

**CITY OF HONDO, TEXAS**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2014**

CITY OF HONDO, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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**CITY OF HONDO, TEXAS**

**CITY OFFICIALS**

James W. Danner, Sr. .... Mayor  
Ann-Michelle Vance Long ..... Mayor Pro-Tem  
Sammy Noonan ..... Council Member  
John McAnelly ..... Council Member  
Eric Torres ..... Council Member  
John E. Villa ..... Council Member  
Jeff Litchfield ..... City Manager

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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 the City of Hondo, Texas as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6-12, the general fund budgetary comparison schedule on page 56, the Texas Municipal Retirement System Schedule of Funding Progress on page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hondo, Texas's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014 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* in considering City of Hondo, Texas's internal control over financial reporting and compliance.

*Coleman, Horton + Company, LLP*

Uvalde, Texas  
December 19, 2014

## 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 the discussion and analysis of the financial performance during the fiscal year ending September 30, 2014. 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 position 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 position* and how it has changed. Net position—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 position is 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, legal and court, 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 debt 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 position was \$35,806,067 at September 30, 2014, an increase of \$1,243,435 from the prior year, less prior period adjustments of \$197,592.
- \* During the year, the City’s revenue was \$18,354,915 as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
a) Taxes	\$ 2,003,567	\$ 1,954,786
b) Charges for Services	1,078,773	583,067
c) Investment Earnings	7,538	6,457
d) Grants	54,465	695,573
e) Other	<u>118,496</u>	<u>95,704</u>
Sub-total	<u>3,262,839</u>	<u>3,335,587</u>
	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
f) Charges for Services	13,681,304	12,378,705
g) Grants	1,507,203	587,380
h) Investment Earnings	557	1,498
i) Other	<u>(96,988)</u>	<u>65,741</u>
Sub-total	<u>15,092,076</u>	<u>13,033,324</u>
Total Revenue	<u>\$18,354,915</u>	<u>\$16,368,911</u>

\* During the year, the City's expenses were \$17,111,480 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	General Government	\$ 1,369,896	\$ 1,241,485
b)	Finance and Tax	259,503	169,911
c)	Public Safety	1,539,701	1,429,390
d)	Legal and Court	95,117	72,587
e)	Public Works	1,567,434	1,318,524
f)	Parks, Recreation and Golf Course	1,310,999	1,223,199
g)	Library	282,579	231,236
h)	Interest	<u>139,257</u>	<u>95,841</u>
	Sub-Total	<u>6,564,486</u>	<u>5,782,173</u>
		<u>Business-type Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	Electric	5,744,881	6,001,541
b)	Water and Sewer	2,093,799	1,899,773
c)	Municipal Airport	1,490,499	1,260,199
d)	Sanitation	<u>1,217,815</u>	<u>1,170,246</u>
	Sub-Total	<u>10,546,994</u>	<u>10,331,759</u>
	Total Expenses	<u>\$17,111,480</u>	<u>\$16,113,932</u>

\* The general fund reported a fund balance this year of \$1,204,450, an increase of \$524,181 from the prior year.

\* Revenues were \$216,540 above budget and expenditures were \$378,342 below budget.

\* The debt service fund reported a fund balance of \$148,764, an increase of \$10,745 from the prior year.

\* The electric fund, water and wastewater fund, and sanitation fund reported profits of \$3,458,884, \$209,475, and \$21,221, respectively, before transfers.

\* The municipal airport fund reported an operating loss of \$649,470.

\* Ending net positions were electric fund \$1,240,697, water and wastewater fund \$6,714,658, sanitation fund \$20,842, and municipal airport fund \$17,244,063.

- \* The electric and water and sewer funds transferred \$3,170,000 to the general fund and other funds during the year.
- \* The municipal airport fund continued making capital improvements during the year, receiving \$1,445,772 of grant revenues.
- \* The City's combined net position was \$35,806,067 at September 30, 2014, as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 3,000,798	\$ 4,175,564
Capital and non-current assets	<u>10,363,083</u>	<u>10,975,465</u>
<b>Total Assets</b>	<b><u>\$13,363,881</u></b>	<b><u>\$15,151,029</u></b>
Current liabilities	\$ 533,796	\$ 1,797,624
Long term liabilities	<u>2,244,278</u>	<u>2,209,984</u>
<b>Total Liabilities</b>	<b><u>\$ 2,778,074</u></b>	<b><u>\$ 4,007,608</u></b>
Net Position:		
Net Investment in Capital Assets	\$ 8,339,222	\$ 8,868,905
Restricted	971,097	1,414,643
Unrestricted	<u>1,275,488</u>	<u>859,873</u>
<b>Total Net Position</b>	<b><u>\$10,585,807</u></b>	<b><u>\$11,143,421</u></b>

	<u>Business-type Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 1,830,424	\$ 1,164,622
Capital and non-current assets	<u>26,603,856</u>	<u>25,783,868</u>
<b>Total Assets</b>	<b><u>\$28,434,280</u></b>	<b><u>\$26,948,490</u></b>
Current liabilities	\$ 520,763	\$ 489,562
Long term liabilities	<u>2,693,257</u>	<u>2,842,122</u>
<b>Total Liabilities</b>	<b><u>\$ 3,214,020</u></b>	<b><u>\$ 3,331,684</u></b>
Net Position:		
Net Investment in Capital Assets	\$23,910,599	\$22,941,746
Restricted	210,020	586,691
Unrestricted	<u>1,099,641</u>	<u>88,369</u>
<b>Total Net Position</b>	<b><u>\$25,220,260</u></b>	<b><u>\$23,616,806</u></b>
<b>Combined Total Net Position</b>	<b><u>\$35,806,067</u></b>	<b><u>\$34,760,227</u></b>

## Capital Assets and Debt Administration

### Capital Assets

Capital assets for the City at fiscal year end September 30, 2014 amounted to \$36,966,938. 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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
	<u>Current Year</u>		<u>Prior Year</u>	
Land	\$ 545,546	\$ 2,457,929	\$ 545,546	\$ 2,575,586
Buildings and improvements	21,071,909	38,472,771	20,803,163	37,197,906
Equipment	1,914,054	1,543,440	1,899,550	1,260,130
Construction in progress	<u>          -</u>	<u>318,878</u>	<u>268,746</u>	<u>87,204</u>
Totals at historical cost	23,531,509	42,793,018	23,517,005	41,120,826
Total accumulated depreciation	<u>(13,168,426)</u>	<u>(16,189,163)</u>	<u>(12,545,942)</u>	<u>(15,336,957)</u>
Net capital assets	<b><u>\$10,363,083</u></b>	<b><u>\$26,603,855</u></b>	<b><u>\$10,971,063</u></b>	<b><u>\$25,783,869</u></b>

## Long-term Debt

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

	<b>Long Term Debt</b>			
	<u>Governmental</u>	<u>Business-type</u>	<u>Governmental</u>	<u>Business-type</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
	<u>Current Year</u>		<u>Prior Year</u>	
Capital Lease	\$ 91,489	\$ -	\$ 119,827	\$ -
Notes	-	27,629	-	54,453
Compensated Absences	82,101	18,736	62,422	31,801
Certificates of Obligation	1,932,372	2,665,628	1,982,331	2,787,669
OPEB Obligation	<u>138,316</u>	<u>54,058</u>	<u>107,826</u>	<u>42,141</u>
	<u>\$2,244,278</u>	<u>\$2,766,051</u>	<u>\$2,272,406</u>	<u>\$2,916,064</u>

The City retired \$1,899,162 of outstanding debt during the year and \$1,672,000 of certificates of obligation were issued. Prior period adjustments were adjusting receivables of \$197,593.

## 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 POSITION  
SEPTEMBER 30, 2014

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 2,812,421	\$ (621,789)	\$ 2,190,632	\$ 1,940,431
Receivables (net of allowance for uncollectibles)	115,114	1,510,078	1,625,192	-
Due from Other Governments	-	270,009	270,009	-
Internal Balances	73,263	(73,263)	-	-
Inventories	-	465,729	465,729	-
Restricted Assets:				
Cash and Cash Equivalents	-	279,660	279,660	-
Capital Assets:				
Land	545,546	-	545,546	-
Infrastructure, net	6,159,130	-	6,159,130	-
Buildings, net	3,173,073	-	3,173,073	-
Machinery and Equipment, net	485,334	-	485,334	-
Property and Equipment, net	-	26,603,856	26,603,856	-
Total Assets	<u>13,363,881</u>	<u>28,434,280</u>	<u>41,798,161</u>	<u>1,940,431</u>
<b>LIABILITIES</b>				
Accounts Payable	523,002	167,516	690,518	15,687
Accrued Interest Payable	10,794	15,529	26,323	10,703
Unearned Revenues	-	58,058	58,058	-
	-	27,629	27,629	-
Payable from Restricted Assets	-	279,660	279,660	-
Noncurrent Liabilities				
Due Within One Year	238,482	171,893	410,375	75,000
Due in More Than One Year	2,005,796	2,493,735	4,499,531	1,395,000
Total Liabilities	<u>2,778,074</u>	<u>3,214,020</u>	<u>5,992,094</u>	<u>1,496,390</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	8,339,222	23,910,599	32,249,821	-
Restricted for:				
Capital Acquisition	158,889	-	158,889	-
Retirement of Long-Term Debt	148,764	210,020	358,784	-
Perpetual Care	633,400	-	633,400	-
Hotel/Motel	30,044	-	30,044	-
Restricted for Other Purposes	-	-	-	444,041
Unrestricted Net Position	1,275,488	1,099,641	2,375,129	-
Total Net Position	<u>\$ 10,585,807</u>	<u>\$ 25,220,260</u>	<u>\$ 35,806,067</u>	<u>\$ 444,041</u>

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, 2014

	Expenses	Program Revenues <u>Charges for Services</u>
<b>Primary Government:</b>		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 1,369,896	\$ 822,324
Finance and Tax	259,503	-
Public Safety	1,539,701	19,701
Legal and Court	95,117	110,065
Public Works	1,567,434	-
Parks, Recreation, and Golf Course	1,310,999	115,087
Library	282,579	11,596
Total Governmental Activities:	6,425,229	1,078,773
BUSINESS-TYPE ACTIVITIES:		
Electric Fund	5,744,881	9,203,394
Water and Wastewater Fund	2,093,799	2,397,845
Sanitation Fund	1,217,815	1,239,036
Municipal Airport Fund	1,490,499	841,029
Total Business-Type Activities:	10,546,994	13,681,304
TOTAL PRIMARY GOVERNMENT:	\$ 16,972,223	\$ 14,760,077
<b>Component Unit:</b>		
Economic Development Corporation	\$ 303,482	\$ -
TOTAL COMPONENT UNITS:	\$ 303,482	\$ -

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 Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

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



Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$ (547,572)	\$ -	\$ (547,572)	\$ -
(259,503)	-	(259,503)	-
(1,520,000)	-	(1,520,000)	-
14,948	-	14,948	-
(1,567,434)	-	(1,567,434)	-
(1,195,912)	-	(1,195,912)	-
(270,983)	-	(270,983)	-
<u>(5,346,456)</u>	<u>-</u>	<u>(5,346,456)</u>	<u>-</u>
-	3,458,513	3,458,513	-
-	304,046	304,046	-
-	21,221	21,221	-
-	(649,470)	(649,470)	-
<u>-</u>	<u>3,134,310</u>	<u>3,134,310</u>	<u>-</u>
<u>(5,346,456)</u>	<u>3,134,310</u>	<u>(2,212,146)</u>	<u>-</u>
-	-	-	(303,482)
-	-	-	(303,482)
819,082	-	819,082	-
200,089	-	200,089	-
882,719	-	882,719	441,360
101,677	-	101,677	-
54,465	1,507,203	1,561,668	-
118,496	(96,988)	21,508	-
7,538	557	8,095	7,398
2,744,033	(2,744,033)	-	-
<u>4,928,099</u>	<u>(1,333,261)</u>	<u>3,594,838</u>	<u>448,758</u>
(418,357)	1,801,049	1,382,692	145,276
11,143,421	23,616,803	34,760,224	298,765
-	(197,592)	(197,592)	-
<u>\$ 10,725,064</u>	<u>\$ 25,220,260</u>	<u>\$ 35,945,324</u>	<u>\$ 444,041</u>

CITY OF HONDO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Perpetual Care Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,577,980	\$ 170,845	\$ 625,946
Taxes Receivable	69,631	17,869	-
Allowance for Uncollectible Taxes (credit)	(10,445)	(2,680)	-
Receivables (Net)	13,011	-	-
Due from Other Funds	141,909	-	7,454
Total Assets	<u>\$ 1,792,086</u>	<u>\$ 186,034</u>	<u>\$ 633,400</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 363,686	\$ -	\$ -
Wages and Salaries Payable	112,190	-	-
Due to Other Funds	57,187	23,306	-
Total Liabilities	<u>533,063</u>	<u>23,306</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	54,573	13,964	-
Total Deferred Inflows of Resources	<u>54,573</u>	<u>13,964</u>	<u>-</u>
<b>FUND BALANCES</b>			
Capital Acquisition and Contractual Obligation	-	-	-
Retirement of Long-Term Debt	-	148,764	-
Other Restricted Fund Balance	-	-	633,400
Other Committed Fund Balance	195,475	-	-
Unassigned Fund Balance	1,008,975	-	-
Total Fund Balances	<u>1,204,450</u>	<u>148,764</u>	<u>633,400</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,792,086</u>	<u>\$ 186,034</u>	<u>\$ 633,400</u>

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

Other Funds	Total Governmental Funds
\$ 437,650	\$ 2,812,421
-	87,500
-	(13,125)
27,728	40,739
4,793	154,156
<u>\$ 470,171</u>	<u>\$ 3,081,691</u>
\$ 47,126	\$ 410,812
-	112,190
400	80,893
<u>47,526</u>	<u>603,895</u>
-	68,537
-	68,537
158,889	158,889
-	148,764
30,044	663,444
-	195,475
233,712	1,242,687
<u>422,645</u>	<u>2,409,259</u>
<u>\$ 470,171</u>	<u>\$ 3,081,691</u>

CITY OF HONDO, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014

<b>Total Fund Balances - Governmental Funds</b>	\$	2,409,259
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 \$23,517,005 and the accumulated depreciation was \$(12,545,942). In addition, long-term liabilities related to capital assets of \$(2,102,158) are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		8,868,905
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 2014 capital outlays of \$14,504 and debt principal payments of \$1,131,657 is to increase net position.		1,146,161
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(622,484)
Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable taxes of \$68,537 as revenue, reclassifying the proceeds of certificates of obligation of \$(1,053,360) as an increase in long-term debt. Recognizing accrued interest associated with long-term debt of \$(10,794), compensated absences of \$(82,101), and OPED liability of \$(138,316) The net effect of these reclassifications and recognitions is to decrease net position.		(1,216,034)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>10,585,807</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, 2014

	General Fund	Debt Service Fund	Perpetual Care Fund
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 817,858	\$ 200,640	\$ -
Sales Taxes	882,719	-	-
Other Taxes	2,720	-	-
Licenses and Permits	39,431	-	-
Intergovernmental	49,730	-	-
Charges for Services	1,078,773	-	-
Investment Earnings	1,867	219	4,935
Contributions from Private Sources	-	-	-
Other Revenue	16,060	-	14,400
Total Revenues	<u>2,889,158</u>	<u>200,859</u>	<u>19,335</u>
<b>EXPENDITURES:</b>			
Current:			
General Government	1,005,938	-	16,000
Finance and Tax	259,503	-	-
Public Safety	1,490,948	-	-
Legal and Court	95,117	-	-
Public Works	1,205,369	-	-
Parks, Recreation, and Golf Course	1,230,142	-	-
Library	219,438	-	-
Debt Service:			
Principal	28,338	1,103,319	-
Interest and Charges	3,954	140,155	-
Total Expenditures	<u>5,538,747</u>	<u>1,243,474</u>	<u>16,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,649,589)</u>	<u>(1,042,615)</u>	<u>3,335</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Capital-related Debt Issued (Regular Bonds)	-	1,053,360	-
Transfers In	3,173,770	-	-
Transfers Out (Use)	-	-	-
Total Other Financing Sources (Uses)	<u>3,173,770</u>	<u>1,053,360</u>	<u>-</u>
Net Change in Fund Balances	524,181	10,745	3,335
Fund Balance - October 1 (Beginning)	<u>680,269</u>	<u>138,019</u>	<u>630,065</u>
Fund Balance - September 30 (Ending)	<u>\$ 1,204,450</u>	<u>\$ 148,764</u>	<u>\$ 633,400</u>

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

Other Funds	Total Governmental Funds
\$ -	\$ 1,018,498
-	882,719
98,957	101,677
-	39,431
-	49,730
-	1,078,773
517	7,538
4,735	4,735
48,605	79,065
152,814	3,262,166
180,177	1,202,115
-	259,503
10,553	1,501,501
-	95,117
-	1,205,369
2,569	1,232,711
51,326	270,764
-	1,131,657
-	144,109
244,625	7,042,846
(91,811)	(3,780,680)
-	1,053,360
-	3,173,770
(429,737)	(429,737)
(429,737)	3,797,393
(521,548)	16,713
944,193	2,392,546
\$ 422,645	\$ 2,409,259

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, 2014

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	16,713
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 2014 capital outlays of \$14,504 and debt principal payments of \$1,131,657 is to increase the change in net position.		1,146,161
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(622,484)
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 unavailable taxes of \$673, accrued interest of \$4,852, compensated absences of \$(19,679), and OPED liability of \$(30,490). Also, the issuance of certificates of obligation of \$(1,053,360). The net effect of these reclassifications and recognitions is to decrease the change in net position.		(1,098,004)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(557,614)</b>

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

CITY OF HONDO, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2014

	Business-Type Activities -	
	Electric Fund	Water and Wastewater Fund
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ (68,874)	\$ 86,556
Restricted Assets - Current:		
Cash and Cash Equivalents	204,025	75,635
Accounts Receivable-Net of Uncollectible Allowance	1,119,072	238,724
Due from Other Governments	-	270,009
Due from Other Funds	1,471	25,256
Inventories	296,469	129,748
Total Current Assets	<u>1,552,163</u>	<u>825,928</u>
<b>Noncurrent Assets:</b>		
Capital Assets:		
Property and Equipment	3,523,180	16,308,639
Accumulated Depreciation	(2,735,741)	(8,450,396)
Total Noncurrent Assets	<u>787,439</u>	<u>7,858,243</u>
Total Assets	<u>2,339,602</u>	<u>8,684,171</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	29,859	48,811
Accrued Expenses	30,896	38,417
Due to Other Funds	67,574	37,275
Accrued Interest Payable	5,331	8,410
Unearned Revenue	58,058	-
Notes Payable - Current	-	-
Bonds Payable - Current	33,834	128,363
Payable from Restricted Assets - Current:		
Customer Deposits	204,025	75,635
Total Current Liabilities	<u>429,577</u>	<u>336,911</u>
<b>NonCurrent Liabilities:</b>		
Bonds Payable - Noncurrent	669,328	1,632,602
Total Noncurrent Liabilities	<u>669,328</u>	<u>1,632,602</u>
Total Liabilities	<u>1,098,905</u>	<u>1,969,513</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	84,277	6,097,278
Restricted for Water Resource	-	210,020
Unrestricted Net Position	1,156,420	407,360
Total Net Position	<u>\$ 1,240,697</u>	<u>\$ 6,714,658</u>

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



Sanitation Fund	Municipal Airport Fund	Total Enterprise Funds
\$ (86,776)	\$ (552,695)	\$ (621,789)
-	-	279,660
115,920	36,362	1,510,078
-	-	270,009
-	9,325	36,052
-	39,512	465,729
29,144	(467,496)	1,939,739
-	22,961,198	42,793,017
-	(5,003,024)	(16,189,161)
-	17,958,174	26,603,856
29,144	17,490,678	28,543,595
6,698	1,588	86,956
508	10,739	80,560
1,096	3,370	109,315
-	1,788	15,529
-	-	58,058
-	27,629	27,629
-	9,696	171,893
-	-	279,660
8,302	54,810	829,600
-	191,805	2,493,735
-	191,805	2,493,735
8,302	246,615	3,323,335
-	17,729,044	23,910,599
-	-	210,020
20,842	(484,981)	1,099,641
\$ 20,842	\$ 17,244,063	\$ 25,220,260

CITY OF HONDO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities -	
	Electric Fund	Water and Wastewater Fund
<b>OPERATING REVENUES:</b>		
Charges for Services	\$ 9,063,824	\$ 2,355,257
Penalties	139,570	42,588
Total Operating Revenues	<u>9,203,394</u>	<u>2,397,845</u>
<b>OPERATING EXPENSES:</b>		
Personnel Services	457,502	500,292
Materials and Supplies	115,629	340,384
Contractual Services	5,079,704	806,569
Depreciation	60,167	354,532
Interest Expense	31,879	51,692
Total Operating Expenses	<u>5,744,881</u>	<u>2,053,469</u>
Operating Income (Loss)	<u>3,458,513</u>	<u>344,376</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Gain (Loss) on Sale of Property	-	(156,188)
Intergovernmental Revenue	-	61,431
Bond Issuance Cost	-	(40,330)
Investment Earnings	371	186
Total Non-operating Revenue (Expenses)	<u>371</u>	<u>(134,901)</u>
Income Before Transfers	3,458,884	209,475
Transfers In	152,989	272,978
Transfers Out	<u>(2,775,000)</u>	<u>(395,000)</u>
Change in Net Position	836,873	87,453
Total Net Position -October 1 (Beginning)	403,824	6,824,797
Prior Period Adjustment	-	(197,592)
Total Net Position September 30 (Ending)	<u>\$ 1,240,697</u>	<u>\$ 6,714,658</u>

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

Sanitation Fund	Municipal Airport Fund	Total Enterprise Funds
\$ 1,239,036	\$ 841,029	\$ 13,499,146
-	-	182,158
1,239,036	841,029	13,681,304
11,578	158,599	1,127,971
-	400,064	856,077
1,206,237	458,867	7,551,377
-	461,585	876,284
-	11,384	94,955
1,217,815	1,490,499	10,506,664
21,221	(649,470)	3,174,640
-	59,200	(96,988)
-	1,445,772	1,507,203
-	-	(40,330)
-	-	557
-	1,504,972	1,370,442
21,221	855,502	4,545,082
-	-	425,967
-	-	(3,170,000)
21,221	855,502	1,801,049
(379)	16,388,561	23,616,803
-	-	(197,592)
\$ 20,842	\$ 17,244,063	\$ 25,220,260

CITY OF HONDO, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities	
	Electric Fund	Water and Wastewater Fund
<u>Cash Flows from Operating Activities:</u>		
Cash Received from User Charges	\$ 9,071,442	\$ 2,353,921
Payments for Personnel Services	(461,792)	(504,098)
Payments to Suppliers	(114,490)	(305,511)
Payments for Services	(5,075,230)	(830,639)
Net Cash Provided by (Used for) Operating Activities	<u>3,419,930</u>	<u>713,673</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Advances from/to Other Funds	63,991	2,453
Operating Transfer Out	(2,775,000)	(395,000)
Operating Transfer In	152,989	272,978
Intergovernmental Proceeds	-	61,431
Change in Restricted Cash	(22,420)	(10,110)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(2,580,440)</u>	<u>(68,248)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>		
Acquisition of Capital Assets	(152,989)	(361,995)
Debt Principal Paid	(30,892)	(82,296)
Sale of Capital Assets	-	150,000
Bond Issuance Cost	-	(40,330)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(183,881)</u>	<u>(334,621)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest and Dividends on Investments	<u>371</u>	<u>186</u>
Net Increase(Decrease) in Cash and Cash Equivalents	655,980	310,990
Cash and Cash Equivalents at Beginning of the Year:	<u>(724,854)</u>	<u>(224,434)</u>
Cash and Cash Equivalents at the End of the Year:	<u><u>\$ (68,874)</u></u>	<u><u>\$ 86,556</u></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, 2014

	Business-Type Activities	
	Electric Fund	Water and Wastewater Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>		
<u>Provided By (Used For) Operating Activities:</u>		
Operating Income (Loss):	\$ 3,458,513	\$ 344,376
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	60,167	354,532
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Receivables	(131,953)	41,873
Decrease (increase) in Inventories	(43,920)	(36,479)
Increase (decrease) in Accounts Payable	1,139	34,873
Increase (decrease) in Accrued Expenses	(4,494)	(7,828)
Increase (decrease) in Deferrals	58,058	(27,784)
Increase (decrease) in Customer Deposits	22,420	10,110
Net Cash Provided by (Used for) Operating Activities	<u>\$ 3,419,930</u>	<u>\$ 713,673</u>

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

Sanitation Fund	Municipal Airport Fund	Total Enterprise Funds
\$ 1,239,485	\$ 877,523	\$ 13,542,371
(11,070)	(163,066)	(1,140,026)
-	(451,306)	(871,307)
<u>(1,206,738)</u>	<u>(449,866)</u>	<u>(7,562,473)</u>
21,677	(186,715)	3,968,565
1,096	(76,587)	(9,047)
-	-	(3,170,000)
-	-	425,967
-	1,445,772	1,507,203
-	-	(32,530)
<u>1,096</u>	<u>1,369,185</u>	<u>(1,278,407)</u>
-	(1,487,225)	(2,002,209)
-	(35,677)	(148,865)
-	61,000	211,000
-	-	(40,330)
-	<u>(1,461,902)</u>	<u>(1,980,404)</u>
-	-	557
22,773	(279,432)	710,311
<u>(109,549)</u>	<u>(273,263)</u>	<u>(1,332,100)</u>
<u>\$ (86,776)</u>	<u>\$ (552,695)</u>	<u>\$ (621,789)</u>

Sanitation Fund	Municipal Airport Fund	Total Enterprise Funds
\$ 21,221	\$ (649,470)	\$ 3,174,640
-	461,585	876,284
449	36,493	(53,138)
-	19,978	(60,421)
(501)	(51,242)	(15,731)
508	(4,059)	(15,873)
-	-	30,274
-	-	32,530
<u>\$ 21,677</u>	<u>\$ (186,715)</u>	<u>\$ 3,968,565</u>

CITY OF HONDO, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2014

**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 the 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 Position 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 Position 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 unearned 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

#### **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. **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.
3. **Perpetual Care Fund** - This fund accounts for the continuing operation of the cemetery property.

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. **Capital Projects Fund** - This fund accounts for the usage of the bond proceeds which were allocated to the general fund.

Major Proprietary Funds:

1. **Enterprise Funds** - The City's activities for which outside users are charged a fee for providing 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 Wastewater Fund, Sanitation 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. Unavailable 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 or statement of net position.
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 changed accounting policies related to capitalizing bond issuance cost by adopting Statement of Governmental Accounting Standards No. 62 for the year ended September 30, 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the City's government-wide financial statements.
10. 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	\$ 158,889
Debt service	148,764
Perpetual care	633,400
Hotel/Motel Tax	<u>30,044</u>
Total restricted	<u>971,097</u>
Committed	
Court technology and security	<u>195,475</u>
Unassigned	<u>1,242,687</u>
Total Fund Balances	<u>\$2,409,259</u>

11. 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 position.
12. Equity is classified as net position and displayed in three components:
  - a. Net investment in capital assets - 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 position - 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 position - All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".
13. 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 \$22,716, and development and other costs of \$214,577. 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.

As noted on Exhibit E-1, the general fund had budget overexpenditures in two categories for a total of \$17,063.

## **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, 2014, 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>\$2,755,248</u>	<u>\$2,755,248</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, 2014, \$4,448,933 of the City's bank balance of \$4,948,933 was not covered by depository insurance (FDIC). These deposits were collateralized by securities held by the pledging financial institution with a market value of \$12,093,328.

## **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 unearned 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, 2014 consist of the following:

<u>Fund</u>	<u>Due From Amount</u>	<u>Due To Amount</u>	<u>Purpose</u>
General Fund:			
Proprietary Funds	\$ 109,315	\$ 12,746	Short-term loans
Nonmajor Governmental Funds	-	4,393	Short-term loans
Perpetual Care Fund	-	7,454	Short-term loans
Intrafund	<u>32,594</u>	<u>32,594</u>	Short-term loans
	<u>141,909</u>	<u>57,187</u>	
Debt Service Fund:			
Proprietary Funds	<u>-</u>	<u>23,306</u>	Short-term loans
	<u>-0-</u>	<u>23,306</u>	
Perpetual Care Fund:			
General Fund	<u>7,454</u>	<u>-0-</u>	Short-term loans
Nonmajor Governmental Funds:			
General Fund	4,393	-	Short-term loans
Nonmajor Funds	<u>400</u>	<u>400</u>	Short-term loans
	<u>4,793</u>	<u>400</u>	
Proprietary Funds:			
General Fund	12,746	109,315	Short-term loans
Debt Service Fund	<u>23,306</u>	<u>-</u>	Short-term loans
	<u>36,052</u>	<u>109,315</u>	
Totals	<u>\$ 190,208</u>	<u>\$ 190,208</u>	

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

**Transfers To and From Other Funds**

Transfers From	Transfers To	Amount	Reason
Electric Fund	General Fund	\$2,775,000	Payment in lieu of taxes and public works operations capital outlay and related expenses.
Water and wastewater Fund	General Fund	395,000	Payment in lieu of taxes and public works operations.
Capital Projects Fund	Electric Fund	152,989	Capital Outlay
	Water and wastewater Fund	103,056	Capital Outlay
HUD Grant Fund	General Fund	3,770	Close Fund
CDBG Grant Fund	Water and wastewater Fund	<u>169,922</u>	Close Fund
		<u>\$3,599,737</u>	

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at September 30, 2014 were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
<b>Governmental Activities:</b>					
General Fund	\$ 69,631	\$ -	\$ 141,909	\$ 13,011	\$ 224,551
Debt Service Fund	17,869	-	-	-	17,869
Perpetual Care Fund	-	-	7,454	-	7,454
Other Funds	<u>-</u>	<u>27,728</u>	<u>4,793</u>	<u>-</u>	<u>32,521</u>
Total Governmental Activities	<u>\$ 87,500</u>	<u>\$ 27,728</u>	<u>\$ 154,156</u>	<u>\$ 13,011</u>	<u>\$ 282,395</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 13,125</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 13,125</u>
<b>Business-type Activities:</b>					
Proprietary Funds	<u>\$ -</u>	<u>\$ 270,009</u>	<u>\$ 36,052</u>	<u>\$1,510,078</u>	<u>\$1,816,139</u>
Total Business-type Activities	<u>\$ -0-</u>	<u>\$ 270,009</u>	<u>\$ 36,052</u>	<u>\$1,510,078</u>	<u>\$1,816,139</u>

Payables at September 30, 2014 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>Total Payables</u>
<b>Governmental Activities:</b>						
General Fund	\$ 363,686	\$ -	\$ 112,190	\$ 57,187	\$ -	\$ 533,063
Debt Service Fund	-	-	-	23,306	-	23,306
Other Funds	<u>47,126</u>	<u>-</u>	<u>-</u>	<u>400</u>	<u>-</u>	<u>47,526</u>
Total Gov. Activities	<u>\$ 410,812</u>	<u>\$ -0-</u>	<u>\$ 112,190</u>	<u>\$ 80,893</u>	<u>\$ -0-</u>	<u>\$ 603,895</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>
<b>Business-Type Activities</b>						
Proprietary Funds	<u>\$ 86,956</u>	<u>\$ 199,522</u>	<u>\$ 26,502</u>	<u>\$ 109,315</u>	<u>\$ 69,587</u>	<u>\$ 491,882</u>
Total Business Type Activities	<u>\$ 86,956</u>	<u>\$ 199,522</u>	<u>\$ 26,502</u>	<u>\$ 109,315</u>	<u>\$ 69,587</u>	<u>\$ 491,882</u>

## F. CAPITAL ASSETS ACTIVITIES

Capital asset activity for the year ended September 30, 2014 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>268,746</u>	<u>-</u>	<u>-</u>	<u>(268,746)</u>	<u>-</u>
Total capital assets, not depreciated	<u>814,292</u>	<u>-0-</u>	<u>-0-</u>	<u>(268,746)</u>	<u>545,546</u>
Capital assets, being depreciated:					
Buildings	5,433,097	-	-	268,746	5,701,843
Infrastructure	15,370,066	-	-	-	15,370,066
Equipment	824,874	6,689	-	-	831,563
Vehicles	803,783	7,815	-	-	811,598
Vehicles under capital lease	<u>270,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,893</u>
Total capital assets, being depreciated	<u>22,702,713</u>	<u>14,504</u>	<u>-0-</u>	<u>268,746</u>	<u>22,985,963</u>
Less accumulated depreciation for:					
Buildings	2,398,487	130,283	-	-	2,528,770
Infrastructure	8,833,845	377,091	-	-	9,210,936
Equipment	620,900	43,966	-	-	664,866
Vehicles	<u>692,710</u>	<u>71,144</u>	<u>-</u>	<u>-</u>	<u>763,854</u>
Total accumulated depreciation	<u>12,545,942</u>	<u>622,484</u>	<u>-0-</u>	<u>-0-</u>	<u>13,168,426</u>
Total capital assets being depreciated, net	<u>10,156,771</u>	<u>(607,980)</u>	<u>-0-</u>	<u>268,746</u>	<u>9,817,537</u>
Governmental activities capital assets, net	<u>\$10,971,063</u>	<u>\$ (607,980)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$10,363,083</u>

Depreciation was charged to the functions as follows:

### Governmental Activities:

General Government	\$ 117,612
Public Safety	46,015
Public Works	362,065
Parks and Recreation	84,977
Library	<u>11,815</u>
Total depreciation expense	<u>\$ 622,484</u>

## F. CAPITAL ASSETS ACTIVITIES - CONTINUED

	<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	\$ 2,575,586	\$ -	\$ (117,657)	\$ -	\$ 2,457,929
Construction in progress	<u>87,204</u>	<u>231,674</u>	<u>-</u>	<u>-</u>	<u>318,878</u>
Total capital assets, not depreciated	<u>2,662,790</u>	<u>231,674</u>	<u>(117,657)</u>	<u>-0-</u>	<u>2,776,807</u>
Capital assets, being depreciated:					
Buildings	18,784,754	-	-	-	18,784,754
Improvements other than buildings	18,413,152	1,487,225	(212,360)	-	19,688,017
Equipment	679,181	130,321	-	-	809,502
Automobiles and trucks	<u>580,949</u>	<u>152,989</u>	<u>-</u>	<u>-</u>	<u>733,938</u>
Total capital assets, being depreciated	<u>38,458,036</u>	<u>1,770,535</u>	<u>(212,360)</u>	<u>-0-</u>	<u>40,016,211</u>
Less accumulated depreciation for:					
Buildings	4,749,692	426,229	-	-	5,175,921
Improvements other than buildings	9,639,935	375,257	(24,079)	-	9,991,113
Equipment	472,451	39,480	-	-	511,931
Automobiles and trucks	<u>474,879</u>	<u>35,319</u>	<u>-</u>	<u>-</u>	<u>510,198</u>
Total accumulated depreciation	<u>15,336,957</u>	<u>876,285</u>	<u>(24,079)</u>	<u>-0-</u>	<u>16,189,163</u>
Total capital assets being depreciated, net	<u>23,121,079</u>	<u>894,250</u>	<u>(188,281)</u>	<u>-0-</u>	<u>23,827,048</u>
Business-type activities capital assets, net	<u>\$25,783,869</u>	<u>\$ 1,125,924</u>	<u>\$ (305,938)</u>	<u>\$ -0-</u>	<u>\$26,603,855</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, 2014 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	<u>\$ 1,982,331</u>	<u>\$ 1,053,360</u>	<u>\$ 1,103,319</u>	<u>\$ -</u>	<u>\$ 1,932,372</u>	<u>\$ 127,107</u>
Total Bonds	<u>1,982,331</u>	<u>1,053,360</u>	<u>1,103,319</u>	<u>-0-</u>	<u>1,932,372</u>	<u>127,107</u>
Capital Lease	119,827	-	28,338	-	91,489	29,274
OPEB Obligation	107,826	30,490	-	-	138,316	-
Compensated Absences	<u>62,422</u>	<u>82,101</u>	<u>62,422</u>	<u>-</u>	<u>82,101</u>	<u>82,101</u>
Total Governmental Activities	<u>\$ 2,272,406</u>	<u>\$ 1,165,951</u>	<u>\$ 1,194,079</u>	<u>\$ -0-</u>	<u>\$ 2,244,278</u>	<u>\$ 238,482</u>
<b>Business-type Activities:</b>						
Certificates of Obligation	<u>\$ 2,787,669</u>	<u>\$ 618,640</u>	<u>\$ 740,681</u>	<u>\$ -</u>	<u>\$ 2,665,628</u>	<u>\$ 171,893</u>
Total Bonds	<u>2,787,669</u>	<u>618,640</u>	<u>740,681</u>	<u>-0-</u>	<u>2,665,628</u>	<u>171,893</u>
Notes	54,453	-	26,824	-	27,629	27,629
OPEB Obligation	42,141	11,917	-	-	54,058	-
Compensated Absences	<u>31,801</u>	<u>18,736</u>	<u>31,801</u>	<u>-</u>	<u>18,736</u>	<u>18,736</u>
Total Business-type Activities	<u>\$ 2,916,064</u>	<u>\$ 649,293</u>	<u>\$ 799,306</u>	<u>\$ -0-</u>	<u>\$ 2,766,051</u>	<u>\$ 218,258</u>
<b>Economic Development:</b>						
Sales Tax Revenue Bonds	\$ 905,000	\$ -	\$ 40,000	\$ -	\$ 865,000	\$ 40,000
Certificates of Obligation	<u>640,000</u>	<u>-</u>	<u>35,000</u>	<u>-</u>	<u>605,000</u>	<u>35,000</u>
Total Bonds	<u>1,545,000</u>	<u>-0-</u>	<u>75,000</u>	<u>-0-</u>	<u>1,470,000</u>	<u>75,000</u>
OPEB Obligation	1,795	507	-	-	2,302	-
Compensated Absences	<u>1,571</u>	<u>3,889</u>	<u>1,571</u>	<u>-</u>	<u>3,889</u>	<u>3,889</u>
Total Economic Development	<u>\$ 1,548,366</u>	<u>\$ 4,396</u>	<u>\$ 76,571</u>	<u>\$ -0-</u>	<u>\$ 1,476,191</u>	<u>\$ 78,889</u>

## ***Description of Debt***

### **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. 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 was revised by management for the year end September 30, 2012, and then restored for the year end September 30, 2013. 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 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.

### **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. 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). On May 7, 2014, the City refunded future maturities of the Series 2005 debt in amount of \$1,563,000, with Certificates of Obligations, Series 2014. The final maturity date of the remaining bonds is February 1, 2015.

### **Certificates of Obligation, Series 2013**

On May 10, 2013, the City issued \$490,000 of Certificates of Obligation, Series 2013, water and wastewater improvements. The proceeds are available to the water and wastewater fund for capital asset needs. The principal is due annually on February 1. Interest is due semi-annually on February 1, and August 1 at rates ranging from .09% to 1.86%, the final maturity date is February 1, 2023.

### **Certificates of Obligation Refunding Bonds, Series 2014**

On May 7, 2014, the City issued \$1,672,000 of Certificates of Obligation Refunding Bonds, Series 2014, with issuance cost of \$35,692. The proceeds were used to pay off the majority of the Certificates of Obligation, 2005 series. The principal is due annually on February 1. Interest is due semi-annually on February 1 and August 1 at rates ranging from .65% to 3.15%. The final maturity date is February 1, 2025.

## Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2014 are as follows:

Governmental Activities - Bonds			
<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 127,107	\$ 61,743	\$ 188,850
2016	133,065	57,994	191,059
2017	134,955	55,207	190,162
2018	140,913	51,998	192,911
2019	147,960	48,236	196,196
2020-2024	822,231	165,845	988,076
2025-2027	<u>426,141</u>	<u>26,515</u>	<u>452,656</u>
Totals	<u>\$1,932,372</u>	<u>\$ 467,538</u>	<u>\$2,399,910</u>

Governmental Activities - Capital Lease			
<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 91,489</u>	<u>\$ 5,390</u>	<u>\$ 96,879</u>

Business-Type Activities - Bonds			
<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 171,893	\$ 89,102	\$ 260,995
2016	184,935	84,571	269,506
2017	186,045	80,335	266,380
2018	194,087	75,589	269,676
2019	205,040	70,113	275,153
2020-2024	1,066,769	246,631	1,313,400
2025-2027	<u>656,859</u>	<u>48,143</u>	<u>705,002</u>
Totals	<u>\$2,665,628</u>	<u>\$ 694,484</u>	<u>\$3,360,112</u>



Business-Type Activities -Notes

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ <u>27,629</u>	\$ <u>829</u>	\$ <u>28,458</u>
Totals	\$ <u>27,629</u>	\$ <u>829</u>	\$ <u>28,458</u>

Economic Development Corporation - Bonds

<u>Year Ended September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 75,000	\$ 64,213	\$ 139,213
2016	75,000	61,604	136,604
2017	80,000	58,708	138,708
2018	85,000	55,462	140,462
2019	85,000	51,975	136,975
2020-2024	500,000	197,715	697,715
2025-2029	495,000	72,803	567,803
2030	<u>75,000</u>	<u>1,875</u>	<u>76,875</u>
Totals	<u>\$1,470,000</u>	<u>\$ 564,355</u>	<u>\$2,034,355</u>

**H. OPERATING LEASES**

The City leases equipment through various operating leases. Total expenditures for operating leases for the year ended September 30, 2014 were \$59,618 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>
2015	\$ 32,088
2016	\$ 10,500

## I. 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. The City has 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.

## J. 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 2013</b>	<b>Plan Year 2014</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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 annually repeating benefits, such as Updated Service Credits and Annuity Increases.

Three-Year Trend Information				
Fiscal Year Ending	Annual Pension Cost(APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2012	\$ 323,768	\$ 323,768	100%	\$ -0-
2013	\$ 322,917	\$ 322,917	100%	\$ -0-
2014	\$ 361,059	\$ 361,059	100%	\$ -0-

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
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	26.0 years; closed period	25.0 years; closed period	30.0 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*	7.0%	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%

**Funded Status and Funding Progress**

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013. The most recent actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1) / (2)	Unfunded AAL (UAAL) (4) (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4) / (5)
12/31/2013	\$10,734,649	\$12,598,918	85.3%	\$ 1,855,269	\$ 3,404,125	54.5%

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 2014, 2013, and 2012 were \$7,052, \$5,982, and \$6,095, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution  (Rate)	Actual Contribution Made  (Rate)	Percentage of ARC Contributed
2011	0.03%	0.03%	100%
2012	0.03%	0.03%	100%
2013	0.03%	0.03%	100%
2014	0.03%	0.03%	100%
2015	0.03%	0.03%	100%

**K. HEALTH CARE COVERAGE**

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$386 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, 2014 and terms of coverage and premium costs are included in the contractual provisions.

**L. 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.

## 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, 2014 Net OPEB Obligation (NOO).

### **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 2014 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, 2014</u>	
Service Cost	\$ 34,332
Unfunded Actuarial Accrued Liability Amortization	<u>32,745</u>
Annual Required Contribution (ARC)	<u>\$ 67,077</u>

### **Annual OPEB Cost (AOC) for Fiscal Year 2014**

Annual Required Contribution (ARC)	\$ 67,077
Interest on Prior Year Net OPEB Obligation	7,588
Amortization of Prior Year Net OPEB Obligation	<u>(9,634)</u>
Total Annual OPEB Cost (AOC)	<u>\$ 65,031</u>

### **Projected September 30, 2014 Net OPEB Obligation (NOO)**

Based on the Annual OPEB Cost developed above, the following is the projected September 30, 2014 Net OPEB Obligation (NOO):

	<u>Total</u>
October 1, 2013 Net OPEB Obligation (NOO)	\$ 151,762
Annual OPEB Cost (AOC)	65,031
Expected Net OPEB Contributions	<u>(22,117)</u>
Expected September 30, 2014 Net OPEB Obligation (NOO)+	<u>\$ 194,676</u>

**Annual OPEB Cost Summary**

<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, 2012	\$ 69,423	39.67%	\$ 108,627
September 30, 2013	\$ 72,339	40.37%	\$ 151,762
September 30, 2014	\$ 65,031	34.01%	\$ 194,676

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

**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 \$416.33 and \$510.88 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**

An optional wellness program with a surcharge for non participation has been implemented. A tobacco user surcharge has also been implemented.

## METHODS AND ASSUMPTIONS

<b>Actuarial Method</b>	Projected Unit Credit Cost Method						
<b>Service Cost</b>	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.						
<b>Accumulated Post-Retirement Benefit Obligations</b>	The Actuarial Present Value of Benefits allocated to all periods prior to the valuation year.						
<b>Discount Rate</b>	5.00% (2.00% real rate of return plus 3.00% inflation)						
<b>Health Care Cost Trend</b>	Level 5.00% applied to both health claims cost and employee contributions.						
<b>Mortality</b>	RP-2000 Combined Table Male/Female Proj AA 2015						
<b>Turnover</b>	Rates varying by age. Sample rates: <table><thead><tr><th>Age 25</th><th>Age 40</th><th>Age 55</th></tr></thead><tbody><tr><td>23.36%</td><td>7.52%</td><td>1.76%</td></tr></tbody></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%					
<b>Disability</b>	None assumed						
<b>Retirement Rates</b>	Rates vary by age, with an average retirement age of 60.						
<b>Retiree Contributions</b>	\$416.33 per month for employee coverage and \$927.21 per month for employee and spouse. The City subsidizes the employee coverage at \$200.00 per month for retirees who retire after age 50 with at least 20 years of service.						
<b>Data Assumptions</b>							
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.						



**Valuation 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.

**Valuation Date**

October 1, 2013

**M. 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.

**N. RELATED PARTY TRANSACTIONS**

During the year, the EDC incurred \$22,716 for administrative services provided by the City to the EDC, of which \$22,716 was paid during the year ended September 30, 2014.

**O. 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.

**P. PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were recorded to reflect adjusting receivables as follows

	<u>Adjusting Receivables</u>	<u>Total</u>
Water and wastewater Fund	<u>\$ (197,592)</u>	<u>\$ (197,592)</u>

**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, 2014

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 805,007	\$ 805,007	\$ 817,858	\$ 12,851
Sales Taxes	868,000	868,000	882,719	14,719
Other Taxes	1,500	1,500	2,720	1,220
Licenses and Permits	25,000	25,000	39,431	14,431
Intergovernmental	49,240	49,240	49,730	490
Charges for Services	908,371	908,371	1,078,773	170,402
Investment Earnings	-	-	1,867	1,867
Other Revenue	15,500	15,500	16,060	560
Total Revenues	<u>2,672,618</u>	<u>2,672,618</u>	<u>2,889,158</u>	<u>216,540</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	978,154	1,094,740	1,005,938	88,802
Finance and Tax	250,538	250,538	259,503	(8,965)
Public Safety	1,524,560	1,525,075	1,490,948	34,127
Legal and Court	82,819	87,019	95,117	(8,098)
Public Works	1,365,308	1,399,207	1,205,369	193,838
Parks, Recreation, and Golf Course	1,250,606	1,296,056	1,230,142	65,914
Library	233,362	232,162	219,438	12,724
Debt Service:				
Principal	28,338	28,338	28,338	-
Interest and Charges	3,954	3,954	3,954	-
Total Expenditures	<u>5,717,639</u>	<u>5,917,089</u>	<u>5,538,747</u>	<u>378,342</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,045,021)</u>	<u>(3,244,471)</u>	<u>(2,649,589)</u>	<u>594,882</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	3,155,000	3,155,000	3,173,770	18,770
Total Other Financing Sources (Uses)	<u>3,155,000</u>	<u>3,155,000</u>	<u>3,173,770</u>	<u>18,770</u>
Net Change	109,979	(89,471)	524,181	613,652
Fund Balance - October 1 (Beginning)	680,269	680,269	680,269	-
Fund Balance - September 30 (Ending)	<u>\$ 790,248</u>	<u>\$ 590,798</u>	<u>\$ 1,204,450</u>	<u>\$ 613,652</u>

CITY OF HONDO, TEXAS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

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)
12/31/2011	\$ 9,331,044	\$10,919,702	85.5%	\$ 1,588,658	\$ 3,247,189	48.9%
12/31/2012	\$10,006,221	\$11,372,082	88.0%	\$ 1,365,861	\$ 3,297,156	41.4%
12/31/2013	\$10,734,649	\$12,598,918	85.3%	\$ 1,855,269	\$ 3,404,125	54.5%

(UNAUDITED)

## **COMBINING AND INDIVIDUAL FUND STATEMENTS**

CITY OF HONDO, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2014

	Forfeiture Seizure Fund	Library Fund	Unclaimed Money Fund	South Texas Regional Training
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 8,940	\$ 187,323	\$ 24,346	\$ 34,186
Receivables (Net)	-	-	-	3,315
Due from Other Funds	-	4,793	-	-
Total Assets	<u>\$ 8,940</u>	<u>\$ 192,116</u>	<u>\$ 24,346</u>	<u>\$ 37,501</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 750	\$ 2,786	\$ 21,762	\$ 3,493
Due to Other Funds	-	-	400	-
Total Liabilities	<u>750</u>	<u>2,786</u>	<u>22,162</u>	<u>3,493</u>
<b>FUND BALANCES</b>				
Capital Acquisition and Contractual Obligation	-	-	-	-
Other Restricted Fund Balance	-	-	-	-
Unassigned Fund Balance	8,190	189,330	2,184	34,008
Total Fund Balances	<u>8,190</u>	<u>189,330</u>	<u>2,184</u>	<u>34,008</u>
Total Liabilities and Fund Balances	<u>\$ 8,940</u>	<u>\$ 192,116</u>	<u>\$ 24,346</u>	<u>\$ 37,501</u>

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

Hotel/Motel Tax Fund	CDBG Grants Fund	HUD Grant Fund	Total Nonmajor Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 5,631	\$ -	\$ -	\$ 260,426	\$ 177,224	\$ 437,650
24,413	-	-	27,728	-	27,728
-	-	-	4,793	-	4,793
<u>\$ 30,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,947</u>	<u>\$ 177,224</u>	<u>\$ 470,171</u>
\$ -	\$ -	\$ -	\$ 28,791	\$ 18,335	\$ 47,126
-	-	-	400	-	400
-	-	-	29,191	18,335	47,526
-	-	-	-	158,889	158,889
30,044	-	-	30,044	-	30,044
-	-	-	233,712	-	233,712
<u>30,044</u>	<u>-</u>	<u>-</u>	<u>263,756</u>	<u>158,889</u>	<u>422,645</u>
<u>\$ 30,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 292,947</u>	<u>\$ 177,224</u>	<u>\$ 470,171</u>

CITY OF HONDO, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Forfeiture Seizure Fund	Library Fund	Unclaimed Money Fund	South Texas Regional Training
<b>REVENUES:</b>				
Taxes:				
Other Taxes	\$ -	\$ -	\$ -	\$ -
Investment Earnings	-	428	89	-
Contributions from Private Sources	-	4,735	-	-
Other Revenue	400	100	-	48,105
Total Revenues	<u>400</u>	<u>5,263</u>	<u>89</u>	<u>48,105</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	-	-	-	55,900
Public Safety	10,553	-	-	-
Parks, Recreation, and Golf Course	-	-	-	-
Library	-	51,326	-	-
Total Expenditures	<u>10,553</u>	<u>51,326</u>	<u>-</u>	<u>55,900</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(10,153)</u>	<u>(46,063)</u>	<u>89</u>	<u>(7,795)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(10,153)	(46,063)	89	(7,795)
Fund Balance - October 1 (Beginning)	<u>18,343</u>	<u>235,393</u>	<u>2,095</u>	<u>41,803</u>
Fund Balance - September 30 (Ending)	<u>\$ 8,190</u>	<u>\$ 189,330</u>	<u>\$ 2,184</u>	<u>\$ 34,008</u>

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



Hotel/Motel Tax Fund	CDBG Grants Fund	HUD Grant Fund	Total Nonmajor Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 98,957	\$ -	\$ -	\$ 98,957	\$ -	\$ 98,957
-	-	-	517	-	517
-	-	-	4,735	-	4,735
-	-	-	48,605	-	48,605
<u>98,957</u>	<u>-</u>	<u>-</u>	<u>152,814</u>	<u>-</u>	<u>152,814</u>
94,260	-	-	150,160	30,017	180,177
-	-	-	10,553	-	10,553
-	-	-	-	2,569	2,569
-	-	-	51,326	-	51,326
<u>94,260</u>	<u>-</u>	<u>-</u>	<u>212,039</u>	<u>32,586</u>	<u>244,625</u>
<u>4,697</u>	<u>-</u>	<u>-</u>	<u>(59,225)</u>	<u>(32,586)</u>	<u>(91,811)</u>
-	(169,922)	(3,770)	(173,692)	(256,045)	(429,737)
-	(169,922)	(3,770)	(173,692)	(256,045)	(429,737)
4,697	(169,922)	(3,770)	(232,917)	(288,631)	(521,548)
<u>25,347</u>	<u>169,922</u>	<u>3,770</u>	<u>496,673</u>	<u>447,520</u>	<u>944,193</u>
<u>\$ 30,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 263,756</u>	<u>\$ 158,889</u>	<u>\$ 422,645</u>

## **FEDERAL SECTION**

# COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hondo, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2014.

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

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Coleman, Horton + Company, LLP*

Uvalde, Texas  
December 19, 2014

COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

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UVALDE, TEXAS 78801-5305

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Hondo, Texas's 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 of Hondo, Texas's major federal programs for the year ended September 30, 2014. The City of Hondo, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Hondo, Texas's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Hondo, Texas's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the City of Hondo, Texas's complied, in all material respects, with the types of 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, 2014.

### **Report on Internal Control Over Compliance**

Management of the City of Hondo, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hondo, Texas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 of Hondo, Texas'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the City of Hondo, Texas as of and for the year ended September 30, 2014, and have issued our report thereon dated December 19, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Coleman, Horton & Company, LLP*

Uvalde, Texas

December 19, 2014

CITY OF HONDO, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Control deficiency(ies) identified? \_\_\_\_\_ Yes X No

Control deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes X None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes X No

2. Federal Awards

Internal control over major programs:

Control deficiency(ies) identified? \_\_\_\_\_ Yes X No

Control deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes X 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 X 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
CFDA #20.106	1315 Hondo Airport Development
CFDA #20.106	1415 Hondo Airport Development

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes X No



CITY OF HONDO, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

(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>			
1415 Hondo Airport Development	20.106	4X1AV	\$ 50,000
1215 Hondo Airport Development	20.106	2X1AV032	8,978
1215 Hondo Airport Development	20.106	2X1AV031	33,787
1115 Hondo Airport Development	20.106	1X1AV079	44,203
1115 Hondo Airport Development	20.106	1X2AV079	87,898
1315 Hondo Airport Development	20.106	3X1AV026	172,758
1315 Hondo Airport Development	20.106	3X2AV026	<u>1,048,148</u>
Total Passed Through Texas Department of Transportation			<u>\$1,445,772</u>
TOTAL FEDERAL AVIATION ADMINISTRATION			<u>\$1,445,772</u>
<b><u>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</u></b>			
<u>Passed Through Alamo Area Council of Governments</u>			
03J Sewer Improvements	14.228	711261	\$ 11,647
2013 Sewer System Improvements	14.228	713230	<u>13,200</u>
Total Passed Through Alamo Area Council of Governments			<u>\$ 24,847</u>
TOTAL DEPARTMENT OF HOUSING & URBAN DEVELOPMENT			<u>\$ 24,847</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$1,470,619</u></u>

CITY OF HONDO, TEXAS  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2014

- 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 extends 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.