

REPORT OF EXAMINATION

**CITY OF
HIGHLAND HAVEN**

Highland Haven, Texas

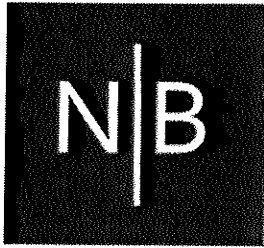
For the Year Ended
September 30, 2023

CITY OF HIGHLAND HAVEN
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2023

CITY OF HIGHLAND HAVEN
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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NEFFENDORF & BLOCKER, P.C.

INDEPENDENT AUDITOR'S REPORT

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

Opinions

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 Highland Haven, Texas as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City of Highland Haven, Texas' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Haven, Texas, as of September 30, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Highland Haven, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Highland Haven, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Highland Haven, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Highland Haven, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 4-8 and 29 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Haven, Texas' basis financial statements. The business-type budgetary comparison information on pages 30-31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 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 business-type budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2024, on our consideration of the City of Highland Haven, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Highland Haven, Texas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Highland Haven, Texas's internal control over financial reporting and compliance.

Neffendorf & Blocker, P.C.

Neffendorf & Blocker, P.C.
Fredericksburg, Texas

March 18, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Haven, Texas 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, 2023. Please read it in conjunction with the independent auditor's report on page 1, and the City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1,484,132 (net position). Of this amount, \$1,115,650 (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 \$252,344 as a result of this year's operations.
- At September 30, 2023, the City's general fund reported an ending fund balance of \$652,449, an increase of \$146,448 in comparison with the prior year.
- At September 30, 2023, the City's business-type activities reported a total net position of \$769,135, an increase of \$126,734 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 9 and 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (on pages 12 and 14) 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 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (general fund) is presented as required supplementary information on page 29.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the 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 & Solid Waste) 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 increased from \$589,387 to \$714,997. 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 \$653,236 at September 30, 2023. This increase in governmental net position was the result of three factors. First, the City's revenues exceeded the expenditures by \$146,448. Second, the City recorded depreciation in the amount of \$20,838 and third, the recognition of revenue earned in the current year's levy in the amount of \$787.

Net position of the City's business-type activities at September 30, 2023 were \$769,135. Unrestricted net position was \$462,414. This increase in business-type net position was the result of net income of \$126,734.

Table I
City of Highland Haven

NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS	
	Primary Government		Primary Government		Primary Government	
	2023	2022	2023	2022	2023	2022
Current and Restricted Assets	\$ 674,214	\$ 523,202	\$ 561,782	\$ 585,096	\$ 1,235,996	\$ 1,108,298
Capital Assets	61,761	82,599	664,252	665,567	726,013	748,166
Total Assets	\$ 735,975	\$ 605,801	\$ 1,226,034	\$ 1,250,663	\$ 1,962,009	\$ 1,856,464
Deferred Outflow of Resources						
Deferred Outflow Related to Refunding	\$ -	\$ -	\$ 27,420	\$ 34,420	\$ 27,420	\$ 34,420
Total Deferred Outflows of Resources	\$ -	\$ -	\$ 27,420	\$ 34,420	\$ 27,420	\$ 34,420
Long-Term Liabilities	\$ -	\$ -	\$ 315,000	\$ 415,000	\$ 315,000	\$ 415,000
Other Liabilities	20,978	16,414	169,319	227,682	190,297	244,096
Total Liabilities	\$ 20,978	\$ 16,414	\$ 484,319	\$ 642,682	\$ 505,297	\$ 659,096
Net Position						
Net Investment in Capital Assets	\$ 61,761	\$ 82,599	\$ 206,721	\$ 184,166	\$ 268,482	\$ 266,765
Restricted			100,000	100,000	100,000	100,000
Unrestricted	653,236	506,788	462,414	358,235	1,115,650	865,023
Total Net Position	\$ 714,997	\$ 589,387	\$ 769,135	\$ 642,401	\$ 1,484,132	\$ 1,231,788

Table II
City of Highland Haven

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS	
	2023	2022	2023	2022	2023	2022
Revenues:						
Charges for Services	\$ 28,964	\$ 3,300	\$ 384,521	\$ 395,920	\$ 413,485	\$ 399,220
Operating Grants & Contributions	400	629			400	629
Maintenance & Operations Taxes	251,149	213,010			251,149	213,010
Sales	32,045	31,798			32,045	31,798
Franchise Taxes	31,160	31,526			31,160	31,526
Other Revenues	18,539	105,793	16,553	5,306	35,092	111,099
Total Revenue	\$ 362,257	\$ 386,056	\$ 401,074	\$ 401,226	\$ 763,331	\$ 787,282
Expenses:						
Personnel Services	\$ 139,106	\$ 104,919	\$	\$	\$ 139,106	\$ 104,919
Administrative & Office	10,502	15,532			10,502	15,532
Street Maintenance & Repair	152	3,707			152	3,707
Maintenance & Repair	545	7,849			545	7,849
Professional Services	23,729	30,859			23,729	30,859
Utilities	5,914	3,689			5,914	3,689
Charges for Services	10,924	13,252			10,924	13,252
Membership Fee/Dues	1,182	1,091			1,182	1,091
Public Safety	100,755	99,316			100,755	99,316
Water Utility			89,895	84,374		
Solid Waste			95,432	93,061	95,432	93,061
Depreciation/Amortization	20,838	21,691	44,003	44,003	64,841	65,694
Debt Service			17,058	19,042	17,058	19,042
Total Expenses	\$ 313,647	\$ 301,905	\$ 246,388	\$ 240,480	\$ 470,140	\$ 458,011
Increase (Decrease) in Net Position						
Before Transfers & Capital Contributions	\$ 48,610	\$ 84,151	\$ 154,686	\$ 160,746	\$ 203,296	\$ 244,897
Capital Contributions			49,048		49,048	-
Transfers	77,000	45,000	(77,000)	(45,000)	-	-
Net Change	125,610	129,151	126,734	115,746	252,344	244,897
Net Position - Beginning	589,387	460,236	642,401	526,655	1,231,788	986,891
Prior Period Adjustment					-	-
Net Position - Ending	\$ 714,997	\$ 589,387	\$ 769,135	\$ 642,401	\$ 1,484,132	\$ 1,231,788

The cost of all governmental activities this year was \$313,647. However, as shown in the Statement of Activities on page 11, the amount that our taxpayers ultimately financed for these activities with City taxes was \$251,149 because the other costs were paid by sales tax (\$32,045), franchise tax (\$31,160), user charges (\$28,964), grant contributions (\$400), interest income (\$15,358) and miscellaneous (\$1,978).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a fund balance of \$652,449, which is more than last year's total of \$506,001. The primary reason for the Governmental Fund's increase was due to revenues that exceeded expenditures by \$146,448.

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 29) has been provided to demonstrate compliance.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2023, the City had the following amounts invested in capital assets:

	Governmental Activities	Business Type Activities	TOTAL
Land	\$ 1,155	\$ 20,000	\$ 21,155
Buildings	44,338	45,234	89,572
Improvements	336,767	-	336,767
Infrastructure	-	992,409	992,409
Furniture & Equipment	16,824	62,768	79,592
Intangible Assets	-	170,115	170,115
Construction in Progress	-	49,048	49,048
Total Capital Assets	\$ 399,084	\$ 1,339,574	\$ 1,738,658
Accumulated Depreciation/Amortization	337,323	675,320	1,012,643
Capital Assets, Net	\$ 61,761	\$ 664,254	\$ 726,015

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 \$415,000 in certificates of obligation outstanding. During the year ended September 30, 2023, the City paid \$100,000 in 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 2024 budget and tax rates. Amounts available for appropriation in the General Fund budget are \$478,836 (including a transfer from the business-type activities in the amount of \$77,000) and estimated expenditures are \$597,893.

If these estimates are realized, the City's budgetary General fund balance is expected to decrease by the end of fiscal year 2024.

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, 2023

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 132,695	\$ 192,866	\$ 325,561
Investments - Current	524,650	322,330	846,980
Taxes Receivable, Net	787	-	787
Accounts Receivable, Net	11,212	35,336	46,548
Due from Other Governments	4,870	-	4,870
Inventories	-	11,250	11,250
Capital Assets:			
Land	1,155	-	1,155
Buildings, Net	14,845	-	14,845
Improvements other than Buildings, Net	41,892	-	41,892
Furniture and Equipment, Net	3,869	-	3,869
Capital Assets, Net	-	621,721	621,721
Other Assets	-	42,531	42,531
Total Assets	<u>735,975</u>	<u>1,226,034</u>	<u>1,962,009</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge for Refunding	-	27,420	27,420
Total Deferred Outflows of Resources	<u>-</u>	<u>27,420</u>	<u>27,420</u>
LIABILITIES			
Accounts Payable	2,520	7,723	10,243
Wages and Salaries Payable	2,783	-	2,783
Accrued Interest Payable	-	658	658
Unearned Revenues	-	60,938	60,938
Other Current Liabilities	15,675	-	15,675
Noncurrent Liabilities:			
Due Within One Year	-	100,000	100,000
Due in More Than One Year:			
Bonds Payable - Noncurrent	-	315,000	315,000
Total Liabilities	<u>20,978</u>	<u>484,319</u>	<u>505,297</u>
NET POSITION			
Net Investment in Capital Assets and Lease Assets	61,761	206,721	268,482
Restricted for Debt Service	-	100,000	100,000
Unrestricted	653,236	462,414	1,115,650
Total Net Position	<u>\$ 714,997</u>	<u>\$ 769,135</u>	<u>\$ 1,484,132</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, 2023

		Program Revenues	
		Charges for Services	Capital Grants and Contributions
	Expenses		
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Personnel Services	\$ 139,106	\$ -	\$ -
Administrative & Office	10,502	-	-
Street Maintenance & Repair	152	-	-
Maintenance & Repair	545	-	-
Professional Services	23,729	26,955	-
Utilities	5,914	-	-
Charges for Services	10,924	2,009	-
Membership Fee/ Dues	1,182	-	-
Public Safety	100,755	-	-
Depreciation	20,838	-	-
Total Governmental Activities	313,647	28,964	-
BUSINESS-TYPE ACTIVITIES:			
Water Utility Fund	150,956	263,091	49,048
Solid Waste Fund	95,432	121,430	-
Total Business-Type Activities	246,388	384,521	49,048
TOTAL PRIMARY GOVERNMENT	\$ 560,035	\$ 413,485	\$ 49,048

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
General Sales and Use Taxes
Franchise Tax
Penalty and Interest on Taxes
Grants and Contributions
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
\$ (139,106)	\$ -	\$ (139,106)
(10,502)	-	(10,502)
(152)	-	(152)
(545)	-	(545)
3,226	-	3,226
(5,914)	-	(5,914)
(8,915)	-	(8,915)
(1,182)	-	(1,182)
(100,755)	-	(100,755)
(20,838)	-	(20,838)
(284,683)	-	(284,683)
-	161,183	161,183
-	25,998	25,998
-	187,181	187,181
(284,683)	187,181	(97,502)
251,149	-	251,149
32,045	-	32,045
31,160	-	31,160
1,203	-	1,203
400	-	400
1,978	5,392	7,370
15,358	11,161	26,519
77,000	(77,000)	-
410,293	(60,447)	349,846
125,610	126,734	252,344
589,387	642,401	1,231,788
\$ 714,997	\$ 769,135	\$ 1,484,132

CITY OF HIGHLAND HAVEN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

EXHIBIT C-1

	General Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 132,695
Investments - Current	524,650
Taxes Receivable	787
Accounts Receivable, Net	11,212
Due from Other Governments	4,870
	<hr/>
Total Assets	\$ 674,214
	<hr/>
LIABILITIES	
Accounts Payable	\$ 2,520
Wages and Salaries Payable	2,783
Other Current Liabilities	15,675
	<hr/>
Total Liabilities	20,978
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue - Property Taxes	787
	<hr/>
Total Deferred Inflows of Resources	787
	<hr/>
FUND BALANCE	
Unassigned Fund Balance	652,449
	<hr/>
Total Fund Balance	652,449
	<hr/>
Total Liabilities, Deferred Inflows & Fund Balance	\$ 674,214
	<hr/>

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, 2023

Total Fund Balances - Governmental Funds	\$ 652,449
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) in the governmental activities is to increase net position.	82,599
The 2023 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(20,838)
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.	787
Net Position of Governmental Activities	<u><u>\$ 714,997</u></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, 2023

EXHIBIT C-3

	General Fund
REVENUES:	
Taxes:	
Property Taxes	\$ 252,352
General Sales and Use Taxes	32,045
Franchise Tax	31,160
Licenses and Permits	26,955
Charges for Services	2,009
Investment Earnings	15,358
Contributions & Donations from Private Sources	400
Other Revenue	1,978
Total Revenues	<u>362,257</u>
EXPENDITURES:	
Current:	
Personnel Services:	
Personnel Services	139,106
Administrative & Office	10,502
Street Maintenance & Repair	152
Maintenance & Repair	545
Professional Services	23,729
Utilities	5,914
Charges for Services	10,924
Membership Fee/ Dues	1,182
Public Safety	100,755
Total Expenditures	<u>292,809</u>
Excess of Revenues Over Expenditures	<u>69,448</u>
OTHER FINANCING SOURCES (USES):	
Transfers In	77,000
Total Other Financing Sources (Uses)	<u>77,000</u>
Net Change in Fund Balance	146,448
Fund Balance - October 1 (Beginning)	<u>506,001</u>
Fund Balance - September 30 (Ending)	<u><u>\$ 652,449</u></u>

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, 2023

Total Net Change in Fund Balances - Governmental Funds	\$ 146,448
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.	(20,838)
Change in Net Position of Governmental Activities	<u>\$ 125,610</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, 2023

	Business-Type Activities - Enterprise Funds		
	Water Utility Fund	Solid Waste Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 131,148	\$ 61,718	\$ 192,866
Investments - Current	322,330	-	322,330
Accounts Receivable, Net	25,086	10,250	35,336
Inventories	11,250	-	11,250
Total Current Assets	489,814	71,968	561,782
Noncurrent Assets:			
Capital Assets:			
Capital Assets, net	621,721	-	621,721
Other Assets	42,531	-	42,531
Total Noncurrent Assets	664,252	-	664,252
Total Assets	1,154,066	71,968	1,226,034
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge for Refunding	27,420	-	27,420
Total Deferred Outflows of Resources	27,420	-	27,420
LIABILITIES			
Current Liabilities:			
Accounts Payable	91	7,632	7,723
Accrued Interest Payable	658	-	658
Unearned Revenues	60,938	-	60,938
Bonds Payable - Current	100,000	-	100,000
Total Current Liabilities	161,687	7,632	169,319
Noncurrent Liabilities:			
Bonds Payable - Noncurrent	315,000	-	315,000
Total Noncurrent Liabilities	315,000	-	315,000
Total Liabilities	476,687	7,632	484,319
NET POSITION			
Net Investment in Capital Assets and Lease Assets	206,721	-	206,721
Restricted for Debt Service	100,000	-	100,000
Unrestricted	398,078	64,336	462,414
Total Net Position	\$ 704,799	\$ 64,336	\$ 769,135

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, 2023

	Business-Type Activities - Enterprise Funds		
	Water Utility Fund	Solid Waste Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ 263,091	\$ 121,430	\$ 384,521
Other Revenue	682	4,710	5,392
Total Operating Revenues	<u>263,773</u>	<u>126,140</u>	<u>389,913</u>
OPERATING EXPENSES:			
Property Services			
Purchased Professional & Technical Services	39,146	95,432	134,578
Purchased Property Services	15,342	-	15,342
Other Operating Costs	18,123	-	18,123
Supplies	17,284	-	17,284
Total Property Services	<u>89,895</u>	<u>95,432</u>	<u>185,327</u>
Depreciation	<u>44,003</u>	<u>-</u>	<u>44,003</u>
Total Operating Expenses	<u>133,898</u>	<u>95,432</u>	<u>229,330</u>
Operating Income	<u>129,875</u>	<u>30,708</u>	<u>160,583</u>
NONOPERATING REVENUES (EXPENSES):			
Investment Earnings	11,104	57	11,161
Interest Expense - Nonoperating	<u>(17,058)</u>	<u>-</u>	<u>(17,058)</u>
Total Nonoperating Revenue (Expenses)	<u>(5,954)</u>	<u>57</u>	<u>(5,897)</u>
Income Before Contributions & Transfers	123,921	30,765	154,686
Capital Contributions	49,048	-	49,048
Transfers Out	<u>(62,000)</u>	<u>(15,000)</u>	<u>(77,000)</u>
Change in Net Position	<u>110,969</u>	<u>15,765</u>	<u>126,734</u>
Total Net Position - October 1 (Beginning)	<u>593,830</u>	<u>48,571</u>	<u>642,401</u>
Total Net Position - September 30 (Ending)	<u>\$ 704,799</u>	<u>\$ 64,336</u>	<u>\$ 769,135</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, 2023

EXHIBIT D-3

	Business-Type Activities		
	Water Utility Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 263,091	\$ 121,430	\$ 384,521
Cash Received from Assessments - Other	682	4,710	5,392
Cash Payments for Suppliers	(17,284)	-	(17,284)
Cash Payments for Other Operating Expenses	(78,992)	(98,203)	(177,195)
Net Cash Provided by Operating Activities	167,497	27,937	195,434
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(62,000)	(15,000)	(77,000)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(42,688)	-	(42,688)
Capital Contributed	49,048	-	49,048
Decrease in Unearned Revenue	(49,048)	-	(49,048)
Principal Paid - Bonds	(100,000)	-	(100,000)
Interest Paid	(10,221)	-	(10,221)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(152,909)	-	(152,909)
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	11,104	57	11,161
Net Increase (Decrease) in Cash and Cash Equivalents	(36,308)	12,994	(23,314)
Cash and Cash Equivalents at Beginning of Year	489,787	48,723	538,510
Cash and Cash Equivalents at End of Year	\$ 453,479	\$ 61,717	\$ 515,196
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income	\$ 129,875	\$ 30,708	\$ 160,583
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	44,003	-	44,003
Effect of Increases and Decreases in Current Assets and Liabilities:			
Increase (Decrease) in Accounts Payable	(6,381)	(2,771)	(9,152)
Net Cash Provided by Operating Activities	\$ 167,497	\$ 27,937	\$ 195,434

The accompanying notes are an integral part of this statement.

CITY OF HIGHLAND HAVEN
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 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.

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

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

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

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 and Solid Waste Fund are operated as Enterprise Funds.

The Proprietary Funds are accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

E. Other Accounting Policies

1. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

2. 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.
3. Accounting receivable from other governments include sales tax. Sales tax is recorded as a receivable and revenues at the time the sales tax is earned.

Revenues for services performed are recorded as receivable and revenues when they are earned in the government-wide statements. Included are billable services for certain contracts, and billable services for the City's water utilities and solid waste management. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts.

4. 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:

Assets	Years
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.

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

7. Fund Equity

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" 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).

8. 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, 2023, the carrying amount of the City's deposits was \$325,561 and the bank balance was \$337,769. The City's cash deposits at September 30, 2023 and during the year ended September 30, 2023 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:

Name	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
<u>Liquid Asset Portfolio -</u>				
TexPool - General Fund	524,650	524,650	*	*
Texpool - Water Utility Fund	322,330	322,330	*	*
Total Temporary Investments	\$ 846,980	\$ 846,980	\$ -	\$ -

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.

- * TexPool is a Local Government Investment Pool established in conformity with the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seek to maintain a constant net value of \$1.00, although this cannot be guaranteed. TexPool is rated AAAM and must maintain a weighted average maturity not to exceed 60 days.

At September 30, 2023, TexPool had a weighted average maturity of 26 days and a net asset value of \$1.00000. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, short of a significant change in value. The State Comptroller oversees TexPool, with a third party managing the daily operations of the pool under contract.

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, 2023 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 the 2022 tax roll, the City of Highland Haven had property with an assessed valuation of \$199,621,572. The tax rate was \$0.1260 per \$100 valuation (general fund only).

C. Capital Asset Activity

Capital asset activity for the governmental activities for the year ended September 30, 2023, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,155	\$	\$	\$ 1,155
Buildings	44,338			44,338
Furniture & Equipment	16,824		-	16,824
Improvements	336,767	-		336,767
Totals at Historic Cost	\$ 399,084	\$ -	\$ -	\$ 399,084
Less Accumulated Depreciation For:				
Buildings	(27,266)	(2,227)		(29,493)
Furniture & Equipment	(10,997)	(1,958)	-	(12,955)
Improvements	(278,222)	(16,653)		(294,875)
Total Accumulated Depreciation	\$ (316,485)	\$ (20,838)	\$ -	\$ (337,323)
Governmental Activities Capital Assets, Net	\$ 82,599	\$ (20,838)	\$ -	\$ 61,761

D. Property, Plant and Equipment – Enterprise Fund

Changes in the Enterprise (Water & Solid Waste) Fund for the year ended September 30, 2023, were as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 20,000	\$	\$	\$ 20,000
Buildings	45,234			45,234
Infrastructure	992,409			992,409
Equipment	62,768			62,768
Intangible Assets	170,115			170,115
Construction in Progress	6,360	42,688	-	49,048
TOTAL ASSETS	\$ 1,296,886	\$ -	\$ -	\$ 1,339,574
Accumulated Depreciation	\$ (512,685)	\$ (35,049)	\$	\$ (547,734)
Accumulated Amortization	(118,633)	(8,953)		(127,586)
FIXED ASSETS, NET	\$ 665,568	\$ (44,002)	\$ -	\$ 664,254

E. Certificates of Obligation – Series 2016

A summary of long-term debt follows:

	Outstanding 10/1/2022	Issued	Retired	Outstanding 9/30/2023	Due Within One Year
Certificates of Obligation-Series 2016	\$ 515,000	\$ -	\$ 100,000	\$ 415,000	\$ 100,000

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, 2023 are as follows:

For the Year Ending September 30,	Principal	Interest	Total
2024	100,000	8,259	110,249
2025	105,000	6,269	108,259
2026	105,000	4,179	109,179
2027	105,000	2,090	107,090
Totals	<u>\$ 415,000</u>	<u>\$ 20,797</u>	<u>\$ 434,777</u>

F. During the year ended September 30, 2023, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	\$ 77,000	\$
Water Utility Fund		62,000
Solid Waste Fund		15,000
Totals	<u>\$ 77,000</u>	<u>\$ 77,000</u>

G. Unearned Revenue

Unspent Coronavirus Local Fiscal Recovery Funds (federal grant) in the amount of \$60,938 are classified as unearned revenue in the Water Utility Fund. The funds will be utilized for improvements to the utility system assets.

H. 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, 2023 were \$4,644.

I. 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, 2027. For the year ended September 30, 2023, the City paid \$85,000 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, 2024. For the year ended September 30, 2023, the City paid \$13,527 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 one hundred and eighty days notice. For the year ended September 30, 2023, the City paid \$40,942 for operation and maintenance services for the water system.

The City has a municipal solid waste agreement with Waste Management of Texas, Inc. effective April 1, 2019. The term of the contract is seven years with an automatic two-year extension unless terminated by either party. The City is billed for the solid waste collections services in accordance with the contract. For the year ended September 30, 2023, the City paid \$94,182.

J. Subsequent Events

The City has evaluated subsequent events through March 18, 2024, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND HAVEN, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 249,535	\$ 249,535	\$ 252,352	\$ 2,817
General Sales and Use Taxes	27,000	27,000	32,045	5,045
Franchise Tax	27,150	27,150	31,160	4,010
Licenses and Permits	15,000	15,000	26,955	11,955
Charges for Services	4,620	4,020	2,009	(2,011)
Investment Earnings	1,000	1,000	15,358	14,358
Contributions & Donations from Private Sources	-	-	400	400
Other Revenue	-	600	1,978	1,378
Total Revenues	324,305	324,305	362,257	37,952
EXPENDITURES:				
Current:				
Personnel Services:				
Personnel Services	198,404	198,404	139,106	59,298
Administrative & Office	25,300	16,500	10,502	5,998
Street Maintenance & Repair	11,000	11,000	152	10,848
Maintenance & Repair	7,000	13,000	545	12,455
Professional Services	31,900	34,700	23,729	10,971
Utilities	7,000	7,000	5,914	1,086
Charges for Services	16,750	16,750	10,924	5,826
Membership Fee/ Dues	1,100	1,100	1,182	(82)
Public Safety	106,527	106,527	100,755	5,772
Total Expenditures	404,981	404,981	292,809	112,172
Excess (Deficiency) of Revenues Over (Under) Expenditures	(80,676)	(80,676)	69,448	150,124
OTHER FINANCING SOURCES (USES):				
Transfers In	77,000	77,000	77,000	-
Transfers Out	(126,000)	(126,000)	-	126,000
Total Other Financing Sources (Uses)	(49,000)	(49,000)	77,000	126,000
Net Change	(129,676)	(129,676)	146,448	276,124
Fund Balance - October 1 (Beginning)	506,001	506,001	506,001	-
Fund Balance - September 30 (Ending)	\$ 376,325	\$ 376,325	\$ 652,449	\$ 276,124

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

SUPPLEMENTARY INFORMATION

CITY OF HIGHLAND HAVEN, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - WATER UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

EXHIBIT G-2

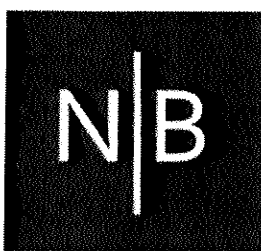
	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
OPERATING REVENUES:				
Charges for Services	\$ 254,500	\$ 254,500	\$ 263,091	\$ 8,591
Other Revenue	200	200	682	482
Total Operating Revenues	254,700	254,700	263,773	9,073
OPERATING EXPENSES:				
Professional & Technical Services - Property Servi	37,000	37,000	39,146	(2,146)
Property Services - Property Services	10,000	10,000	15,342	(5,342)
Other Operating Expenses - Property Services	22,775	22,775	18,123	4,652
Supplies - Property Services	19,840	19,840	17,284	2,556
Depreciation	-	-	44,003	(44,003)
Debt Service	110,249	110,249		110,249
Total Operating Expenses	199,864	199,864	133,898	65,966
Operating Income (Loss)	54,836	54,836	129,875	75,039
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	300	300	11,104	10,804
Interest Expense - Nonoperating	-	-	(17,058)	(17,058)
Total Non-operating Revenue (Expenses)	300	300	(5,954)	(6,254)
Income (Loss) Before Contributions & Transfers	55,136	55,136	123,921	68,785
Capital Contributions	-	-	49,048	49,048
Transfers Out	(112,000)	(112,000)	(62,000)	50,000
Change in Net Position	(56,864)	(56,864)	110,969	167,833
Net Position - October 1 (Beginning)	593,830	593,830	593,830	-
Net Position - September 30 (Ending)	\$ 536,966	\$ 536,966	\$ 704,799	\$ 167,833

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 NET POSITION
BUDGET AND ACTUAL - SOLID WASTE UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
OPERATING REVENUES:				
Charges for Services	\$ 117,000	\$ 117,000	\$ 121,430	\$ 4,430
Other Revenue	-	-	4,710	4,710
Total Operating Revenues	117,000	117,000	126,140	9,140
OPERATING EXPENSES:				
Professional & Technical Services - Property Servi	100,650	100,650	95,432	5,218
Total Operating Expenses	100,650	100,650	95,432	5,218
Operating Income (Loss)	16,350	16,350	30,708	14,358
NON-OPERATING REVENUES (EXPENSES):				
Investment Earnings	50	50	57	7
Total Non-operating Revenue (Expenses)	50	50	57	7
Income (Loss) Before Transfers	16,400	16,400	30,765	14,365
Transfers Out	(45,000)	(45,000)	(15,000)	30,000
Change in Net Position	(28,600)	(28,600)	15,765	44,365
Net Position - October 1 (Beginning)	48,571	48,571	48,571	-
Net Position - September 30 (Ending)	\$ 19,971	\$ 19,971	\$ 64,336	\$ 44,365

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



NEFFENDORF & BLOCKER, P.C.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Board of Aldermen
City of Highland Haven, Texas
Highland Haven, TX 78654

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Highland Haven, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise City of Highland Haven, Texas's basic financial statements and have issued our report thereon dated March 18, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Highland Haven, Texas's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Highland Haven, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Highland Haven, Texas's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS & TEXAS SOCIETY OF CPAs

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Highland Haven, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

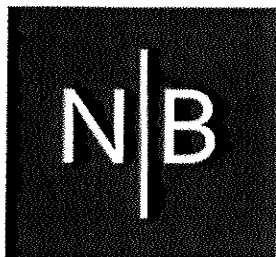
Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Neffendorf & Blocker, P.C.

NEFFENDORF & BLOCKER, P.C.

Fredericksburg, Texas
March 18, 2024



NEFFENDORF & BLOCKER, P.C.

March 18, 2024

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of City of Highland Haven, Texas for the year ended September 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 28, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Highland Haven, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2023. We noted no transactions entered into by the City of Highland Haven, Texas during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 18, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Highland Haven, Texas' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Highland Haven, Texas' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and the budgetary comparison schedule- general fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Recommendations:

Prior Year Journal Entries

The City did not record the prior year audit journal entries. The unrecorded entries cause the beginning financial statement balances to be misstated. We recommend the City record the prior year audit journal entries.

Public Funds Investment Act Compliance

Local Government Code chapter 2256 Public Funds Investment Act states "The governing body of an investing entity shall review its investment policy and investment strategies not less than annually". The City failed to review and adopt the investment policy through Board of Alderman action. We recommend the Board of Alderman review and adopt the investment policy annually to be in compliance with the Public Funds Investment Act.

Coronavirus State and Local Fiscal Recovery Grant Funds

The City expended CLFRF grant funds in the amount of \$42,688 in the Water Utility Fund. These funds were classified as unearned revenue in the previous year. The City failed to reclassify the expended funds from unearned revenue to contributed capital. This caused the liabilities to be overstated and the revenues to be understated. We recommend the City monitor the grant expenditures and recognize the allowable cost in contributed capital.

This information is intended solely for the use of the Board of Aldermen and management of City of Highland Haven, Texas and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Neffendorf & Blocker, P.C.

Neffendorf & Blocker, P.C.
Fredericksburg, Texas

09/30/23

DATE _____

[illegible]