

COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

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

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

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

Communication with Audit Committee

The Honorable Mayor and
Members of the Audit Committee
City of Hondo, Texas

We have audited the financial statements of the governmental activities, each major fund, the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the City of Hondo, Texas for the year ended September 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Hondo, Texas are described in Note 1 to the financial statements. As described in Note E to the financial statements, the City of Hondo changed accounting policies related to capitalizing bond issuance costs by adopting Statement of Governmental Accounting Standards No. 65 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. The application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Hondo, Texas financial statements were: inventories, allowance for doubtful accounts, accumulated depreciation expense.

Management's estimate of these amounts is based on industry standards. We evaluated the key factors and assumptions used to develop the amounts in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A copy of the proposed and accepted adjusting entries is available for your review.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

We believe the following items listed below represent areas the City has an opportunity to improve its financial reporting.

- * Proprietary Funds - Depreciation schedules should also be updated for the current year activity and depreciation recorded.
- * Bank Certificates of Deposit are allocated to various funds, even though in the general name of the City.

This information is intended solely for the use of the Honorable Mayor, members of the City Council and management of the City of Hondo, Texas and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Coleman, Horton & Company, LLP

Certified Public Accountants