

ANNUAL FINANCIAL REPORT

of the

City of Horseshoe Bay, Texas

**For the Year Ended
September 30, 2020**

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City of Horseshoe Bay, Texas

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September 30, 2020

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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, 2020, 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, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V.E. to the financial statements, the City restated the beginning net position of governmental and business-type activities, and the beginning fund balance of the general and utility funds due to accounting errors occurring in the prior year. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, flowing script.

Brooks Watson & Co.
Certified Public Accountants
Houston, Texas
January 11, 2021

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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, 2020

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, 2020.

Financial Highlights

- The City's total combined net position is \$32,232,384 at September 30, 2020. Of this, \$4,894,125 (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 \$3,238,752 or 36% of total general fund expenditures.
- The City had an overall increase in net position of \$276,744.

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 unassigned fund balance for the general fund was \$3,238,752, which was 36% of total general fund expenditures or approximately 4 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, 2020, the cash balance for the water utility fund was \$1,929,920, which is 33% of total utility fund expenses excluding depreciation, which is approximately 4 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, 2020

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, 2020

The City of Horseshoe Bay maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service, capital projects, Summit Rock Public Improvement District, Escondido Public Improvement District, and police department seizure funds. The general, Summit Rock Public Improvement District, 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, 2020

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 \$32,232,384 as of September 30, 2020, in the primary government.

The largest portion of the City's net position, \$21,616,866, 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, \$5,721,393, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$4,894,125 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

Current and other assets of business-type activities as of September 30, 2020 and September 30, 2019 were \$4,226,401 and \$1,611,196, respectively. The increase of \$2,615,205 was due to cash inflows from operations and debt issuances exceeding negative cash flows from capital investments, transfers, and debt service expenses.

Other liabilities of business-type activities as of September 30, 2020 and September 30, 2019 were \$1,345,845 and \$845,953, respectively. The increase of \$499,892 was primarily a result of greater payable balances owed at yearend for capital improvements and timing of payments subsequent to yearend.

Long-term liabilities of business-type activities as of September 30, 2020 and September 30, 2019 were \$18,005,300 and \$12,750,809, respectively. The increase of \$5,254,491 was a result of the bond issuance occurring in the current year.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 9,725,984	\$ 4,226,401	\$ 13,952,385	\$ 10,094,340	\$ 1,611,196	\$ 11,705,536
Internal balances	(4,232,610)	4,232,610	-	(4,249,033)	4,249,033	-
Capital assets, net	26,413,347	25,145,123	51,558,470	27,441,297	20,898,321	48,339,618
Total Assets	31,906,721	33,604,134	65,510,855	33,286,604	26,758,550	60,045,154
Deferred Outflows of Resources	15,082	3,222	18,304	-	-	-
Other liabilities	1,110,103	1,345,845	2,455,948	997,185	845,953	1,843,138
Long-term liabilities	12,835,527	18,005,300	30,840,827	13,495,567	12,750,809	26,246,376
Total Liabilities	13,945,630	19,351,145	33,296,775	14,492,752	13,596,762	28,089,514
Net Position:						
Net investment in capital assets	13,592,903	8,023,963	21,616,866	13,758,824	8,152,563	21,911,387
Restricted	5,721,393	-	5,721,393	5,789,363	-	5,789,363
Unrestricted	(1,338,123)	6,232,248	4,894,125	(754,335)	5,009,225	4,254,890
Total Net Position	\$ 17,976,173	\$ 14,256,211	\$ 32,232,384	\$ 18,793,852	\$ 13,161,788	\$ 31,955,640

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

Statement of Activities:

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

	For the Year Ended September 30, 2020			For the Year Ended September 30, 2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
			Primary Government			Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,811,068	\$ 9,522,101	\$ 11,333,169	\$ 1,816,549	\$ 8,213,077	\$ 10,029,626
Grants and contributions	25,659	18,000	43,659	-	-	-
General revenues:						
Property taxes	5,941,521	-	5,941,521	5,521,489	-	5,521,489
Sales taxes	1,427,303	-	1,427,303	1,581,453	-	1,581,453
Franchise and other taxes	301,260	-	301,260	333,974	-	333,974
Investment income	63,735	227,712	291,447	165,237	231,399	396,636
Other revenues	635,024	80,792	715,816	808,436	36,829	845,265
Total Revenues	10,205,570	9,848,605	20,054,175	10,227,138	8,481,305	18,708,443
Expenses						
General government	2,393,658	-	2,393,658	1,957,589	-	1,957,589
Development services	642,001	-	642,001	503,944	-	503,944
Public works	598,883	-	598,883	649,138	-	649,138
Public safety	5,191,136	-	5,191,136	4,918,531	-	4,918,531
Highways and streets	2,076,741	-	2,076,741	1,903,218	-	1,903,218
Culture and recreation	29,202	-	29,202	27,289	-	27,289
Interest and fiscal charges	789,185	513,876	1,303,061	819,544	441,819	1,261,363
Water utility	-	7,542,749	7,542,749	-	7,552,740	7,552,740
Total Expenses	11,720,806	8,056,625	19,777,431	10,779,253	7,994,559	18,773,812
Change in Net Position						
Before Transfers	(1,515,236)	1,791,980	276,744	(552,115)	486,746	(65,369)
Transfers	697,557	(697,557)	-	702,333	(702,333)	-
Total	697,557	(697,557)	-	702,333	(702,333)	-
Change in Net Position	(817,679)	1,094,423	276,744	150,218	(215,587)	(65,369)
Beginning Net Position	18,793,852	13,161,788	31,955,640	18,643,634	13,377,375	32,021,009
Ending Net Position	\$ 17,976,173	\$ 14,256,211	\$ 32,232,384	\$ 18,793,852	\$ 13,161,788	\$ 31,955,640

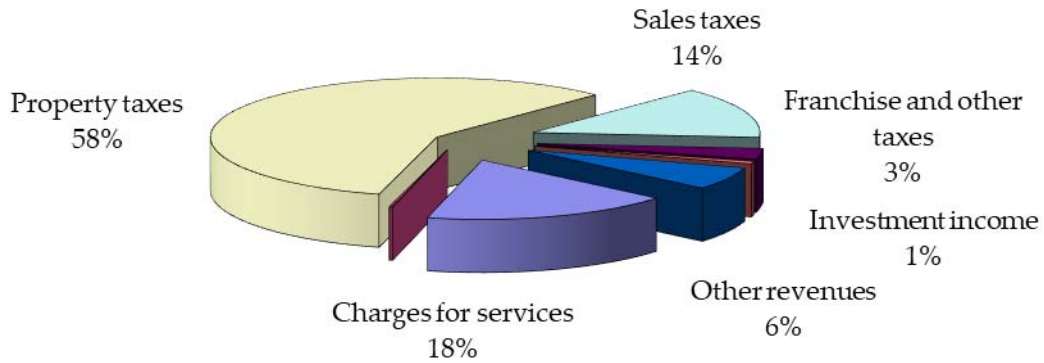
City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2020

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

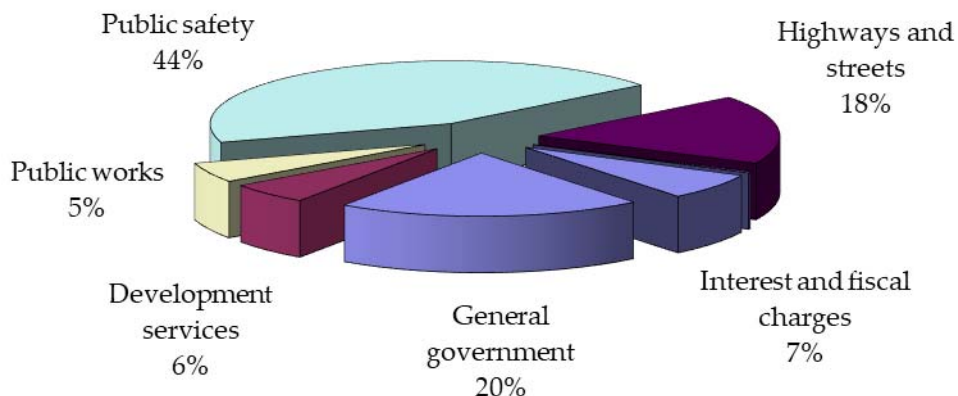
Governmental Activities - Revenues



For the year ended September 30, 2020, revenues from governmental activities totaled \$10,205,570. Property tax, sales tax and charges for services are the City's largest revenue sources. Property tax increased by \$420,032 or 8% due to an increase in the property tax rates and higher property values. Sales taxes and franchise taxes decreased by \$154,150 and \$32,714, respectively, which is primarily attributable to the impact of COVID-19 requiring local businesses to restrict occupancy as well as temporary closures during the last six months of the year. Investment income decreased by \$101,502 primarily due to the utilization of interest-bearing cash accounts and realization of lower interest rates realized in the current year. Other revenues decreased by \$173,412 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



City of Horseshoe Bay, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

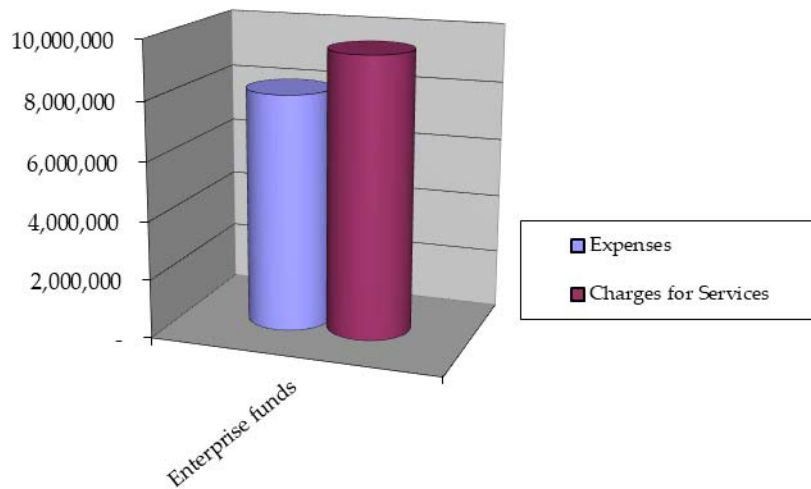
September 30, 2020

For the year ended September 30, 2020, expenses for governmental activities totaled \$11,720,806. This represents an increase of \$941,553 or 9% from the prior year. The City's largest functional expense is public safety of \$5,191,136, which includes operational expenses for the police, fire, and animal control departments. Public safety expenses increased by \$272,605 or 6% primarily due to increases in personnel costs and maintenance expenses. General government expenses increased by \$436,069 or 22% primarily as a result of greater salaries, professional services, maintenance, and dispatch expenses. In addition, nonrecurring expenses relating to COVID-19 were recognized in the current year. Development services increased by \$138,057 or 27% primarily as a result of greater personnel, professional services, and code enforcement action related expenses. Highway and streets expenses increased by \$173,523 or 9% primarily due to increases in salaries and street patching materials. All other expenses remained relatively consistent with the previous year.

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

For the year ended September 30, 2020, charges for services by business-type activities totaled \$9,522,101. This is an increase of \$1,309,024, or 16%, from the previous year. The increase was primarily due to increases in consumption and utility service rates in the current year.

Business-Type Activities - Revenues and Expenses



Total expenses increased \$62,066 or approximately 1%, which is considered minimal.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

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 \$3,394,864. Of this, \$#REF! is restricted for municipal court, \$64,829 is restricted for PEG, and \$13,190 is restricted for child safety. Unassigned fund balance totaled \$3,238,752 as of yearend. The general fund decreased by \$219,238 primarily due to transfers to other funds.

The Summit Rock PID fund reflected an ending deficit fund balance of \$4,203,353 as of September 30, 2020. This was an improvement of \$88,365 when compared to the deficit in fund balance as of September 30, 2019. This improvement is due to special assessment revenue exceeding interest expenditures.

The Escondido PID fund reflected an ending fund balance of \$1,589,826, an increase of \$77,554. This increase is attributed to special assessment revenue exceeding expenditures.

There was a decrease in governmental fund balance of \$213,582 over the prior year. The decrease is primarily due to transfers to other funds.

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 \$918,419 in the general fund. This is a combination of a positive revenue variance of \$32,105, a positive expenditure variance of \$375,662, and a positive variance of \$510,652 in other financing sources and uses. The most significant revenue variances were for property taxes, sales taxes, licenses and permits, charges for services, and investment income. The most significant expense variances were for general government, fire, streets and capital outlay. Fire 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 \$22,252,159 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 \$25,145,123 in a variety of capital assets and infrastructure, net of accumulated depreciation.

City of Horseshoe Bay, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2020

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

- Purchase of two new police vehicles for \$89,496.
- Investments in street upgrades for \$924,578.
- Parking lot expansion and metal awning addition to police building totaling \$57,388.
- Wastewater treatment plant expansion investment for \$5,232,195.
- Purchase of new equipment and tools for the water utility department totaling \$129,324.
- Investment in Smart water software for \$18,820.
- Purchase of new Neptune meters for \$109,564.

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 \$30,834,475. On February 18, 2020, the City issued \$5,285,000 in general obligation refunding bonds. Bond proceeds received for \$5,977,517, including the premium of \$692,517, were used to advance refund \$5,830,000 of outstanding 2011 certificates of obligation. The City also issued \$5,920,000 in certificates of obligation to be used for wastewater improvements. Proceeds received for the issuance was \$6,139,963, including the premium of \$219,963. In addition, the City made principal payments on bonds of \$1,604,000 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. The City is considering the impacts of COVID-19 when preparing the budget for the upcoming year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

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City of Horseshoe Bay, Texas

STATEMENT OF NET POSITION

September 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 3,633,721	\$ 1,929,920	\$ 5,563,641
Restricted cash	1,613,583	874,565	2,488,148
Receivables, net	4,411,232	1,393,745	5,804,977
Prepays	67,448	28,171	95,619
Internal balances	(71,422)	71,422	-
Total Current Assets	9,654,562	4,297,823	13,952,385
Internal balances	(4,161,188)	4,161,188	-
Capital assets:			
Non-depreciable	146,856	6,445,522	6,592,378
Net depreciable capital assets	26,266,491	18,699,601	44,966,092
Total Noncurrent Assets	22,252,159	29,306,311	51,558,470
Total Assets	31,906,721	33,604,134	65,510,855
<u>Deferred Outflows of Resources</u>			
Deferred charge on refunding	15,082	3,222	18,304
Total Deferred Outflows of Resources	15,082	3,222	18,304
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 328,351	\$ 659,756	\$ 988,107
Accrued interest payable	333,160	76,882	410,042
Unearned revenue	-	17,564	17,564
Customer and permit deposits	221,318	534,475	755,793
Compensated absences, current	204,547	57,168	261,715
Long term debt due within one year	719,000	900,000	1,619,000
Total Current Liabilities	1,806,376	2,245,845	4,052,221
Noncurrent liabilities:			
Debt due in more than one year	12,116,527	17,098,948	29,215,475
Compensated absences	22,727	6,352	29,079
Total Noncurrent Liabilities	12,139,254	17,105,300	29,244,554
Total Liabilities	13,945,630	19,351,145	33,296,775
<u>Net Position</u>			
Net investment in capital assets	13,592,903	8,023,963	21,616,866
Restricted for:			
Debt service	104,594	-	104,594
PID activities, including debt service	5,519,182	-	5,519,182
Other purposes	97,617	-	97,617
Unrestricted	(1,338,123)	6,232,248	4,894,125
Total Net Position	\$ 17,976,173	\$ 14,256,211	\$ 32,232,384

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2020

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 2,393,658	\$ 8,999	\$ 25,659
Development services	642,001	381,546	-
Public works	598,883	521,730	-
Public safety	5,191,136	385,123	-
Highways and streets	2,076,741	513,670	-
Culture and recreation	29,202	-	-
Interest and fiscal charges	789,185	-	-
Total Governmental Activities	11,720,806	1,811,068	25,659
Business-Type Activities			
Utility	8,056,625	9,522,101	18,000
Total Business-Type Activities	8,056,625	9,522,101	18,000
Total Primary Government	\$ 19,777,431	\$ 11,333,169	\$ 43,659

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise and local taxes
 - PID assessment revenue
- Investment income
- Other revenues
- Loss 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
\$ (2,359,000)	\$ -	\$ (2,359,000)
(260,455)	-	(260,455)
(77,153)	-	(77,153)
(4,806,013)	-	(4,806,013)
(1,563,071)	-	(1,563,071)
(29,202)	-	(29,202)
(789,185)	-	(789,185)
<u>(9,884,079)</u>	<u>-</u>	<u>(9,884,079)</u>
-	1,483,476	1,483,476
-	1,483,476	1,483,476
<u>(9,884,079)</u>	<u>1,483,476</u>	<u>(8,400,603)</u>
5,941,521	-	5,941,521
1,427,303	-	1,427,303
301,260	-	301,260
661,543	-	661,543
63,735	227,712	291,447
139,594	80,792	220,386
(166,113)	-	(166,113)
697,557	(697,557)	-
<u>9,066,400</u>	<u>(389,053)</u>	<u>8,677,347</u>
(817,679)	1,094,423	276,744
<u>18,793,852</u>	<u>13,161,788</u>	<u>31,955,640</u>
<u>\$ 17,976,173</u>	<u>\$ 14,256,211</u>	<u>\$ 32,232,384</u>

City of Horseshoe Bay, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2020

	General	Summit Rock PID	Escondido PID
<u>Assets</u>			
Cash and cash equivalents	\$ 3,516,312	\$ -	\$ -
Restricted cash	-	23,757	1,589,826
Receivables, net	454,939	12,414	3,929,356
Due from other funds	100	-	-
Prepays	67,448	-	-
Total Assets	\$ 4,038,799	\$ 36,171	\$ 5,519,182
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 325,626	\$ -	\$ -
Permit deposits	221,318	-	-
Advances from other funds	-	4,161,188	-
Due to other funds	4,500	65,922	-
Total Liabilities	551,444	4,227,110	-
<u>Deferred Inflows of Resources</u>			
Unavailable revenue			
Property taxes	92,491	-	-
PID property assessments	-	12,414	3,929,356
Total Deferred Inflows of Resources	92,491	12,414	3,929,356
<u>Fund Balances</u>			
Nonspendable:			
Prepays	67,448	-	-
Restricted for:			
Court	10,645	-	-
Police department seizures	-	-	-
PEG	64,829	-	-
Child safety	13,190	-	-
PID activities, including debt service	-	-	1,589,826
Debt service	-	-	-
Committed for:			
Capital projects	-	-	-
Unassigned reported in:			
General fund	3,238,752	-	-
Summit Rock PID fund	-	(4,203,353)	-
Total Fund Balances	3,394,864	(4,203,353)	1,589,826
Total Liabilities, Deferred Inflows, and Fund Balances	\$ 4,038,799	\$ 36,171	\$ 5,519,182

See Notes to Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 117,409	\$ 3,633,721
-	1,613,583
14,523	4,411,232
-	100
-	67,448
<u>\$ 131,932</u>	<u>\$ 9,726,084</u>
\$ 2,725	\$ 328,351
-	221,318
-	4,161,188
1,100	71,522
<u>3,825</u>	<u>4,782,379</u>
14,523	107,014
-	3,941,770
<u>14,523</u>	<u>4,048,784</u>
-	67,448
-	10,645
8,953	8,953
-	64,829
-	13,190
-	1,589,826
104,594	104,594
37	37
-	3,238,752
-	(4,203,353)
<u>113,584</u>	<u>894,921</u>
<u>\$ 131,932</u>	<u>\$ 9,726,084</u>

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City of Horseshoe Bay, Texas

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

September 30, 2020

Fund Balances - Total Governmental Funds	\$ 894,921
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	26,266,491
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	
Property tax receivable	107,014
Assessments receivable	3,941,770
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	15,082
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.	
Accrued interest	(333,160)
Compensated absences	(227,274)
Bond premium	(507,527)
Non-current liabilities due in one year	(719,000)
Non-current liabilities due in more than one year	(11,609,000)
	<u>\$ 17,976,173</u>

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2020

	General	Summit Rock PID	Escondido PID
Revenues			
Property tax	\$ 5,096,011	\$ -	\$ -
Sales tax	1,427,303	-	-
Franchise and local taxes	301,260	-	-
License and permits	381,546	-	-
Charges for services	1,044,399	-	-
Fire and police	385,123	-	-
Intergovernmental revenue	25,659	-	-
PID property assessments	-	285,559	566,626
Investment income	43,300	652	15,044
Other revenue	137,004	-	-
Total Revenues	8,841,605	286,211	581,670
Expenditures			
Current:			
General government	1,863,445	16,800	30,797
Police department	2,114,975	-	-
Development services	635,531	-	-
Fire	2,511,747	-	-
Animal control	159,735	-	-
Streets	465,908	-	-
Mowing and clearing	598,883	-	-
Technology services	199,345	-	-
Culture and Recreation	-	-	-
Debt service:			
Principal	-	-	169,000
Interest	-	181,046	304,319
Bond issuance costs	-	-	-
Capital outlay	351,769	-	-
Total Expenditures	8,901,338	197,846	504,116
Excess of Revenues Over (Under) Expenditures	(59,733)	88,365	77,554
Other Financing Sources (Uses)			
Transfers in	697,557	-	-
Transfers (out)	(857,062)	-	-
Bond proceeds	-	-	-
Payment to escrow agent	-	-	-
Total Other Financing Sources (Uses)	(159,505)	-	-
Net Change in Fund Balances	(219,238)	88,365	77,554
Beginning fund balances	3,614,102	(4,291,718)	1,512,272
Ending Fund Balances (Deficit)	\$ 3,394,864	\$ (4,203,353)	\$ 1,589,826

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 843,728	\$ 5,939,739
-	1,427,303
-	301,260
-	381,546
-	1,044,399
-	385,123
-	25,659
-	852,185
4,739	63,735
2,590	139,594
851,057	10,560,543
-	1,911,042
-	2,114,975
-	635,531
-	2,511,747
-	159,735
-	465,908
-	598,883
-	199,345
-	-
545,000	714,000
278,804	764,169
78,473	78,473
1,044,578	1,396,347
1,946,855	11,550,155
(1,095,798)	(989,612)
857,062	1,554,619
-	(857,062)
3,664,552	3,664,552
(3,586,079)	(3,586,079)
935,535	776,030
(160,263)	(213,582)
273,847	1,108,503
\$ 113,584	\$ 894,921

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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, 2020

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

Net changes in fund balances - total governmental funds	\$	(213,582)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		1,151,596
Depreciation expense		(2,013,433)
Adjustment for sale/disposal of capital assets		(166,113)

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		1,782
PID property assessments receivable		(190,642)

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		(76,271)
Accrued interest		13,862

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		(3,240,000)
Payment to bond escrow agent		3,570,000
Current year bond premium		(424,552)
Current year deferred charge on refunding		16,079
Amortization of deferred charges on refunding		(997)
Amortization of premium on debt		40,592
Principal payments		714,000
Change in Net Position of Governmental Activities	\$	(817,679)

See Notes to Financial Statements.

City of Horseshoe Bay, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2020

	Utility
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 1,929,920
Restricted cash	874,565
Receivables, net	1,393,745
Due from other funds	71,422
Prepays	28,171
Total Current Assets	4,297,823
<u>Noncurrent Assets</u>	
Advance to other funds	4,161,188
Capital assets:	
Non-depreciable	6,445,522
Net depreciable capital assets	18,699,601
Total Noncurrent Assets	29,306,311
Total Assets	33,604,134
<u>Deferred Outflows of Resources</u>	
Deferred charge on refunding	3,222
Total Deferred Outflows of Resources	3,222
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Accounts payable and accrued liabilities	659,756
Accrued interest	76,882
Customer deposits	534,475
Unearned revenue	17,564
Compensated absences, current	57,168
Long-term debt due within a year	900,000
Total Current Liabilities	2,245,845
<u>Noncurrent Liabilities</u>	
Compensated absences	6,352
Long-term debt due in more than a year	17,098,948
Total Liabilities	19,351,145
<u>Net Position</u>	
Net investment in capital assets	8,023,963
Unrestricted	6,232,248
Total Net Position	\$ 14,256,211

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, 2020

	Utility
<u>Operating Revenues</u>	
Charges for services	\$ 9,522,101
Intergovernmental revenue	18,000
Other revenue	73,253
Total Operating Revenues	9,613,354
 <u>Operating Expenses</u>	
Administration	1,353,234
Water production	875,949
Water distribution	1,025,090
Wastewater treatment	436,415
Wastewater collection	1,348,357
Solid waste recycling	853,248
Depreciation	1,464,554
Total Operating Expenses	7,356,847
Operating Income (Loss)	2,256,507
 <u>Nonoperating Revenues (Expenses)</u>	
Investment income	227,712
Gain on sale of property	7,539
Interest expense	(513,876)
Bond issuance costs	(185,902)
Total Nonoperating Revenues (Expenses)	(464,527)
Income (Loss) Before Transfers	1,791,980
Transfers (out)	(697,557)
Change in Net Position	1,094,423
Beginning net position	13,161,788
Ending Net Position	\$ 14,256,211

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, 2020

	Utility
<u>Cash Flows from Operating Activities</u>	
Receipts from customers	\$ 9,641,372
Payments to suppliers	(4,121,037)
Payments to employees	(1,340,226)
Payments to other funds	(28,343)
Net Cash Provided by Operating Activities	4,151,766
<u>Cash Flows from Noncapital Financing Activities</u>	
Operating transfers (out)	(697,557)
Net Cash Provided (Used) by Noncapital Financing Activities	(697,557)
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital purchases	(5,717,317)
Proceeds from sale of capital assets	13,500
Collections of advance to other funds	44,766
Proceeds from debt issuance	6,139,963
Proceeds from debt refunding issuance	2,312,965
Principal paid on debt with refunding	(2,260,000)
Principal paid on debt	(890,000)
Bond issuance costs paid	(185,902)
Interest paid on debt	(555,355)
Net Cash (Used) by Capital and Related Financing Activities	(1,097,380)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	227,712
Net Cash Provided by Investing Activities	227,712
Net Increase (Decrease) in Cash and Cash Equivalents	2,584,541
Beginning cash and cash equivalents	219,944
Ending Cash and Cash Equivalents	\$ 2,804,485

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, 2020

	<u>Utility</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 2,256,507
Adjustments to reconcile operating income to net cash provided:	
Depreciation	1,464,554
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	(2,493)
Prepays	(28,171)
Due from/to other funds	(28,343)
Increase (Decrease) in:	
Accounts payable and accrued liabilities	446,193
Compensated absences	13,008
Customer deposits	30,511
Net Cash Provided by Operating Activities	\$ 4,151,766

See Notes to Financial Statements.

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City of Horseshoe Bay, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2020

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, 2020

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, 2020

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.

Proprietary Fund Types

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

The government reports the following major enterprise fund:

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

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

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

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

D. Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

1. Deposits and Investments

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

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

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

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

2. Fair Value

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

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

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

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

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

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

7. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
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(revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and EMS revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, *Continued*
September 30, 2020

ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

12. Long-Term Obligations

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

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

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

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

13. Estimates

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

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

The appropriated budget is prepared by fund, function, and department. The legal level of control is the 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.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

A. Expenditures in Excess of Appropriations

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

General Fund:	
Fire	\$ 70,247

B. Deficit Fund Equity

The Summit PID fund had a deficit fund balance of \$4,203,353 as of September 30, 2020 due to a prior year advance owed to the Water Utility fund. The fund plans to repay the 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 with property assessments. The deficit in fund balance as of September 30, 2019 was \$4,291,718.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2020, the primary government had the following investments:

Investment Type	Value	Average Maturity (Years)
External investment pools	\$ 5,617,658	0.10
Total value	\$ 5,617,658	
Portfolio weighted average maturity		0.10

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

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2020, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

TexPool

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

TexasCLASS

Texas CLASS is a local government investment pool created to meet the cash management and short-term investment needs of Texas governmental entities.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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.

B. Receivables

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

	<u>General</u>	<u>Summit Rock PID</u>	<u>Escondido PID</u>	<u>Nonmajor Governmental</u>	<u>Utility</u>	<u>Total</u>
Property taxes	\$ 92,491	\$ -	\$ -	\$ 14,523	\$ -	\$ 107,014
Sales tax	277,553	-	-	-	-	277,553
Franchise taxes	69,832	-	-	-	-	69,832
Assessments - long-term	-	-	3,927,000	-	-	3,927,000
Assessments - delinquent	-	12,414	2,356	-	-	14,770
Liens	52,187	-	-	-	-	52,187
Accounts	15,063	-	-	-	1,478,969	1,494,032
Allowance	(52,187)	-	-	-	(85,224)	(137,411)
	<u>\$ 454,939</u>	<u>\$ 12,414</u>	<u>\$ 3,929,356</u>	<u>\$ 14,523</u>	<u>\$ 1,393,745</u>	<u>\$ 5,804,977</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

C. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Disposals / Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 186,906	\$ -	\$ (40,050)	\$ 146,856
Total capital assets not being depreciated	<u>186,906</u>	<u>-</u>	<u>(40,050)</u>	<u>146,856</u>
Capital assets, being depreciated:				
Infrastructure	31,838,605	924,578	-	32,763,183
Buildings and improvements	4,502,256	85,963	(138,649)	4,449,570
Machinery and equipment	3,688,458	141,055	(198,523)	3,630,990
Total capital assets being depreciated	<u>40,029,319</u>	<u>1,151,596</u>	<u>(337,172)</u>	<u>40,843,743</u>
Less accumulated depreciation				
Infrastructure	7,869,524	1,607,783	-	9,477,307
Buildings and improvements	2,536,340	160,198	(12,586)	2,683,952
Machinery and equipment	2,369,064	245,452	(198,523)	2,415,993
Total accumulated depreciation	<u>12,774,928</u>	<u>2,013,433</u>	<u>(211,109)</u>	<u>14,577,252</u>
Net capital assets being depreciated	<u>27,254,391</u>	<u>(861,837)</u>	<u>(126,063)</u>	<u>26,266,491</u>
Total Capital Assets	<u>\$ 27,441,297</u>	<u>\$ (861,837)</u>	<u>\$ (166,113)</u>	<u>\$ 26,413,347</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 52,572
Public safety	319,695
Streets	1,607,782
Development services	4,182
Culture and recreation	29,202
Total Governmental Activities Depreciation Expense	<u>\$ 2,013,433</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Disposals / Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 419,563	\$ -	\$ -	\$ 419,563
Construction in progress	681,224	5,344,735	-	6,025,959
Total capital assets not being depreciated	<u>1,100,787</u>	<u>5,344,735</u>	<u>-</u>	<u>6,445,522</u>
Capital assets, being depreciated:				
Infrastructure	44,748,651	191,438	-	44,940,089
Buildings and improvements	1,145,512	5,580	-	1,151,092
Machinery and equipment	3,296,703	175,564	(102,565)	3,369,702
Total capital assets being depreciated	<u>49,190,866</u>	<u>372,582</u>	<u>(102,565)</u>	<u>49,460,883</u>
Less accumulated depreciation				
Infrastructure	26,253,060	1,156,166	-	27,409,226
Buildings and improvements	626,044	50,613	-	676,657
Machinery and equipment	2,514,228	257,775	(96,604)	2,675,399
Total accumulated depreciation	<u>29,393,332</u>	<u>1,464,554</u>	<u>(96,604)</u>	<u>30,761,282</u>
Net capital assets being depreciated	19,797,534	(1,091,972)	(5,961)	18,699,601
Total Capital Assets	<u>\$ 20,898,321</u>	<u>\$ 4,252,763</u>	<u>\$ (5,961)</u>	<u>\$ 25,145,123</u>

Depreciation was charged to business-type activities as follows:

Utility	\$ 1,464,554
Total Business-type Activities Depreciation Expense	<u>\$ 1,464,554</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Refunding</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:						
Bonds, notes and other payables:						
Combination Tax and Revenue Certificates of Obligation	\$ 9,090,000	\$ -	\$ (545,000)	\$ (3,570,000)	\$ 4,975,000	\$ 265,000
General Obligation Refunding Bonds	-	-	-	3,240,000	3,240,000	275,000
PID Special Assessments Bond	4,282,000	-	(169,000)	-	4,113,000	179,000
Less deferred amounts:						
For issuance premiums	123,567	-	(40,592)	424,552	507,527	-
Total Governmental Activities	<u>\$ 13,495,567</u>	<u>\$ -</u>	<u>\$ (754,592)</u>	<u>\$ 94,552</u>	<u>\$ 12,835,527</u>	<u>\$ 719,000</u>
Long-term liabilities due in more than one year					<u>\$ 12,116,527</u>	
Business-Type Activities:						
General Obligation Bonds	\$ 3,665,000	\$ -	\$ (395,000)	\$ 2,045,000	\$ 5,315,000	\$ 590,000
Tax and Revenue Bonds	8,765,000	5,920,000	(495,000)	(2,260,000)	11,930,000	310,000
Less deferred amounts:						
For issuance premiums	315,758	219,963	(49,738)	267,965	753,948	-
Total Business-Type Activities	<u>\$ 12,745,758</u>	<u>\$ 6,139,963</u>	<u>\$ (939,738)</u>	<u>\$ 52,965</u>	<u>\$ 17,998,948</u>	<u>\$ 900,000</u>
Long-term liabilities due in more than one year					<u>\$ 17,098,948</u>	

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

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

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Certificates of Obligation:			
\$9,800,000 Certificates of Obligation, Series 2014, due in annual installments through 2039, interest at 2-3.75%	\$ 4,340,000	\$ 3,815,000	\$ 8,155,000
\$3,770,000 Certificates of Obligation, Series 2016, due in annual installments through 2031, interest at 2-4%	635,000	2,195,000	2,830,000
\$5,920,000 Certificates of Obligation, Series 2019, due in annual installments through 2039, interest at 2-4%	-	5,920,000	5,920,000
Total Certificates of Obligation	<u>\$ 4,975,000</u>	<u>\$ 11,930,000</u>	<u>\$ 16,905,000</u>
PID Special Assessment Bond:			
\$5,475,000 PID Special Assessment Bond, Series 2008, due in annual installments through 2034, interest at 3-7%	\$ 4,113,000	\$ -	\$ 4,113,000
General Obligation Bonds:			
\$7,500,000 General Obligation, Series 2007, due in installments through 2027, interest at 4.04%	\$ -	\$ 3,270,000	\$ 3,270,000
\$7,500,000 General Obligation Refunding Bonds, Series 2020, due in installments through 2030, interest at 2-5%	3,240,000	2,045,000	5,285,000
Total General Obligation Bonds	<u>\$ 3,240,000</u>	<u>\$ 5,315,000</u>	<u>\$ 8,555,000</u>
Less deferred amounts:			
Issuance premium	\$ 507,527	\$ 753,948	\$ 1,261,475
Total deferred amounts	<u>\$ 507,527</u>	<u>\$ 753,948</u>	<u>\$ 1,261,475</u>
Total Long-term Debt	<u>\$ 12,835,527</u>	<u>\$ 17,998,948</u>	<u>\$ 30,834,475</u>

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, 2020

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

Year ending September 30,	Governmental Activities						Total
	2020 G.O. Bond		2014 C.O.O.		2016 C.O.O.		
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	\$ 275,000	\$ 108,650	\$ 165,000	\$ 139,696	\$ 100,000	\$ 22,350	\$ 810,696
2022	290,000	97,350	170,000	136,346	100,000	19,350	813,046
2023	300,000	85,550	175,000	132,896	105,000	16,350	814,796
2024	310,000	76,450	180,000	128,896	105,000	13,200	813,546
2025	320,000	70,150	185,000	123,871	110,000	9,000	818,021
2026	330,000	63,650	190,000	118,246	115,000	4,600	821,496
2027	335,000	53,650	195,000	112,471	-	-	696,121
2028	345,000	40,050	205,000	106,215	-	-	696,265
2029	360,000	25,950	215,000	99,390	-	-	700,340
2030	375,000	9,375	220,000	92,321	-	-	696,696
2031	-	-	230,000	85,009	-	-	315,009
2032	-	-	240,000	77,131	-	-	317,131
2033	-	-	245,000	68,765	-	-	313,765
2034	-	-	260,000	60,054	-	-	320,054
2035	-	-	270,000	50,169	-	-	320,169
2036	-	-	280,000	39,169	-	-	319,169
2037	-	-	290,000	28,313	-	-	318,313
2038	-	-	305,000	17,528	-	-	322,528
2039	-	-	320,000	6,000	-	-	326,000
	<u>\$ 3,240,000</u>	<u>\$ 630,825</u>	<u>\$ 4,340,000</u>	<u>\$ 1,622,487</u>	<u>\$ 635,000</u>	<u>\$ 84,850</u>	<u>\$ 10,553,162</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

<u>Year ending September 30,</u>	<u>Governmental Activities</u>		
	<u>2008 PID Property Assessments Bond</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 179,000	\$ 298,193	\$ 477,193
2022	194,000	285,215	479,215
2023	204,000	271,150	475,150
2024	219,000	256,360	475,360
2025	239,000	240,483	479,483
2026	253,000	223,155	476,155
2027	273,000	204,813	477,813
2028	293,000	185,020	478,020
2029	313,000	163,778	476,778
2030	338,000	141,085	479,085
2031	363,000	116,580	479,580
2032	388,000	90,263	478,263
2033	412,000	62,133	474,133
2034	445,000	32,263	477,263
	<u>\$ 4,113,000</u>	<u>\$ 2,570,491</u>	<u>\$ 6,683,491</u>

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

<u>Year ending September 30,</u>	<u>Business-Type Activities</u>				
	<u>2007 G.O. Bond</u>		<u>2020 G.O Bond</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2021	\$ 415,000	\$ 132,108	\$ 175,000	\$ 68,700	\$ 790,808
2022	430,000	115,342	180,000	61,600	786,942
2023	445,000	97,970	190,000	54,200	787,170
2024	465,000	79,992	200,000	48,400	793,392
2025	485,000	61,206	200,000	44,400	790,606
2026	505,000	41,612	200,000	40,400	787,012
2027	525,000	21,210	210,000	34,200	790,410
2028	-	-	220,000	25,600	245,600
2029	-	-	230,000	16,600	246,600
2030	-	-	240,000	6,000	246,000
	<u>\$ 3,270,000</u>	<u>\$ 549,440</u>	<u>\$ 2,045,000</u>	<u>\$ 400,100</u>	<u>\$ 6,807,606</u>

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

Year ending September 30,	Business-Type Activities						Total
	2014 C.O.O.		2016 C.O.O.		2019 C.O.O.		
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	\$ 145,000	\$ 122,885	\$ 165,000	\$ 82,700	\$ -	\$ 156,850	\$ 672,435
2022	150,000	119,935	170,000	77,750	250,000	156,850	924,535
2023	150,000	116,935	175,000	72,650	260,000	146,850	921,435
2024	155,000	113,498	185,000	67,400	270,000	136,450	927,348
2025	165,000	109,085	190,000	60,000	280,000	125,650	929,735
2026	165,000	104,135	200,000	52,400	295,000	114,450	930,985
2027	175,000	99,035	205,000	44,400	305,000	102,650	931,085
2028	180,000	93,485	215,000	36,200	315,000	90,450	930,135
2029	185,000	87,554	220,000	27,600	325,000	84,150	929,304
2030	195,000	81,379	230,000	18,800	330,000	77,650	932,829
2031	200,000	74,960	240,000	9,600	335,000	71,050	930,610
2032	210,000	68,088	-	-	345,000	64,350	687,438
2033	220,000	60,670	-	-	350,000	57,450	688,120
2034	225,000	52,994	-	-	355,000	50,450	683,444
2035	235,000	44,413	-	-	365,000	42,906	687,319
2036	250,000	34,713	-	-	370,000	35,150	689,863
2037	260,000	25,000	-	-	380,000	26,825	691,825
2038	270,000	15,394	-	-	390,000	18,275	693,669
2039	280,000	5,250	-	-	400,000	9,500	694,750
	<u>\$ 3,815,000</u>	<u>\$ 1,429,405</u>	<u>\$ 2,195,000</u>	<u>\$ 549,500</u>	<u>\$ 5,920,000</u>	<u>\$ 1,567,956</u>	<u>\$ 15,476,861</u>

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. Advanced Refunding

On February 18, 2020, the City issued \$5,285,000 in general obligation refunding bonds with an approximate interest rate of 2 - 5.00%. Bond proceeds received for \$5,977,517, including the premium of \$692,517, were used to advance refund \$5,830,000 of outstanding 2011 certificates of obligation, which had an average

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

interest rate of 3.5%. The net proceeds of the refunding portion of \$5,849,514 (after payment of \$128,003 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 certificates of obligation. 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 exceeded the net carrying amount of the old debt by \$19,514. This amount is being amortized over the remaining life of the refunding debt. This advance refunding reduced its total debt service payments by \$654,650 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$545,801. The refunding did not significantly change the payment term of the related debt.

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	\$ 151,003	\$ 76,271	\$ -	\$ 227,274	\$ 204,547
Total Governmental Activities	\$ 151,003	\$ 76,271	\$ -	\$ 227,274	\$ 204,547
Other Long-term Liabilities Due in More than One Year				\$ 22,727	
Business-Type Activities:					
Compensated Absences	\$ 50,512	\$ 13,008	\$ -	\$ 63,520	\$ 57,168
Total Business-Type Activities	\$ 50,512	\$ 13,008	\$ -	\$ 63,520	\$ 57,168
Other Long-term Liabilities Due in More than One Year				\$ 6,352	

G. Deferred Charges on Refunding

Deferred charges resulting from the issuance of series 2019 general obligation refunding 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 certificates of obligation. Current year balances for governmental and business-type activities totaled \$15,082 and \$3,222,

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

respectively. Current year amortization expense for governmental and business-type activities totaled \$997 and \$213, respectively.

H. Interfund Transactions

Transfers between the primary government funds during the 2020 year were as follows:

Transfer out:	Transfer In		Total
	General	Capital Projects	
Utility	\$ 697,557	\$ -	\$ 697,557
General	-	857,062	857,062
	\$ 697,557	\$ 857,062	\$ 1,554,619

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

The compositions of interfund due to/from balances as of the year ended September 30, 2020 were as follows:

Due to: (Payable Fund)	Due from: (Receivable Fund)		
	General	Utility	Total
Capital projects	\$ 100	\$ 1,000	\$ 1,100
General	-	4,500	4,500
Summit Rock PID	-	65,922	65,922
Total	\$ 100	\$ 71,422	\$ 71,522

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.

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

The compositions of interfund advances to/from balances as of the year ended September 30, 2020 were as follows:

Advances to:	Advances from:	Total
	Utility	
Summit Rock PID	\$ 4,161,188	\$ 4,161,188
Total	\$ 4,161,188	\$ 4,161,188

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.

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

	Restricted	Committed
* Court technology and security	\$ 10,645	\$ -
* Police department seizures	8,953	-
* PEG	64,829	-
* Child safety	13,190	-
PID activities, including debt service	1,589,826	-
Debt service	104,594	-
Capital projects	-	37
	\$ 1,792,037	\$ 37

* Restricted by enabling legislation

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

participates along with 2,800 other entities in the Texas Municipal League’s Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

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

C. Construction Commitments

The City has active construction projects as of September 30, 2020. The projects include system software, and a Wastewater Reclamation Project. At year end the City’s commitments with contractors are as follows:

Project	Vendor	Remaining Commitment
Wastewater Reclamation Plant Expansion	Archer Western	1,244,107
	Project Total	1,244,107
	Total	\$ 1,244,107

D. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all

City of Horseshoe Bay, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020

interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs annual calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

E. Restatement

The City restated the beginning net position of governmental and business-type activities, and the beginning fund balances of the general fund and utility fund due to accounting errors related to cash and capital assets. The City has restated net position and fund balances as follows:

	Governmental Activities	General Fund
Prior year ending net position/ fund balance, as reported	\$ 18,758,439	\$ 3,578,689
Reclassification of expense to cash	35,413	35,413
Restated beginning net position/fund balance	\$ 18,793,852	\$ 3,614,102

	Business-Type Activities	Utility Fund
Prior year ending net position/ fund balance, as reported	\$ 13,049,103	\$ 13,049,103
Correction to capital assets	112,685	112,685
Restated beginning net position	\$ 13,161,788	\$ 13,161,788

F. Subsequent Events

On October 1, 2021, the City issued \$3,925,000 Combination Tax and Revenue Certificates of Obligation for constructing and improving streets. The issuance generated \$4,122,343 of proceeds with a premium on issuance of \$197,343. The debt bears interest at 2% and is repayable semi-annually through 2040.

There were no other material subsequent events through January 11, 2021, the date the financial statements were available to be issued.

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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, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property tax	\$ 4,996,000	\$ 4,996,000	\$ 5,096,011	\$ 100,011
Sales tax	1,657,750	1,657,750	1,427,303	(230,447)
Franchise and local taxes	329,000	329,000	301,260	(27,740)
License and permits	238,500	238,500	381,546	143,046
Charges for services	991,000	991,000	1,044,399	53,399
Intergovernmental revenue	-	-	25,659	25,659
Fire and police	365,000	365,000	385,123	20,123
Investment income	100,000	100,000	43,300	(56,700)
Other revenue	132,250	132,250	137,004	4,754
Total Revenues	<u>8,809,500</u>	<u>8,809,500</u>	<u>8,841,605</u>	<u>32,105</u>
Expenditures				
Current:				
General government	1,931,750	1,931,750	1,863,445	68,305
Police department	2,133,500	2,133,500	2,114,975	18,525
Development services	679,250	679,250	635,531	43,719
Fire	2,441,500	2,441,500	2,511,747	(70,247) *
Animal control	216,000	216,000	159,735	56,265
Streets	589,250	589,250	465,908	123,342
Mowing and clearing	600,000	600,000	598,883	1,117
Technology services	245,500	245,250	199,345	45,905
Capital outlay	410,000	440,500	351,769	88,731
Total Expenditures	<u>9,246,750</u>	<u>9,277,000</u>	<u>8,901,338</u>	<u>375,662</u>
Revenues Over (Under)				
Expenditures	<u>\$ (437,250)</u>	<u>\$ (467,500)</u>	<u>\$ (59,733)</u>	<u>\$ 407,767</u>
Other Financing Sources (Uses)				
Transfers in	\$ 697,557	\$ 697,557	\$ 697,557	\$ -
Transfers (out)	(1,419,157)	(1,367,714)	(857,062)	510,652
Total Other Financing Sources				
(Uses)	<u>(721,600)</u>	<u>(670,157)</u>	<u>(159,505)</u>	<u>510,652</u>
Net Change in Fund Balance	<u>\$ (1,158,850)</u>	<u>\$ (1,137,657)</u>	<u>(219,238)</u>	<u>\$ 918,419</u>
Beginning fund balance			3,614,102	
Ending Fund Balance			<u>\$ 3,394,864</u>	

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, 2020

	Debt Service	Capital Projects	Police Dept. Seizure	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 104,594	\$ 3,862	\$ 8,953	\$ 117,409
Accounts receivable	14,523	-	-	14,523
Total Assets	\$ 119,117	\$ 3,862	\$ 8,953	\$ 131,932
 <u>Liabilities</u>				
Accounts payable	\$ -	\$ 2,725	\$ -	\$ 2,725
Due to other funds	-	1,100	-	1,100
Total Liabilities	-	3,825	-	3,825
 <u>Deferred Inflows of Resources</u>				
Unavailable revenue:				
Property taxes	14,523	-	-	14,523
Total Deferred Inflows of Resources	14,523	-	-	14,523
 <u>Fund Balances</u>				
Committed for:				
Capital projects	-	37	-	37
Restricted for:				
Debt service	104,594	-	-	104,594
Police department seizures	-	-	8,953	8,953
Total Fund Balances	104,594	37	8,953	113,584
Total Liabilities, Fund Balances, and Deferred Inflows of Resources	\$ 119,117	\$ 3,862	\$ 8,953	\$ 131,932

City of Horseshoe Bay, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2020

	Debt Service	Capital Projects	Police Dept. Seizure	Total
<u>Revenues</u>				
Property tax	\$ 843,728	\$ -	\$ -	\$ 843,728
Investment income	2,782	1,946	11	4,739
Other revenue	2,590	-	-	2,590
Total Revenues	849,100	1,946	11	851,057
<u>Expenditures</u>				
Debt Service:				
Principal	545,000	-	-	545,000
Interest and fiscal charges	278,804	-	-	278,804
Debt issuance costs	78,473	-	-	78,473
Capital outlay	-	1,044,578	-	1,044,578
Total Expenditures	902,277	1,044,578	-	1,946,855
Revenues Over (Under) Expenditures	(53,177)	(1,042,632)	11	(1,095,798)
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	857,062	-	857,062
Bond proceeds	3,664,552	-	-	3,664,552
Payment to escrow agent	(3,586,079)	-	-	(3,586,079)
Total Other Financing Sources (Uses)	78,473	857,062	-	935,535
Net Change in Fund Balances	25,296	(185,570)	11	(160,263)
Beginning fund balances	79,298	185,607	8,942	273,847
Ending Fund Balances	\$ 104,594	\$ 37	\$ 8,953	\$ 113,584