

CITY OF HORSESHOE BAY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

CITY OF HORSESHOE BAY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Horseshoe Bay, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Horseshoe Bay, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

February 22, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Horseshoe Bay, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2017. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$30,267,671 (net position). Of this amount, \$6,406,157 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position decreased by \$512,270 as a result of this period's operations.
- At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$5,419,344.
- At September 30, 2017, the City's Utility Fund reported total net position of \$8,603,811 and unrestricted net position of \$1,026,133.

USING THIS ANNUAL REPORT

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

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

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

The Budgetary Comparison Schedule (general fund) is presented as required supplementary information on page 34.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

The City has two kinds of funds:

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

The City as Trustee

The City is the fiduciary for assessments levied and collected for Summit Rock Public Improvement District No. 1 and Escondido Public Improvement District No.1. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 20. We exclude these resources from the City's other financial statements because the City cannot use these assets to finance its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities increased by \$597,626 (from \$21,066,234 to \$21,663,860). This increase in governmental net position was the result of three factors. First the City's revenues exceeded the expenditures by \$1,713,936. Second, the City issued long-term debt in the amount of \$920,000 and paid long-term debt in the amount of \$425,000. Third, the City recorded capital asset purchases in the amount of \$1,326,197, depreciation in the amount of \$1,874,705, and a prior period adjustment in the amount of \$50,890. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$5,380,024 at September 30, 2017.

Net position of the City's business-type activities decreased by \$3,437,180 (from \$12,040,991 to \$8,603,811). This decrease in business-type net position was the result of a net loss of \$1,059,006 and a prior period adjustment of \$2,378,174. Unrestricted net position was \$1,026,133 at September 30, 2017.

Table I
City of Horseshoe Bay

NET POSITION

in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 6,175	\$ 4,356	\$ 6,654	\$ 2,382	\$ 12,829	\$ 6,738
Capital Assets	26,571	27,259	21,708	22,474	48,279	49,733
Total Assets	\$ 32,746	\$ 31,615	\$ 28,362	\$ 24,856	\$ 61,108	\$ 56,472
Long-Term Liabilities	\$ 9,915	\$ 9,531	\$ 13,646	\$ 11,486	\$ 23,561	\$ 21,017
Other Liabilities	1,150	1,000	6,103	1,329	7,253	2,329
Total Liabilities	\$ 11,065	\$ 10,531	\$ 19,749	\$ 12,815	\$ 30,814	\$ 23,346
Deferred Inflow of Resources						
Unavailable Revenue -						
Property Taxes	18	18			18	18
Total Deferred Inflows of Resources	18	18	-	-	18	18
Net Position						
Net Investment in						
Capital Assets	\$ 16,131	\$ 17,303	\$ 7,578	\$ 8,874	\$ 23,709	\$ 26,177
Restricted	153	162		-	153	162
Unrestricted	5,380	3,601	1,035	3,167	6,415	6,768
Total Net Position	\$ 21,664	\$ 21,066	\$ 8,613	\$ 12,041	\$ 30,277	\$ 33,107

Table II
City of Horseshoe Bay

CHANGES IN NET POSITION
in thousands

	Governmental		Business-Type		TOTALS	
	Activities		Activities		Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Charges for Services	\$ 2,022	\$ 1,864	\$ 6,883	\$ 6,403	\$ 8,905	\$ 8,267
Stand-by Charges					-	-
Property Tax	4,669	4,204			4,669	4,204
Other Taxes	1,373	1,297			1,373	1,297
Penalty & Interest	24	28			24	28
Investment Earnings	45	19	185	4	230	23
Miscellaneous	271	43	32	36	303	79
Total Revenue	\$ 8,404	\$ 7,455	\$ 7,100	\$ 6,443	\$ 15,504	\$ 13,898
Expenses:						
General Government	\$ 1,805	\$ 1,807			\$ 1,805	\$ 1,807
Police	1,852	1,865			1,852	1,865
Fire	2,145	1,944			2,145	1,944
Streets	1,639	1,603			1,639	1,603
Development Services	389	340			389	340
Mowing and Clearing	525	565			525	565
Utilities			5,314	4,731	5,314	4,731
Debt Service	342	307	510	448	852	755
Capital Outlay	128	108			128	108
Depreciation			1,358	1,331	1,358	1,331
Total Expenses	\$ 8,825	\$ 8,539	\$ 7,182	\$ 6,510	\$ 16,007	\$ 15,049
Increase (Decrease) in Net Position						
Before Transfers &						
Capital Grants	\$ (421)	\$ (1,084)	\$ (82)	\$ (67)	\$ (503)	\$ (1,151)
Capital Contributions				740	-	740
Transfers	968	2838	(968)	(2,838)	-	-
Change in Net Position	547	1,754	(1,050)	(2,165)	(503)	(411)
Net Position, Beginning	21,066	19,312	12,041	14,206	33,107	33,518
Prior Period Adjustment	51		(2,378)		(2,327)	
Net Position, Ending	\$ 21,664	\$ 21,066	\$ 8,613	\$ 12,041	\$ 30,277	\$ 33,107

The cost of all governmental activities this year was \$8,825,165. However, as shown in the Statement of Activities on page 10 and 11, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$4,669,416, because the other costs were paid by sales tax (\$1,087,720), user charges (\$2,022,336), other taxes (\$284,984), investment revenue (\$44,763) and miscellaneous other revenue (\$238,583).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$5,419,344. Included in this year's total change in fund balance is an increase of \$1,723,680 in the City's General Fund.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts by \$471,360, and actual expenditures were less than budgeted amounts by \$1,192,852. A large portion of the surplus funds is budgeted to go towards capital projects in Fiscal Year 2018, instead of issuing debt to fund these projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2017, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS
In thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 167	\$ 127	\$ 420	\$ 420	\$ 587	\$ 547
Infrastructure	28,180	28,180	41,266	43,121	69,446	71,300
Machinery and Equipment	3,118	2,374	3,250	2,999	6,369	5,373
Buildings and Improvements	4,236	4,074	1,068	874	5,303	4,948
Construction in Progress	-	-	3,670	1,688	3,670	1,688
Total Capital Assets	\$ 35,701	\$ 34,755	\$ 49,674	\$ 49,101	\$ 85,375	\$ 83,856
Less: Accumulated Depreciation	(9,130)	(7,496)	(27,966)	(26,627)	(37,096)	(34,123)
Capital Assets, Net	\$ 26,571	\$ 27,259	\$ 21,708	\$ 22,475	\$ 48,279	\$ 49,734

This period's major additions included:

	Governmental Activities	Business Type Activities
Infrastructure	\$	\$ 446,387
Land (Donated House)	40,050	
Machinery and Equipment	1,124,478	106,350
Buildings & Improvements	161,669	78,784
Construction In Progress		3,298,768
TOTALS	\$ 1,326,197	\$ 3,930,289

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

DEBT

For governmental activities, the City had \$10,155,000 in combination tax and revenue Certificates of Obligation outstanding.

For business-type activities, the City had \$14,130,000 in general obligation refunding bonds and combination tax and revenue bonds outstanding.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget and tax rates. The major factors are the assessed property values and population growth. These indicators were taken into account when adopting the General Fund budget for 2018. Total revenues in the General Fund budget are \$7,579,750 and expenditures are estimated to be \$7,337,750. Accordingly, the General Fund fund balance should increase by \$242,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office by phone at (830)598-8741 or in person at 1 Community Drive, Horseshoe Bay, Texas 78657.

BASIC FINANCIAL STATEMENTS

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 173,246	\$ 220,141	\$ 393,387
Investments - Current	5,606,599	415,766	6,022,365
Interest Receivable - Note Receivable	-	7,977	7,977
Accounts Receivable (Net)	402,267	663,143	1,065,410
Note Receivable - Summit Rock PID	-	4,281,911	4,281,911
Due from Other Funds	(6,898)	1,000	(5,898)
Due from Fiduciary Funds	294	946,758	947,052
Inventories	-	117,668	117,668
Capital Assets:			
Land Purchase and Improvements	167,406	419,563	586,969
Infrastructure, Net	28,179,836	41,266,302	69,446,138
Buildings, Net	4,235,615	1,067,865	5,303,480
Furniture and Equipment, Net	3,118,385	3,250,280	6,368,665
Accumulated Depreciation	(9,129,838)	(27,966,443)	(37,096,281)
Construction in Progress	-	3,670,112	3,670,112
Total Assets	<u>32,746,912</u>	<u>28,362,043</u>	<u>61,108,955</u>
LIABILITIES			
Accounts Payable	112,421	325,695	438,116
Wages and Salaries Payable	202,208	70,051	272,259
Compensated Absences Payable	-	46,217	46,217
Due to Fiduciary Funds	2,000	-	2,000
Accrued Interest Payable	40,446	69,145	109,591
Unearned Revenues	56,583	4,320,201	4,376,784
Other Current Liabilities	211,040	440,791	651,831
Noncurrent Liabilities:			
Debt Due Within One Year	525,000	840,000	1,365,000
Bonds Payable - Noncurrent	9,914,973	13,646,132	23,561,105
Total Liabilities	<u>11,064,671</u>	<u>19,758,232</u>	<u>30,822,903</u>
DEFERRED INFLOW OF RESOURCES			
Unavailable Revenue - Property Taxes	18,381	-	18,381
Total Deferred Inflows of Resources	<u>18,381</u>	<u>-</u>	<u>18,381</u>
NET POSITION			
Net Investment in Capital Assets	16,131,430	7,577,678	23,709,108
Restricted for:			
Restricted for Debt Service	130,041	-	130,041
Restricted for Construction	22,365	-	22,365
Unrestricted Net Position	5,380,024	1,026,133	6,406,157
Total Net Position	<u>\$ 21,663,860</u>	<u>\$ 8,603,811</u>	<u>\$ 30,267,671</u>

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Expenses	Program Revenues
		Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	1,804,643	759,730
Police	1,852,292	116,184
Fire Protection	2,145,159	-
Highways and Streets	1,638,690	433,236
Development Services	389,183	160,655
Mowing & Clearing	525,097	552,531
Interest on Debt	313,566	-
Issuance Costs	28,697	-
Capital Outlay	127,838	-
Total Governmental Activities	8,825,165	2,022,336
BUSINESS-TYPE ACTIVITIES:		
Water Utility	7,191,018	6,882,836
Total Business-Type Activities	7,191,018	6,882,836
TOTAL PRIMARY GOVERNMENT:	\$ 16,016,183	\$ 8,905,172

General Revenues:

Taxes:

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

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,044,913)	\$ -	\$ (1,044,913)
(1,736,108)	-	(1,736,108)
(2,145,159)	-	(2,145,159)
(1,205,454)	-	(1,205,454)
(228,528)	-	(228,528)
27,434	-	27,434
(313,566)	-	(313,566)
(28,697)	-	(28,697)
(127,838)	-	(127,838)
<u>(6,802,829)</u>	<u>-</u>	<u>(6,802,829)</u>
-	(308,182)	(308,182)
-	(308,182)	(308,182)
<u>(6,802,829)</u>	<u>(308,182)</u>	<u>(7,111,011)</u>
3,922,309	-	3,922,309
747,107	-	747,107
1,087,720	-	1,087,720
284,984	-	284,984
24,229	-	24,229
31,503	-	31,503
44,764	185,542	230,306
238,583	32,000	270,583
968,366	(968,366)	-
<u>7,349,565</u>	<u>(750,824)</u>	<u>6,598,741</u>
546,736	(1,059,006)	(512,270)
21,066,234	12,040,991	33,107,225
50,890	(2,378,174)	(2,327,284)
<u>\$ 21,663,860</u>	<u>\$ 8,603,811</u>	<u>\$ 30,267,671</u>

CITY OF HORSESHOE BAY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 135,269	\$ 29,073	\$ 8,904	\$ 173,246
Investments - Current	5,469,644	4,914	132,041	5,606,599
Taxes Receivable	103,033	-	19,513	122,546
Accounts Receivable (Net)	230,355	-	-	230,355
Due from Other Funds	294	-	-	294
Total Assets	\$ 5,938,595	\$ 33,987	\$ 160,458	\$ 6,133,040
LIABILITIES				
Accounts Payable	\$ 112,421	\$ -	\$ -	\$ 112,421
Wages and Salaries Payable	196,586	5,622	-	202,208
Due to Other Funds	898	6,000	2,000	8,898
Unearned Revenues	47,679	-	8,904	56,583
Other Current Liabilities	211,040	-	-	211,040
Total Liabilities	568,624	11,622	10,904	591,150
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	103,033	-	19,513	122,546
Total Deferred Inflows of Resources	103,033	-	19,513	122,546
FUND BALANCES				
Restricted Fund Balance:				
Restricted for Court Technology	2,334	-	-	2,334
Capital Acquisition and Contractual Obligation	-	22,365	-	22,365
Retirement of Long-Term Debt	-	-	130,041	130,041
Restricted for Municipal Court Building Sec	4,365	-	-	4,365
Unassigned Fund Balance	5,260,239	-	-	5,260,239
Total Fund Balances	5,266,938	22,365	130,041	5,419,344
Total Liabilities, Deferred Inflows & Fund Balances	\$ 5,938,595	\$ 33,987	\$ 160,458	\$ 6,133,040

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

CITY OF HORSESHOE BAY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$	5,419,344
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		17,264,811
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase net position.		1,748,927
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,874,705)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(894,517)
Net Position of Governmental Activities	\$	21,663,860

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 3,922,322	\$ -	\$ 744,345	\$ 4,666,667
General Sales and Use Taxes	1,087,720	-	-	1,087,720
Other Taxes	284,984	-	-	284,984
Penalty and Interest on Taxes	24,229	-	-	24,229
Licenses and Permits	146,842	-	-	146,842
Charges for Services	1,381,328	-	-	1,381,328
Fines	65,064	-	-	65,064
Special Assessments	433,236	-	-	433,236
Investment Earnings	42,670	155	1,939	44,764
Rents and Royalties	9,000	-	-	9,000
Contributions & Donations from Private Sources	31,503	-	-	31,503
Other Revenue	188,962	-	-	188,962
Total Revenues	7,617,860	155	746,284	8,364,299
EXPENDITURES:				
Current:				
General Government	1,798,403	-	-	1,798,403
Public Safety:				
Police	1,793,049	-	-	1,793,049
Fire Protection	2,017,855	-	-	2,017,855
Public Works:				
Highways and Streets	172,127	-	-	172,127
Development Services	366,087	-	-	366,087
Mowing & Clearing	493,935	-	-	493,935
Debt Service:				
Principal on Debt	-	-	425,000	425,000
Interest on Debt	-	-	323,992	323,992
Capital Outlay:				
Capital Outlay	100,442	1,127,838	-	1,228,280
Total Expenditures	6,741,898	1,127,838	748,992	8,618,728
Excess (Deficiency) of Revenues Over (Under) Expenditures	875,962	(1,127,683)	(2,708)	(254,429)
OTHER FINANCING SOURCES (USES):				
Issuance of Bonds	-	1,000,000	-	1,000,000
Transfers In	1,034,291	120,647	-	1,154,938
Transfers Out (Use)	(186,573)	-	-	(186,573)
Total Other Financing Sources (Uses)	847,718	1,120,647	-	1,968,365
Net Change in Fund Balances	1,723,680	(7,036)	(2,708)	1,713,936
Fund Balance - October 1 (Beginning)	3,492,368	29,401	132,749	3,654,518
Prior Period Adjustment	50,890	-	-	50,890
Fund Balance - September 30 (Ending)	\$ 5,266,938	\$ 22,365	\$ 130,041	\$ 5,419,344

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

CITY OF HORSESHOE BAY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	1,713,936
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to increase the change in net position.		1,748,927
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(1,874,705)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(1,041,422)
Change in Net Position of Governmental Activities	\$	546,736

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	Business Type Activities
	Water Utility
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 220,141
Investments - Current	415,766
Interest Receivable - Note Receivable	7,977
Accounts Receivable (Net)	663,143
Note Receivable - Summit Rock PID	4,281,911
Due from Other Funds	1,000
Due from Fiduciary Funds	946,758
Inventories	117,668
Total Current Assets	<u>6,654,364</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	419,563
Infrastructure	41,266,302
Buildings	1,067,865
Furniture and Equipment	3,250,280
Accumulated Depreciation - Capital Assets	(27,966,443)
Construction in Progress	3,670,112
Total Noncurrent Assets	<u>21,707,679</u>
Total Assets	<u>28,362,043</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	325,694
Wages and Salaries Payable	70,051
Compensated Absences Payable	46,217
Accrued Interest Payable	69,145
Unearned Revenues	4,320,201
Bonds Payable - Current	840,000
Other Current Liabilities	440,791
Total Current Liabilities	<u>6,112,099</u>
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	13,290,000
Unamortized Premiums (Discounts) on Bonds	356,132
Total Noncurrent Liabilities	<u>13,646,132</u>
Total Liabilities	<u>19,758,231</u>
NET POSITION	
Net Investment in Capital Assets	7,577,678
Unrestricted Net Position	1,026,133
Total Net Position	<u>\$ 8,603,811</u>

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-2

	Business-Type Activities
	Water Utility
OPERATING REVENUES:	
Charges for Water Services	\$ 3,649,082
Charges for Sewerage Service	2,342,293
Charges for Sanitation Service	890,306
Standby Charges	1,155
Other Revenue	31,999
Total Operating Revenues	6,914,835
OPERATING EXPENSES:	
Proprietary Fund Function - Utility Fund	
Personnel Services - Salaries and Wages	1,399,089
Personnel Services - Employee Benefits	588,204
Purchased Professional & Technical Services	951,825
Purchased Property Services	2,108,387
Other Operating Costs	261,098
Supplies	14,271
Total Proprietary Fund Function - Utility Fund	5,322,874
Depreciation	1,357,808
Total Operating Expenses	6,680,682
Operating Income	234,153
NONOPERATING REVENUES (EXPENSES):	
Transfers In	198,000
Investment Earnings	185,542
Interest Expense - Non-Operating	(475,790)
Bond Issuance Cost	(34,546)
Total NonOperating Revenue (Expenses)	(126,794)
Income Before Transfers	107,359
Transfers Out (Use)	(1,166,365)
Change in Net Position	(1,059,006)
Total Net Position - October 1 (Beginning)	12,040,991
Prior Period Adjustment	(2,378,174)
Total Net Position - September 30 (Ending)	\$ 8,603,811

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities
	Water Utility
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 6,887,794
Cash Received from - Others	32,000
Cash Payments to Employees for Services	(1,973,243)
Cash Payments for Suppliers	(14,271)
Cash Payments for Other Operating Expenses	(2,807,830)
Net Cash Provided by Operating Activities	<u>2,124,450</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer In	<u>72,855</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(3,930,289)
Bond Proceeds	2,850,000
Bond Principal Payments	(830,000)
Interest Paid	(485,388)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(2,395,677)</u>
<u>Cash Flows from Investing Activities:</u>	
Note Receivable - Summit Rock PID	238,019
Interest Note Receivable - Summit Rock PID	96,357
Interest & Dividends on Investments	11,636
Net Cash Provided by Investing Activities	<u>346,012</u>
Net Increase in Cash and Cash Equivalents	147,640
Cash and Cash Equivalents at the Beginning of the Year	<u>488,267</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 635,907</u></u>

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities
	Water Utility
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income	\$ 234,153
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	1,357,808
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	14,824
Decrease (Increase) in Inventories	(11,619)
Increase (Decrease) in Accounts Payable	289,569
Increase (Decrease) in Due from Other Funds	209,750
Increase (Decrease) in Wages Payable	(2,520)
Increase (Decrease) in Compensated Absences	3,944
Increase (Decrease) in Other Current Liabilities	38,407
Increase (Decrease) in Deferred Revenue	(9,866)
Net Cash Provided by Operating Activities	<u>\$ 2,124,450</u>

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

CITY OF HORSESHOE BAY, TEXAS
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2017

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 2,346
Investments - Current	1,042,034
Due from Other Funds	2,000
Assessments Receivable	4,281,911
Total Assets	<u>\$ 5,328,291</u>
LIABILITIES	
Contracts Payable	\$ 2,053
Due to Other Funds	941,153
Due to Others	95,197
Accrued Interest Payable	7,977
Note Payable - City of Horseshoe Bay	4,281,911
Total Liabilities	<u>\$ 5,328,291</u>

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

CITY OF HORSESHOE BAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Creation of the City

At a special election held on September 10, 2005, voters approved incorporation of the City of Horseshoe Bay as a Type A, General-Law-Municipality. At a special election held on November 8, 2005, voters elected a mayor and five Council Members. In January, 2006, the City approved a strategic partnership agreement with the Lake LBJ Municipal Utility District. Pursuant to the terms of the agreement, on March 6, 2006, the City annexed the Lake LBJ Municipal Utility District. All assets, liabilities and equity of the District were transferred to the City and the District was subsequently dissolved. The City became a Home Rule City when a majority of the voters approved the Home Rule Charter at a special election held on May 9, 2009.

B. Reporting Entity

In evaluating how to define the government, for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

C. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

E. Fund Accounting

The City reports the following major funds:

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

Proprietary Fund:

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

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

1. **Special Revenue Funds** – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.
2. **Debt Service Fund** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

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

F. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position

1. In the government-wide financial statements in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

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

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

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

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

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

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

4. Implementation of GASB Accounting Standard:

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

5. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

6. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

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

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

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2017, the carrying amount of the City's deposits was \$393,387 and the bank balance was \$536,977. The City's cash deposits at September 30, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act and with local policies.

The carrying value of investments at September 30, 2017 was \$6,022,365 (Texpool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

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

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2017 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, Texpool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City fiscal year.

The City contracted with the Llano Central Appraisal District and the Burnet Central Appraisal District for the appraisal and with Llano County Tax Assessor and Burnet County Appraisal District for the collection of taxes. For the 2016 tax roll, the assessed valuation was \$1,794,555,811 and the tax rate was \$.26 per \$100 valuation (general fund - .2186; debt service fund - .0414).

C. Note Receivable – Enterprise Fund

On November 29, 2011 the City received a promissory note in the amount of \$5,400,000 from Summit Rock Communities, LLC for the provision of infrastructure and water utility service to the development known as Summit Rock Public Improvement District No.1. The interest rate due under this promissory note shall be equal to the lesser of the base rate or the maximum lawful rate; provided, however, the interest rate shall never be less than three percent (3%) per annum nor more than seven percent (7%) per annum. All principal and interest shall be due and payable solely from the assessments levied and collected each year. Payments and reimbursements shall be made on March 1 and August 1 of each year beginning March 1, 2012. The City is entitled to seek payments and/or reimbursements for an aggregate amount equal to the outstanding balance of the note and all obligations related thereto. There is no stated maturity date. The balance of the note receivable as of September 30, 2017 was \$4,281,911.

D. Property, Plant and Equipment

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

	Balance 10/01/16	Additions	Deletions	Balance 09/30/17
Land	\$ 419,563	\$	\$	\$ 419,563
Infrastructure	42,471,184	2,134,422	3,339,305	41,266,301
Machinery and Equipment	3,162,177	106,350	18,247	3,250,280
Buildings & Improvements	989,081	78,784		1,067,865
Construction Work In Progress	2,059,379	3,298,768	1,688,035	3,670,112
Totals	\$ 49,101,384	\$ 5,618,324	\$ 5,045,587	\$ 49,674,121
Accumulated Depreciation	(26,626,883)	(1,357,807)	18,247	(27,966,443)
Fixed Assets, Net	\$ 22,474,501	\$ 4,260,517	\$ 5,027,340	\$ 21,707,678

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2017, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 127,356	\$ 40,050	\$	\$ 167,406
Streets	28,179,836	-	-	28,179,836
Machinery & Equipment	2,374,132	1,124,478	380,226	3,118,384
Buildings & Improvements	4,073,946	161,669		4,235,615
Construction Work in Progress	-			-
Totals at Historic Cost	\$ 34,755,270	\$ 1,326,197	\$ 380,226	\$ 35,701,241
Less Accumulated Depreciation	(7,496,092)	(1,874,705)	240,959	(9,129,838)
Governmental Activities				
Capital Assets, Net	\$ 27,259,178	\$ (548,508)	\$ (139,267)	\$ 26,571,403

Depreciation expense was charged to governmental functions as follows:

General Government	\$	113,459
Police		113,121
Fire Protection		127,304
Development Services		23,096
Streets		1,466,563
Lot Mowing and Clearing		31,162
	\$	<u>1,874,705</u>

F. Changes in Long-Term Liabilities

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

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:								
Combination Tax & Revenue								
Bonds - Series 2011	1.5%	\$ 6,000,000	\$ 148,415	\$ 4,710,000		\$ 275,000	\$ 4,435,000	\$ 280,000
Combination Tax & Revenue								
Bonds - Series 2014	2.0 - 4.0%	5,210,000	152,046	4,950,000		150,000	4,800,000	150,000
Premium Tax & Revenue								
Bonds - Series 2014	N/A	45,672	N/A	41,409		1,827	39,582	N/A
Combination Tax & Revenue								
Bonds - Series 2016	2.0 - 4.0%	920,000	23,531		920,000		920,000	95,000
Premium Tax & Revenue								
Bonds - Series 2016	N/A	108,697	N/A		108,697	10,870	97,827	N/A
Compensated Absences	N/A	N/A	N/A	249,645		102,081	147,564	N/A
Governmental Activity								
Long-Term Debt		\$ <u>12,284,369</u>	\$ <u>323,992</u>	\$ <u>9,951,054</u>	\$ <u>1,028,697</u>	\$ <u>539,778</u>	\$ <u>10,439,973</u>	\$ <u>525,000</u>

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

	Interest Rate	Original Issue	Interest Paid	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General Obligation Refunding Bonds -								
Series 2007	4.0%	\$ 7,500,000	\$ 206,242	\$ 4,765,000	-	355,000	\$ 4,410,000	\$ 365,000
Combination Tax & Revenue								
Bonds - Series 2011	1.5%	3,800,000	98,040	2,990,000	-	175,000	2,815,000	180,000
Combination Tax & Revenue								
Bonds - Series 2014	2.0 - 4.0%	4,590,000	136,436	4,355,000	-	130,000	4,225,000	135,000
Premium Tax & Revenue								
Bonds - Series 2014	N/A	40,237	N/A	36,483	-	1,609	34,874	N/A
Combination Tax & Revenue								
Bonds - Series 2016	2.0 - 4.0%	2,850,000	80,366		2,850,000	170,000	2,680,000	160,000
Premium Tax & Revenue								
Bonds - Series 2016	N/A	344,205	N/A		344,205	22,947	321,258	N/A
Business-Type Activity								
Long-Term Debt		\$ <u>19,124,442</u>	\$ <u>521,084</u>	\$ <u>12,146,483</u>	\$ <u>3,194,205</u>	\$ <u>854,556</u>	\$ <u>14,486,132</u>	\$ <u>840,000</u>

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

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

During 2014, the City issued \$9,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2014 to acquire and construct street improvements and expand utility infrastructure. The Certificates of Obligation were rated AA+ by Standard and Poor's. The repayment of the certificates is secured through the levy of a direct and continuing ad valorem tax against all taxable property within the City. The Certificates are also secured by a limited pledge of not to exceed \$1,000 of the surplus revenues of the City's water and wastewater system remaining after payment of all operation and maintenance expenses and all debt service, reserve and other requirements in connection with all the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City's water and wastewater system.

During the fiscal year ended 2017, the City issued \$3,770,000 Combination Tax and Revenue Certificates of Obligation, Series 2016 to acquire, construct, improve and expand the City's water and wastewater system, acquisition of two fire engines and related equipment and pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the Certificates. The repayment of the Certificates is secured through the levy of a direct and continuing ad valorem tax against all taxable property within the City. The Certificates are also secured by a limited pledge of not to exceed \$1,000 of the surplus revenues of the City's water and wastewater system remaining after payment of operations and maintenance expenses and all debt service, reserve and other requirements in connection with all the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all or any part of the revenues of the City's water and wastewater system.

The annual requirements to amortize the debt are as follows:

September 30	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 525,000	\$ 318,574	\$ 840,000	491,465	\$ 2,175,039
2019	540,000	306,499	860,000	466,256	2,172,755
2020	545,000	293,965	890,000	440,124	2,169,089
2021	570,000	280,610	920,000	412,720	2,183,330
2022	585,000	265,189	950,000	382,276	2,182,465
2023-2027	3,110,000	1,044,260	5,290,000	1,384,970	10,829,230
2028-2032	2,310,000	530,452	2,640,000	542,571	6,023,023
2033-2037	1,345,000	246,466	1,190,000	217,789	2,999,255
2038-2042	625,000	23,528	550,000	20,644	1,219,172
	\$ 10,155,000	\$ 3,309,543	\$ 14,130,000	\$ 4,358,815	\$ 31,953,358

G. Risk Management

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

The City contracts with the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) to provide insurance coverage for identified risks. TMLIRP is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TMLIRP. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2017 were \$166,674.

H. Retirement Savings Plan

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

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

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

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

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

A summary of transactions is shown below:

Beginning balance	\$ 3,853,772
Contributions	551,134
Investment earnings	517,990
Withdrawals	(547,887)
Loans	(234,595)
Fees	<u>(2,295)</u>
Ending balance	<u>\$ 4,138,119</u>

I. Employee Insurance Benefits

All regular and full time employees of the City are eligible to choose a medical plan from three plan options provided through United Healthcare. The City provides a base plan; employees can choose the base plan or a high-deductible plan with a Health Saving Account (HSA) or a lower deductible plan that allows the employee to pay for the increase in premium. The City pays the base plan's premium amount for employees regardless of the plan selected and 50% of the base plan premium amount for eligible dependents. The City provides group dental insurance through United Healthcare and pays the premium for eligible employees and 50% of the premium for eligible dependents.

J. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2017 and 2016. The City paid interest in the amount of \$485,388 in 2017 and \$440,717 in 2016.

K. Summit Rock Public Improvement District No. 1

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

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

The City shall make aggregate disbursements solely to pay for improvement costs up to \$20,750,000. Reimbursements to the owner for authorized owner expenditures shall be made by the City on March 6 and August 1 of each year. All such disbursements of improvement assessments shall be made to the owner or the owner's assignee. No reimbursements shall be made unless the owner has submitted its request for reimbursement to the City ten days prior to such date. No reimbursements have been made from the PID.

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

L. Escondido Public Improvement District No. 1

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

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

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

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

M. Interfund Transactions

Interfund balances at September 30, 2017 consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 5,297	\$ 5,902
Utility Fund	947,758	
Debt Service Fund		2,000
Capital Projects Fund		6,000
Agency Fund	2,000	941,153
TOTALS	<u>\$ 955,055</u>	<u>\$ 955,055</u>

During the year ended September 30, 2017, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,034,291	\$ 186,573
Utility Fund	198,000	1,166,365
Capital Projects Fund	120,647	
TOTALS	<u>\$ 1,352,938</u>	<u>\$ 1,352,938</u>

N. Other Taxes

Other taxes consisted of the following:

<u>Description</u>	<u>Amount</u>
Franchise Tax	\$ 200,870
Mixed Beverage Tax	84,114
	<u>\$ 284,984</u>

O. Contracts

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

Solid Waste Collection and Disposal Contract – The City entered into a solid waste collection and disposal contract with Republic Services of Austin in October, 2016. The contract is for a term of four (4) years ending September 30, 2020.

P. Excess of Expenditures Over Appropriations

Actual expenditures exceeded appropriations in the General Fund line item Fire Protection but not in total.

Q. Prior Period Adjustment

The following prior period adjustments were necessary in the governmental funds:

Explanation	Fund	Amount
Prior Year Payable	General Fund	\$ 3,500
Prior Year Double Entry to AR POA Streets	General Fund	(53,109)
Prior Year Grant Revenue Posted to Deferred Revenue	General Fund	110,250
Prior Year Grant Revenue Receivable Overstated	General Fund	(9,751)
		\$ 50,890

The restated beginning fund balance for the General Fund is \$3,543,258 and the restated beginning net position for the Governmental Activities is \$21,117,124.

The following prior period adjustment were necessary in the enterprise funds:

Explanation	Fund	Amount
Bond Issuance Cost - To Comply With GASB 65	Water Utility	\$ (145,642)
Summit Rock PID Note Receivable Prior Year Interest and Capital Contribution Corrections	Water Utility	1,025,497
Prior Year Engineering Cost Capitalized - Not Depreciated	Water Utility	(3,339,305)
Prior Year Utility Fund Overpayment Corrections	Water Utility	74,168
Prior Year Miscellaneous Payables	Water Utility	7,108
		\$ (2,378,174)

The restated beginning net position for the Water Utility Fund is \$9,662,817

R. Subsequent Events

The City has evaluated subsequent events through February 22, 2018, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HORSESHOE BAY, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 3,898,250	\$ 3,898,250	\$ 3,922,322	\$ 24,072
General Sales and Use Taxes	800,000	938,750	1,087,720	148,970
Other Taxes	226,750	259,250	284,984	25,734
Penalty and Interest on Taxes	22,500	22,500	24,229	1,729
Licenses and Permits	109,000	105,250	146,842	41,592
Charges for Services	1,341,500	1,272,250	1,381,328	109,078
Fines	14,500	57,000	65,064	8,064
Special Assessments	581,750	410,500	433,236	22,736
Investment Earnings	12,000	12,000	42,670	30,670
Rents and Royalties	9,000	9,000	9,000	-
Contributions & Donations from Private Sources	5,250	-	31,503	31,503
Other Revenue	37,000	161,750	188,962	27,212
Total Revenues	7,057,500	7,146,500	7,617,860	471,360
EXPENDITURES:				
Current:				
General Government	1,917,500	1,893,807	1,798,403	95,404
Public Safety:				
Police	1,828,500	1,828,500	1,793,049	35,451
Fire Protection	1,860,000	1,945,000	2,017,855	(72,855)
Public Works:				
Highways and Streets	220,000	220,000	172,127	47,873
Development Services	401,750	401,750	366,087	35,663
Mowing & Clearing	512,000	512,000	493,935	18,065
Capital Outlay:				
Capital Outlay	1,106,000	1,133,693	100,442	1,033,251
Total Expenditures	7,845,750	7,934,750	6,741,898	1,192,852
Excess (Deficiency) of Revenues Over (Under) Expenditures	(788,250)	(788,250)	875,962	1,664,212
OTHER FINANCING SOURCES (USES):				
Issuance of Bonds	1,000,000	1,000,000	-	(1,000,000)
Transfers In	-	-	1,034,291	1,034,291
Transfers Out (Use)	(178,000)	(178,000)	(186,573)	(8,573)
Total Other Financing Sources (Uses)	822,000	822,000	847,718	25,718
Net Change	33,750	33,750	1,723,680	1,689,930
Fund Balance - October 1 (Beginning)	3,492,368	3,492,368	3,492,368	-
Prior Period Adjustment	-	-	50,890	50,890
Fund Balance - September 30 (Ending)	\$ 3,526,118	\$ 3,526,118	\$ 5,266,938	\$ 1,740,820

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

SUPPLEMENTARY INFORMATION

CITY OF HORSESHOE BAY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2017

	PD Account Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 8,904	\$ -	\$ 8,904
Investments - Current	-	132,041	132,041
Taxes Receivable	-	19,513	19,513
Total Assets	<u>\$ 8,904</u>	<u>\$ 151,554</u>	<u>\$ 160,458</u>
LIABILITIES			
Due to Other Funds	\$ -	\$ 2,000	\$ 2,000
Unearned Revenues	8,904	-	8,904
Total Liabilities	<u>8,904</u>	<u>2,000</u>	<u>10,904</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	-	19,513	19,513
Total Deferred Inflows of Resources	<u>-</u>	<u>19,513</u>	<u>19,513</u>
FUND BALANCES			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	130,041	130,041
Total Fund Balances	<u>-</u>	<u>130,041</u>	<u>130,041</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 8,904</u>	<u>\$ 151,554</u>	<u>\$ 160,458</u>

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

CITY OF HORSESHOE BAY, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	PD Account Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ -	\$ 744,345	\$ 744,345
Investment Earnings	-	1,939	1,939
Total Revenues	<u>-</u>	<u>746,284</u>	<u>746,284</u>
EXPENDITURES:			
Debt Service:			
Principal on Debt	-	425,000	425,000
Interest on Debt	-	323,992	323,992
Total Expenditures	<u>-</u>	<u>748,992</u>	<u>748,992</u>
Net Change in Fund Balance	-	(2,708)	(2,708)
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>132,749</u>	<u>132,749</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 130,041</u>	<u>\$ 130,041</u>

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