

**CITY OF HONDO, TEXAS**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2012**

CITY OF HONDO, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
City Officials	2
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-11
<b><u>Basic Financial Statements</u></b>	
Government Wide Statements:	
A-1 Statement of Net Assets	12
B-1 Statement of Activities	13-14
Governmental Fund Financial Statements:	
C-1 Balance Sheet	15
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	17
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Fund Financial Statements:	
D-1 Statement of Net Assets	19
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
D-3 Statement of Cash Flows	21
Notes to Financial Statements	22-50
<b><u>Required Supplementary Information</u></b>	
E-1 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	51
E-2 Texas Municipal Retirement System Schedule of Funding Progress	52
E-3 Postemployment Benefits Other Than Pension	53
<b><u>Combining and Individual Fund Statements</u></b>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	54-56
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	57-59
<b><u>Federal Section</u></b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	60-61
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	62-63
Schedule of Findings and Questioned Costs	64
K-1 Schedule of Expenditures of Federal Awards	65
Notes on Accounting Policies for Federal Awards	66

**CITY OF HONDO, TEXAS**

**CITY OFFICIALS**

James W. Danner ..... Mayor

Keith Lutz ..... Mayor Pro-Tem

Sammy Noonan ..... Council Member

Ann-Michelle Vance Long ..... Council Member

John McAnelly ..... Council Member

Eric Torres ..... Council Member

Jeff Litchfield ..... City Manager

COLEMAN, HORTON & COMPANY, LLP  
Certified Public Accountants

400 E. NOPAL ST.  
UVALDE, TEXAS 78801-5305

ROBERT O. COLEMAN, CPA  
STEPHEN L. HORTON, CPA  
DEBORAH V. McDONALD, CPA  
JAMES C. GRUENWALD, CPA  
DEREK L. WALKER, CPA

830-278-6276  
FAX 830-278-6868  
chc@colemanhortoncpa.com

Independent Auditor's Report

The Honorable Mayor and  
Members of the City Council  
City of Hondo, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Hondo, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hondo, Texas as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of the City of Hondo, 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require the the management's discussion and analysis on pages 5 through 11, the general budgetary comparison schedule on page 51, the Texas Municipal Retirement System Schedule of Funding Progress on pages 52, and the Postemployment Benefits Other Than Pension on page 53 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hondo, Texas's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Coleman, Horton + Company, LLP*

Certified Public Accountants  
December 28, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial report of the City of Hondo (the City) is presented in five sections, management's discussion and analysis (this Part), basic financial statements, required supplementary information, combining and individual fund statements, and the federal section. This section of the City's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ending September 30, 2012. Please read it in conjunction with the City's financial section, which follows.

### **Overview of the Basic Financial Statements**

The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in *more detail* than the government-wide statements.
  - \* The *governmental funds* statement tell how *general government* services were financed in the *short term* as well as what remains for future spending.
  - \* *Proprietary fund* statements provide information about financial operations in which the City provides certain utility services for the benefit of its citizens.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

## **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's *net assets* and how they have changed. Net assets—the difference between the City's assets and liabilities is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as public safety, streets and parks, health and sanitation, and general administration. Property taxes and service fees finance most of these activities.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's 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.

- Some funds are required by law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- *Governmental funds* – Most of the City’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. Because this information does not encompass the additional long-term focus of government-wide statements, we provide additional information on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

**Financial Highlights**

- \* The City’s combined net assets were \$34,285,320 at September 30, 2012, an increase of \$2,145,284 from the prior year.
- \* During the year, the City’s revenue was \$18,130,256 as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
a) Taxes	\$ 1,959,137	\$ 1,872,607
b) Charges for Services	1,512,576	1,622,275
c) Investment Earnings	4,124	3,806
d) Grants and Contributions	94,287	463,828
e) Other	<u>234,270</u>	<u>78,568</u>
Sub-total	<u>3,804,394</u>	<u>4,041,084</u>
	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
e) Charges for Services	11,886,141	12,004,029
f) Grants and Contributions	2,186,444	325,808
g) Investment Earnings	2,239	11,701
h) Other	<u>251,038</u>	<u>1,584,717</u>
Sub-total	<u>14,325,862</u>	<u>13,926,255</u>
Total Revenue	<u>\$18,130,256</u>	<u>\$17,967,339</u>



\* During the year, the City's expenses were \$16,887,824 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	General Government	\$ 1,049,754	\$ 1,392,645
b)	Finance and Tax	172,892	159,918
c)	Public Safety	1,472,529	1,455,764
d)	Legal and Court	72,347	152,890
e)	Public Works	2,768,570	2,209,856
f)	Parks, Recreation and Golf Course	1,178,716	1,170,680
g)	Library	252,329	254,070
h)	Interest and Charges	<u>101,363</u>	<u>127,066</u>
	Sub-Total	<u>7,068,500</u>	<u>6,922,889</u>
		<u>Business-type Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	Electric	6,067,577	6,129,124
b)	Water and Sewer	1,868,575	1,668,041
b)	Municipal Airport	<u>1,883,172</u>	<u>1,458,597</u>
	Sub-Total	<u>9,819,324</u>	<u>9,255,762</u>
	Total Expenses	<u>\$16,887,824</u>	<u>\$16,178,651</u>

\* The general fund reported a fund balance this year of \$464,060, an increase of \$561,104 from the prior year.

\* Revenues were \$7,270 below budget and expenditures, excluding capital outlays, were \$5,443 below budget.

\* The debt service fund reported a fund balance of \$136,664, an increase of \$11,630 from the prior year.

\* The electric fund and water and sewer fund reported profits of \$2,328,009 and \$193,267, respectively, before transfers out and capital contributions.

\* The electric and water and sewer funds transferred \$2,916,668 to the general fund and other funds during the year.

\* The municipal airport fund continued making capital improvements during the year, receiving \$2,186,444 of grant revenues. The airport fund also sold over seven acres during the year. It also transferred \$35,227 to other funds.

\* The City's combined net assets were \$34,285,320 at September 30, 2012, as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 4,601,319	\$ 2,833,897
Capital and non-current assets	<u>11,260,282</u>	<u>11,137,367</u>
<b>Total Assets</b>	<b><u>\$15,861,601</u></b>	<b><u>\$13,971,264</u></b>
Current liabilities	\$ 1,621,994	\$ 1,871,493
Long term liabilities	<u>2,433,238</u>	<u>2,228,779</u>
<b>Total Liabilities</b>	<b><u>\$ 4,055,232</u></b>	<b><u>\$ 4,100,272</u></b>
Net assets:		
Invested in capital assets net of related debt	\$ 8,854,700	\$ 8,908,588
Restricted	2,149,207	724,369
Unrestricted	<u>802,462</u>	<u>238,035</u>
<b>Total Net Assets</b>	<b><u>\$11,806,369</u></b>	<b><u>\$ 9,870,992</u></b>
	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 3,264,124	\$ 3,601,673
Capital and non-current assets	<u>23,240,227</u>	<u>21,689,920</u>
<b>Total Assets</b>	<b><u>\$26,504,351</u></b>	<b><u>\$25,291,593</u></b>
Current liabilities	\$ 1,504,737	\$ 541,024
Long term liabilities	<u>2,520,663</u>	<u>2,481,525</u>
<b>Total Liabilities</b>	<b><u>\$ 4,025,400</u></b>	<b><u>\$ 3,022,549</u></b>
Net Assets:		
Invested in capital assets net of related debt	\$20,614,145	\$19,088,163
Restricted	466,590	-
Unrestricted	<u>1,398,216</u>	<u>3,180,881</u>
<b>Total Net Assets</b>	<b><u>\$22,478,951</u></b>	<b><u>\$22,269,044</u></b>
<b>Combined Total Net Assets</b>	<b><u>\$34,285,320</u></b>	<b><u>\$32,140,036</u></b>

## **Capital Assets and Debt Administration**

### **Capital Assets**

Capital assets for the City at fiscal year end September 30, 2012 amounted to \$34,495,385. It is the City's policy to charge off as a current expenditure any purchases less than \$5,000. The total capital assets recorded were land and its improvements, buildings, equipment and streets as reflected below:

#### **Capital Assets**

	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>
	<b><u>Current Year</u></b>		<b><u>Prior Year</u></b>	
Land	\$ 545,546	\$ 2,545,289	\$ 545,546	\$ 2,567,564
Buildings and improvements	20,461,793	33,955,506	19,987,782	31,734,167
Equipment	2,088,312	1,256,554	1,888,559	1,331,235
Construction in progress	<u>250,726</u>	<u>118,214</u>	<u>200,677</u>	<u>-</u>
Totals at historical cost	23,346,377	37,875,563	22,622,564	35,632,966
Total accumulated depreciation	<u>(12,091,219)</u>	<u>(14,635,336)</u>	<u>(11,485,197)</u>	<u>(13,943,048)</u>
Net capital assets	<u>\$11,255,158</u>	<u>\$23,240,227</u>	<u>\$11,137,367</u>	<u>\$21,689,918</u>

### **Long-term Debt**

The City has the following long term debt at year end:

#### **Long Term Debt**

	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>	<b><u>Governmental</u></b> <b><u>Activities</u></b>	<b><u>Business-type</u></b> <b><u>Activities</u></b>
	<b><u>Current Year</u></b>		<b><u>Prior Year</u></b>	
Capital Lease	\$ 175,138	\$ -	\$ 55,756	\$ -
Notes		80,496	-	105,780
Compensated Absences	67,092	23,643	64,709	24,952
Certificates of Obligation	<u>2,258,100</u>	<u>2,581,710</u>	<u>2,173,023</u>	<u>2,495,977</u>
	<u>\$ 2,500,330</u>	<u>\$ 2,685,849</u>	<u>\$ 2,293,488</u>	<u>\$ 2,626,709</u>

The City retired \$240,162 of outstanding debt during the year and \$147,260 of capital lease debt was issued. Certain amounts of the certificates of obligation were also reallocated between the governmental and business-type activities and the economic development corporation.

## **Contacting the City's Financial Management**

The financial report is designed for customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

City Manager

City of Hondo

1600 Avenue M

Hondo, Texas 78861

## BASIC FINANCIAL STATEMENTS

CITY OF HONDO, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 3,207,536	\$ 1,132,445	\$ 4,339,981	\$ 1,754,916
Receivables (net of allowance for uncollectibles)	321,806	1,382,455	1,704,261	-
Due from Others	-	50,000	50,000	-
Internal Balances	909,006	(909,006)	-	-
Due from Component Unit	81,999	-	81,999	-
Inventories	-	439,210	439,210	-
Prepaid Items	48,192	-	48,192	-
Capitalized Debt Issuance Costs	32,780	36,124	68,904	32,417
Restricted Assets:				
Cash and Cash Equivalents	-	223,890	223,890	-
Capital Assets:				
Land	545,546	-	545,546	-
Infrastructure, net	6,454,634	-	6,454,634	-
Buildings, net	3,297,194	-	3,297,194	-
Machinery and Equipment, net	707,058	-	707,058	-
Capital Assets, net	-	23,240,227	23,240,227	-
Construction in Progress	250,726	-	250,726	-
Other Assets	5,124	-	5,124	-
<b>Total Assets</b>	<b>15,861,601</b>	<b>25,595,345</b>	<b>41,456,946</b>	<b>1,787,333</b>
<b>LIABILITIES</b>				
Accounts Payable	1,604,114	135,658	1,739,772	180
Due to Primary Government	-	-	-	81,999
Accrued Interest Payable	17,880	18,986	36,866	11,580
Deferred Revenues	-	54,546	54,546	-
Note Payable - Current	-	26,043	26,043	-
Bonds Payable - Current	-	115,500	115,500	-
Payable from Restricted Assets	-	244,998	244,998	-
Noncurrent Liabilities				
Due Within One Year	163,716	-	163,716	48,095
Due in More Than One Year	2,269,522	2,520,663	4,790,185	1,209,095
<b>Total Liabilities</b>	<b>4,055,232</b>	<b>3,116,394</b>	<b>7,171,626</b>	<b>1,350,949</b>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	8,854,700	20,614,145	29,468,845	-
Restricted for:				
Restricted for Capital Acquisition	1,403,878	439,210	1,843,088	-
Restricted for Retirement of Long-Term Debt	136,664	27,380	164,044	-
Restricted for Perpetual Care	608,665	-	608,665	-
Restricted for Economic Development	-	-	-	436,384
Unrestricted Net Assets	802,462	1,398,216	2,200,678	-
<b>Total Net Assets</b>	<b>\$ 11,806,369</b>	<b>\$ 22,478,951</b>	<b>\$ 34,285,320</b>	<b>\$ 436,384</b>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 1,049,754	\$ 265,618	\$ 3,700	\$ 50,049
Finance and Tax	172,892	-	-	-
Public Safety	1,472,529	26,809	-	30,400
Legal and Court	72,347	93,501	-	-
Public Works	2,768,570	1,058,377	-	-
Parks, Recreation, and Golf Course	1,178,716	54,492	-	-
Library	252,329	13,779	10,138	-
Interest and Charges	98,874	-	-	-
Issurance Costs	2,489	-	-	-
Total Governmental Activities:	7,068,500	1,512,576	13,838	80,449
BUSINESS-TYPE ACTIVITIES:				
Electric Fund	6,067,577	8,392,116	-	-
Water and Sewer Fund	1,868,575	2,025,592	-	-
Municipal Airport Fund	1,883,172	1,468,433	-	-
Total Business-Type Activities:	9,819,324	11,886,141	-	-
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 16,887,824</b>	<b>\$ 13,398,717</b>	<b>\$ 13,838</b>	<b>\$ 80,449</b>
<b>Component Unit:</b>				
Nonmajor Component Unit	\$ 130,997	\$ -	\$ -	\$ -
<b>TOTAL COMPONENT UNITS:</b>	<b>\$ 130,997</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Other Taxes

Grants

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Nonmajor Component Unit
\$ (730,387)	\$ -	\$ (730,387)	\$ -
(172,892)	-	(172,892)	-
(1,415,320)	-	(1,415,320)	-
21,154	-	21,154	-
(1,710,193)	-	(1,710,193)	-
(1,124,224)	-	(1,124,224)	-
(228,412)	-	(228,412)	-
(98,874)	-	(98,874)	-
(2,489)	-	(2,489)	-
<u>(5,461,637)</u>	<u>-</u>	<u>(5,461,637)</u>	<u>-</u>
-	2,324,539	2,324,539	-
-	157,017	157,017	-
-	(414,739)	(414,739)	-
<u>-</u>	<u>2,066,817</u>	<u>2,066,817</u>	<u>-</u>
<u>(5,461,637)</u>	<u>2,066,817</u>	<u>(3,394,820)</u>	<u>-</u>
-	-	-	(130,997)
-	-	-	(130,997)
736,620	-	736,620	-
229,634	-	229,634	-
831,329	-	831,329	418,998
161,554	-	161,554	-
-	2,186,444	2,186,444	-
234,270	132,824	367,094	-
4,124	2,239	6,363	3,987
3,138,686	(2,951,895)	186,791	(186,791)
<u>5,336,217</u>	<u>(630,388)</u>	<u>4,705,829</u>	<u>236,194</u>
(125,420)	1,436,429	1,311,009	105,197
9,870,992	22,269,044	32,140,036	747,529
2,060,797	(1,344,736)	716,061	(416,342)
<u>\$ 11,806,369</u>	<u>\$ 22,360,737</u>	<u>\$ 34,167,106</u>	<u>\$ 436,384</u>



CITY OF HONDO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,151,703	\$ 949,055	\$ 1,106,778	\$ 3,207,536
Taxes Receivable	61,083	-	16,969	78,052
Allowance for Uncollectible Taxes (credit)	(1,660)	-	(317)	(1,977)
Receivables (Net)	160,206	-	-	160,206
Intergovernmental Receivables	-	-	85,525	85,525
Due from Other Funds	1,170,039	516,239	39,949	1,726,227
Due from Component Unit	81,999	-	-	81,999
Prepaid Items	48,192	-	-	48,192
Other Assets	-	-	5,124	5,124
<b>Total Assets</b>	<b>\$ 2,671,562</b>	<b>\$ 1,465,294</b>	<b>\$ 1,254,028</b>	<b>\$ 5,390,884</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 1,317,916	\$ 61,416	\$ 46,449	\$ 1,425,781
Accrued Expenses	111,241	-	-	111,241
Due to Other Funds	724,813	-	92,408	817,221
Deferred Revenues	53,532	-	14,897	68,429
<b>Total Liabilities</b>	<b>2,207,502</b>	<b>61,416</b>	<b>153,754</b>	<b>2,422,672</b>
<b>Fund Balances:</b>				
<b>Restricted Fund Balance:</b>				
Capital Acquisition	-	1,403,878	-	1,403,878
Retirement of Long-Term Debt	-	-	136,664	136,664
Other Restricted Fund Balance	-	-	608,665	608,665
Unassigned Fund Balance	464,060	-	354,945	819,005
<b>Total Fund Balances</b>	<b>464,060</b>	<b>1,403,878</b>	<b>1,100,274</b>	<b>2,968,212</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,671,562</b>	<b>\$ 1,465,294</b>	<b>\$ 1,254,028</b>	<b>\$ 5,390,884</b>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$	2,968,212
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$22,622,564 and the accumulated depreciation was \$(11,485,197). In addition, long-term liabilities, \$(2,228,779) are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		8,908,588
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2012 capital outlays of \$801,265 and debt principal payments of \$119,930 is to increase net assets.		921,195
The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(682,169)
Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred tax revenue of \$68,429, bond issuance cost of \$32,780, accrued interest associated with long-term debt of \$(17,880), accrued compensated absences of \$(67,092), capital lease proceeds of \$(147,260), the book value of capital assets retired of \$(1,305), and adjustment of long-term debt between governmental and other funds of \$(177,129). The net effect of these reclassifications and recognitions is to decrease net assets.		(309,457)
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b>11,806,369</b>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 728,070	\$ -	\$ 228,479	\$ 956,549
Sales Taxes	831,329	-	-	831,329
Other Taxes	161,554	-	-	161,554
Licenses and Permits	31,058	-	-	31,058
Intergovernmental	-	-	94,287	94,287
Charges for Services	1,501,627	-	-	1,501,627
Investment Earnings	521	1,845	1,758	4,124
Other Revenue	130,056	-	79,775	209,831
Total Revenues	3,384,215	1,845	404,299	3,790,359
<b>EXPENDITURES:</b>				
Current:				
General Government	960,679	287,220	57,120	1,305,019
Finance and Tax	172,892	-	-	172,892
Public Safety	1,408,220	-	73,938	1,482,158
Legal and Court	72,347	-	-	72,347
Public Works	2,262,980	130,634	118,285	2,511,899
Parks, Recreation, and Golf Course	1,112,230	-	-	1,112,230
Library	230,376	-	10,138	240,514
Debt Service:				
Principal	-	-	119,929	119,929
Interest and Charges	-	-	97,174	97,174
Total Expenditures	6,219,724	417,854	476,584	7,114,162
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,835,509)	(416,009)	(72,285)	(3,323,803)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Property	5,635	-	-	5,635
Proceeds from Capital Leases	147,260	-	-	147,260
Transfers In	2,760,000	88,227	194,093	3,042,320
Transfers Out (Use)	(90,425)	-	-	(90,425)
Total Other Financing Sources (Uses)	2,822,470	88,227	194,093	3,104,790
Net Change in Fund Balances	(13,039)	(327,782)	121,808	(219,013)
Fund Balance - October 1 (Beginning)	(97,044)	67,878	978,466	949,300
Prior Period Adjustment	574,143	1,663,782	-	2,237,925
Fund Balance - September 30 (Ending)	\$ 464,060	\$ 1,403,878	\$ 1,100,274	\$ 2,968,212

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, 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, 2012

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(219,013)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays of \$801,265 and debt principal payments of \$119,930 is to increase net assets.		921,195
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 net assets.		(682,169)
Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred tax revenue of \$9,704, and accrued interest of \$(1,700). Also, recognizing debt issue cost amortization of \$(2,489), the change in compensated absences of \$(2,383), the book value of capital assets retired of \$(1,305), and capital lease proceeds of \$(147,260) The net effect of these reclassifications and recognitions is to decrease net assets.		(145,433)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>(125,420)</b>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water and Sewer Fund	Municipal Airport Fund	Total Enterprise Funds
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 220	\$ 954	\$ 1,131,271	\$ 1,132,445
Restricted Assets - Current:				
Cash and Cash Equivalents	133,480	63,030	27,380	223,890
Accounts Receivable-Net of Uncollectible Allowance	1,050,391	246,613	85,451	1,382,455
Due from Other Governments	-	-	50,000	50,000
Due from Other Funds	474,725	215,788	130,851	821,364
Inventories	300,451	84,805	53,954	439,210
Total Current Assets	<u>1,959,267</u>	<u>611,190</u>	<u>1,478,907</u>	<u>4,049,364</u>
<b>Noncurrent Assets:</b>				
Capitalized Debt Issuance Costs	11,169	21,230	3,725	36,124
Capital Assets:				
Capital Assets	3,285,229	14,960,645	19,629,689	37,875,563
Accumulated Depreciation - Capital Assets	(2,709,062)	(7,800,829)	(4,125,445)	(14,635,336)
Total Noncurrent Assets	<u>587,336</u>	<u>7,181,046</u>	<u>15,507,969</u>	<u>23,276,351</u>
Total Assets	<u>2,546,603</u>	<u>7,792,236</u>	<u>16,986,876</u>	<u>27,325,715</u>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts Payable	35,413	-	31,758	67,171
Accrued Expenses	27,934	28,687	11,866	68,487
Due to Other Funds	957,542	584,380	188,448	1,730,370
Accrued Interest Payable	6,045	11,239	1,702	18,986
Deferred Revenue	48,269	-	6,277	54,546
Notes Payable - Current	-	-	26,043	26,043
Bonds Payable - Current	33,345	70,005	12,150	115,500
Payable from Restricted Assets - Current:				
Customer Deposits	181,968	63,030	-	244,998
Total Current Liabilities	<u>1,290,516</u>	<u>757,341</u>	<u>278,244</u>	<u>2,326,101</u>
<b>NonCurrent Liabilities:</b>				
Bonds Payable - Noncurrent	774,345	1,409,715	282,150	2,466,210
Notes Payable - Noncurrent	-	-	54,453	54,453
Total Noncurrent Liabilities	<u>774,345</u>	<u>1,409,715</u>	<u>336,603</u>	<u>2,520,663</u>
Total Liabilities	<u>2,064,861</u>	<u>2,167,056</u>	<u>614,847</u>	<u>4,846,764</u>
<b>NET ASSETS</b>				
Investments in Capital Assets, Net of Debt	(220,354)	5,701,326	15,133,173	20,614,145
Restricted for Inventories	300,451	84,805	53,954	439,210
Restricted for Grant Projects	-	-	27,380	27,380
Unrestricted Net Assets	401,645	(160,951)	1,157,522	1,398,216
Total Net Assets	<u>\$ 481,742</u>	<u>\$ 5,625,180</u>	<u>\$ 16,372,029</u>	<u>\$ 22,478,951</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT D-2

	Business-Type Activities - Enterprise Funds			
	Electric Fund	Water and Sewer Fund	Municipal Airport Fund	Total Enterprise Funds
<b>OPERATING REVENUES:</b>				
Charges for Services	\$ 8,262,005	\$ 1,993,893	\$ 1,468,433	\$ 11,724,331
Penalties	130,111	31,699	-	161,810
Other Revenue	-	29,344	-	29,344
Total Operating Revenues	<u>8,392,116</u>	<u>2,054,936</u>	<u>1,468,433</u>	<u>11,915,485</u>
<b>OPERATING EXPENSES:</b>				
Personnel Services	476,230	470,864	260,746	1,207,840
Materials and Supplies	220,536	342,303	1,016,593	1,579,432
Contractual Services	5,290,403	636,419	192,889	6,119,711
Depreciation	45,393	351,363	400,088	796,844
Total Operating Expenses	<u>6,032,562</u>	<u>1,800,949</u>	<u>1,870,316</u>	<u>9,703,827</u>
Operating Income (Loss)	<u>2,359,554</u>	<u>253,987</u>	<u>(401,883)</u>	<u>2,211,658</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Gain in Sale of Property	3,500	6,906	93,074	103,480
Intergovernmental Revenue	-	-	2,186,444	2,186,444
Investment Earnings	-	-	2,239	2,239
Interest Expense	(35,015)	(67,626)	(12,856)	(115,497)
Total Non-operating Revenue (Expenses)	<u>(31,515)</u>	<u>(60,720)</u>	<u>2,268,901</u>	<u>2,176,666</u>
Income Before Contributions & Transfers	2,328,039	193,267	1,867,018	4,388,324
Capital Contributions	-	118,214	-	118,214
Transfers Out	(2,400,000)	(516,668)	(35,227)	(2,951,895)
Change in Net Assets	(71,961)	(205,187)	1,831,791	1,554,643
Total Net Assets - October 1 (Beginning)	885,891	6,767,399	14,615,754	22,269,044
Prior Period Adjustment	(332,188)	(937,032)	(75,516)	(1,344,736)
Total Net Assets - September 30 (Ending)	<u>\$ 481,742</u>	<u>\$ 5,625,180</u>	<u>\$ 16,372,029</u>	<u>\$ 22,478,951</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT D-3

	Business-Type Activities			
	Electric Fund	Water and Sewer Fund	Municipal Airport Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$ 8,444,952	\$ 2,060,853	\$ 1,505,503	\$ 12,011,308
Payments for Personnel Services	(464,970)	(457,078)	(258,975)	(1,181,023)
Payments to Suppliers	(182,850)	(306,074)	(984,835)	(1,473,759)
Payments for Services	(5,281,629)	(636,419)	(192,889)	(6,110,937)
Net Cash Provided by Operating Activities	<u>2,515,503</u>	<u>661,282</u>	<u>68,804</u>	<u>3,245,589</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>				
Proceeds from Grants	-	-	106,207	106,207
Operating Transfer Out	(2,400,000)	(516,668)	(35,227)	(2,951,895)
Advances from/to Other Funds	45,969	37,270	(203,609)	(120,370)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(2,354,031)</u>	<u>(479,398)</u>	<u>(132,629)</u>	<u>(2,966,058)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>				
Acquisition of Capital Assets	-	(27,999)	(142,624)	(170,623)
Debt Principal Paid	(26,479)	(60,881)	(32,872)	(120,232)
Sale of Capital Assets	3,500	27,953	1,103,419	1,134,872
Interest Paid	(34,867)	(65,996)	(13,210)	(114,073)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(57,846)</u>	<u>(126,923)</u>	<u>914,713</u>	<u>729,944</u>
<u>Cash Flows from Investing Activities:</u>				
Interest on Investments	-	-	2,239	2,239
Net Increase in Cash and Cash Equivalents	103,626	54,961	853,127	1,011,714
Cash and Cash Equivalents at Beginning of the Year:	30,074	9,023	305,524	344,621
Cash and Cash Equivalents at the End of the Year:	<u>\$ 133,700</u>	<u>\$ 63,984</u>	<u>\$ 1,158,651</u>	<u>\$ 1,356,335</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>				
Operating Income (Loss):	\$ 2,359,554	\$ 253,987	\$ (401,883)	\$ 2,211,658
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	45,393	351,363	400,088	796,844
Amortization	779	1,595	259	2,633
Effect of Increases and Decreases in Current Assets and Liabilities:				
Decrease (increase) in Receivables	52,836	887	99,862	153,585
Decrease (increase) in Inventories	37,686	36,279	(7,384)	66,581
Increase (decrease) in Accounts Payable	(1,451)	-	(29,877)	(31,328)
Increase (decrease) in Accruals	11,949	13,821	1,462	27,232
Increase (decrease) in Deferred Revenue	-	-	6,277	6,277
Increase (decrease) in Customer Deposits	8,757	3,350	-	12,107
Net Cash Provided by Operating Activities	<u>\$ 2,515,503</u>	<u>\$ 661,282</u>	<u>\$ 68,804</u>	<u>\$ 3,245,589</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hondo (the “City”) is a municipal agency operating under the applicable laws and regulations of the State of Texas. It is governed by a six member City Council elected by registered voters of the City. The City prepares its general purpose financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified by the American Institute of Certified Public Accountants; and it complies with the requirements of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

The City’s basic financial statements include the accounts of all City operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City’s reporting entity, as set for in GASB Statement No. 14 “The Financial Reporting Entity”, include whether:

- \* the organization is legally separate (can sue and be sued in their own name)
- \* the City holds the corporate powers of the organization
- \* the City appoints a voting majority of the organization’s board
- \* the City is able to impose its will on the organization
- \* the organization has the potential to impose a financial benefit/burden on the City
- \* there is fiscal dependency by the organization of the City

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements that are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) the City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) such economic resources are significant to the City.

Based on these criteria, the City has one component unit, the Economic Development Corporation (EDC). The EDC is a nonprofit corporation organized under the laws of the State of Texas to provide economic development services in and for the benefit of the City. The EDC is presented discretely in the financial statements since EDC’s governing body is not substantially the same as that of the City and EDC does not provide services entirely or almost entirely to the City. It is presented in a separate column to the right of the primary government to emphasize it is legally separate from the City. The City is not a component unit of any other reporting entity as defined by the GASB statement.



## **B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Hondo's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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 indicates 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 on the government-wide statements and appear on the government-wide Statement of Net Assets as internal balances and on the Statement of Activities as interfund transfers.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues 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, as do the proprietary fund financial statements. 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 the State or Federal Government are recognized under the susceptible to accrual concept. 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.

The Proprietary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

#### **D. FUND ACCOUNTING**

The City reports the following major governmental funds:

1. **The General Fund** – The general fund is the City’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Capital Projects Fund** - This fund accounts for the usage of the bond proceeds which were allocated to the general fund.

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

Governmental Funds:

1. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Major Proprietary Funds:

2. **Enterprise Funds** – The City’s activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in the Enterprise Funds. The City’s major Enterprise Funds are the Electric Fund, Water and Sewer Fund, and Municipal Airport Fund.

**E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for proprietary fund types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The City records purchases of inventory items under the consumption method. Inventory purchases are recorded at cost using the first-in, first-out method.
3. The City records its investments at cost, which approximates fair value.
4. Deferred revenue accounted for on the balance sheet relates to uncollected property taxes less the amount of doubtful accounts and proprietary fund deferrals.
5. The City provides risk management obligations by carrying commercial insurance. General liability insurance is obtained from a commercial insurance carrier.
6. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
7. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.
8. Capital assets, which include land, buildings, furniture and equipment, and infrastructure 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 initial, individual cost of more than \$5,000 and 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 is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20 - 40
Infrastructure	25 - 60
Equipment	3 - 20
Vehicles	3 - 10

9. The City reports fund balance for governmental funds in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or “must be maintained in tact” and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications precludes a need for a policy from the City Council. However, the Council has adopted fund balance policies for the three unrestricted classifications - committed, assigned, and unassigned.

From time to time, the City Council may commit fund balances by a majority vote in a scheduled meeting. The Council’s commitment may be modified or rescinded by a majority vote in a scheduled meeting. Council commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the City does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions and other purposes determined by the Council.

The City Council may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Council may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Council by majority vote in a scheduled meeting.

When it is appropriate for fund balance to be assigned, the Council delegates authority to the City Manager or the Finance Officer.

When the City incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the City incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged to committed, assigned then unassigned.

Restricted

Capital acquisition	\$ 1,403,878
Debt service	136,664
Perpetual care	<u>608,665</u>
Total restricted	<u>2,149,207</u>
Unassigned	<u>819,005</u>
Total Fund Balances	<u>\$ 2,968,212</u>

10. Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Service provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefitting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single “Transfers” line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single “Internal Balances” line on the government-wide statement of net assets.

11. Equity is classified as net assets and displayed in three components:
  - a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
  - b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
  - c. Unrestricted net assets - All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.
12. The component unit column in the combined financial statements includes the financial data of the City’s component unit. The Economic Development Corporation (EDC) is the only component unit of the City. The fiscal year-end of the EDC is September 30, and the transactions of that entity were the collection of sales tax, deposits of those receipts to its bank account, expenditures incurred for administrative costs provided by the City for \$40,000, and development and other costs of \$277,788. Separate financial statements were not prepared for the EDC. The entire financial information for the EDC is presented in the basic financial statements of the City. For more information regarding the EDC, contact Hondo City Hall.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. BUDGETARY DATA**

The City Council adopts an “appropriated budget” for the General Fund. The City is required to present adopted and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for this fund. The City compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears as Exhibit E-1.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Thirty to sixty days prior to the beginning of each fiscal year, the City Secretary submits to the City Council a proposed budget prepared on the modified accrual basis which is consistent with generally accepted accounting principles at the department level for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at which all interested persons’ comments concerning the budget are heard.
3. The budget is legally enacted by the City Council through passage of an ordinance not later than 15 days prior to the beginning of the fiscal year.
4. The budget was amended by the City Council during the year.

## **B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

As noted on Exhibit E-1, the general fund had one function category over expended for a total of \$90,941. The overexpenditure is a result of recording the full cost of a street sweeper acquired through a capital lease purchase contract.

## **III. 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's 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.

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 principle 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.

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 - Cash or Investments that are insured, registered or held by the City or by its agent in the City's name.
- Category 2 - Cash or Investments that are uninsured and unregistered held by the counter-party's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department, or its agent, but not in the City's name.

Based on these three levels of risk, all of the City's bank deposits are classified as Category 1.

The City's temporary investments, which are reported as cash and cash equivalents, at September 30, 2012, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Category</u>	<u>Credit Rating</u>	<u>Maturity</u>
Certificates of Deposit	<u>\$3,290,758</u>	<u>\$3,290,758</u>	1	N/A	≤ 1 year

***Investment Accounting Policy***

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

**Credit Risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the City's Investment Officer. Investing is performed in accordance with investment policies adopted by the Council, with State Statutes and with the City's policies.

**Interest Rate Risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

**Concentration of Credit Risk** is the risk of loss attributed to the magnitude of the City's investment in a single issuer.

**Custodial Credit Risk - Certificates of Deposit and Cash:** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2012, \$5,567,959 of the City's bank balance of \$6,317,959 was not covered by depository insurance (FDIC). These deposits were collateralized by securities held by the pledging financial institution with a market value of \$12,559,880.

**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 the applicable 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 when they are expected to be collected during a 60-day period after the close of the city fiscal year. The City considers all delinquent taxes as deferred revenue.

### C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

### D. INTERFUND BALANCES AND TRANSFERS

Balances due to and due from other funds at September 30, 2012 consist of the following:

Fund	Due From Amount	Due To Amount	Purpose
<b>General Fund:</b>			
Proprietary Funds	\$1,058,095	\$ 222,253	Short-term loans
Nonmajor Governmental Funds	86,881	21,013	Short-term loans
Capital Projects Fund	-	456,484	Short-term loans
Intrafund	25,063	25,063	Short-term loans
Economic Development Corporation	<u>81,999</u>	<u>-</u>	Short-term loans
	<u>1,252,038</u>	<u>724,813</u>	
<b>Capital Projects Fund:</b>			
General Fund	456,484	-	Short-term loans
Proprietary Funds	<u>59,755</u>	<u>-</u>	Short-term loans
	<u>516,239</u>	<u>-0-</u>	
<b>Nonmajor Governmental Funds:</b>			
General Fund	21,013	86,881	Short-term loans
Proprietary Funds	18,536	5,127	Short-term loans
Nonmajor Funds	<u>400</u>	<u>400</u>	Short-term loans
	<u>39,949</u>	<u>92,408</u>	
<b>Proprietary Funds:</b>			
General Fund	222,253	1,058,095	Short-term loans
Capital Projects Fund	-	59,755	Short-term loans
Intrafund	593,984	593,984	Short-term loans
Nonmajor Governmental Funds	<u>5,127</u>	<u>18,536</u>	Short-term loans
	<u>821,364</u>	<u>1,730,370</u>	
<b>Component Unit:</b>			
General Fund	<u>-</u>	<u>81,999</u>	Short-term loans
<b>Totals</b>	<u><u>\$2,629,590</u></u>	<u><u>\$2,629,590</u></u>	

All amounts due are scheduled to be repaid within one year.



**Transfers To and From Other Funds**

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Electric Fund	General Fund	\$2,400,000	Payment in lieu of taxes and public works operations capital outlay and related expenses.
Water and Sewer Fund	General Fund	360,000	Payment in lieu of taxes and public works operations.
	CDBG Grant Fund	156,668	Capital outlay.
Municipal Airport Fund	Capital Projects Fund	35,227	Capital outlay.
General Fund	Capital Projects Fund	<u>90,425</u>	Capital outlay.
		<u>\$3,042,320</u>	

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at September 30, 2012 were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 61,083	\$ 81,999	\$1,170,039	\$ 160,206	\$1,473,327
Capital Projects Fund	-	-	516,239	-	516,239
Other Funds	<u>16,969</u>	<u>85,525</u>	<u>39,949</u>	-	<u>142,443</u>
Total Governmental Activities	<u>\$ 78,052</u>	<u>\$ 167,524</u>	<u>\$1,726,227</u>	<u>\$ 160,206</u>	<u>\$2,132,009</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 1,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,977</u>
<b>Business-type Activities:</b>					
Enterprise Funds	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 821,364</u>	<u>\$1,382,455</u>	<u>\$2,253,819</u>
Total Business-type Activities	<u>\$ -0-</u>	<u>\$ 50,000</u>	<u>\$ 821,364</u>	<u>\$1,382,455</u>	<u>\$2,253,819</u>

Payables at September 30, 2012 were as follows:

	<u>Accounts Payable</u>	<u>Loans, Leases And Bonds Payable - Current Year</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Accrued Liabilities</u>	<u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>							
General Fund	\$1,317,916	\$ -	\$ 111,241	\$ 724,813	\$ -	\$ -	\$2,153,970
Capital Projects Fund	61,416	-	-	-	-	-	61,416
Other Funds	<u>46,449</u>	<u>-</u>	<u>-</u>	<u>92,408</u>	<u>-</u>	<u>-</u>	<u>138,857</u>
Total Gov. Activities	<u>\$1,425,781</u>	<u>\$ -0-</u>	<u>\$ 111,241</u>	<u>\$ 817,221</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$2,354,243</u>

Amounts not scheduled for payment during the subsequent year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
--	---------------	---------------	---------------	---------------	---------------	---------------	---------------

**Business-Type Activities**

Enterprise Fund	<u>\$ 67,171</u>	<u>\$ 141,543</u>	<u>\$ 68,487</u>	<u>\$1,730,370</u>	<u>\$ 18,986</u>	<u>\$ 244,998</u>	<u>\$2,271,555</u>
Total Business Type Activities	<u>\$ 67,171</u>	<u>\$ 141,543</u>	<u>\$ 68,487</u>	<u>\$1,730,370</u>	<u>\$ 18,986</u>	<u>\$ 244,998</u>	<u>\$2,271,555</u>

## F. CAPITAL ASSETS ACTIVITIES

Capital asset activity for the year ended September 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Government activities:</b>					
Capital assets, not depreciated:					
Land	\$ 545,546	\$ -	\$ -	\$ -	\$ 545,546
Construction in progress	<u>200,677</u>	<u>50,049</u>	-	-	<u>250,726</u>
Total capital assets, not depreciated	<u>746,223</u>	<u>50,049</u>	<u>-0-</u>	<u>-0-</u>	<u>796,272</u>
Capital assets, being depreciated:					
Buildings	5,444,510	127,607	-	-	5,572,117
Infrastructure	14,543,272	346,404	-	-	14,889,676
Equipment	830,601	24,921	(16,000)	-	839,522
Vehicles	974,325	65,024	(61,452)	-	977,897
Vehicles under capital lease	<u>83,633</u>	<u>187,260</u>	-	-	<u>270,893</u>
Total capital assets, being depreciated	<u>21,876,341</u>	<u>751,216</u>	<u>(77,452)</u>	<u>-0-</u>	<u>22,550,105</u>
Less accumulated depreciation for:					
Buildings	2,151,624	123,299	-	-	2,274,923
Infrastructure	8,032,292	402,750	-	-	8,435,042
Equipment	617,426	71,318	16,000	-	672,744
Vehicles	<u>683,855</u>	<u>84,802</u>	<u>60,147</u>	-	<u>708,510</u>
Total accumulated depreciation	<u>11,485,197</u>	<u>682,169</u>	<u>76,147</u>	<u>-0-</u>	<u>12,091,219</u>
Total capital assets being depreciated, net	<u>10,391,144</u>	<u>69,047</u>	<u>(1,305)</u>	<u>-0-</u>	<u>10,458,886</u>
Governmental activities capital assets, net	<u>\$11,137,367</u>	<u>\$ 119,096</u>	<u>\$ (1,305)</u>	<u>\$ -0-</u>	<u>\$11,255,158</u>

Depreciation was charged to the functions as follows:

Governmental Activities:

General Government	\$ 79,621
Public Safety	55,395
Public Works	443,931
Parks and Recreation	91,407
Library	<u>11,815</u>
Total depreciation expense	<u>\$ 682,169</u>

## F. CAPITAL ASSETS ACTIVITIES

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>					
Capital assets, not depreciated:					
Land	\$ 2,567,564	\$ -	\$ 22,275	\$ -	\$ 2,545,289
Construction in progress	-	118,214	-	-	118,214
Total capital assets, not depreciated	<u>2,567,564</u>	<u>118,214</u>	<u>22,275</u>	<u>-0-</u>	<u>2,663,503</u>
Capital assets, being depreciated:					
Buildings	16,588,163	16,041	-	-	16,604,204
Improvements other than buildings	15,146,004	2,205,298	-	-	17,351,302
Equipment	585,184	21,885	-	-	607,069
Automobiles and trucks	<u>746,051</u>	<u>7,990</u>	<u>104,556</u>	-	<u>649,485</u>
Total capital assets, being depreciated	<u>33,065,402</u>	<u>2,251,214</u>	<u>104,556</u>	<u>-0-</u>	<u>35,212,060</u>
Less accumulated depreciation for:					
Buildings	(3,912,112)	412,446	-	-	4,324,558
Improvements other than buildings	(9,019,789)	328,239	-	-	9,348,028
Equipment	(403,034)	31,415	-	-	434,449
Automobiles and trucks	<u>(608,113)</u>	<u>24,753</u>	<u>104,556</u>	<u>(9)</u>	<u>528,301</u>
Total accumulated depreciation	<u>(13,943,048)</u>	<u>796,853</u>	<u>104,556</u>	<u>(9)</u>	<u>14,635,336</u>
Total capital assets being depreciated, net	<u>19,122,354</u>	<u>1,454,361</u>	<u>-0-</u>	<u>9</u>	<u>20,576,724</u>
Business-type activities capital assets, net	<u>\$21,689,918</u>	<u>\$ 1,572,575</u>	<u>\$ 22,275</u>	<u>\$ -</u>	<u>\$23,240,227</u>

## G. LONG-TERM DEBT

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended September 30, 2012 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>						
Certificates of Obligation	\$ 2,173,023	\$ -	\$ 92,052	\$ 177,129	\$ 2,258,100	\$ 108,405
Total Bonds	<u>2,173,023</u>	<u>-0-</u>	<u>92,052</u>	<u>177,129</u>	<u>2,258,100</u>	<u>108,405</u>
Capital Lease	55,756	147,260	27,878	-	175,138	55,311
Compensated Absences	64,709	67,092	64,709	-	67,092	67,092
Total Governmental Activities	<u>\$ 2,293,488</u>	<u>\$ 214,352</u>	<u>\$ 184,639</u>	<u>\$ 177,129</u>	<u>\$ 2,500,330</u>	<u>\$ 230,808</u>
<b>Business-type Activities:</b>						
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Certificates of Obligation	\$ 2,495,977	\$ -0-	\$ 94,948	\$ 180,681	\$ 2,581,710	\$ 115,500
Total Bonds	<u>2,495,977</u>	<u>-0-</u>	<u>94,948</u>	<u>180,681</u>	<u>2,581,710</u>	<u>115,500</u>
Notes	105,780	-	25,284	-	80,496	26,043
Compensated Absences	24,952	23,643	24,952	-0-	23,643	23,643
Total Business-type Activities	<u>\$ 2,626,709</u>	<u>\$ 23,643</u>	<u>\$ 145,184</u>	<u>\$ 180,681</u>	<u>\$ 2,685,849</u>	<u>\$ 165,186</u>
<b>Economic Development:</b>						
Sales Tax Revenue Bonds	\$ 975,000	\$ -	\$ 35,000	\$ -	\$ 940,000	\$ 35,000
Certificates of Obligation	705,000	-	30,000	(357,810)	317,190	13,095
Total Economic Development	<u>\$ 1,680,000</u>	<u>\$ -0-</u>	<u>\$ 65,000</u>	<u>\$ (357,810)</u>	<u>\$ 1,257,190</u>	<u>\$ 48,095</u>

**Certificates of Obligation, Series 2007**

On October 25, 2007, the City issued \$3,850,000 of Certificates of Obligation, Series 2007, for the expansion and improvements to City Hall, drainage improvements, utility system improvements and park improvements, with issuance costs of \$70,000. The proceeds were allocated 27% to interest and sinking (Governmental Activities), 23% to the Electric Fund, 22% to the Water and Sewer Fund, 7% to the Airport Fund and 21% to Economic Development. This allocation has been revised by management for the year ending September 30, 2012, and is shown as adjustments in the preceding schedule. Principal is due annually on February 1. Interest is due semi-annually and the interest rates range from 3.74% to 4.77%. Principal and interest are also allocated based on the percentages above. The bond issuance costs are amortized over the life of the bonds and reported as interest expense based on the same allocation. The final maturity date of the bonds is February 1, 2027.

**TXDOT Loan**

On June 23, 2003, the City received a loan of \$242,750 from the Texas Department of Transportation for the construction of aviation hangers at the airport. The loan is recorded in the Municipal Airport Fund. Principal and interest are due annually on May 15. The interest rate is 3% and the final maturity date is May 15, 2015.

**Description of Debt**

**Certificates of Obligation, Series 2005**

On August 31, 2005, the City issued \$2,400,000 of Certificates of Obligation, Series 2005, for highway and street improvements, drainage improvements, acquisition, and replacement of water meters, improvements to City parks, and animal shelter facilities, with issuance costs of \$70,000. The proceeds were allocated 63% to interest and sinking (Governmental Activities) and 37% to utility system (Water and Sewer Fund). Principal is due annually on February 1. Interest is due semi-annually and the interest rates range from 3.42% to 4.81%. Principal and interest are also allocated 63% to interest and sinking (Governmental Activities) and 37% to utility system (Water and Sewer Fund). The bond issuance costs are amortized over the life of the bonds and reported as interest expense based on the same allocation. The final maturity date of the bonds is February 1, 2025.

**Debt Service Requirements**

Debt service requirements on long-term debt at September 30, 2012 are as follows:

<u>Year Ended</u> <u>September 30</u>	<u>Governmental Activities - Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 108,405	\$ 100,852	\$ 209,257
2014	113,820	96,232	210,052
2015	120,870	91,272	212,142
2016	127,920	85,921	213,841
2017	133,965	80,195	214,160
2018-2022	798,750	299,241	1,097,991
2023-2027	<u>854,370</u>	<u>93,869</u>	<u>948,239</u>
Totals	<u>\$ 2,258,100</u>	<u>\$ 847,582</u>	<u>\$ 3,105,682</u>

Governmental Activities - Capital Lease

---

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 55,311	\$ 6,438	\$ 61,749
2014	28,338	3,954	32,292
2015	29,274	3,019	32,293
2016	30,240	2,053	32,293
2017	<u>31,975</u>	<u>318</u>	<u>32,293</u>
Totals	<u>\$ 175,138</u>	<u>\$ 15,782</u>	<u>\$ 190,920</u>

Business-Type Activities - Bonds

---

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 115,500	\$ 114,597	\$ 230,097
2014	120,600	109,809	230,409
2015	128,580	104,676	233,256
2016	136,560	99,117	235,677
2017	142,030	93,164	235,194
2018-2022	849,220	359,226	1,208,446
2023-2027	<u>1,089,220</u>	<u>134,680</u>	<u>1,223,900</u>
Totals	<u>\$ 2,581,710</u>	<u>\$ 1,015,269</u>	<u>\$ 3,596,979</u>

Business-Type Activities -Notes

---

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 26,043	\$ 2,415	\$ 28,458
2014	26,824	1,634	28,458
2015	<u>27,629</u>	<u>829</u>	<u>28,458</u>
Totals	<u>\$ 80,496</u>	<u>\$ 4,878</u>	<u>\$ 85,374</u>

Economic Development Corporation - Bonds

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 48,095	\$ 53,393	\$ 101,488
2014	53,580	52,063	105,643
2015	54,550	50,496	105,046
2016	55,520	48,698	104,218
2017	56,005	46,705	102,710
2018-2022	331,030	195,248	526,278
2023-2027	443,410	110,342	553,752
2028-2030	<u>215,000</u>	<u>16,375</u>	<u>231,375</u>
Totals	<u>\$ 1,257,190</u>	<u>\$ 573,320</u>	<u>\$ 1,830,510</u>

**G. OPERATING LEASES**

The City leases equipment through various operating leases. Total expenditures for operating leases for the year ended September 30, 2012 were \$23,247 for governmental activities, and \$12,000 for business-type activities.

Future minimum rental payments for non-cancelable operating leases with remaining terms in excess of one year are as follows:

<u>Governmental Activities</u>	
<u>Year Ended September 30</u>	<u>Total</u>
2013	\$ 12,552
2014	598

The City leases City-owned property to others consisting of real property and buildings. Cost of specific leased components are not readily determinable. As of September 30, 2012, the leases provide for the following future minimum rentals:

<u>Business-Type Activities - Airport</u>	
<u>Year Ended September 30</u>	<u>Total</u>
2013	\$ 87,185



## H. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operated as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

## I. PENSION PLAN

### Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<b>Plan Year 2011</b>	<b>Plan Year 2012</b>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

### Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation (asset) are as follows:

Annual Required Contribution (ARC)	\$ 323,768
Interest on Net Pension Obligation	-
Adjustment to the ARC	<u>-</u>
Annual Pension Cost (APC)	323,768
Contribution Made	<u>(323,768)</u>
Increase (decrease) in net pension	-0-
Net Pension Obligation/(Asset), beginning of year	<u>-0-</u>
Net Pension Obligation/(Asset), end of year	<u><u>\$ -0-</u></u>

**Three-Year Trend Information**

Fiscal Year Ending	Annual Pension Cost(APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2010	\$ 340,512	\$ 340,512	100%	\$ -0-
2011	\$ 369,543	\$ 369,543	100%	\$ -0-
2012	\$ 323,768	\$ 323,768	100%	\$ -0-

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.0 years; closed period	26.9 years; closed period	26.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2011. The most recent actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
(1)	(2)	(3)	(1) / (2)	(2) - (1)	(5)	(4) / (5)
12/31/2011	\$9,331,044	\$10,919,702	85.5%	\$1,588,658	\$3,247,189	48.9%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

## **SUPPLEMENTAL DEATH BENEFITS FUND**

The City also participates in the cost sharing multi-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit", or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$6,095, \$7,659, and \$6,894, respectively, which equaled the required contributions each year.

### Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2009	0.02%	0.02%	100%
2010	0.03%	0.03%	100%
2011	0.03%	0.03%	100%
2012	0.03%	0.03%	100%
2013	0.03%	0.03%	100%

## **J. HEALTH CARE COVERAGE**

During the year ended September 30, 2012, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$329 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2012 and terms of coverage and premium costs are included in the contractual provisions.

**K. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION**

The City of Hondo (“Hondo”) provides medical (including prescription drug) benefits to eligible retirees and their covered dependents. Hondo pays for part of the cost for retirees meeting certain eligibility requirements. All active employees who retire directly from Hondo and meet the eligibility criteria may participate.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted on December 8, 2003. As a result of this legislation, employers providing drug coverage to Medicare eligible members, that is at least actuarially equivalent to the standard benefit provided by Medicare, will be eligible to receive a federal subsidy.

Hondo does not maintain coverage for retirees beyond the Medicare eligibility age. As a result, there is no Medicare Part D retiree drug subsidy used as an offset in this report.

This summary identifies the value of benefits at October 1, 2011 and costs for the 2012 Fiscal Year.

	October 1, 2011		
	Initial Results	Medicare Prescription Savings	Final
Present Value of all Projected Benefits	\$ 985,585	NA	\$ 985,585
Present Value of Benefits Earned to Date (Actuarial Accrued Liability)	582,864	NA	582,864
FY 2011 Annual Required Contribution (ARC) *			70,323
FY 2011 Annual OPEB Cost			69,423
FY 2011 Expected Net Benefit Payments (includes implicit subsidy)			27,537

\* The Annual Required Contribution reflects a 30-year level amortization of the Unfunded Actuarial Accrued Liability.

This section presents detailed valuation results for Hondo's Plan.

- \* The **Present Value of all Projected Benefits** is the total present value of all expected future benefits, based on certain actuarial assumptions. The Present Value of all Projected Benefits is a measure of total liability or obligation. Essentially, this present value is the value (on the valuation date) of the benefits promised current and future retirees. The Plan's present value of all projected benefits (at October 1, 2011) is \$985,585. The majority of this liability is for current active employees (future retirees).
- \* The **Actuarial Accrued Liability** is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions. The Plan's Actuarial Accrued Liability (at October 1, 2011) is \$582,864. The majority of this obligation is for active employees. The Actuarial Accrued Liability represents 59.14% of the present value of all projected benefits.
- \* **Service Cost** is the value of benefits expected to be earned during the year, again based on certain actuarial methods and assumptions. The 2012 Fiscal Year Service Cost is \$32,517.

The results were calculated based upon plan provisions, as provided by the City, along with certain demographic and economic assumptions as recommended by the consulting actuary with guidance from GASB statements.

### **Demographic Assumptions**

Data was provided by the City as of December, 2012. Appropriate adjustments in this data were made for the actuarial valuation. There is no assumption for future hires.

### **Economic Assumptions**

The GASB statement requires that the discount rate used to determine the retiree healthcare liabilities should be the estimated long-term yield on the "investments that are expected to be used to finance the payment of benefits". Since the City does not pre-fund the retiree healthcare liabilities we have used a discount rate of 5.00%.

The trend assumption is used to project the growth of the expected claims over the lifetime of the healthcare recipients. The GASB statement does not require a particular source for information to determine healthcare trends, but it does recommend selecting a source that is "publicly available, objective and unbiased".

The consulting actuary developed the trend assumption utilizing the short term rates expected for the City plan along with other secondary data regarding long term health cost trends.

The balance of this report provides greater detail for the above results.

## **PRINCIPAL VALUATION RESULTS**

The following highlight's Hondo's recognition of the above amounts:

- \* The October 1, 2012 assets are \$ -0-.
- \* The FY 2012 Annual Required Contribution (ARC) is \$70,323.
- \* Expected FY 2012 net OPEB payments are \$27,537 (including \$12,000 in direct paid contributions for retirees).

The following table shows results by active, deferred vested and retired employee groups:

	<u>Initial Results</u>	<u>Medicare Prescription Savings</u>	<u>Final</u>
Present Value of Projected Benefits			
Actives	\$ 855,165	N/A	\$ 855,165
Retirees	<u>130,420</u>	<u>N/A</u>	<u>130,420</u>
Total	<u>\$ 985,585</u>	N/A	<u>\$ 985,585</u>
Actuarial Accrued Liability			
Actives	\$ 452,444	N/A	\$ 452,444
Retirees	<u>130,420</u>	<u>N/A</u>	<u>130,420</u>
Total	<u>\$ 582,864</u>	N/A	<u>\$ 582,864</u>
Assets			\$ -0-
Unfunded Actuarial Accrued Liability			582,864
Service Cost			32,517

### ACCOUNTING INFORMATION

The effective date for the new GASB OPEB Accounting Standard is the Fiscal Year beginning October 1, 2009. The following shows the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and the projected September 30, 2012 Net OPEB Obligation (NOO), assuming the accounting standard is first adopted for the 2012 fiscal year.

#### **Annual Required Contribution (ARC)**

The Standard sets the method for determining Hondo's postemployment benefits accrual, the Annual Required Contribution (ARC), to include both the value of the benefits earned during the year (Service Cost) and an amortization of the Unfunded Actuarial Accrued Liability. Accordingly, the following table shows Hondo's 2012 Fiscal Year Annual Required Contribution (ARC) based on a 30-year amortization of the Unfunded Actuarial Accrued Liability as a level dollar amount.

<u>Fiscal Year Ending September 30, 2012</u>	
Service Cost	\$ 32,517
Unfunded Actuarial Accrued Liability Amortization	37,806
Annual Required Contribution (ARC)	70,323

#### **Annual OPEB Cost (AOC)**

If there is a prior year obligation, the Annual OPEB Cost should reflect an adjustment for the obligation including both an interest adjustment and amortization of the prior year OPEB obligation.

Annual Required Contribution (ARC)	\$ 70,323
Interest on Prior Year Net OPEB Obligation	3,337
Amortization of Prior Year Net OPEB Obligation	<u>(4,237)</u>
Total Annual OPEB Cost (AOC)	<u>\$ 69,423</u>

**Annual OPEB Cost Summary (After adoption, a 3-year display will be shown):**

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed*</u>	<u>Net OPEB Obligation</u>
September 30, 2010	\$ 63,947	48.27%	\$ 33,078
September 30, 2011	65,945	48.95%	66,741
September 30, 2012	69,423	39.67%	108,627

\* Based on expected net benefit payments for the current fiscal year.

**Projected September 30, 2012 Net OPEB Obligation (NOO)**

Based on the Annual OPEB Cost developed above, the following is the projected September 30, 2012 Net OPEB Obligation (NOO):

	<u>Total</u>
October 1, 2011 Net OPEB Obligation (NOO)	\$ 66,741
Annual OPEB Cost (AOC)	69,423
Expected Net Retiree Claims Payments	<u>(27,537)</u>
Expected September 30, 2012 Net OPEB Obligation (NOO)+	<u>\$ 108,627</u>

+ Includes annual FY 2012 contribution payments of \$12,000.

**DEMOGRAPHIC INFORMATION**

The following table summarizes active and retiree demographic information.

<u>Status</u>	<u>Employee Only</u>	<u>With Dependent Coverage</u>
Active = 94	70	24
Retired = 5	<u>5</u>	<u>-0-</u>
Total = 99	75	24

Actives include employees hired prior to the valuation date of October 1, 2011.



## SUMMARY OF PRINCIPAL PLAN PROVISIONS

### Plan Provisions

#### Medical Benefits

#### Eligibility

Retirement after age 60 with 5 years of service or with 20 years of service without regard to age.

#### Dependent eligibility

Spouse and eligible children.

#### Postretirement contributions

The retiree contributes the current rate for coverage. For employees retiring at age 50 or older and with at least 20 years of service at retirement, the City of Hondo contributes \$200 per month. The current monthly contribution rate for employee coverage is \$328.70 and \$403.35 additional for spouse coverage.

Medical benefits are provided through an HMO and a PPO.

Retiree medical benefits terminate at age 65.

#### Change in Plan Provisions

None reported.

## METHODS AND ASSUMPTIONS

Actuarial Method

Projected Unit Cost Method

Service Cost

Determined for each employee as the Actuarial Present Value of Benefits allocated to the valuation year. The benefit attributed to the valuation year is that incremental portion of the total projected benefit earned during the year in accordance with the plan's benefit formula. This allocation is based on each individual's service between date of hire and date of expected termination.

Accumulated Post-Retirement Benefit Obligations

The Actuarial Present Value of Benefits allocated to all periods prior to the valuation year.

Discount Rate

5.00% (2.00% real rate of return plus 3.00% inflation)

Average Per Capita Claim Cost:

Determined as of October 1, 2011

<u>Age</u>	<u>Medical</u>
50	4,997
51	5,147
52	5,301
53	5,460
54	5,624
55	5,792
56	5,966
57	6,145
58	6,330
59	6,519
60	6,715
61	6,917
62	7,124
63	7,338
64	7,558

Health Care Cost Trend	Level 5.00% applied to both health claims cost and employee contributions.						
Mortality	RP-2000 Combined Table Male/Female						
Turnover	Rates varying by age. Sample rates: <table> <tr> <td>Age 25</td> <td>Age 40</td> <td>Age 55</td> </tr> <tr> <td>23.36%</td> <td>7.52%</td> <td>1.76%</td> </tr> </table>	Age 25	Age 40	Age 55	23.36%	7.52%	1.76%
Age 25	Age 40	Age 55					
23.36%	7.52%	1.76%					
Disability	None assumed						
Retirement Rates	Rates vary by age, with an average retirement age of 60.						
Retiree Contributions	\$328.70 per month for employee coverage and \$732.05 per month for employee and spouse. The City subsidizes the employee coverage at \$200 per month for retirees who retire after age 50 with at least 20 years of service.						
Data Assumptions							
Age Difference/% Married	Males are assumed to be 3 years older than females, 50% married.						
Coverage	100% of all retirees who currently have healthcare coverage will continue with the same coverage.  100% of all actives who currently have healthcare coverage will continue with employee only coverage upon retirement.						
Interim Projection Methodology and Terminology	We have used GASB accounting methodology to determine the postretirement medical benefit obligations.						
Amortization Period	The period used to determine amortization costs for the initial Unfunded Actuarial Accrued Liability is a level period for 30 years and 29 years for the prior year Net OPEB Obligation.						

**L. CONTINGENCIES**

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants that have not been recorded in the accompanying basic financial statements for such contingencies.

The City and its airport are subject to extensive Federal and State environmental regulations. The environmental conditions at the airport have existed since before the property was deeded to the City by the Department of Defense. Management believes that any remediation costs are the responsibility of the Federal government, and no amounts have been accrued in these financial statements.

**M. RELATED PARTY TRANSACTIONS**

During the year, EDC incurred \$40,000 for administrative services provided by the City to the EDC, of which \$40,000 was paid during the year ended September 30, 2012.

**N. ECONOMIC DEPENDENCY**

The City of Hondo has significant economic dependency upon the citizens of the City of Hondo for both tax revenue and utility fund revenue.

**O. COMMITMENTS**

As of September 30, 2012, the City of Hondo had construction commitments of \$890,307.

**P. PRIOR PERIOD ADJUSTMENTS**

There were two prior period adjustments made during the period. (1) An entry was made to adjust the beginning fund balance of the General Fund for \$299,719 to reflect the cumulative effect of bank reconciliation corrections for prior periods. (2) Entries were made to correct the beginning fund balance and net asset value of several funds for errors which occurred in prior periods. When the enterprise funds recorded debt associated with the 2007 Certificate of Obligation and Limited Revenue Bonds, they were recorded using Due to/Due from accounts. These accounts were not adjusted as assets were completed and capitalized.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF HONDO, TEXAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 721,500	\$ 721,500	\$ 728,070	\$ 6,570
Sales Taxes	750,000	750,000	831,329	81,329
Other Taxes	155,000	155,000	161,554	6,554
Licenses and Permits	30,000	30,000	31,058	1,058
Charges for Services	1,615,135	1,615,135	1,501,627	(113,508)
Investment Earnings	300	300	521	221
Other Revenue	119,550	119,550	130,056	10,506
Total Revenues	<u>3,391,485</u>	<u>3,391,485</u>	<u>3,384,215</u>	<u>(7,270)</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	997,107	998,907	960,679	38,228
Finance and Tax	185,751	176,751	172,892	3,859
Public Safety	1,433,949	1,433,349	1,408,220	25,129
Legal and Court	81,743	81,943	72,347	9,596
Public Works	2,164,239	2,172,039	2,262,980	(90,941)
Parks, Recreation, and Golf Course	1,117,790	1,117,790	1,112,230	5,560
Library	244,388	244,388	230,376	14,012
Total Expenditures	<u>6,224,967</u>	<u>6,225,167</u>	<u>6,219,724</u>	<u>5,443</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,833,482)</u>	<u>(2,833,682)</u>	<u>(2,835,509)</u>	<u>(1,827)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Property	3,000	3,000	5,635	2,635
Proceeds from Capital Leases	-	-	147,260	147,260
Transfers In	2,760,000	2,760,000	2,760,000	-
Transfers Out (Use)	-	-	(90,425)	(90,425)
Total Other Financing Sources (Uses)	<u>2,763,000</u>	<u>2,763,000</u>	<u>2,822,470</u>	<u>59,470</u>
Net Change	(70,482)	(70,682)	(13,039)	57,643
Fund Balance - October 1 (Beginning)	(97,044)	(97,044)	(97,044)	-
Prior Period Adjustment	-	-	574,143	574,143
Fund Balance - September 30 (Ending)	<u>\$ (167,526)</u>	<u>\$ (167,726)</u>	<u>\$ 464,060</u>	<u>\$ 631,786</u>

CITY OF HONDO, TEXAS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2009	\$4,558,595	\$ 6,869,449	66.4%	\$2,310,854	\$3,222,912	71.7%
12/31/2010	\$8,606,192	\$10,227,392	84.1%	\$1,621,200	\$3,172,917	51.1%
12/31/2011	\$9,331,044	\$10,919,702	85.5%	\$1,588,658	\$3,247,189	48.9%

(UNAUDITED)

CITY OF HONDO, TEXAS  
 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Interim Projection Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Projected Unit Credit (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll [(b) - (a)] / (c)
October 1, 2009	\$ -0-	\$ 587,298	\$ 587,298	0.00%	\$3,354,980	17.51%
October 1, 2010	-0-	590,591	590,591	0.00%	3,244,678	18.20%
October 1, 2011	-0-	582,864	582,864	0.00%	3,238,487	18.00%

(UNAUDITED)



## COMBINING AND INDIVIDUAL FUND STATEMENTS

CITY OF HONDO, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2012

	Perpetual Care Fund	Forfeiture Seizure Fund	Library Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 601,611	\$ 9,813	\$ 233,582
Taxes Receivable	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-
Intergovernmental Receivables	-	-	-
Due from Other Funds	7,054	-	4,793
Other Assets	-	5,124	-
Total Assets	<u>\$ 608,665</u>	<u>\$ 14,937</u>	<u>\$ 238,375</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ -	\$ -	\$ -
Due to Other Funds	-	-	-
Deferred Revenues	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances:</b>			
<b>Restricted Fund Balance:</b>			
Retirement of Long-Term Debt	-	-	-
Other Restricted Fund Balance	608,665	-	-
Unassigned Fund Balance	-	14,937	238,375
Total Fund Balances	<u>608,665</u>	<u>14,937</u>	<u>238,375</u>
Total Liabilities and Fund Balances	<u>\$ 608,665</u>	<u>\$ 14,937</u>	<u>\$ 238,375</u>

The notes to the Financial Statements are an integral part of this statement.

Unclaimed Money Fund	South Texas Regional Training	Police Department Grants	Library Grants Fund	EECBG Grant Fund	CDBG Grant Fund	HUD Grant Fund	Total Nonmajor Special Revenue Funds
\$ 16,901	\$ 44,549	\$ 7,351	\$ -	\$ -	\$ 80,679	\$ 5,485	\$ 999,971
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	4,200	30,400	-	25,862	-	25,063	85,525
-	-	-	-	-	-	-	11,847
-	-	-	-	-	-	-	5,124
<u>\$ 16,901</u>	<u>\$ 48,749</u>	<u>\$ 37,751</u>	<u>\$ -</u>	<u>\$ 25,862</u>	<u>\$ 80,679</u>	<u>\$ 30,548</u>	<u>\$ 1,102,467</u>
\$ 14,476	\$ -	\$ -	\$ -	\$ -	\$ 31,973	\$ -	\$ 46,449
400	-	30,400	-	25,862	5,198	30,548	92,408
-	-	-	-	-	-	-	-
<u>14,876</u>	<u>-</u>	<u>30,400</u>	<u>-</u>	<u>25,862</u>	<u>37,171</u>	<u>30,548</u>	<u>138,857</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	608,665
2,025	48,749	7,351	-	-	43,508	-	354,945
<u>2,025</u>	<u>48,749</u>	<u>7,351</u>	<u>-</u>	<u>-</u>	<u>43,508</u>	<u>-</u>	<u>963,610</u>
<u>\$ 16,901</u>	<u>\$ 48,749</u>	<u>\$ 37,751</u>	<u>\$ -</u>	<u>\$ 25,862</u>	<u>\$ 80,679</u>	<u>\$ 30,548</u>	<u>\$ 1,102,467</u>

CITY OF HONDO, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2012

	Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 106,807	\$ 1,106,778
Taxes Receivable	16,969	16,969
Allowance for Uncollectible Taxes (credit)	(317)	(317)
Intergovernmental Receivables	-	85,525
Due from Other Funds	28,102	39,949
Other Assets	-	5,124
Total Assets	<u>\$ 151,561</u>	<u>\$ 1,254,028</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ -	\$ 46,449
Due to Other Funds	-	92,408
Deferred Revenues	14,897	14,897
Total Liabilities	<u>14,897</u>	<u>153,754</u>
<b>Fund Balances:</b>		
<b>Restricted Fund Balance:</b>		
Retirement of Long-Term Debt	136,664	136,664
Other Restricted Fund Balance	-	608,665
Unassigned Fund Balance	-	354,945
Total Fund Balances	<u>136,664</u>	<u>1,100,274</u>
Total Liabilities and Fund Balances	<u>\$ 151,561</u>	<u>\$ 1,254,028</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF HONDO, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Perpetual Care Fund	Forfeiture Seizure Fund	Library Fund
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Investment Earnings	1,426	-	-
Other Revenue	<u>14,900</u>	<u>9,243</u>	<u>3,708</u>
Total Revenues	<u>16,326</u>	<u>9,243</u>	<u>3,708</u>
<b>EXPENDITURES:</b>			
Current:			
General Government	6,996	-	-
Public Safety	-	6,679	-
Public Works	-	-	-
Library	-	-	-
Debt Service:			
Principal	-	-	-
Interest and Charges	-	-	-
Total Expenditures	<u>6,996</u>	<u>6,679</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,330</u>	<u>2,564</u>	<u>3,708</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	9,330	2,564	3,708
Fund Balance - October 1 (Beginning)	<u>599,335</u>	<u>12,373</u>	<u>234,667</u>
Fund Balance - September 30 (Ending)	<u>\$ 608,665</u>	<u>\$ 14,937</u>	<u>\$ 238,375</u>

The notes to the Financial Statements are an integral part of this statement.

Unclaimed Money Fund	South Texas Regional Training	Police Department Grants	Library Grants Fund	EECBG Grant Fund	CDBG Grant Fund	HUD Grant Fund	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	30,400	10,138	-	3,700	50,049	94,287
78	-	-	-	-	-	-	1,504
-	44,824	7,100	-	-	-	-	79,775
<u>78</u>	<u>44,824</u>	<u>37,500</u>	<u>10,138</u>	<u>-</u>	<u>3,700</u>	<u>50,049</u>	<u>175,566</u>
-	75	-	-	-	-	50,049	57,120
-	-	67,259	-	-	-	-	73,938
-	-	-	-	-	118,285	-	118,285
-	-	-	10,138	-	-	-	10,138
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	75	67,259	10,138	-	118,285	50,049	259,481
<u>78</u>	<u>44,749</u>	<u>(29,759)</u>	<u>-</u>	<u>-</u>	<u>(114,585)</u>	<u>-</u>	<u>(83,915)</u>
-	-	36,000	-	-	158,093	-	194,093
-	-	36,000	-	-	158,093	-	194,093
78	44,749	6,241	-	-	43,508	-	110,178
1,947	4,000	1,110	-	-	-	-	853,432
<u>\$ 2,025</u>	<u>\$ 48,749</u>	<u>\$ 7,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,508</u>	<u>\$ -</u>	<u>\$ 963,610</u>

CITY OF HONDO, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>		
Taxes:		
Property Taxes	\$ 228,479	\$ 228,479
Intergovernmental	-	94,287
Investment Earnings	254	1,758
Other Revenue	-	79,775
Total Revenues	<u>228,733</u>	<u>404,299</u>
<b>EXPENDITURES:</b>		
Current:		
General Government	-	57,120
Public Safety	-	73,938
Public Works	-	118,285
Library	-	10,138
Debt Service:		
Principal	119,929	119,929
Interest and Charges	97,174	97,174
Total Expenditures	<u>217,103</u>	<u>476,584</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,630</u>	<u>(72,285)</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Transfers In	-	194,093
Total Other Financing Sources (Uses)	<u>-</u>	<u>194,093</u>
Net Change in Fund Balance	11,630	121,808
Fund Balance - October 1 (Beginning)	<u>125,034</u>	<u>978,466</u>
Fund Balance - September 30 (Ending)	<u>\$ 136,664</u>	<u>\$ 1,100,274</u>

The notes to the Financial Statements are an integral part of this statement.

## FEDERAL SECTION



# COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

400 E. NOPAL ST.  
UVALDE, TEXAS 78801-5305

ROBERT O. COLEMAN, CPA  
STEPHEN L. HORTON, CPA  
DEBORAH V. McDONALD, CPA  
JAMES C. GRUENWALD, CPA  
DEREK L. WALKER, CPA

830-278-6276  
FAX 830-278-6868  
chc@colemanhortoncpa.com

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

### Independent Auditor's Report

The Honorable Mayor and  
Members of the City Council  
City of Hondo, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hondo, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 28, 2012. 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

Management of the City of Hondo, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hondo, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement accounts. 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*.

This report is intended solely for the information and use of the City's council, the audit committee, the administration, and federal awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties.

*Coleman, Horton+ Company, LLP*

Certified Public Accountants  
December 28, 2012

COLEMAN, HORTON & COMPANY, LLP  
Certified Public Accountants  
400 E. NOPAL ST.  
UVALDE, TEXAS 78801-5305

ROBERT O. COLEMAN, CPA  
STEPHEN L. HORTON, CPA  
DEBORAH V. McDONALD, CPA  
JAMES C. GRUENWALD, CPA  
DEREK L. WALKER, CPA

830-278-6276  
FAX 830-278-6868  
chc@colemanhortoncpa.com

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

Independent Auditor's Report

The Honorable Mayor and  
Members of the City Council  
City of Hondo, Texas

**Compliance**

We have audited City of Hondo, Texas's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hondo, Texas's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hondo, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Hondo, Texas's compliance with those requirements.

In our opinion, the City of Hondo, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

## Internal Control Over Compliance

Management of the City of Hondo, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City's council, the audit committee, the administration, and federal awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties.



Certified Public Accountants  
December 28, 2012

CITY OF HONDO, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

**A. Summary of Auditor's Results**

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Control deficiency(ies) identified?  Yes  No

Control deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

2. Federal awards

Internal control over major programs:

Control deficiency(ies) identified?  Yes  No

Control deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #20.106	1115 Hondo Airport Development
CFDA #20.106	1215 Hondo Airport Development

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?  Yes  No

CITY OF HONDO, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>FEDERAL AVIATION ADMINISTRATION</u></b>			
<u>Passed Through Texas Department of Transportation</u>			
1215 Hondo Airport Development	20.106	2X1AV032	\$ 28,292
1215 Hondo Airport Development	20.106	2XXAV031	27,915
1115 Hondo Airport Development	20.106	1XXAV079	<u>2,080,237</u>
Total Passed Through Texas Department of Transportation			<u>2,136,444</u>
TOTAL FEDERAL AVIATION ADMINISTRATION			<u>2,136,444</u>
<b><u>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
<u>Direct Program</u>			
Neighborhood Initiative Grant	14.251	B-10-SP-TX-103	\$ <u>50,049</u>
Total Direct Program			<u>50,049</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>50,049</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$2,186,493</u>

CITY OF HONDO, TEXAS  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2012

- The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Usually Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When Federal grant funds are received before related expenditures are made, they are recorded as deferred revenues.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.