governmental Funds: General Fund	Governmental Funds: Summit Rock PID	Governmental Funds: Nonmajor PD Seizure
Prior year ending net position/ fund balance, as reported	$ 21,663,860	$ 5,266,938	$ -	$ -
Correction to sales tax receivable	100,358	100,358	-	-
Correction to liabilities to move amounts to restricted fund balance	50,912	42,008	-	8,904
Adjustment for change in fund reporting of Summit Rock PID	(4,380,216)	-	(4,380,216)	-
Adjustment for change in fund reporting of Escondido PID	(3,606,562)	-	-	-
Correction to debt premium	(14,698)	-	-	-
Correction to capital assets	211,336	-	-	-
Restated beginning net position/fund balance	$ 14,024,990	$ 5,409,304	$ (4,380,216)	$ 8,904

	Governmental Funds: Escondido PID
Prior year ending fund balance	$ -
Adjustment for change in fund reporting of Escondido PID	1,304,578
Restated beginning fund balance	$ 1,304,578

	Business-Type: Water Utility
Prior year ending net position/ fund balance, as reported	$ 8,603,811
Correction to utility billing receivables	321,928
Correction to debt premium	(10,093)
Removal of unearned revenue for Summit Rock PID	4,390,086
Correction to capital assets	33,977
Adjustment to inventory	(125,425)
Restated beginning net position/fund balance	$ 13,214,284

F. Subsequent Events

There were no material subsequent events through March 15, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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City of Horseshoe Bay, Texas

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property tax	$ 4,180,750	$ 4,180,750	$ 4,268,451	$ 87,701
Sales tax	1,096,500	1,096,500	1,297,645	201,145
Franchise and local taxes	285,000	285,000	324,390	39,390
License and permits	117,750	184,250	204,818	20,568
Charges for services	809,500	919,500	1,030,175	110,675
Fire and police	300,000	373,250	380,999	7,749
Investment income	42,750	42,750	96,480	53,730
Other revenue	113,500	189,500	195,232	5,732
Total Revenues	6,945,750	7,271,500	7,798,190	526,690
Expenditures				
Current:				
General government	1,592,250	1,601,750	1,687,027	(85,277) *
Police department	1,878,500	1,924,250	1,859,298	64,952
Development services	448,000	514,500	477,243	37,257
Fire	2,178,750	2,252,250	2,167,020	85,230
Animal control	174,750	195,250	179,835	15,415
Streets	355,500	355,500	348,961	6,539
Mowing and clearing	481,000	591,000	530,553	60,447
Technology services	224,000	224,000	194,744	29,256
Capital outlay	5,000	5,000	-	5,000
Total Expenditures	7,337,750	7,663,500	7,444,681	218,819
Revenues Over (Under) Expenditures	$ (392,000)	$ (392,000)	$ 353,509	$ 745,509
Other Financing Sources (Uses)				
Transfers in	$ 634,000	$ 634,000	$ 634,000	$ -
Transfers (out)	(2,354,000)	(2,354,000)	(1,636,750)	717,250
Total Other Financing Sources (Uses)	(1,720,000)	(1,720,000)	(1,002,750)	717,250
Net Change in Fund Balance	$ (2,112,000)	$ (2,112,000)	(649,241)	$ 1,462,759
Beginning fund balance			5,409,304	
Ending Fund Balance			$ 4,760,063	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

* Expenditures exceeded appropriations at the legal level of control.

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COMBINING STATEMENTS

City of Horseshoe Bay, Texas

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2018

	Debt Service	Police Dept. Seizure	Total
Assets			
Cash and cash equivalents	$ 64,898	$ 8,918	$ 73,816
Accounts receivable	18,773	-	18,773
Total Assets	$ 83,671	$ 8,918	$ 92,589
Liabilities			
Due to other funds	$ 2,000	-	$ 2,000
Total Liabilities	2,000	-	2,000
Deferred Inflows of Resources			
Unavailable revenue:			
Property taxes	18,773	-	18,773
Total Deferred Inflows of Resources	18,773	-	18,773
Fund Balances			
Restricted for:			
Debt service	62,898	-	62,898
Police department seizures	-	8,918	8,918
Total Fund Balances	62,898	8,918	71,816
Total Liabilities, Fund Balances, and Deferred Inflows of Resources	$ 83,671	$ 8,918	$ 92,589

City of Horseshoe Bay, Texas

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	Debt Service	Police Dept. Seizure	Total
Revenues			
Property tax	$ 772,054	$ -	$ 772,054
Investment income	4,377	-	4,377
Seizures revenue	-	14	14
Total Revenues	776,431	14	776,445
Expenditures			
Debt Service:			
Principal	525,000	-	525,000
Interest and fiscal charges	318,574	-	318,574
Total Expenditures	843,574	-	843,574
Revenues Over (Under) Expenditures	(67,143)	14	(67,129)
Net Change in Fund Balances	(67,143)	14	(67,129)
Beginning fund balances	130,041	8,904	138,945
Ending Fund Balances	$ 62,898	$ 8,918	$ 71,816

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