

REPORT OF EXAMINATION

**CITY OF
HIGHLAND HAVEN**

Highland Haven, Texas

**For the Year Ended
September 30, 2018**

CITY OF HIGHLAND HAVEN
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018

CITY OF HIGHLAND HAVEN
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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Report on Basic Financial Statements Accompanied by Required Supplementary Information, Supplementary Information, and Other Information

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Highland Haven
Highland Haven, TX

We have audited the accompanying financial statements of the governmental activities and the business-type activities of City of Highland Haven, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 and the business-type activities of the City of Highland Haven, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–7 and 26 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.

A handwritten signature in blue ink that reads "Neffendorf & Knopp, P.C.".

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

February 14, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Haven, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2018. Please read it in conjunction with the independent auditor's report on page 1, and City's Basic Financial Statements which begin on page 7.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$691,984 (net position). Of this amount, \$384,778 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$49,507 as a result of this year's operations.
- At September 30, 2018, the City's general fund reported an ending fund balance of \$213,825, an increase of \$19,141 in comparison with the prior year.
- At September 30, 2018, the City's Water Utility Fund reported a total net position of \$264,254, an increase of \$50,364 in comparison with the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 8 and 9). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (on pages 11 and 13) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) is presented as required supplementary information on page 27.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 8. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

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

- Governmental activity - Most of the City's basic services are reported here, including the public safety, public works, highways and streets, and administration. Property taxes, user charges and franchise tax finance most of these activities.
- Business-type activity - The City's water utility fund is reported as a business-type activity since the fees charged to customers cover the cost of services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

The City has two kinds of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities decreased from \$428,587 to \$427,730. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$216,401 at September 30, 2018. This decrease in governmental net position was the result of three factors. First, the City's revenues exceeded the expenditures by \$19,141. Second, the City recorded depreciation in the amount of \$25,000. Third, the City recorded unearned tax revenues in the amount of \$848. Fourth, the City acquired capital assets in the amount of \$5,850.

Net position of the City's business-type activities at September 30, 2018 were \$264,254. Unrestricted net position was \$168,377. This increase in business-type net position was the result of net income of \$50,364.

Table I
City of Highland Haven

NET POSITION

	Governmental Activities	Business Type Activities	TOTAL
Current and Other Assets	\$ 220,586	\$ 259,873	\$ 480,459
Capital Assets	211,329	839,884	1,051,213
Total Assets	\$ 431,915	\$ 1,099,757	\$ 1,531,672
Deferred Outflow of Resources	\$ -	\$ 62,420	\$ 62,420
Current Liabilities	\$ 4,185	\$ 2,923	\$ 7,108
Long Term Liabilities	-	895,000	895,000
Total Liabilities	\$ 4,185	\$ 897,923	\$ 902,108
Net Position:			
Invested in Capital Assets	\$ 211,329	\$ 5,877	\$ 217,206
Net of Related Debt			
Restricted	-	90,000	90,000
Unrestricted	216,401	168,377	384,778
Total Net Position	\$ 427,730	\$ 264,254	\$ 691,984

Table II
City of Highland Haven

CHANGES IN NET POSITION

	Governmental Activities	Business Type Activities	TOTAL
Revenues:			
Charges for Services	\$ 13,480	\$ 208,750	\$ 222,230
Maintenance & Operations Taxes	150,792	-	150,792
Franchise Taxes	18,051	-	18,051
Other Revenues	3,655	1,154	4,809
Total Revenue	<u>\$ 185,978</u>	<u>\$ 209,904</u>	<u>\$ 395,882</u>
Expenses:			
Financial Administration	\$ 83,546	\$ -	\$ 83,546
Public Safety	99,616	-	99,616
Public Works	-	-	-
Highways and Streets	1,501	-	1,501
Parks and Grounds	528	-	528
Water Utility	-	85,209	85,209
Depreciation/Amortization	-	49,532	49,532
Debt Service	-	26,443	26,443
Total Expenses	<u>\$ 185,191</u>	<u>\$ 161,184</u>	<u>\$ 346,375</u>
Increase in Net Position Before Transfers	\$ 787	\$ 48,720	\$ 49,507
Transfers	<u>(1,644)</u>	<u>1,644</u>	<u>-</u>
Net Change	\$ (857)	\$ 50,364	\$ 49,507
Net Position - Beginning	<u>-</u>	<u>-</u>	<u>-</u>
Net Position - Ending	<u>\$ (857)</u>	<u>\$ 50,364</u>	<u>\$ 49,507</u>

The cost of all governmental activities this year was \$185,191. However, as shown in the Statement of Activities on page 9, the amount that our taxpayers ultimately financed for these activities with City taxes was \$150,792 because the other costs were paid by franchise tax (\$18,051), user charges (\$13,480), interest income (\$1,319) and miscellaneous (\$2,336).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a fund balance of \$213,825, which is more than last year's total of \$194,684. The primary reason for the Governmental Fund's increase was due to revenues exceeded expenditures by \$19,141.

The City adopts an annual budget for the General Fund. Actual revenues were more than budgeted amounts and actual expenditures were less than budgeted amounts. A budgetary comparison statement (page 27) has been provided to demonstrate compliance.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2018, the City had the following amounts invested in capital assets:

	Governmental Activities	Business Type Activities	TOTAL
Land	\$ 46,827	\$ 20,000	\$ 66,827
Buildings	44,338	45,234	89,572
Improvements	329,396	-	329,396
Infrastructure	-	992,409	992,409
Furniture & Equipment	28,031	62,768	90,799
Intangible Assets	-	170,115	170,115
Total Capital Assets	\$ 448,592	\$ 1,290,526	\$ 1,739,118
Accumulated Depreciation/Amortization	237,263	450,643	687,906
Capital Assets, Net	\$ 211,329	\$ 839,883	\$ 1,051,212

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

DEBT

For business type activities, the City had \$895,000 in certificates of obligation outstanding. During the year ended September 30, 2018, the City paid \$90,000 principal on the certificates.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2019 budget and tax rates. Amounts available for appropriation in the General Fund budget and estimated expenditures are about the same as prior year.

If these estimates are realized, the City's budgetary General fund balance is expected to remain about the same by the end of fiscal year 2019.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 4,008	\$ 143,847	\$ 147,855
Investments - Current	212,099	88,622	300,721
Accounts Receivable (Net)	4,479	16,154	20,633
Inventories	-	11,250	11,250
Capital Assets:			
Land Purchase and Improvements	46,827	-	46,827
Buildings, Net	25,979	-	25,979
Improvements other than Buildings, Net	130,806	-	130,806
Furniture and Equipment, Net	7,717	-	7,717
Capital Assets, Net	-	752,588	752,588
Other Assets	-	87,296	87,296
Total Assets	<u>431,915</u>	<u>1,099,757</u>	<u>1,531,672</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Charge for Refunding	-	62,420	62,420
Total Deferred Outflows of Resources	<u>-</u>	<u>62,420</u>	<u>62,420</u>
LIABILITIES			
Accounts Payable	1,508	1,160	2,668
Wages and Salaries Payable	992	336	1,328
Accrued Interest Payable	-	1,427	1,427
Other Current Liabilities	1,685	-	1,685
Noncurrent Liabilities:			
Debt Due Within One Year	-	90,000	90,000
Bonds Payable - Noncurrent	-	805,000	805,000
Total Liabilities	<u>4,185</u>	<u>897,923</u>	<u>902,108</u>
NET POSITION			
Net Investment in Capital Assets	211,329	5,877	217,206
Restricted for Debt Service	-	90,000	90,000
Unrestricted Net Position	216,401	168,377	384,778
Total Net Position	<u>\$ 427,730</u>	<u>\$ 264,254</u>	<u>\$ 691,984</u>

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

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

		Program Revenues
	Expenses	Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
Financial Administration	83,546	2,030
Public Safety	99,616	-
Public Works	-	11,450
Highways and Streets	1,501	-
Parks	528	-
Total Governmental Activities	185,191	13,480
BUSINESS-TYPE ACTIVITIES:		
Water Utility	161,184	208,750
Total Business-Type Activities	161,184	208,750
TOTAL PRIMARY GOVERNMENT	\$ 346,375	\$ 222,230

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Franchise Tax

Penalty and Interest on Taxes

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (81,516)	\$ -	\$ (81,516)
(99,616)	-	(99,616)
11,450	-	11,450
(1,501)	-	(1,501)
(528)	-	(528)
(171,711)	-	(171,711)
-	47,566	47,566
-	47,566	47,566
(171,711)	47,566	(124,145)
150,792	-	150,792
18,051	-	18,051
822	-	822
1,514	880	2,394
1,319	274	1,593
(1,644)	1,644	-
170,854	2,798	173,652
(857)	50,364	49,507
428,587	213,890	642,477
\$ 427,730	\$ 264,254	\$ 691,984

CITY OF HIGHLAND HAVEN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

EXHIBIT C-1

	General Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 4,008
Investments - Current	212,099
Taxes Receivable	2,576
Accounts Receivable (Net)	1,903
Total Assets	<u>\$ 220,586</u>
LIABILITIES	
Accounts Payable	\$ 1,508
Wages and Salaries Payable	992
Other Current Liabilities	1,685
Total Liabilities	<u>4,185</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue - Property Taxes	2,576
Total Deferred Inflows of Resources	<u>2,576</u>
FUND BALANCES	
Unassigned Fund Balance	213,825
Total Fund Balances	<u>213,825</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 220,586</u>

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

CITY OF HIGHLAND HAVEN, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds	\$ 213,825
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	230,479
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2018 capital outlays is to increase net position.	5,850
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(25,000)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue. The net effect of these reclassifications and recognitions is to increase net position.	2,576
Net Position of Governmental Activities	<u>\$ 427,730</u>

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

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT C-3

General
Fund

REVENUES:

Taxes:

Property Taxes	\$ 152,462
Franchise Tax	18,051
Licenses and Permits	11,450
Charges for Services	2,030
Investment Earnings	1,319
Other Revenue	1,514

Total Revenues	186,826
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EXPENDITURES:

Current:

Financial Administration	77,646
Public Safety	86,616
Public Works:	
Highways and Streets	1,326
Parks	453

Total Expenditures	166,041
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Excess of Revenues Over Expenditures	20,785
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OTHER FINANCING SOURCES (USES):

Transfers Out (Use)	(1,644)
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Total Other Financing Sources (Uses)	(1,644)
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Net Change in Fund Balances	19,141
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Fund Balance - October 1 (Beginning)	194,684
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Fund Balance - September 30 (Ending)	\$ 213,825
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The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND HAVEN, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ 19,141
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2018 capital outlays is to increase the change in net position.	5,850
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(25,000)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue. The net effect of these reclassifications and recognitions is to decrease the change in net position.	(848)
Change in Net Position of Governmental Activities	<u>\$ (857)</u>

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

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business Type Activities
	Total Enterprise Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 143,847
Investments - Current	88,622
Accounts Receivable (Net)	16,154
Inventories	11,250
Total Current Assets	<u>259,873</u>
Noncurrent Assets:	
Capital Assets:	
Capital Assets	1,120,411
Accumulated Depreciation - Capital Assets	(367,823)
Other Assets	87,296
Total Noncurrent Assets	<u>839,884</u>
Total Assets	<u>1,099,757</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge for Refunding	62,420
Total Deferred Outflows of Resources	<u>62,420</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	1,160
Wages and Salaries Payable	336
Accrued Interest Payable	1,427
Bonds Payable - Current	90,000
Total Current Liabilities	<u>92,923</u>
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	805,000
Total Noncurrent Liabilities	<u>805,000</u>
Total Liabilities	<u>897,923</u>
NET POSITION	
Net Investment in Capital Assets	5,877
Restricted for Debt Service	90,000
Unrestricted Net Position	168,377
Total Net Position	<u><u>\$ 264,254</u></u>

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

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT D-2

	Business-Type Activities
	Total Enterprise Funds
OPERATING REVENUES:	
Charges for Services	\$ 208,750
Other Revenue	880
Total Operating Revenues	<u>209,630</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	7,280
Personnel Services - Employee Benefits	1,088
Purchased Professional & Technical Services	47,400
Purchased Property Services	6,039
Other Operating Costs	13,718
Supplies	9,684
Depreciation	49,532
Total Operating Expenses	<u>134,741</u>
Operating Income	<u>74,889</u>
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	274
Interest Expense - Non-Operating	(26,443)
Total NonOperating Revenue (Expenses)	<u>(26,169)</u>
Income Before Transfers	48,720
Non-Operating Transfers In	1,644
Change in Net Position	50,364
Total Net Position - October 1 (Beginning)	<u>213,890</u>
Total Net Position - September 30 (Ending)	<u>\$ 264,254</u>

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

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities
	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 212,462
Cash Payments to Employees for Services	(8,368)
Cash Payments for Suppliers	(54,039)
Cash Payments for Other Operating Expenses	(31,679)
Net Cash Provided by Operating Activities	118,376
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer In	1,644
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(5,234)
Interest Paid	(19,586)
Principal Paid- Bonds	(90,000)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(114,820)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	274
Net Increase in Cash and Cash Equivalents	5,474
Cash and Cash Equivalents at the Beginning of the Year	226,995
Cash and Cash Equivalents at the End of the Year	\$ 232,469
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income	\$ 74,889
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	49,532
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	2,832
Decrease (Increase) in Inventories	(600)
Increase (Decrease) in Accounts Payable	(8,277)
Net Cash Provided by Operating Activities	\$ 118,376

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

CITY OF HIGHLAND HAVEN
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Highland Haven, Texas (the City), a municipal corporation in Burnet County, Texas, was incorporated under the general laws of the State of Texas. The City operates under an Aldermen-Mayor form of government and provides services such as highways, streets, culture, recreation, community improvements, judicial, planning and zoning, general administrative services, and other services as authorized by its code of ordinances and its citizens.

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

A. Reporting Entity

The Board of Aldermen is elected at large, and consists of a mayor and five aldermen, and is the level of government which has governing responsibilities over all activities related to the City. The City is not included in any other governmental reporting entity. Aldermen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

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

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Highland Haven nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, franchise tax, charges for services and other miscellaneous revenues.

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

outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues.

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

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

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

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

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

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

D. Fund Accounting

The City reports the following major governmental fund:

1. **The General Fund** - The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Proprietary Fund:

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

E. Other Accounting Policies

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	15
Machinery & Equipment	7-10
Infrastructure	30

Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

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

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

4. Fund Equity

The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the

constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

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

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

5. Implementation of New GASB Accounting Standard

The City has implemented new GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Under GASB 63, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

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

II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

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

At September 30, 2018, the carrying amount of the City's deposits was \$147,855 and the bank balance was \$149,296. The City's cash deposits at September 30, 2018 and during the year ended September 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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

Temporary investments consisted of money market accounts and government pool investments as follows:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
<u>Money Market Account-</u>				
First United Bank -General	\$ 108,072	\$ 108,072	\$ 108,072	\$ -
American Bank Commerce- General	101,748	101,748	101,748	-
Anthem Bank- Water Fund	88,622	88,622	88,622	-
 <u>Liquid Asset Portfolio -</u>				
Texpool - General	<u>2,280</u>	<u>2,280</u>	<u>-</u>	<u>-</u>
 Total Temporary Investments	<u>\$ 300,721</u>	<u>\$ 300,721</u>	<u>\$ 298,442</u>	<u>\$ -</u>

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

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

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2018 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

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

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

B. Property Taxes

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

For 2018, the City of Highland Haven had property with an assessed valuation of \$133,355,174. The tax rate was \$0.1154 per \$100 valuation (general fund only).

C. Capital Asset Activity

Capital asset activity for the governmental activities for the year ended September 30, 2018, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 46,827	\$ -	\$ -	\$ 46,827
Buildings	38,488	5,850	-	44,338
Furniture & Equipment	28,031	-	-	28,031
Improvements	329,396	-	-	329,396
Totals at Historic Cost	\$ 442,742	\$ 5,850	\$ -	\$ 448,592
Less Accumulated Depreciation For:				
Buildings	(16,360)	(1,999)	-	(18,359)
Furniture & Equipment	(18,754)	(1,560)	-	(20,314)
Improvements	(177,149)	(21,441)	-	(198,590)
Total Accumulated Depreciation	\$ (212,263)	\$ (25,000)	\$ -	\$ (237,263)
Governmental Activities Capital Assets, Net	\$ 230,479	\$ (19,150)	\$ -	\$ 211,329

D. Property, Plant and Equipment – Enterprise Fund

Changes in the Enterprise (Water) Fund for the year ended September 30, 2018, were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Buildings	40,000	5,234	-	45,234
Infrastructure	992,409	-	-	992,409
Equipment	62,768	-	-	62,768
Intangible Assets	170,115	-	-	170,115
TOTAL ASSETS	\$ 1,285,292	\$ 5,234	\$ -	\$ 1,290,526
Accumulated Depreciation	\$ (327,245)	\$ (40,579)	\$ -	\$ (367,824)
Accumulated Amortization	(73,866)	(8,953)	-	(82,819)
FIXED ASSETS, NET	\$ 884,181	\$ (44,298)	\$ -	\$ 839,883

E. Certificates of Obligation – Series 2009

A summary of long-term debt follows:

	Outstanding 10/1/2017	Issued	Retired	Outstanding 9/30/2018	Due Within One Year
Certificates of Obligation- Series 2016	\$ 985,000	\$ -	\$ 90,000	\$ 895,000	\$ 90,000

During 2017, the City advance refunded the Certificates of Obligation- Series 2009 (\$925,000). The bonds were called and were redeemed on November 17, 2016 by purchasing \$974,402 in U.S. State and Local Government securities. The various bonds have been defeased and removed as a liability of the City. The Series 2016 bonds mature on March 1 in each of the years 2017 through 2027, bearing interest at 1.99%. The refunding bonds resulted in a gross debt service savings of \$162,817 and the net present value savings of \$148,121.

The annual requirements to amortize the refunding bonds as of September 30, 2018 are as follows:

For the Year Ending September 30,	Principal	Interest	Total
2019	90,000	17,810	107,810
2020	95,000	16,020	111,020
2021	95,000	14,129	109,129
2022	100,000	12,239	112,239
2023	100,000	10,249	110,249
2024-2028	415,000	20,796	435,796
Totals	<u>\$ 895,000</u>	<u>\$ 91,243</u>	<u>\$ 986,243</u>

F. During the year ended September 30, 2018, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 1,644
Water Utility Fund	1,644	-
Totals	<u>\$ 1,644</u>	<u>\$ 1,644</u>

G. Risk Management

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

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2018 were \$1,422.

The City also maintains commercial insurance coverage for the water system through a private insurance carrier. Premiums paid for the year ended September 30, 2018 were \$2,100.

H. Contracts

The City has contracted with City of Granite Shoals Fire Department to provide firefighting services. The contract is for five years and terminates on September 30, 2022. For the year ended September 30, 2018, the City paid \$75,000 for firefighting services.

The City has contracted with the Marble Falls Emergency Medical Service, Inc. to provide emergency medical services. The contract is for three years and terminates on September 30, 2018. For the year ended September 30, 2018, the City paid \$11,015 for emergency medical services.

The City has contracted with the Sunset Water Utilities to operate and maintain the water system. The contract is for an indefinite term but may be terminated by either party upon sixty days notice. For the year ended September 30, 2018, the City paid \$33,266 for operation and maintenance services for the water system.

I. Subsequent Events

The City has evaluated subsequent events through February 14, 2019, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND HAVEN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 150,667	\$ 150,667	\$ 152,462	\$ 1,795
Franchise Tax	16,900	16,900	18,051	1,151
Licenses and Permits	7,000	7,000	11,450	4,450
Charges for Services	3,120	3,120	2,030	(1,090)
Investment Earnings	700	700	1,319	619
Other Revenue	1,100	1,100	1,514	414
Total Revenues	179,487	179,487	186,826	7,339
EXPENDITURES:				
Current:				
Financial Administration	116,098	116,098	77,646	38,452
Public Safety	89,015	89,015	86,616	2,399
Public Works	20,000	20,000	-	20,000
Highways and Streets	11,000	11,000	1,326	9,674
Parks	2,495	2,495	453	2,042
Total Expenditures	238,608	238,608	166,041	72,567
Excess (Deficiency) of Revenues Over (Under) Expenditures	(59,121)	(59,121)	20,785	79,906
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	(1,644)	(1,644)
Total Other Financing Sources (Uses)	-	-	(1,644)	(1,644)
Net Change	(59,121)	(59,121)	19,141	78,262
Fund Balance - October 1 (Beginning)	194,684	194,684	194,684	-
Fund Balance - September 30 (Ending)	\$ 135,563	\$ 135,563	\$ 213,825	\$ 78,262

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