

ANNUAL FINANCIAL REPORT

of the

City of Horseshoe Bay, Texas

**For the Year Ended
September 30, 2021**

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City of Horseshoe Bay, Texas

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September 30, 2021

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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, 2021, 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.

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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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
January 28, 2022

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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, 2021

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, 2021.

Financial Highlights

- The City's total combined net position is \$33,897,641 at September 30, 2021. Of this, \$7,576,609 (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 \$4,124,320 or 44% of total general fund expenditures.
- The City had an overall increase in net position of \$1,665,257.

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, 2021, the unassigned fund balance for the general fund was \$4,124,320, which was 44% of total general fund expenditures or approximately 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 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, 2021, the cash balance for the water utility fund was \$3,145,155, which is 48% of total utility fund expenses excluding depreciation, which is approximately 6 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.

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2021

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*.

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2021

The City of Horseshoe Bay maintains nine 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, police department seizure, child safety, court technology, and court security funds. The general, Summit Rock Public Improvement District, capital projects, and Escondido 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 PID special revenue funds, and their debt obligations consisting of the PID special assessment bond and note payable to the water utility fund, are solely funded by property assessments paid for by the respective homeowners of the related developments. The City is not obligated for repayment of these debts. 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.

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2021

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 \$33,897,551 as of September 30, 2021, in the primary government.

The largest portion of the City's net position, \$21,724,537, 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, \$4,061,309, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,111,795 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current and other assets of governmental activities as of September 30, 2021 and September 30, 2020 were \$11,037,867 and \$9,725,984, respectively. The increase of \$1,311,883 was primarily due to unspent bond proceeds for the debt issuance in the current year.

Current and other assets of business-type activities as of September 30, 2021 and September 30, 2020 were \$5,168,438 and \$4,226,401, respectively. The increase of \$942,037 was due to cash inflows from operations exceeding negative cash flows from capital investments, transfers, and debt service expenses.

Long-term liabilities of business-type activities as of September 30, 2021 and September 30, 2020 were \$17,037,783 and \$18,005,300, respectively. The decrease of \$967,517 was primarily due to bond principal payments during the year.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2021

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2021			2020		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 11,037,867	\$ 5,168,438	\$ 16,206,305	\$ 9,725,984	\$ 4,226,401	\$ 13,952,385
Internal balances	(4,088,427)	4,088,427	-	(4,232,610)	4,232,610	-
Capital assets, net	26,473,813	25,737,270	52,211,083	26,413,347	25,145,123	51,558,470
Total Assets	33,423,253	34,994,135	68,417,388	31,906,721	33,604,134	65,510,855
Deferred Outflows of Resources	161,572	2,879	164,451	15,082	3,222	18,304
Other liabilities	948,724	1,165,782	2,114,506	1,110,103	1,345,845	2,455,948
Long-term liabilities	15,531,909	17,037,783	32,569,692	12,835,527	18,005,300	30,840,827
Total Liabilities	16,480,633	18,203,565	34,684,198	13,945,630	19,351,145	33,296,775
Net Position:						
Net investment in capital assets	13,017,196	8,707,341	21,724,537	13,592,903	8,023,963	21,616,866
Restricted	4,042,300	554,195	4,596,495	5,721,393	-	5,721,393
Unrestricted	44,696	7,531,913	7,576,609	(1,338,123)	6,232,248	4,894,125
Total Net Position	\$ 17,104,192	\$ 16,793,449	\$ 33,897,641	\$ 17,976,173	\$ 14,256,211	\$ 32,232,384

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2021

Statement of Activities:

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

	For the Year Ended September 30, 2021			For the Year Ended September 30, 2020		
	Governmental Activities		Total Primary Government	Governmental Activities		Total Primary Government
	Business-Type Activities	Primary Government	Business-Type Activities	Primary Government		
Revenues						
Program revenues:						
Charges for services	\$ 1,907,729	\$ 10,572,986	\$ 12,480,715	\$ 1,811,068	\$ 9,522,101	\$ 11,333,169
Grants and contributions	207,880	554,195	762,075	25,659	18,000	43,659
General revenues:						
Property taxes	6,373,503	-	6,373,503	5,941,521	-	5,941,521
Sales taxes	1,858,521	-	1,858,521	1,427,303	-	1,427,303
Franchise and other taxes	319,719	-	319,719	301,260	-	301,260
Investment income	6,496	149,532	156,028	63,735	227,712	291,447
Other revenues	438,374	46,177	484,551	635,024	80,792	715,816
Total Revenues	11,112,222	11,322,890	22,435,112	10,205,570	9,848,605	20,054,175
Expenses						
General government	2,399,389	-	2,399,389	2,393,658	-	2,393,658
Development services	749,776	-	749,776	642,001	-	642,001
Public works	646,029	-	646,029	598,883	-	598,883
Public safety	5,207,378	-	5,207,378	5,191,136	-	5,191,136
Highways and streets	2,230,221	-	2,230,221	2,076,741	-	2,076,741
Culture and recreation	24,998	-	24,998	29,202	-	29,202
Interest and fiscal charges	967,665	499,453	1,467,118	789,185	513,876	1,303,061
Water utility	-	8,044,946	8,044,946	-	7,542,749	7,542,749
Total Expenses	12,225,456	8,544,399	20,769,855	11,720,806	8,056,625	19,777,431
Change in Net Position						
Before Transfers	(1,113,234)	2,778,491	1,665,257	(1,515,236)	1,791,980	276,744
Transfers	241,253	(241,253)	-	697,557	(697,557)	-
Total	241,253	(241,253)	-	697,557	(697,557)	-
Change in Net Position	(871,981)	2,537,238	1,665,257	(817,679)	1,094,423	276,744
Beginning Net Position	17,976,173	14,256,211	32,232,384	18,793,852	13,161,788	31,955,640
Ending Net Position	\$ 17,104,192	\$ 16,793,449	\$ 33,897,641	\$ 17,976,173	\$ 14,256,211	\$ 32,232,384

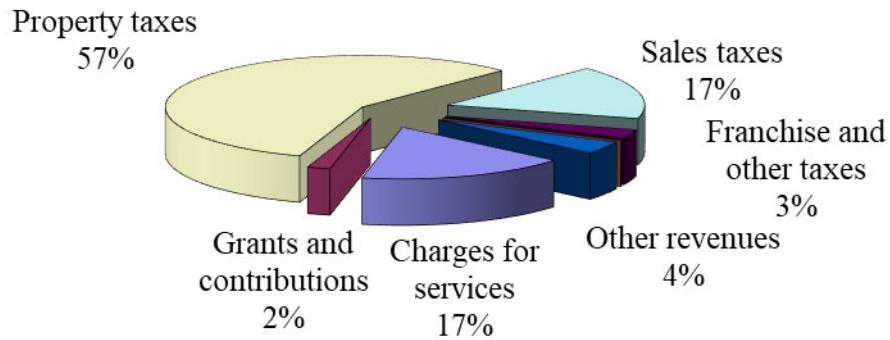
City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2021

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

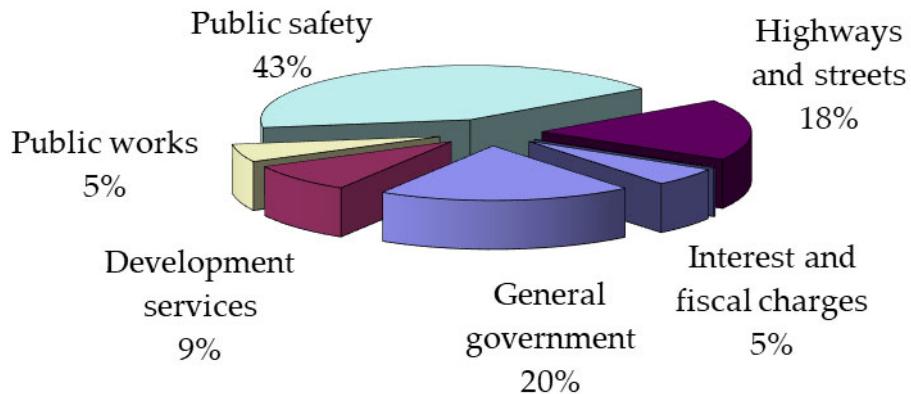
Governmental Activities - Revenues



For the year ended September 30, 2021, revenues from governmental activities totaled \$11,112,222. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased by \$431,982 or 7% due to higher property values. Sales taxes and franchise taxes increased by \$431,218 and \$18,459, respectively, which is primarily attributable to economic growth during the current year. Investment income decreased by \$57,239 primarily due to the realization of lower interest rates realized in the current year. Other revenues decreased by \$196,650 primarily due to nonrecurring revenues in prior year. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2021, expenses for governmental activities totaled \$12,225,456. This represents an increase of \$504,650 or 4% from the prior year. The City's largest functional expense is public safety of \$5,207,378, which includes operational expenses for the police, fire, and animal control departments. Public safety expenses increased by \$16,242, which was considered a nominal increase

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

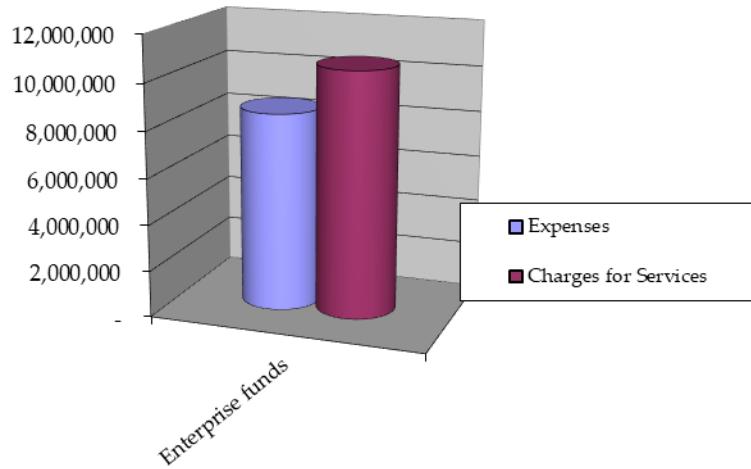
September 30, 2021

relative to prior year. General government expenses increased by \$5,731. Development services increased by \$107,775 or 17% primarily as a result of greater salary and medical insurance expenses. Highway and streets expenses increased by \$153,480 or 7% primarily due to an increases in maintenance expenses in the current year.

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

For the year ended September 30, 2021, charges for services by business-type activities totaled \$10,572,986. This is an increase of \$1,050,885, or 11%, from the previous year. The increase was primarily due to increases in sewer rates, water tap revenues, and grinder sales in the current year.

Business-Type Activities - Revenues and Expenses



Total expenses increased \$487,774 or approximately 6%, which was primarily due to an increase in grinder purchases.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds - 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 \$4,216,412. Of this, \$69,655 is restricted for PEG. Unassigned fund balance totaled \$4,124,320 as of yearend. The general fund increased by \$821,548 primarily due to revenues exceeding expectations.

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2021

The Summit Rock PID fund reflected an ending deficit fund balance of \$4,056,775 as of September 30, 2021. This was an improvement of \$146,578 when compared to the deficit in fund balance as of September 30, 2020. This improvement is due to special assessment revenue exceeding interest expenditures.

The Escondido PID fund reflected an ending fund balance of \$797,336, a decrease of \$792,490. This decrease was primarily due to a debt refunding in which the PID put up additional cash to refund the previous special assessment bond outstanding.

There was an increase in governmental fund balance of \$2,237,690 over the prior year. The increase is primarily due to a bond issuance during the year.

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 \$986,548 in the general fund. This is a combination of a positive revenue variance of \$837,035, a positive expenditure variance of \$191,049, and a negative variance of \$41,536 in other financing sources and uses. The most significant revenue variances were for property taxes, sales taxes, licenses and permits, and charges for services. The most significant expense variances were for general government, police, and mowing and clearing. Police, mowing and clearing, and transfers out exceeded appropriations at the legal level of control.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$26,473,813 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 \$25,737,270 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Street improvements for \$1,939,064
- Police vehicles for \$160,489
- Wastewater treatment plant expansion investment for \$1,321,231
- Meter replacements for \$289,013
- SCADA equipment for \$113,720

City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2021

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 (including premiums) of \$32,564,717. On October 19, 2020, the City's Escondido PID issued a \$3,270,000 in special assessment refunding bonds. The bond proceeds plus premium of \$3,295,663 and additional cash of \$955,234 were used to advance refund \$4,113,000 of outstanding 2008 special assessment bonds outstanding and \$322,619 of accrued interest. The City also issued \$3,925,000 in certificates of obligation to be used for street improvements. Proceeds received for the issuance was \$4,122,343, including the premium of \$197,343. In addition, the City made principal payments on bonds of \$1,440,000 in the current year. 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.

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

City of Horseshoe Bay, Texas
STATEMENT OF NET POSITION (Page 1 of 2)
September 30, 2021

	Primary Government			
	Governmental Activities		Business-Type Activities	
			Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 6,479,355	\$ 3,145,155	\$ 9,624,510	
Restricted cash	828,988	554,195	1,383,183	
Receivables, net	3,707,087	1,469,088	5,176,175	
Prepays	22,437	-	22,437	
Internal balances	(47,287)	47,287	-	
	Total Current Assets	10,990,580	5,215,725	16,206,305
Internal balances	(4,041,140)	4,041,140	-	
Capital assets:				
Non-depreciable	146,856	419,561	566,417	
Net depreciable capital assets	26,326,957	25,317,709	51,644,666	
	Total Noncurrent Assets	22,432,673	29,778,410	52,211,083
	Total Assets	33,423,253	34,994,135	68,417,388
Deferred Outflows of Resources				
Deferred charge on refundings	161,572	2,879	164,451	
	Total Deferred Outflows of Resources	161,572	2,879	164,451

City of Horseshoe Bay, Texas
STATEMENT OF NET POSITION (Page 2 of 2)
September 30, 2021

	Primary Government			
	Governmental Activities		Business-Type Activities	
			Total	
<u>Liabilities</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 409,772	\$ 436,097	\$ 845,869	
Accrued interest payable	92,901	76,882	169,783	
Unearned revenue	-	17,564	17,564	
Customer and permit deposits	265,196	590,460	855,656	
Compensated absences, current	162,770	44,779	207,549	
Long term debt due within one year	945,000	1,180,000	2,125,000	
Total Current Liabilities	1,875,639	2,345,782	4,221,421	
Noncurrent liabilities:				
Debt due in more than one year	14,586,909	15,852,808	30,439,717	
Compensated absences	18,085	4,975	23,060	
Total Noncurrent Liabilities	14,604,994	15,857,783	30,462,777	
Total Liabilities	16,480,633	18,203,565	34,684,198	
<u>Net Position</u>				
Net investment in capital assets	13,017,196	8,707,341	21,724,537	
Restricted for:				
Debt service	64,825	-	64,825	
PID activities, including debt service	3,856,000	-	3,856,000	
Other purposes	121,475	554,195	675,670	
Unrestricted	44,696	7,531,913	7,576,609	
Total Net Position	\$ 17,104,192	\$ 16,793,449	\$ 33,897,641	

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

Functions/Programs	Expenses	Program Revenues			Capital Grants and Contributions
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities					
General government	\$ 2,399,389	\$ 9,000	\$ 207,880	\$ -	
Development services	749,776	483,440	-	-	
Public works	646,029	455,628	-	-	
Public safety	5,207,378	368,533	-	-	
Highways and streets	2,230,221	591,128	-	-	
Culture and recreation	24,998	-	-	-	
Interest and fiscal charges	967,665	-	-	-	
Total Governmental Activities	12,225,456	1,907,729	207,880	-	-
Business-Type Activities					
Utility	8,544,399	10,572,986	-	554,195	
Total Business-Type Activities	8,544,399	10,572,986	-	554,195	
Total Primary Government	\$ 20,769,855	\$ 12,480,715	\$ 207,880	\$ 554,195	

General Revenues:

- Taxes
- Property taxes
- Sales taxes
- Franchise and local taxes
- PID assessment revenue
- Investment income
- Other revenues
- Gain on sale of assets

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
\$ (2,182,509)	\$ -	\$ (2,182,509)
(266,336)	-	(266,336)
(190,401)	-	(190,401)
(4,838,845)	-	(4,838,845)
(1,639,093)	-	(1,639,093)
(24,998)	-	(24,998)
(967,665)	-	(967,665)
(10,109,847)	-	(10,109,847)
-	2,582,782	2,582,782
-	2,582,782	2,582,782
(10,109,847)	2,582,782	(7,527,065)
6,373,503	-	6,373,503
1,858,521	-	1,858,521
319,719	-	319,719
294,166	-	294,166
6,496	149,532	156,028
112,258	46,177	158,435
31,950	-	31,950
241,253	(241,253)	-
9,237,866	(45,544)	9,192,322
(871,981)	2,537,238	1,665,257
17,976,173	14,256,211	32,232,384
\$ 17,104,192	\$ 16,793,449	\$ 33,897,641

City of Horseshoe Bay, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2021

	General	Summit Rock PID	Escondido PID
Assets			
Cash and cash equivalents	\$ 4,311,731	\$ -	\$ -
Restricted cash	-	31,652	797,336
Receivables, net	634,633	7,358	3,058,664
Due from other funds	100	-	-
Prepays	22,437	-	-
Total Assets	\$ 4,968,901	\$ 39,010	\$ 3,856,000
Liabilities			
Accounts payable and accrued liabilities	\$ 407,047	\$ -	\$ -
Permit deposits	265,196	-	-
Advances from other funds	-	4,041,140	-
Due to other funds	10,830	47,287	-
Total Liabilities	683,073	4,088,427	-
Deferred Inflows of Resources			
Unavailable revenue			
Property taxes	69,416	-	-
PID property assessments	-	7,358	3,058,664
Total Deferred Inflows of Resources	69,416	7,358	3,058,664
Fund Balances			
Nonspendable:			
Prepays	22,437	-	-
Restricted for:			
Court	-	-	-
Police department seizures	-	-	-
PEG	69,655	-	-
PID activities, including debt service	-	-	797,336
Debt service	-	-	-
Capital projects	-	-	-
Unassigned reported in:			
General fund	4,124,320	-	-
Summit Rock PID fund	-	(4,056,775)	-
Total Fund Balances	4,216,412	(4,056,775)	797,336
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 4,968,901	\$ 39,010	\$ 3,856,000

See Notes to Financial Statements.

Capital Projects	Nonmajor Governmental Funds		Total Governmental Funds
	Governmental Funds	Total Governmental Funds	
\$ 2,061,818	\$ 105,806	\$ 6,479,355	
-	-	828,988	
-	6,432	3,707,087	
-	10,830	10,930	
-	-	22,437	
\$ 2,061,818	\$ 123,068	\$ 11,048,797	
\$ 2,725	\$ -	\$ 409,772	
-	-	265,196	
-	-	4,041,140	
100	-	58,217	
2,825	-	4,774,325	
-	6,423	75,839	
-	-	3,066,022	
-	6,423	3,141,861	
	-	22,437	
-	42,863	42,863	
-	8,957	8,957	
-	-	69,655	
-	-	797,336	
-	64,825	64,825	
2,058,993	-	2,058,993	
-	-	4,124,320	
-	-	(4,056,775)	
2,058,993	116,645	3,132,611	
\$ 2,061,818	\$ 123,068	\$ 11,048,797	

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City of Horseshoe Bay, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS September 30, 2021

Fund Balances - Total Governmental Funds	\$ 3,132,611
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	146,856
Capital assets - net depreciable	26,326,957
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	75,839
Assessments receivable	3,066,022
Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.	
Deferred charge on refunding	161,572
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(92,901)
Compensated absences	(180,855)
Bond premium	(661,909)
Non-current liabilities due in one year	(945,000)
Non-current liabilities due in more than one year	<u>(13,925,000)</u>
	<u><u>\$ 17,104,192</u></u>

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (Page 1 of 2)
For the Year Ended September 30, 2021

	<u>General</u>	<u>Summit Rock PID</u>	<u>Escondido PID</u>
<u>Revenues</u>			
Property tax	\$ 5,575,830	\$ -	\$ -
Sales tax	1,858,521	-	-
Franchise and local taxes	319,719	-	-
License and permits	483,440	-	-
Charges for services	1,055,756	-	-
Fire and police	368,533	-	-
Intergovernmental revenue	207,880	-	-
PID property assessments	- 293,255		552,674
Investment income	3,722 35		451
Other revenue	103,134 -		-
Total Revenues	<u>9,976,535</u>	<u>293,290</u>	<u>553,125</u>
<u>Expenditures</u>			
Current:			
General government	1,951,100	- 22,911	
Police department	2,250,346	-	
Development services	750,675	-	
Fire	2,505,575	-	
Animal control	176,822	-	
Streets	595,642	-	
Mowing and clearing	646,029	-	
Technology services	270,137	-	
Debt service:			
Principal	- -		
Interest	- 146,712		367,470
Bond issuance costs	- -		301,052
Capital outlay	242,125 -		-
Total Expenditures	<u>9,388,451</u>	<u>146,712</u>	<u>691,433</u>
Excess of Revenues Over (Under) Expenditures	588,084	146,578	(138,308)

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 828,848	\$ 6,404,678
-	-	1,858,521
-	-	319,719
-	-	483,440
-	-	1,055,756
-	-	368,533
-	-	207,880
-	-	845,929
2,107	181	6,496
-	9,124	112,258
2,107	838,153	11,663,210

-	6,000	1,980,011
-	-	2,250,346
-	-	750,675
-	-	2,505,575
-	-	176,822
-	-	595,642
-	-	646,029
-	-	270,137
-	540,000	540,000
-	328,794	842,976
118,180	-	419,232
1,947,314	-	2,189,439
2,065,494	874,794	13,166,884

(2,063,387) (36,641) (1,503,674)

City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (Page 2 of 2)
For the Year Ended September 30, 2021

	<u>General</u>	<u>Summit Rock PID</u>	<u>Escondido PID</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	\$ 241,253	\$ -	\$ -
Transfers (out)	(39,739)	- -	- -
Bond issuance	- -	- -	3,270,000
Premium from bond issuance	- -	- -	25,663
Sale of property	28,000	- -	- -
Insurance recoveries	3,950	- -	- -
Payment to escrow agent	- -	- -	(3,949,845)
Total Other Financing Sources (Uses)	<u>233,464</u>	<u>-</u>	<u>(654,182)</u>
Net Change in Fund Balances	821,548	146,578	(792,490)
Beginning fund balances	3,394,864	(4,203,353)	1,589,826
Ending Fund Balances (Deficit)	<u>\$ 4,216,412</u>	<u>\$ (4,056,775)</u>	<u>\$ 797,336</u>

See Notes to Financial Statements.

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 39,739	\$ 280,992
-	-	(39,739)
3,925,000	-	7,195,000
197,343	-	223,006
-	-	28,000
-	-	3,950
-	-	(3,949,845)
4,122,343	39,739	3,741,364
2,058,956	3,098	2,237,690
37	113,547	894,921
\$ 2,058,993	\$ 116,645	\$ 3,132,611

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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, 2021

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 2,237,690
---	--------------

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	2,162,285
Depreciation expense	(2,101,819)

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	(31,175)
PID property assessments receivable	(875,748)

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	46,419
Accrued interest	240,259

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.

Bond proceeds	(7,195,000)
Payment to bond escrow agent	4,113,000
Current year bond premium	(223,006)
Current year deferred charge on refunding	160,830
Amortization of deferred charges on refunding	(14,340)
Amortization of premium on debt	68,624
Principal payments	540,000

Change in Net Position of Governmental Activities \$ (871,981)

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2021

	<u>Utility</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 3,145,155
Restricted cash	554,195
Receivables, net	1,469,088
Due from other funds	47,287
	Total Current Assets
	5,215,725
<u>Noncurrent Assets</u>	
Advance to other funds	4,041,140
Capital assets:	
Non-depreciable	419,561
Net depreciable capital assets	25,317,709
	Total Noncurrent Assets
	29,778,410
	Total Assets
	34,994,135
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	2,879
	Total Deferred Outflows of Resources
	2,879
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	436,097
Accrued interest	76,882
Customer deposits	590,460
Unearned revenue	17,564
Compensated absences, current	44,779
Long-term debt due within a year	1,180,000
	Total Current Liabilities
	2,345,782
<u>Noncurrent Liabilities</u>	
Compensated absences	4,975
Long-term debt due in more than a year	15,852,808
	Total Liabilities
	18,203,565
<u>Net Position</u>	
Net investment in capital assets	8,707,341
Restricted for capital improvements	554,195
Unrestricted	7,531,913
	Total Net Position
	\$ 16,793,449

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, 2021

	<u>Utility</u>
<u>Operating Revenues</u>	
Charges for services	\$ 10,572,986
Other revenue	7,163
	Total Operating Revenues
	10,580,149
<u>Operating Expenses</u>	
Administration	1,434,071
Water production	925,479
Water distribution	1,050,217
Wastewater treatment	508,121
Wastewater collection	1,647,741
Solid waste recycling	950,446
Depreciation	1,528,871
	Total Operating Expenses
	8,044,946
	Operating Income (Loss)
	2,535,203
<u>Nonoperating Revenues (Expenses)</u>	
Investment income	149,532
Gain on sale of property	39,014
Interest expense	(499,453)
Intergovernmental revenue	554,195
	Total Nonoperating Revenues (Expenses)
	243,288
	Income (Loss) Before Transfers
	2,778,491
Transfers (out)	(241,253)
	Change in Net Position
	2,537,238
Beginning net position	14,256,211
	Ending Net Position
	\$ 16,793,449

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, 2021

	Utility
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 10,560,791
Payments to suppliers	(5,277,492)
Payments to employees	(1,447,837)
Receipts from other funds	24,135
Net Cash Provided by Operating Activities	<u>3,859,597</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfers (out)	(241,253)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(241,253)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(2,121,018)
Proceeds from sale of capital assets	39,014
Collections of advance to other funds	120,048
Capital grant	554,195
Principal paid on debt	(900,000)
Interest paid on debt	(565,250)
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,873,011)</u>
<u>Cash Flows from Investing Activities</u>	
Interest on investments	149,532
Net Cash Provided by Investing Activities	<u>149,532</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>894,865</u>
Beginning cash and cash equivalents	2,804,485
Ending Cash and Cash Equivalents	<u>\$ 3,699,350</u>

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, 2021

	<u>Utility</u>
<u>Reconciliation of Operating Income</u>	
to Net Cash Provided by Operating Activities	
Operating Income	\$ 2,535,203
Adjustments to reconcile operating income to net cash provided:	
Depreciation	1,528,871
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(75,343)
Prepays	28,171
Due from/to other funds	24,135
Increase (Decrease) in:	
Accounts payable and accrued liabilities	(223,659)
Compensated absences	(13,766)
Customer deposits	55,985
	Net Cash Provided by Operating Activities
	<u>\$ 3,859,597</u>

See Notes to Financial Statements.

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City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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:

Governmental Funds

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

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.

Capital Projects Fund

The Capital Projects fund is used to account for construction activities of governmental activities

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.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

The government reports the following major enterprise fund:

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.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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.”

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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. As of September 30, 2020, the City was in compliance with this policy.

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. As of September 30, 2020, the City was in compliance with this policy.

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2021

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 department 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:

Police	\$54,096
Mowing and clearing	\$61,029
Transfers out	\$39,739

B. Deficit Fund Equity

The Summit PID fund had a deficit fund balance of \$4,056,775 as of September 30, 2021 due to an advance owed to the Water Utility fund. The fund plans to repay the

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

principal amounts owed when sufficient lots are sold for the development to provide property assessments to service the principal payments. Until then, the fund is making interest payments and small repayments on the advances with property assessments. The deficit in fund balance as of September 30, 2020 was \$4,203,353.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2021, the primary government had the following investments:

Investment Type	Value	Average Maturity (Years)
External investment pools	\$ 8,605,034	0.12
Total value	<u><u>\$ 8,605,034</u></u>	
Portfolio weighted average maturity		0.12

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

the principal amount of the deposits. As of September 30, 2021, the market values of pledged securities and FDIC full insured all deposit 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.

TexasCLASS

Texas CLASS is a local government investment pool created to meet the cash management and short-term investment needs of Texas governmental entities. Texas CLASS Government seeks to provide participants with a competitive market yield while maintaining daily liquidity and a stable net asset value. Texas CLASS Government is rated 'AAAm' by S&P Global Ratings. There were no limitations or restrictions on withdrawals.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

B. Receivables

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

	General	Summit	Escondido	Nonmajor		Total
	Rock PID	PID	Governmental	Utility		
Property taxes	\$ 69,416	\$ -	\$ -	\$ 6,423	\$ -	\$ 75,839
Sales tax	438,716	-	-	-	-	438,716
Franchise & local taxes	71,162	-	-	-	-	71,162
Assessments - long-term	-	-	3,055,000	-	-	3,055,000
Assessments - delinquent	-	7,358	3,664	-	-	11,022
Liens	52,187	-	-	-	-	52,187
Accounts	55,339	-	-	9	1,585,707	1,641,055
Allowance	(52,187)	-	-	-	(116,619)	(168,806)
	<u>\$ 634,633</u>	<u>\$ 7,358</u>	<u>\$ 3,058,664</u>	<u>\$ 6,432</u>	<u>\$ 1,469,088</u>	<u>\$ 5,176,175</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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	\$ 146,856	\$ -	\$ -	\$ 146,856
Total capital assets not being depreciated	<u>146,856</u>	<u>-</u>	<u>-</u>	<u>146,856</u>
Capital assets, being depreciated:				
Infrastructure	32,763,183	1,939,064	-	34,702,247
Buildings and improvements	4,449,570	-	-	4,449,570
Machinery and equipment	3,630,990	223,221	(49,613)	3,804,598
Total capital assets being depreciated	<u>40,843,743</u>	<u>2,162,285</u>	<u>(49,613)</u>	<u>42,956,415</u>
Less accumulated depreciation				
Infrastructure	9,477,307	1,692,914	-	11,170,221
Buildings and improvements	2,683,952	157,955	-	2,841,907
Machinery and equipment	2,415,993	250,950	(49,613)	2,617,330
Total accumulated depreciation	<u>14,577,252</u>	<u>2,101,819</u>	<u>(49,613)</u>	<u>16,629,458</u>
Net capital assets being depreciated	26,266,491	60,466	-	26,326,957
Total Capital Assets	<u>\$ 26,413,347</u>	<u>\$ 60,466</u>	<u>\$ -</u>	<u>\$ 26,473,813</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 51,211
Public safety	322,711
Streets	1,698,717
Development services	4,182
Culture and recreation	24,998
Total Governmental Activities Depreciation Expense	<u>\$ 2,101,819</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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	\$ 419,561	\$ -	\$ -	\$ 419,561
Construction in progress	6,025,961	1,321,231	(7,347,192)	-
Total capital assets not being depreciated	<u>6,445,522</u>	<u>1,321,231</u>	<u>(7,347,192)</u>	<u>419,561</u>
Capital assets, being depreciated:				
Infrastructure	44,940,089	132,600	7,347,192	52,419,881
Buildings and improvements	1,151,092	17,024	-	1,168,116
Machinery and equipment	3,369,702	650,163	(41,837)	3,978,028
Total capital assets being depreciated	<u>49,460,883</u>	<u>799,787</u>	<u>7,305,355</u>	<u>57,566,025</u>
Less accumulated depreciation				
Infrastructure	27,409,226	1,182,484	-	28,591,710
Buildings and improvements	676,657	54,312	-	730,969
Machinery and equipment	2,675,399	292,075	(41,837)	2,925,637
Total accumulated depreciation	<u>30,761,282</u>	<u>1,528,871</u>	<u>(41,837)</u>	<u>32,248,316</u>
Net capital assets being depreciated	18,699,601	(729,084)	7,347,192	25,317,709
Total Capital Assets	<u>\$ 25,145,123</u>	<u>\$ 592,147</u>	<u>\$ -</u>	<u>\$ 25,737,270</u>

Depreciation was charged to business-type activities as follows:

Utility	\$ 1,528,871
Total Business-type Activities Depreciation Expense	<u>\$ 1,528,871</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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	Refunding	Ending Balance	Amounts Due within One Year
Governmental Activities:						
Bonds, notes and other payables:						
Combination Tax and Revenue						
Certificates of Obligation	\$ 4,975,000	\$ 3,925,000	\$ (265,000)	\$ -	\$ 8,635,000	\$ 440,000
General Obligation Refunding						
Bonds	3,240,000	-	(275,000)	-	2,965,000	290,000
PID Special Assessments Bond	4,113,000	3,270,000	-	(4,113,000)	3,270,000	215,000
Less deferred amounts:						
For issuance premiums	507,527	223,006	(68,624)	-	661,909	-
Total Governmental Activities	<u>\$ 12,835,527</u>	<u>\$ 7,418,006</u>	<u>\$ (608,624)</u>	<u>\$ (4,113,000)</u>	<u>\$ 15,531,909</u>	<u>\$ 945,000</u>
Long-term liabilities due in more than one year					<u>\$ 14,586,909</u>	
Business-Type Activities:						
General Obligation Bonds	\$ 5,315,000	\$ -	\$ (590,000)	\$ -	\$ 4,725,000	\$ 610,000
Tax and Revenue Bonds	11,930,000	-	(310,000)	-	11,620,000	570,000
Less deferred amounts:						
For issuance premiums	753,948	-	(66,140)	-	687,808	-
Total Business-Type Activities	<u>\$ 17,998,948</u>	<u>\$ -</u>	<u>\$ (966,140)</u>	<u>\$ -</u>	<u>\$ 17,032,808</u>	<u>\$ 1,180,000</u>
Long-term liabilities due in more than one year					<u>\$ 15,852,808</u>	

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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 2039, interest at 2-3.75%	\$ 4,175,000	\$ 3,670,000	\$ 7,845,000
\$3,770,000 Certificates of Obligation, Series 2016, due in annual installments through 2031, interest at 2-4%	535,000	2,030,000	2,565,000
\$5,920,000 Certificates of Obligation, Series 2019, due in annual installments through 2039, interest at 2-4%	-	5,920,000	5,920,000
\$3,925,000 Certificates of Obligation, Series 2020, due in annual installments through 2039, interest at 2%	3,925,000	-	3,925,000
Total Certificates of Obligation	\$ 8,635,000	\$ 11,620,000	\$ 20,255,000
PID Special Assessment Bond:			
\$3,270,000 PID Special Assessment Refunding Bond, Series 2020, due in annual installments through 2034, interest at 3-3.25%	\$ 3,270,000	\$ -	\$ 3,270,000
General Obligation Bonds:			
\$7,500,000 General Obligation, Series 2007, due in installments through 2027, interest at 4.04%	\$ -	\$ 2,855,000	\$ 2,855,000
\$7,500,000 General Obligation Refunding Bonds, Series 2020, due in installments through 2030, interest at 2-5%	2,965,000	1,870,000	4,835,000
Total General Obligation Bonds	\$ 2,965,000	\$ 4,725,000	\$ 7,690,000
Less deferred amounts:			
Issuance premium	\$ 661,909	\$ 687,808	\$ 1,349,717
Total deferred amounts	\$ 661,909	\$ 687,808	\$ 1,349,717
Total Long-term Debt	\$ 15,531,909	\$ 17,032,808	\$ 32,564,717

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.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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

Year ending September 30,	Governmental Activities					
	2020 G.O. Bond		Certificates of Obligation		2020 Prop. Assess. Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 290,000	\$ 97,350	\$ 440,000	\$ 234,196	\$ 215,000	\$ 97,063
2023	300,000	85,550	455,000	224,346	210,000	90,688
2024	310,000	76,450	465,000	213,696	220,000	84,238
2025	320,000	70,150	480,000	200,871	230,000	77,488
2026	330,000	63,650	490,000	187,146	235,000	70,513
2027	335,000	53,650	385,000	173,071	240,000	63,388
2028	345,000	40,050	400,000	163,015	250,000	56,038
2029	360,000	25,950	415,000	152,290	255,000	48,463
2030	375,000	9,375	420,000	141,221	265,000	40,663
2031	-	-	435,000	129,909	275,000	32,563
2032	-	-	450,000	117,931	285,000	23,807
2033	-	-	460,000	105,365	290,000	14,463
2034	-	-	480,000	92,354	300,000	4,875
2035	-	-	490,000	78,069	-	-
2036	-	-	505,000	62,669	-	-
2037	-	-	520,000	47,313	-	-
2038	-	-	540,000	31,928	-	-
2039	-	-	560,000	15,700	-	-
2040	-	-	245,000	4,900	-	-
	\$ 2,965,000	\$ 522,175	\$ 8,635,000	\$ 2,375,991	\$ 3,270,000	\$ 704,249

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

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		2020 G.O. Bond	
	Principal	Interest	Principal	Interest
2022	\$ 430,000	\$ 115,342	\$ 180,000	\$ 61,600
2023	445,000	97,970	190,000	54,200
2024	465,000	79,992	200,000	48,400
2025	485,000	61,206	200,000	44,400
2026	505,000	41,612	200,000	40,400
2027	525,000	21,210	210,000	34,200
2028	-	-	220,000	25,600
2029	-	-	230,000	16,600
2030	-	-	240,000	6,000
	<u><u>\$ 2,855,000</u></u>	<u><u>\$ 417,332</u></u>	<u><u>\$ 1,870,000</u></u>	<u><u>\$ 331,400</u></u>

Year ending September 30,	Business-Type Activities					
	2014 C.O.O.		2016 C.O.O.		2019 C.O.O.	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 150,000	\$ 119,935	\$ 170,000	\$ 77,750	\$ 250,000	\$ 156,850
2023	150,000	116,935	175,000	72,650	260,000	146,850
2024	155,000	113,498	185,000	67,400	270,000	136,450
2025	165,000	109,085	190,000	60,000	280,000	125,650
2026	165,000	104,135	200,000	52,400	295,000	114,450
2027	175,000	99,035	205,000	44,400	305,000	102,650
2028	180,000	93,485	215,000	36,200	315,000	90,450
2029	185,000	87,554	220,000	27,600	325,000	84,150
2030	195,000	81,379	230,000	18,800	330,000	77,650
2031	200,000	74,960	240,000	9,600	335,000	71,050
2032	210,000	68,088	-	-	345,000	64,350
2033	220,000	60,670	-	-	350,000	57,450
2034	225,000	52,994	-	-	355,000	50,450
2035	235,000	44,413	-	-	365,000	42,906
2036	250,000	34,713	-	-	370,000	35,150
2037	260,000	25,000	-	-	380,000	26,825
2038	270,000	15,394	-	-	390,000	18,275
2039	280,000	5,250	-	-	400,000	9,500
	<u><u>\$ 3,670,000</u></u>	<u><u>\$ 1,306,520</u></u>	<u><u>\$ 2,030,000</u></u>	<u><u>\$ 466,800</u></u>	<u><u>\$ 5,920,000</u></u>	<u><u>\$ 1,411,106</u></u>

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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.

E. Debt Refunding

On October 19, 2020, the City issued \$3,270,000 in special assessment refunding bonds with an approximate interest rate of 3 - 3.25%. Bond proceeds received for \$3,295,663, including the premium of \$25,663, plus \$955,234 cash from the PID were used to advance refund \$4,113,000 of outstanding 2008 special assessment bonds, which had an average interest rate of 7.5%. The net proceeds of the refunding portion of \$3,949,845 (after payment of \$301,052 in underwriting fees and other issuance costs were deposited into an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded special assessment bond. As a result, the obligations are considered defeased and the liability for those certificates has been removed from the statement of net position.

The reacquisition price \$4,272,465 plus \$323,985 of future assessments receivable reduced due to principal savings exceeded the net carrying amount of the old debt and accrued interest relieved by \$160,830. This amount is being amortized over the remaining life of the refunding debt. This advance refunding reduced its total debt service payments by \$1,386,537 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$795,304. The refunding did not significantly change the debt service term of the related debt.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

F. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general and enterprise funds to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 227,274	\$ 158,129	\$ (204,548)	\$ 180,855	\$ 162,770
Total Governmental Activities	\$ 227,274	\$ 158,129	\$ (204,548)	\$ 180,855	\$ 162,770
Other Long-term Liabilities Due in More than One Year					
				\$ 18,085	
Business-Type Activities:					
Compensated Absences	\$ 63,520	\$ 43,402	\$ (57,168)	\$ 49,754	\$ 44,779
Total Business-Type Activities	\$ 63,520	\$ 43,402	\$ (57,168)	\$ 49,754	\$ 44,779
Other Long-term Liabilities Due in More than One Year					
				\$ 4,975	

G. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2019 general obligation refunding bonds and 2020 series refunding special assessment bonds have been recorded as deferred outflows of resources and are being amortized to interest expense over the shorter of either the remaining term of the refunded debt or the refunding debts. Current year balances for governmental and business-type activities totaled \$161,572 and \$2,879, respectively. Current year amortization expense for governmental and business-type activities totaled \$14,340 and \$344, respectively.

H. Interfund Transactions

Transfers between the primary government funds during the 2021 year were as follows:

		Transfer In		
		Nonmajor		
<u>Transfer out:</u>		General	Funds	Total
Utility		\$ 241,253	\$ -	\$ 241,253
General		-	39,739	39,739
		<hr/>	<hr/>	<hr/>
		\$ 241,253	\$ 39,739	\$ 280,992

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2021

The compositions of interfund due to/from balances as of the year ended September 30, 2021 were as follows:

Due to: (Payable Fund)	Due from: (Receivable Fund)				Total
	General	Debt service	Utility		
Capital projects	\$ 100	\$ -	\$ -		\$ 100
General	-	10,830	-		10,830
Summit Rock PID	-	-	47,827		47,827
Total	\$ 100	\$ 10,830	\$ 47,827		\$ 58,757

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, 2021 were as follows:

Advances to:	Advances from:		Total
	Utility		
Summit Rock PID	\$ 4,041,140		\$ 4,041,140
Total	\$ 4,041,140		\$ 4,041,140

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.

I. 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.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2021

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

	Governmental Funds Restricted	Governmental Activities Restricted	Business-Type Activities Restricted
* Court technology and security	\$ 12,643	\$ 12,643	\$ -
* Police department seizures	8,957	8,957	-
* PEG	69,655	69,655	-
* Child safety	30,220	30,220	-
PID activities, including debt service	797,336	3,856,000	-
Debt service	64,825	64,825	-
Capital projects	2,058,993	-	554,195
Parks	-	-	-
Employee benefits	-	-	-
	<u>3,042,629</u>	<u>4,042,300</u>	<u>554,195</u>

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

City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2021

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. 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.

D. Subsequent Events

There were no material subsequent events through January 28, 2022, 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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues</u>				
Property tax	\$ 5,434,000	\$ 5,434,000	\$ 5,575,830	\$ 141,830
Sales tax	1,437,750	1,437,750	1,858,521	420,771
Franchise and local taxes	314,500	314,500	319,719	5,219
License and permits	303,250	310,250	483,440	173,190
Charges for services	961,250	961,250	1,055,756	94,506
Intergovernmental revenue	-	174,500	207,880	33,380
Fire and police	353,000	364,500	368,533	4,033
Investment income	45,000	5,000	3,722	(1,278)
Other revenue	132,750	137,750	103,134	(34,616)
Total Revenues	8,981,500	9,139,500	9,976,535	837,035
<u>Expenditures</u>				
Current:				
General government	2,013,250	2,040,250	1,951,100	89,150
Police department	2,209,250	2,196,250	2,250,346	(54,096) *
Development services	785,000	787,000	750,675	36,325
Fire	2,502,000	2,540,500	2,505,575	34,925
Animal control	200,750	200,750	176,822	23,928
Streets	609,500	624,500	595,642	28,858
Mowing and clearing	585,000	585,000	646,029	(61,029) *
Technology services	319,250	319,250	270,137	49,113
Capital outlay	246,000	286,000	242,125	43,875
Total Expenditures	9,470,000	9,579,500	9,388,451	191,049
Revenues Over (Under)				
Expenditures	\$ (488,500)	\$ (440,000)	\$ 588,084	\$ 1,028,084
<u>Other Financing Sources (Uses)</u>				
Transfers in	\$ 243,000	\$ 243,000	\$ 241,253	\$ (1,747)
Sale of Properties	12,000	28,000	28,000	-
Transfers (out)	-	-	(39,739)	(39,739) *
Insurance recoveries	-	4,000	3,950	(50)
Total Other Financing Sources (Uses)	255,000	275,000	233,464	(41,536)
Net Change in Fund Balance	\$ (233,500)	\$ (165,000)	\$ 821,548	\$ 986,548
Beginning fund balance			3,394,864	
Ending Fund Balance			\$ 4,216,412	

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, 2021

	Debt Service	Police Dept. Seizure	Court Child Safety
Assets			
Cash and cash equivalents	\$ 53,995	\$ 8,957	\$ 30,211
Accounts receivable	6,423	-	9
Due from other funds	10,830	-	-
Total Assets	\$ 71,248	\$ 8,957	\$ 30,220

Deferred Inflows of Resources

Unavailable revenue:

Property taxes	6,423	-	-
Total Deferred Inflows of Resources	6,423	-	-

Fund Balances

Restricted for:

Debt service	64,825	-	-
Court	-	-	30,220
Police department seizures	-	8,957	-
Total Fund Balances	64,825	8,957	30,220

Total Liabilities, Fund Balances, and Deferred Inflows of

Resources **\$ 71,248** **\$ 8,957** **\$ 30,220**

Court Technology	Court Security	Total
\$ 5,591	\$ 7,052	\$ 105,806
-	-	6,432
-	-	10,830
<u>\$ 5,591</u>	<u>\$ 7,052</u>	<u>\$ 123,068</u>

-	-	6,423
-	-	6,423

-	-	64,825
5,591	7,052	42,863
-	-	8,957
<u>5,591</u>	<u>7,052</u>	<u>116,645</u>
<u>\$ 5,591</u>	<u>\$ 7,052</u>	<u>\$ 123,068</u>

City of Horseshoe Bay, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

	Debt Service	Police Dept. Seizure	Court Child Safety
Revenues			
Property tax	\$ 828,848	\$ -	\$ -
Investment income	177	4	-
Other revenue	-	-	7,126
Total Revenues	829,025	4	7,126
Expenditures			
General government	-	-	6,000
Debt Service:			
Principal	540,000	-	-
Interest and fiscal charges	328,794	-	-
Total Expenditures	868,794	-	6,000
Revenues Over (Under) Expenditures	(39,769)	4	1,126
Other Financing Sources (Uses)			
Transfers in	-	-	29,094
Total Other Financing Sources (Uses)	-	-	29,094
Net Change in Fund Balances	(39,769)	4	30,220
Beginning fund balances	104,594	8,953	-
Ending Fund Balances	\$ 64,825	\$ 8,957	\$ 30,220

Court Technology	Court Security	Total
\$ -	\$ -	\$ 828,848
-	-	181
952	1,046	9,124
<u>952</u>	<u>1,046</u>	<u>838,153</u>
-	-	6,000
-	-	540,000
-	-	328,794
<u>-</u>	<u>-</u>	<u>874,794</u>
952	1,046	(36,641)
<u>952</u>	<u>1,046</u>	<u>(36,641)</u>
4,639	6,006	39,739
<u>4,639</u>	<u>6,006</u>	<u>39,739</u>
5,591	7,052	3,098
\$ -	\$ -	\$ 113,547
<u>\$ 5,591</u>	<u>\$ 7,052</u>	<u>\$ 116,645</u>