



ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
SEPTEMBER 30, 2017**



**CITY OF HONDO
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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CITY OF HONDO

PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

JAMES W. DANNER

CITY COUNCIL

ANN-MICHELLE LONG

JOHN MCANELLY

SAMMY NOONER

ERIC TORRES

JOHN E. VILLA

CITY MANAGER

KIM DAVIS



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, each major fund, and the aggregate remaining fund information of City of Hondo as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Hondo's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City of Hondo's 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, each major fund, and the aggregate remaining fund information of City of Hondo, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules as listed in table of contents, 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 City of Hondo's basic financial statements as a whole. The combining nonmajor fund financial statements and individual fund comparative statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relate 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2018 on our consideration of City of Hondo'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's internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

January 15, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Hondo's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2017. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

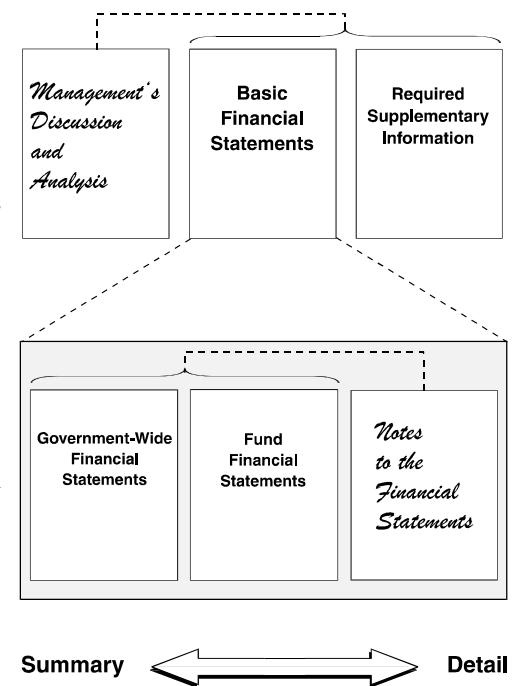
- The City's total combined net position was \$39.4 million at September 30, 2017.
- The City's governmental expenses were \$554 thousand less than the \$4.3 million generated in general and program revenues for governmental activities, including transfers and payments in lieu of taxes. The total cost of the City's governmental programs increased 8.5% from the prior year.
- The City's business-type expenses (including transfers and payments in lieu of taxes) were \$123 thousand less than the \$15.5 million generated in charges for services and other revenues. The total cost of the City's business-type activities increased 7.8% from the prior year.
- The general fund reported a fund balance this year of \$2.4 million, a decrease of \$289 thousand, largely due to street projects and library construction.
- 2016 series bonds were issued this year for \$2.635 million to refund the 2007 series. The Water & Sewer fund issued \$5.47 million for plant improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. 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 statements* tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund statements* offer *short-* and *long-term* financial information about the activities the government operates *like businesses*.

Figure A-1F, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements

Fund Statements			
<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the town that are not proprietary or fiduciary	Activities of the City that operate similar to private businesses: electric, water, airport, and sanitation
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses & changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

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 they have 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 are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial 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 general government, public safety, streets, economic development, culture and recreation, and interest on long-term debt. Property taxes and charges for services 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 State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following 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 the government-wide statements, we provide additional information on the subsequent page, which explains 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-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position was \$39.4 million at September 30, 2017. (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2017	2016	2017	2016	2017	2016	
<i>Assets:</i>							
Current Assets	\$ 5,099,129	\$ 6,737,907	\$ 5,460,206	\$ 5,543,022	\$ 10,559,335	\$ 12,280,929	(14.0)
Other Assets	1,211,473	616,948	4,433,338	-	5,644,811	616,948	815.0
Capital Assets (net)	12,948,770	11,720,217	27,891,169	26,353,820	40,839,939	38,074,037	7.3
<i>Total Assets</i>	<i>19,259,372</i>	<i>19,075,072</i>	<i>37,784,713</i>	<i>31,896,842</i>	<i>57,044,085</i>	<i>50,971,914</i>	<i>11.9</i>
<i>Deferred Outflows:</i>	<i>681,313</i>	<i>833,330</i>	<i>193,861</i>	<i>234,076</i>	<i>875,174</i>	<i>1,067,406</i>	<i>(18.0)</i>
<i>Liabilities:</i>							
Current Liabilities	1,018,711	1,070,574	2,769,863	1,805,260	3,788,574	2,875,834	31.7
Long-Term Liabilities	5,793,630	6,293,462	8,606,549	3,854,513	14,400,179	10,147,975	41.9
<i>Total Liabilities</i>	<i>6,812,341</i>	<i>7,364,036</i>	<i>11,376,412</i>	<i>5,659,773</i>	<i>18,188,753</i>	<i>13,023,809</i>	<i>39.7</i>
<i>Deferred Inflows:</i>	<i>238,885</i>	<i>209,233</i>	<i>64,697</i>	<i>56,854</i>	<i>303,582</i>	<i>266,087</i>	<i>14.1</i>
<i>Net Position:</i>							
Invested in Capital Assets	8,182,720	7,122,538	23,843,466	25,154,199	32,026,186	32,276,737	(0.8)
Restricted	2,697,464	3,880,549	-	-	2,697,464	3,880,549	(30.5)
Unrestricted	2,009,275	1,332,046	2,693,999	1,260,092	4,703,274	2,592,138	81.4
<i>Total Net Position</i>	<i>\$ 12,889,459</i>	<i>\$ 12,335,133</i>	<i>\$ 26,537,465</i>	<i>\$ 26,414,291</i>	<i>\$ 39,426,924</i>	<i>\$ 38,749,424</i>	<i>1.7</i>

Governmental Activities

- Property tax rates increased for the fiscal year ending September 30, 2017, increasing property tax revenues by \$206 thousand to \$1.4 million.
- Sales tax collections decreased 8% to \$1.5 million

Business-Type Activities

- Expenses increased modestly an average of 7.8%. Water & Sewer increased the most because of increased debt service on 2015 and 2017 bonds.
- Electric, water and sewer rates were largely unchanged, leading to flat revenues.

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2017	2016	2017	2016	2017	2016	
<i>Program Revenues:</i>							
Charges for Services	\$ 705,738	\$ 735,137	\$ 15,160,851	\$ 15,129,906	\$ 15,866,589	\$ 15,865,043	0.0
Operating Grants and Contributions	140,211	15,256	-	-	140,211	15,256	819.1
Capital Contributions	223,284	-	316,636	63,218	539,920	63,218	754.1
<i>General Revenues:</i>							
Taxes	3,087,870	2,988,599	-	-	3,087,870	2,988,599	3.3
Interest Earnings	22,730	11,178	7,468	78	30,198	11,256	168.3
Miscellaneous	74,111	554,349	-	244,198	74,111	798,547	(90.7)
TOTAL REVENUES	4,253,944	4,304,519	15,484,955	15,437,400	19,738,899	19,741,919	(0.0)
<i>Program Expenses:</i>							
General Government	1,289,075	1,203,002	-	-	1,289,075	1,203,002	7.2
Tax and Finance	248,173	195,250	-	-	248,173	195,250	27.1
Public Safety	1,885,309	1,699,171	-	-	1,885,309	1,699,171	11.0
Municipal Court	116,926	103,791	-	-	116,926	103,791	12.7
Public Works	1,437,598	1,450,028	-	-	1,437,598	1,450,028	(0.9)
Parks, Recreation	1,470,009	1,312,772	-	-	1,470,009	1,312,772	12.0
Library	345,605	261,937	-	-	345,605	261,937	31.9
Electric Utility	-	-	6,897,935	6,435,595	6,897,935	6,435,595	7.2
Water & Sewer	-	-	2,524,656	2,271,277	2,524,656	2,271,277	11.2
Airport	-	-	1,360,976	1,318,748	1,360,976	1,318,748	3.2
Sanitation	-	-	1,319,815	1,203,091	1,319,815	1,203,091	9.7
Interest on Debt	165,322	186,883	-	-	165,322	186,883	(11.5)
TOTAL EXPENSES	6,958,017	6,412,834	12,103,382	11,228,711	19,061,399	17,641,545	8.0
Transfers	3,258,399	3,153,347	(3,258,399)	(3,153,347)	-	-	0.0
Change in Net Position	\$ 554,326	\$ 1,045,032	\$ 123,174	\$ 1,055,342	\$ 677,500	\$ 2,100,374	67.7

Table A-3 presents the cost of each of the City's largest functions, as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by grants as well as local tax dollars. The cost of all *governmental* activities this year was \$7.0 million. Taxpayers paid for 20% of these activities through property taxes of \$1.4 million. 10% of the cost was paid by those who directly benefited from the programs.

Table A-3
Net Cost of Selected City Functions

	Total Cost of			Net Cost of		
	Services		Percentage Change	Services		Percentage Change
	2017	2016		2017	2016	
General Government	\$ 1,289,075	\$ 1,203,002	7.2	\$ 999,486	\$ 847,320	18.0
Tax and Finance	248,173	195,250	27.1	248,173	195,250	27.1
Public Safety	1,885,309	1,699,171	11.0	1,679,103	1,625,498	3.3
Municipal Court	116,926	103,791	12.7	5,720	2,264	152.7
Public Works	1,437,598	1,450,028	(0.9)	1,437,598	1,450,028	(0.9)
Parks, Recreation	1,470,009	1,312,772	12.0	1,225,918	1,120,728	9.4
Library	345,605	261,937	31.9	127,464	234,470	(45.6)
Electric Utility	6,897,935	6,435,595	7.2	(2,281,037)	(3,728,220)	(38.8)
Water & Sewer	2,524,656	2,271,277	11.2	(1,618,033)	(609,006)	165.7
Airport	1,360,976	1,318,748	3.2	533,795	441,355	20.9
Sanitation	1,319,815	1,203,091	9.7	(8,830)	(68,542)	(87.1)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

- The General fund decreased its fund balance by \$289 thousand primarily continued street/curb/and drainage projects. In addition, a transfer was made to the Library Building fund to finish out construction.
- The Economic Development Corporation increased its fund balance by \$82 thousand and it began South Texas Regional Training Center renovations and expansion.
- The Library Building fund decreased to \$0 as the building was completed.
- Other nonmajor governmental funds were largely unchanged.
- All of the proprietary funds generated sufficient operating revenues to cover operating expenses and debt service, except for the Airport. The Airport continues to sell available land and pursue rental agreements to cover operations.

Budgetary Highlights

- General Fund revenues exceeded the budget by \$43 and expenditures were \$441 thousand under budget.
- The General Fund balance decreased \$289 thousand, which was \$528 thousand better than what the final budget projected (\$817 thousand).
- Similar to the General Fund, the Economic Development Corporation (EDC) revenues exceeded the budget based on better than anticipated sales tax collections.
- EDC expenses were under budget by \$154 thousand for capital projects that did not occur as planned.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2017, the City had invested \$74 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. Significant changes included the completion of the new library and ongoing Water & Sewer plant improvements. (See Table A-4.)

Table A-4
City's Capital Assets
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	
Land	\$ 503	\$ 503	\$ 2,409	\$ 2,444	\$ 2,912	\$ 2,947	(1.2)
Water Rights	-	-	200	200	200	200	0.0
Buildings and Improvements	7,955	5,284	18,487	18,487	26,442	23,771	11.2
Infrastructure	16,485	15,458	21,150	20,563	37,635	36,021	4.5
Equipment	2,339	2,210	1,618	1,594	3,957	3,804	4.0
Construction in Progress	373	2,298	2,440	631	2,813	2,929	(4.0)
Totals at Historical Cost	<u>27,655</u>	<u>25,753</u>	<u>46,304</u>	<u>43,919</u>	<u>73,959</u>	<u>69,672</u>	6.2
Total Accumulated Depreciation	<u>(14,706)</u>	<u>(14,033)</u>	<u>(18,413)</u>	<u>(17,566)</u>	<u>(33,119)</u>	<u>(31,599)</u>	4.8
Net Capital Assets	<u>\$12,949</u>	<u>\$11,720</u>	<u>\$27,891</u>	<u>\$26,353</u>	<u>\$40,840</u>	<u>\$38,073</u>	7.3

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

The City had bonds payable at year end as outlined in Table A-5. 2016 series bonds were issued this year to refund the 2007 series. A 2017 series was issued by the Water & Sewer fund for plant improvements. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City's Long-Term Debt
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2017	2016	2017	2016	2017	2016	
Capital Lease	\$ -	\$ 32	\$ -	\$ -	\$ -	\$ 32	(100.0)
Bonds Payable	4,766	5,055	8,684	3,636	13,450	8,691	54.8
Total Long-Term Debt	<u>\$ 4,766</u>	<u>\$ 5,087</u>	<u>\$ 8,684</u>	<u>\$ 3,636</u>	<u>\$13,450</u>	<u>\$ 8,723</u>	<u>54.2</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the 2017-2018 year, the City retained the property tax rate of \$0.5139. The City plans to complete water system improvements, including an elevated storage tank. In addition, major improvements are planned for the South Texas Regional Training Center, which will be funded partially by the Economic Development Corporation and partially through a grant. No other major changes are planned to City services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at (830) 426-3378 or visit the City's website at www.hondo-tx.org.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.



CITY OF HONDO
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,913,979	\$ 2,584,408	\$ 4,498,387
Certificates of Deposit	2,656,241	-	2,656,241
Ad Valorem Tax Receivable (Net)	95,317	-	95,317
Other Receivables (Net)	367,210	2,519,492	2,886,702
Prepaid Expenses	66,382	-	66,382
Inventory	-	356,306	356,306
Internal Balances	678,883	(678,883)	-
Restricted Cash and Investments	532,590	5,112,221	5,644,811
Capital Assets (net)	<u>12,948,770</u>	<u>27,891,169</u>	<u>40,839,939</u>
TOTAL ASSETS	<u>19,259,372</u>	<u>37,784,713</u>	<u>57,044,085</u>
DEFERRED OUTFLOWS			
Deferred Pension Related Outflows	<u>681,313</u>	<u>193,861</u>	<u>875,174</u>
LIABILITIES			
Accounts Payable	250,895	1,738,020	1,988,915
Accrued Wages	159,837	50,889	210,726
Accrued Interest	20,325	30,998	51,323
Accrued Compensated Absences	108,202	17,934	126,136
Deposits and Unearned Revenue	64,952	421,522	486,474
Current Portion of Long-term Debt	414,500	510,500	925,000
<i>Noncurrent Liabilities:</i>			
Long-term Debt Net of Current Portion	4,351,550	8,173,450	12,525,000
Net OPEB Obligation	178,822	64,882	243,704
Net Pension Liability	<u>1,263,258</u>	<u>368,217</u>	<u>1,631,475</u>
TOTAL LIABILITIES	<u>6,812,341</u>	<u>11,376,412</u>	<u>18,188,753</u>
DEFERRED INFLOWS			
Deferred Pension Related Inflows	<u>238,885</u>	<u>64,697</u>	<u>303,582</u>
NET POSITION			
Net Investment in Capital Assets	8,182,720	23,843,466	32,026,186
Restricted for:			
Nonexpendable Perpetual Care Trust	532,590	-	532,590
Debt Service	166,158	-	166,158
Economic Development	1,808,028	-	1,808,028
Cemetery Maintenance	25,155	-	25,155
Police, Municipal Court and Library	30,024	-	30,024
Tourism Development	135,509	-	135,509
Unrestricted	<u>2,009,275</u>	<u>2,693,999</u>	<u>4,703,274</u>
TOTAL NET POSITION	<u>\$ 12,889,459</u>	<u>\$ 26,537,465</u>	<u>\$ 39,426,924</u>

See accompanying notes to basic financial statements.

CITY OF HONDO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Functions and Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General Government	\$ 1,289,075	\$ 289,589	\$ -	\$ -	
Tax and Finance	248,173	-	-	-	
Public Safety	1,885,309	71,296	89,410	45,500	
Municipal Court	116,926	111,206	-	-	
Public Works	1,437,598	-	-	-	
Parks, Recreation and Golf Course	1,470,009	215,730	878	27,483	
Library	345,605	17,917	49,923	150,301	
Interest on Long-term Debt	165,322	-	-	-	
<i>Total Governmental Activities</i>	<u>6,958,017</u>	<u>705,738</u>	<u>140,211</u>	<u>223,284</u>	
<i>Business-Type Activities:</i>					
Electric	6,897,935	9,178,972	-	-	
Water & Sewer	2,524,656	3,876,333	-	266,356	
Airport	1,360,976	776,901	-	50,280	
Sanitation	1,319,815	1,328,645	-	-	
<i>Total Business-Type Activities</i>	<u>12,103,382</u>	<u>15,160,851</u>	<u>-</u>	<u>316,636</u>	
Total Primary Government	<u>\$ 8,277,832</u>	<u>\$ 2,034,383</u>	<u>\$ 140,211</u>	<u>\$ 223,284</u>	

General Revenues:

Taxes
 Ad Valorem Taxes
 Sales Taxes
 Other Taxes
 Interest and Investment Earnings
 Miscellaneous

Total General Revenues

Transfers and Payments in Lieu of Taxes

Change in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position
Primary Government

Governmental Activities	Business-Type Activities	Total
-------------------------	--------------------------	-------

\$ (999,486)	\$ (999,486)
(248,173)	(248,173)
(1,679,103)	(1,679,103)
(5,720)	(5,720)
(1,437,598)	(1,437,598)
(1,225,918)	(1,225,918)
(127,464)	(127,464)
(165,322)	(165,322)
<u>(5,888,784)</u>	<u>(5,888,784)</u>

\$ 2,281,037	2,281,037
1,618,033	1,618,033
(533,795)	(533,795)
8,830	8,830
<u>3,374,105</u>	<u>3,374,105</u>
	<u>(2,514,679)</u>

1,389,066	-	1,389,066
1,509,044	-	1,509,044
189,760	-	189,760
22,730	7,468	30,198
74,111	-	74,111
<u>3,184,711</u>	<u>7,468</u>	<u>3,192,179</u>
<u>3,258,399</u>	<u>(3,258,399)</u>	<u>-</u>

554,326	123,174	677,500
<u>12,335,133</u>	<u>26,414,291</u>	<u>38,749,424</u>
<u>\$ 12,889,459</u>	<u>\$ 26,537,465</u>	<u>\$ 39,426,924</u>

CITY OF HONDO
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Major Fund</u>
	<u>General</u>	<u>Economic</u>	<u>Library</u>
	<u>Fund</u>	<u>Development</u>	<u>Building</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,020,916	\$ 530,857	\$ -
Certificates of Deposit	876,552	1,772,081	-
Ad Valorem Taxes Receivable (Net)	74,690	-	-
Other Receivables (Net)	195,153	81,381	5,000
Prepaid Items	66,382	-	-
Due from Other Funds	682,259	-	-
Restricted Cash	-	-	-
TOTAL ASSETS	\$ 2,915,952	\$ 2,384,319	\$ 5,000
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ 231,650	\$ -	\$ 1,625
Accrued Wages	155,635	4,122	-
Unearned Revenue	55,643	-	-
Due to Other Funds	-	-	3,375
<i>Total Liabilities</i>	442,928	4,122	5,000
<i>Deferred Inflows of Resources:</i>			
Unavailable Property Tax Revenue	74,690	-	-
<i>Total Deferred Inflows of Resources</i>	74,690	-	-
<i>Fund Balances:</i>			
Nonspendable:			
Prepaid Items	66,382	-	-
Perpetual Care Trust	-	-	-
Restricted for:			
Debt Service	-	-	-
Economic Development	-	2,380,197	-
Cemetery Maintenance	-	-	-
Police Department	-	-	-
Tourism Development	-	-	-
Municipal Court	24,325	-	-
Committed for:			
South TX Regional Training Center	-	-	-
Capital Projects	85,786	-	-
Other	-	-	-
Unassigned	2,221,841	-	-
<i>Total Fund Balances</i>	2,398,334	2,380,197	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
	\$ 2,915,952	\$ 2,384,319	\$ 5,000

See accompanying notes to basic financial statements.

Other Nonmajor Funds	Total Governmental Funds
\$ 362,205	\$ 1,913,978
7,608	2,656,241
20,627	95,317
85,675	367,209
-	66,382
-	682,259
<u>532,590</u>	<u>532,590</u>
<u>\$ 1,008,705</u>	<u>\$ 6,313,976</u>

\$ 17,700	\$ 250,975
-	159,757
9,310	64,953
-	3,375
<u>27,010</u>	<u>479,060</u>
<u>20,627</u>	<u>95,317</u>

-	66,382
532,590	532,590
165,856	165,856
-	2,380,197
25,155	25,155
5,699	5,699
135,509	135,509
-	24,325
94,577	94,577
-	85,786
1,682	1,682
-	2,221,841
<u>961,068</u>	<u>5,739,599</u>

\$ 1,008,705 \$ 6,313,976

HONDO

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CITY OF HONDO
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 5,739,599

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,948,770
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	95,317
Accrued compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	(108,202)
Long-term liabilities, including capital leases and related accrued interest, are not due and payable in the current period and, therefore not reported in the funds.	(4,786,373)
Net pension liabilities (and related deferred outflows of resources) and net OPEB obligations do not consume current financial resources and are not reported in the funds.	
Net Pension Liability	(1,263,258)
Pension Related Deferred Outflows	681,313
Pension Related Deferred Inflows	(238,885)
Net OPEB Obligation	<u>(178,822)</u>
	<u>(999,652)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 12,889,459</u>

See accompanying notes to basic financial statements.

CITY OF HONDO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Major Fund</u>	<u>Major Fund</u>	<u>Major Fund</u>
	General Fund	Economic Development	Library Building
REVENUES			
Ad Valorem Taxes	\$ 1,051,482	\$ -	\$ -
Sales Taxes	1,006,029	503,014	-
Other Taxes	69,966	-	-
Licenses and Permits	162,402	-	-
Grants and Donations	170,568	-	325,888
Charges for Services	368,227	-	-
Fines and Penalties	111,206	-	-
Interest Income	12,649	7,718	-
Miscellaneous	45,023	-	1,131
TOTAL REVENUES	2,997,552	510,732	327,019
EXPENDITURES			
<i>Current:</i>			
General Government	912,533	130,678	-
Tax and Finance	244,780	-	-
Public Safety	1,759,014	-	-
Municipal Court	116,165	-	-
Public Works	1,006,556	-	-
Parks, Recreation and Golf Course	1,359,964	-	-
Library	291,436	-	142,157
Capital Outlay	686,618	305,916	937,997
<i>Debt Service:</i>			
Principal	31,975	90,831	-
Interest and Fiscal Charges	318	35,830	-
Bond Issue Costs	-	-	-
TOTAL EXPENDITURES	6,409,359	563,255	1,080,154
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,411,807)	(52,523)	(753,135)
OTHER FINANCING SOURCES (USES)			
Proceeds from Refunding Bonds	-	-	-
Payment to Refunding Escrow Agent	-	-	-
Proceeds from Disposal of Assets	17,234	-	-
Payments in Lieu of Taxes	3,154,988	-	-
Transfers In (Out)	(49,394)	(30,000)	197,703
TOTAL OTHER FINANCING SOURCES (USES)	3,122,828	(30,000)	197,703
Net Change in Fund Balance	(288,979)	(82,523)	(555,432)
Fund Balances at Beginning of Year	2,687,313	2,462,720	555,432
Fund Balances at End of Year	\$ 2,398,334	\$ 2,380,197	\$ -

See accompanying notes to basic financial statements.

Total Nonmajor Funds	Total Governmental Funds
\$ 326,992	\$ 1,378,474
-	1,509,043
119,793	189,759
-	162,402
-	496,456
77,048	445,275
6,280	117,486
2,365	22,732
-	46,154
<u>532,478</u>	<u>4,367,781</u>

154,235	1,197,446
-	244,780
1,000	1,760,014
-	116,165
-	1,006,556
-	1,359,964
-	433,593
23,788	1,954,319
262,101	384,907
75,223	111,371
<u>25,504</u>	<u>25,504</u>
<u>541,851</u>	<u>8,594,619</u>

(9,373) (4,226,838)

1,300,000	1,300,000
(1,272,005)	(1,272,005)
-	17,234
-	3,154,988
<u>(14,898)</u>	<u>103,411</u>
<u>13,097</u>	<u>3,303,628</u>

3,724 (923,210)

<u>957,344</u>	<u>6,662,809</u>
<u>\$ 961,068</u>	<u>\$ 5,739,599</u>

HONDO

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CITY OF HONDO
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (923,210)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation.

1,228,553

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

10,592

Governmental funds report required contributions to employee pensions and other post-employment benefits (OPEB) as expenditures. However in the Statement of Activities the cost of these costs are recorded based on the actuarially determined cost of the plan. This is the amount that contributions exceeded (fell short of) the actuarially determined plan expenses.

Pension Plan	(73,349)
OPEB Obligation	651
	(72,698)

The issuance of long-term debt (e.g. bonds and capital leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from Bonds Issued	(1,300,000)
Principal Payments	1,621,269

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Compensated Absences	(17,376)
Change in Accrued Interest	7,196

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 554,326

CITY OF HONDO
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2017

	<u>Business-Type Activities</u>	
	<u>Electric Utility</u>	<u>Water & Sewer</u>
ASSETS		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 1,766,186	\$ 662,459
Receivables (net of allowances for uncollectibles)	1,636,075	631,851
Inventory	167,015	159,337
Total Current Assets	<u>3,569,276</u>	<u>1,453,647</u>
 Restricted Cash	-	5,112,221
Property and Equipment (net)	<u>779,807</u>	<u>10,174,317</u>
TOTAL ASSETS	<u>4,349,083</u>	<u>16,740,185</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	<u>85,921</u>	<u>72,584</u>
 LIABILITIES		
<i>Current Liabilities:</i>		
Accounts Payable	1,115,749	508,085
Accrued Wages	21,162	22,346
Accrued Interest	1,465	29,089
Accrued Compensated Absences	8,720	6,331
Deposits and Unearned Revenue	314,599	94,950
Due to Other Funds	-	-
Current Portion of Long-Term Debt	<u>45,000</u>	<u>450,500</u>
Total Current Liabilities	<u>1,506,695</u>	<u>1,111,301</u>
 <i>Long-term Liabilities:</i>		
Long-term Debt (Net of Current Portion)	515,000	7,503,450
Net OPEB Obligation	26,127	27,841
Net Pension Liability	<u>155,853</u>	<u>149,273</u>
Total Long-term Liabilities	<u>696,980</u>	<u>7,680,564</u>
 TOTAL LIABILITIES	<u>2,203,675</u>	<u>8,791,865</u>
 DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	<u>28,625</u>	<u>23,022</u>
 NET POSITION		
Net Investment In Capital Assets	219,807	6,856,614
Unrestricted (Deficit)	<u>1,982,897</u>	<u>1,141,268</u>
TOTAL NET POSITION	<u>\$ 2,202,704</u>	<u>\$ 7,997,882</u>

See accompanying notes to basic financial statements.

Business-Type Activities

Airport	Sanitation	Total	
		Proprietary	Funds
\$ -	\$ 155,763	\$ 2,584,408	
120,739	130,827	2,519,492	
29,954	-	356,306	
<u>150,693</u>	<u>286,590</u>	<u>5,460,206</u>	
			5,112,221
<u>16,937,045</u>	<u>-</u>	<u>27,891,169</u>	
<u>17,087,738</u>	<u>286,590</u>	<u>38,463,596</u>	
<u>33,334</u>	<u>2,022</u>	<u>193,861</u>	
5,573	108,613	1,738,020	
6,809	572	50,889	
444	-	30,998	
2,883	-	17,934	
11,973	-	421,522	
678,883	-	678,883	
15,000	-	510,500	
<u>721,565</u>	<u>109,185</u>	<u>3,448,746</u>	
155,000	-	8,173,450	
10,374	540	64,882	
<u>59,371</u>	<u>3,720</u>	<u>368,217</u>	
<u>224,745</u>	<u>4,260</u>	<u>8,606,549</u>	
<u>946,310</u>	<u>113,445</u>	<u>12,055,295</u>	
<u>12,313</u>	<u>737</u>	<u>64,697</u>	
16,767,045	-	23,843,466	
(604,596)	174,430	2,693,999	
<u>\$ 16,162,449</u>	<u>\$ 174,430</u>	<u>\$ 26,537,465</u>	

CITY OF HONDO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR SEPTEMBER 30, 2017

	<u>Business-Type Activities</u>	
	<u>Electric Utility</u>	<u>Water & Sewer</u>
OPERATING REVENUES		
Charges for Utility Service	\$ 8,949,684	\$ 3,775,606
Fuel Sales	-	-
Rentals and Leases	-	-
Miscellaneous Charges	229,288	100,727
TOTAL OPERATING REVENUES	<u>9,178,972</u>	<u>3,876,333</u>
OPERATING EXPENSES		
Personnel	473,510	491,799
Materials and Supplies	450,221	437,001
Services	5,889,110	839,683
Depreciation	55,291	369,732
TOTAL OPERATING EXPENSES	<u>6,868,132</u>	<u>2,138,215</u>
OPERATING INCOME (LOSS)	<u>2,310,840</u>	<u>1,738,118</u>
NONOPERATING REVENUES (EXPENSES)		
Grants	-	266,356
Interest Income	-	5,751
Bond Issue Costs	(11,379)	(232,618)
Interest Expense	(18,424)	(153,823)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(29,803)</u>	<u>(114,334)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>2,281,037</u>	<u>1,623,784</u>
TRANSFERS		
Payment in Lieu of Taxes	(2,775,000)	(379,988)
Transfers In	-	-
Transfers Out	(69,243)	(35,394)
TOTAL TRANSFERS	<u>(2,844,243)</u>	<u>(415,382)</u>
CHANGE IN NET POSITION	<u>(563,206)</u>	<u>1,208,402</u>
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u>2,765,910</u>	<u>6,789,480</u>
NET POSITION (DEFICIT) AT END OF YEAR	<u>\$ 2,202,704</u>	<u>\$ 7,997,882</u>

See accompanying notes to basic financial statements.

Business-Type Activities

Airport	Sanitation	Total Proprietary Funds
\$ -	\$ 1,306,345	\$ 14,031,635
291,066	-	291,066
482,095	-	482,095
3,740	22,300	356,055
<u>776,901</u>	<u>1,328,645</u>	<u>15,160,851</u>
229,034	14,144	1,208,487
356,533	-	1,243,755
262,561	1,305,671	8,297,025
506,733	-	931,756
<u>1,354,861</u>	<u>1,319,815</u>	<u>11,681,023</u>
<u>(577,960)</u>	<u>8,830</u>	<u>3,479,828</u>
50,280	-	316,636
1,717	-	7,468
(3,433)	-	(247,430)
(2,682)	-	(174,929)
<u>45,882</u>	<u>-</u>	<u>(98,255)</u>
<u>(532,078)</u>	<u>8,830</u>	<u>3,381,573</u>
-	-	(3,154,988)
14,898	-	14,898
<u>(12,944)</u>	<u>(728)</u>	<u>(118,309)</u>
<u>1,954</u>	<u>(728)</u>	<u>(3,258,399)</u>
(530,124)	8,102	123,174
<u>16,692,573</u>	<u>166,328</u>	<u>26,414,291</u>
<u>\$ 16,162,449</u>	<u>\$ 174,430</u>	<u>\$ 26,537,465</u>

CITY OF HONDO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Business-Type Activities</u>	
	<u>Electric Utility</u>	<u>Water & Sewer</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 9,354,352	\$ 3,727,504
Cash Paid to Employees for Services	(454,870)	(475,435)
Cash Paid to Suppliers for Goods and Services	(5,756,532)	(960,001)
Net Cash Provided (Used) by Operating Activities	<u>3,142,950</u>	<u>2,292,068</u>
Cash Flows From Noncapital Financing Activities:		
Payments in Lieu of Taxes and Transfers to Other Funds	<u>(2,844,243)</u>	<u>(415,382)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,844,243)</u>	<u>(415,382)</u>
Cash Flows From Capital and Related Financing Activities:		
Capital Grants	-	266,356
Proceeds from the Sale of Capital Assets	-	-
Proceeds from Issuance of Bonded Debt	580,000	6,050,000
Bond Issue Costs Paid	(11,379)	(232,618)
Purchase of Capital Assets	(125,000)	(2,456,500)
Principal Payments on Long-Term Debt	(613,868)	(957,888)
Interest Paid	(21,510)	(137,980)
Net Cash Provided (Used) by Capital Financing Activities	<u>(191,757)</u>	<u>2,531,370</u>
Cash Flows From Investing Activities:		
Investment Interest Received	-	5,751
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>5,751</u>
Net Increase (Decrease) in Cash and Cash Equivalents	106,950	4,413,807
Beginning of Year:		
Cash and Cash Equivalents	1,659,236	1,360,873
Restricted Cash	-	-
Total Beginning of Year	<u>1,659,236</u>	<u>1,360,873</u>
End of Year:		
Cash and Cash Equivalents	1,766,186	662,459
Restricted Cash	-	5,112,221
Total End of Year	<u>\$ 1,766,186</u>	<u>\$ 5,774,680</u>

See accompanying notes to basic financial statements.

Business-Type Activities

Airport	Sanitation	Total Proprietary Funds
\$ 739,122	\$ 1,329,766	\$ 15,150,744
(224,310)	(13,338)	(1,167,953)
<u>(727,960)</u>	<u>(1,401,273)</u>	<u>(8,845,766)</u>
<u>(213,148)</u>	<u>(84,845)</u>	<u>5,137,025</u>
 <u>65,755</u>	 <u>(728)</u>	 <u>(3,194,598)</u>
 <u>65,755</u>	 <u>(728)</u>	 <u>(3,194,598)</u>
 50,280	-	316,636
160,000	-	160,000
175,000	-	6,805,000
(3,433)	-	(247,430)
(47,605)	-	(2,629,105)
(184,949)	-	(1,756,705)
<u>(3,617)</u>	<u>-</u>	<u>(163,107)</u>
<u>145,676</u>	<u>-</u>	<u>2,485,289</u>
 <u>1,717</u>	<u>-</u>	<u>7,468</u>
 <u>1,717</u>	<u>-</u>	<u>7,468</u>
 -	(85,573)	4,435,184
 -	241,336	3,261,445
 <u>-</u>	<u>-</u>	<u>-</u>
 <u>-</u>	<u>241,336</u>	<u>3,261,445</u>
 -	155,763	2,584,408
 -	-	5,112,221
 <u>\$ -</u>	<u>\$ 155,763</u>	<u>\$ 7,696,629</u>

CITY OF HONDO
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Business-Type Activities</u>	
	Electric Utility	Water & Sewer
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 2,310,840	\$ 1,738,118
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation Expense	55,291	369,732
(Increase) Decrease in Operating Assets:		
Accounts Receivable (net)	146,343	(157,929)
Inventory	128,277	(98,159)
(Increase) Decrease in Deferred Outflows:		
Pension Related Deferred Outflows	15,719	16,196
Increase (Decrease) in Current Liabilities:		
Accounts Payable	454,522	414,842
Accrued Wages	8,178	7,366
Accrued Compensated Absences	2,945	1,252
Deposits and Unearned Revenue	29,037	9,100
Net OPEB Obligation	(67)	(69)
Net Pension Liability	(11,201)	(11,540)
Increase (Decrease) in Deferred Inflows:		
Pension Related Deferred Inflows	3,066	3,159
Total Adjustments to Reconcile Operating Activities	<u>832,110</u>	<u>553,950</u>
Net Cash Provided (Used) by		
Operating Activities	<u>\$ 3,142,950</u>	<u>\$ 2,292,068</u>

See accompanying notes to basic financial statements.

Business-Type Activities			
Airport	Sewer Sanitation	Proprietary Funds	Total
\$ (577,960)	\$ 8,830	\$ 3,479,828	
506,733	-	931,756	
(3,140)	1,121	(13,605)	
4,348	-	34,466	
7,809	491	40,215	
(113,214)	(95,602)	660,548	
3,188	572	19,304	
(2,198)	-	1,999	
(34,639)	-	3,498	
(33)	(2)	(171)	
(5,565)	(350)	(28,656)	
<u>1,523</u>	<u>95</u>	<u>7,843</u>	
<u>364,812</u>	<u>(93,675)</u>	<u>1,657,197</u>	
<u>\$ (213,148)</u>	<u>\$ (84,845)</u>	<u>\$ 5,137,025</u>	

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hondo, Texas (“City”) was incorporated in 1942 under the provisions of the State of Texas. The City operates under a Home Rule Charter adopted May 12, 2007. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

Component Units

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. As of September 30, 2017, the City had one component unit that is blended in these financial statements:

Hondo Economic Development Corporation

The City exerts significant control over the Economic Development Corporation (EDC), a legally separate entity. The EDC uses the taxing authority of the City and exists only to benefit the City and its community. City Council appoints all members of the Board, approves the Budget, and is charged with hiring and firing of EDC employees. This qualifies the EDC as a component unit, which is recorded as a separate fund of the City, using the blended method described in the previous paragraph. The EDC collects a $\frac{1}{2}$ cent sales tax to promote economic growth in the City of Hondo. The EDC does not issue separate financial statements.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of activities reflects the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Separate **fund financial statements** are provided for governmental funds and proprietary funds. The General Fund and Economic Development Fund meet the criteria as **major governmental funds**. All of the City's proprietary funds are major funds.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from the investments, property taxes, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences, pension benefits and other post-employment benefits, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, sales taxes, and payments in lieu of taxes from proprietary funds. Primary expenditures are for general administration, public safety, recreation, and public works.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Economic Development Fund is used to account for the $\frac{1}{2}$ cent sales tax used to promote business development in the City. This fund is a separate legal entity reported as a blended component unit of the City.

Library Building Fund is used to account for donations, bond proceeds and other sources restricted for the construction of the new library.

The City has the following nonmajor governmental funds: Debt Service, Forfeiture, Unclaimed Funds, South Texas Regional Training Center, Hotel Tax, Perpetual Care, and Capital Projects.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Funds are the Electric Utility, Water and Sewer Utility, Airport and Sanitation Utility.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair market value except for certificates of deposit and qualifying external investment pools which are carried at amortized cost.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2016 and past due after January 31, 2017. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are shown net of an allowance for uncollectibles of \$10,445 and \$2,680 in the general and debt service funds, respectively.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. PREPAID ITEMS

Payments made for goods and services in advance are recorded as prepaid items on the balance sheet.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

9. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as deferred revenue. Unavailable revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unavailable revenue.

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more and a useful life in excess of 1 year. Infrastructure assets include City-owned streets, sewer, sidewalks, curbs and utilities. Capital assets are recorded at historical costs 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 asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Buildings and Improvements	10 to 40 years
Streets, Utilities and Infrastructure	10 to 60 years
Furniture, Fixtures, Vehicles	5 to 30 years

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. INVENTORY

Inventory consists of utility supplies and fuel for sale. The inventory is recorded at average cost.

12. COMPENSATED ABSENCES

Full-time employees earn vacation leave at varying rates depending on length of service. No more than 80 hours may be carried over annually based on the employee's anniversary date. Accumulated vacation leave is paid on termination up to 120 hours. Full-time employees earn sick leave at 10 hours per month up to a maximum of 320 hours. Unused sick leave is not paid upon termination.

Liabilities for compensated absences are recognized in the fund statements only to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

13. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt (including capital leases) and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the bond. Bond issuance costs are expensed as incurred.

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

14. PENSIONS

The net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. FUND BALANCES

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted - Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed - Represents amounts that can only be used for a specific purpose by a resolution of City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

Assigned - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. Assignments may be created by the Council, City Manager or Finance Director.

Unassigned - Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second and assigned third.

16. NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

17. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. INTERFUND TRANSFERS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

19. USE OF ESTIMATES

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.

NOTE B -- DEPOSITS AND INVESTMENTS

1. Deposits

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At September 30, 2017, the carrying amount of the City's deposits were fully collateralized by a combination of federal deposit insurance (FDIC) and securities pledged by the City's depository.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

2. Investments (Continued)

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper. The City's investment policy further limits investments to: (1) federally insured bank deposits, (2) collateralized bank deposits, (3) U.S. Government Treasury bills and notes, including sweep accounts that invest in them, (4) U.S. Government Agencies, and (5) Public Funds Investment Pools. No other investments may be made without authorization of City Council.

The City's investments at September 30, 2017 consist of \$3,188,831 in certificates of deposit covered by pledged securities from the City's depository. The certificates are reported at amortized cost.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures. The City has reviewed its risk exposure and does not believe it is exposed to significant credit risk, custodial credit risk, or concentration of credit risk.

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Medina County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2016, upon which the fiscal 2017 levy was based, was \$265,362,390 (i.e., market value less exemptions). The estimated market value was \$285,335,903, making the taxable value 93% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2017, was \$0.5139 per \$100 of assessed value, which means that the City has a tax margin of \$1.9861 for each \$100 value and could increase its annual tax levy by approximately \$5.3 million based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE D -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2017 are as follows:

	General Fund	EDC	Library Building	Nonmajor Funds	Governmental Totals
Sales and Mixed Beverage Tax	\$ 163,567	\$ 81,381	\$ -	\$ -	\$ 244,948
Franchise Fees	8,924	-	-	-	8,924
Hotel Occupancy Tax	-	-	-	51,321	51,321
Customer Charges	26,442	-	-	34,354	60,796
Miscellaneous	7,419	-	5,000	-	12,419
Allowance for Uncollectibles	(11,199)	-	-	-	(11,199)
Total Other Receivables	\$ 195,153	\$ 81,381	\$ 5,000	\$ 85,675	\$ 367,209
	Electric Utility	Water & Sewer	Airport	Sanitation	Proprietary Totals
Customer Charges	\$ 1,968,324	\$ 720,085	\$ 150,739	\$ 181,210	\$ 3,020,358
Allowance for Uncollectibles	(332,249)	(88,234)	(30,000)	(50,383)	(500,866)
Total Other Receivables	\$ 1,636,075	\$ 631,851	\$ 120,739	\$ 130,827	\$ 2,519,492

NOTE E -- RESTRICTED CASH AND INVESTMENTS

Proceeds from the sale of burial plots are permanently restricted in the Perpetual Care permanent fund. The principal may not be spent for any purpose. Earnings on these balances may be used to maintain the cemetery.

Restricted cash reported in the Water and Sewer Fund represents unspent 2017 Series bond proceeds, which are restricted for the plant improvements.

NOTE F -- INTERFUND TRANSACTIONS

Interfund balances as of September 30, 2017 were as follows:

Due From	Due To	Amount	Purpose
Library Building	General	\$ 3,375	<i>Short-term pooled cash loan</i>
Airport	General	678,884	<i>Short-term pooled cash loan</i>
	Totals	\$ 682,259	

Interfund transfers during the year ending September 30, 2017 were as follows:

Transfer From	Transfer to	Amount	Purpose
Electric	General	\$ 69,243	<i>Contributions towards capital projects</i>
Water & Sewer	General	35,394	<i>Contributions towards capital projects</i>
Nonmajor	Airport	14,898	<i>Contributions towards capital projects</i>
Airport	General	12,944	<i>Contributions towards capital projects</i>
Sanitation	General	728	<i>Contributions towards capital projects</i>
General	Library Building	197,703	<i>Contributions towards capital projects</i>
Economic Development	General	30,000	<i>Contributions towards capital projects</i>
		\$ 360,910	

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE G -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

<i>Governmental Activities</i>	Balance 10/1/2016	Additions	Disposals/ Transfers	Balance 9/30/2017
Land	\$ 503,148	\$ -	\$ -	\$ 503,148
Buildings and Improvements	5,284,311	982,981	1,687,398	7,954,690
Infrastructure	15,458,132	459,412	567,287	16,484,831
Vehicles and Equipment	2,209,857	182,222	(52,657)	2,339,422
Construction in Progress	2,298,159	329,704	(2,254,685)	373,178
	<u>25,753,607</u>	<u>1,954,319</u>	<u>(52,657)</u>	<u>27,655,269</u>
Less Accumulated Depreciation				
Buildings and Improvements	(2,430,879)	(152,674)	-	(2,583,553)
Vehicles and Equipment	(1,636,643)	(182,185)	52,657	(1,766,171)
Infrastructure	(9,965,868)	(390,907)	-	(10,356,775)
	<u>(14,033,390)</u>	<u>(725,766)</u>	<u>52,657</u>	<u>(14,706,499)</u>
Capital Assets, Net	<u>\$ 11,720,217</u>	<u>\$ 1,228,553</u>	<u>\$ -</u>	<u>\$ 12,948,770</u>
<i>Business-Type Activities</i>	Balance 10/1/2016	Additions	Disposals/ Transfers	Balance 9/30/2017
Land	\$ 2,444,348	\$ -	\$ (35,000)	\$ 2,409,348
Water Rights	199,541	-	-	199,541
Buildings and Improvements	18,487,263	-	-	18,487,263
Infrastructure	20,563,446	93,980	492,862	21,150,288
Vehicles and Equipment	1,594,091	107,461	(83,112)	1,618,440
Construction in Progress	630,654	2,302,664	(492,862)	2,440,456
	<u>43,919,343</u>	<u>2,504,105</u>	<u>(118,112)</u>	<u>46,305,336</u>
Less Accumulated Depreciation				
Buildings and Improvements	(5,648,538)	(425,079)	-	(6,073,617)
Vehicles and Equipment	(1,120,732)	(106,241)	83,112	(1,143,861)
Infrastructure	(10,796,253)	(400,436)	-	(11,196,689)
	<u>(17,565,523)</u>	<u>(931,756)</u>	<u>83,112</u>	<u>(18,414,167)</u>
Capital Assets, Net	<u>\$ 26,353,820</u>	<u>\$ 1,572,349</u>	<u>\$ (35,000)</u>	<u>\$ 27,891,169</u>

Land, water rights, and construction in progress are not depreciated.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE G -- CAPITAL ASSETS (Continued)

Depreciation expense was charged to the governmental functions as follows:

General Government	\$ 95,689
Public Safety	84,181
Public Works	416,386
Parks, Recreation and Golf Course	95,737
Library	<u>33,773</u>
Total Depreciation Expense -	
Governmental Activities	<u>\$ 725,766</u>

NOTE H -- LONG-TERM DEBT

Certificates of Obligation, Series 2007

The City issued \$3,850,000 in certificates of obligation in October 2007 for city hall improvements, drainage improvements, park improvements, and utility system improvements. The certificates are spread across the General Fund (27%), Electric Utility (22%), Water/Sewer Utility (22%), Airport (7%) and Economic Development Corporation (22%). The bonds mature serially through February 1, 2027 and bear interest at rates between 4.02% and 4.77%. These bonds were refunded in 2016 by the issuance of the 2016 Series. The 2007 series was not outstanding as of September 30, 2017 and has been removed from these financial statements.

Sales Tax Revenue Bonds, Series 2010

The City (through the Economic Development Corporation) issued \$1,000,000 in revenue bonds in 2010 for improvements to the South Texas Regional Training Center. The debt service is funded by the sales tax collections of the Economic Development Corporation. The bonds mature serially through February 1, 2030 and bear interest at rates between 2.75% and 5.00%.

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2013

The City issued \$490,000 in certificates of obligation in May 2013 for utility system improvements. The debt service on the certificates are to be paid by the water/sewer utility fund. The bonds mature serially through February 1, 2023 and bear interest at rates between 0.38% and 1.86%.

General Obligation Refunding Bonds, Series 2014

The City issued \$1,672,000 in general obligation bonds in May, 2014 to refund the majority of the Certificates of Obligation, Series 2005. The debt service on the 2014 series will be paid in the same ratio as the series 2005 bonds: 63% General Fund and 37% Water/Sewer utility. The bonds mature serially through February 1, 2025 and bear interest at rates between 0.95% and 3.15%.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- LONG-TERM DEBT (Continued)

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015

In December 2015, the City issued \$3,450,000 in bonds: \$2.03 million for library construction to be repaid with property taxes and \$1.42 million for water utility improvements to be repaid with excess utility revenues. The bonds mature serially through August 1, 2035 and bear interest at rates between 0.67% and 3.62%.

General Obligation Refunding Bonds, Series 2016

In November 2016, the City issued \$2,635,000 in bonds to refund series 2007. The refunding resulted in gross savings of \$413,067 with a present value of \$375,094. All of the funds originally involved in the 2007 bonds are to service the 2016 bonds: General Fund (Debt Service) (27%), Electric Utility (22%), Water/Sewer Utility (22%), Airport (7%) and Economic Development Corporation (22%). The bonds mature serially through February 1, 2027 and bear interest at rates between 0.963% and 2.012%.

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2017

In January 2017, the City issued \$5,470,000 in bonds through the Texas Water Development Board's Drinking Water State Revolving Fund for water and sewer plant improvements. The bonds will be serviced by the Water & Sewer Fund, mature serially through August 1, 2036 and bear interest at rates between 0.11% and 2.92%. The proceeds are held in an escrow account and released by the TWDB upon approved outlay requests. The unspent proceeds are reported as restricted cash on the Statement of Net Position.

Changes in Long-Term Liabilities

	Balance 10/1/2016		Additions		Reductions	Balance 9/30/2017	Due Within One Year
<i>Governmental Activities</i>							
Capital Lease	\$ 31,975	\$ -	\$ (31,975)	\$ -	\$ -	\$ -	\$ -
Bonds Payable:							
2015 Series	2,020,000	\$ -	(100,000)	1,920,000	170,000		
2016 Series	-	1,300,000	(40,000)	1,260,000	105,000		
2007 Series	1,317,314	\$ -	(1,317,314)	-	-		
2010 Series	785,000	\$ -	(40,000)	745,000	45,000		
2014 Series	933,030	\$ -	(91,980)	841,050	94,500		
<i>Total Governmental Activities</i>	<u>\$ 5,087,319</u>	<u>\$ 1,300,000</u>	<u>\$ (1,621,269)</u>	<u>\$ 4,766,050</u>	<u>\$ 414,500</u>		

Business-Type Activities

Bonds Payable:							
2015 Series	\$ 1,370,000	\$ -	\$ (55,000)	\$ 1,315,000	\$ 60,000		
2016 Series	-	1,335,000	(45,000)	1,290,000	105,000		
2017 Series	-	5,470,000	(185,000)	5,285,000	240,000		
2007 Series	1,367,685	\$ -	(1,367,685)	-	-		
2013 Series	350,000	\$ -	(50,000)	300,000	50,000		
2014 Series	547,970	\$ -	(54,020)	493,950	55,500		
<i>Total Business-Type Activities</i>	<u>\$ 3,635,655</u>	<u>\$ 6,805,000</u>	<u>\$ (1,756,705)</u>	<u>\$ 8,683,950</u>	<u>\$ 510,500</u>		

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE H -- LONG-TERM DEBT (Continued)

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2017, including interest payments, are as follows:

Bonds Payable

Fiscal Year Ending		Principal			Interest			Total		
September 30,		Governmental Activities								
		2018	\$ 414,500		\$ 118,415		\$ 532,915			
		2019	416,390		111,984		528,374			
		2020	423,910		104,653		528,563			
		2021	437,690		96,270		533,960			
		2022	346,470		86,830		433,300			
		2023-2027	1,757,090		297,557		2,054,647			
		2028-2032	665,000		97,721		762,721			
		2033-2035	305,000		38,258		343,258			
			<u>\$ 4,766,050</u>		<u>\$ 951,688</u>		<u>\$ 5,717,738</u>			
		<i>Business-Type Activities</i>								
		2018	\$ 510,500		\$ 184,794		\$ 695,294			
		2019	521,610		180,359		701,969			
		2020	528,090		174,436		702,526			
		2021	535,310		167,187		702,497			
		2022	537,530		158,702		696,232			
		2023-2027	2,615,910		642,341		3,258,251			
		2028-2032	1,850,000		389,824		2,239,824			
		2033-2036	1,585,000		115,397		1,700,397			
			<u>\$ 8,683,950</u>		<u>\$ 2,013,040</u>		<u>\$ 10,696,990</u>			

NOTE I -- EMPLOYEES' RETIREMENT SYSTEMS

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the state of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS retirement system

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE I -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the December 31 valuations and measurement dates, the following employees were covered by the benefit terms:

	<u>2015</u>	<u>2016</u>
Inactive employees or beneficiaries currently receiving benefits	49	55
Inactive employees entitled to but not yet receiving benefits	62	71
Active employees	<u>105</u>	<u>108</u>
	<u>216</u>	<u>234</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.36% and 9.00% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$353,707 and matched the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE I -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Actuarial Assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall Payroll Growth	3.00% per year
Investment Rate of Return*	6.75%

* Presented net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE I -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Actuarial Assumptions (Continued)

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE I -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Changes in the Net Pension Liability

The below schedule presents the changes in the Net Pension Liability as of December 31, 2016:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	<u>\$ 13,886,076</u>	<u>\$ 12,117,626</u>	<u>\$ 1,768,450</u>
Changes for the year:			
Service Cost	451,176	-	451,176
Interest	930,512	-	930,512
Change of Benefit Terms	-	-	-
Difference Between Expected and			
Actual Experience	(147,843)	-	(147,843)
Changes of Assumptions	-	-	-
Contributions - Employer	-	361,571	(361,571)
Contributions - Employee	-	199,981	(199,981)
Net Investment Income	-	819,014	(819,014)
Benefit Payments, Including Refunds			
of Employee Contributions	(652,613)	(652,613)	-
Administrative Expense	-	(9,249)	9,249
Other Changes	-	(497)	497
Net Changes	<u>581,232</u>	<u>718,207</u>	<u>(136,975)</u>
Balance at December 31, 2016	<u>\$ 14,467,308</u>	<u>\$ 12,835,833</u>	<u>\$ 1,631,475</u>

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Discount Rate	Discount Rate	Discount Rate
	5.75%	6.75%	7.75%
Net Pension Liability (Asset)	\$ 3,757,354	\$ 1,631,475	\$ (92,237)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE I -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$471,234. Also as of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ -	\$ 302,723
Changes in Actuarial Assumptions	37,318	-
Differences Between Projected and Actual Investment Earnings	554,690	859
Contributions Subsequent to the Measurement Date	<u>283,166</u>	<u>-</u>
	<u><u>\$ 875,174</u></u>	<u><u>\$ 303,582</u></u>

Deferred outflows of resources in the amount of \$283,166 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Plan Year ended December 31,

2017	\$ 97,720
2018	98,980
2019	95,895
2020	(4,169)
	<u><u>\$ 288,426</u></u>

NOTE J -- OTHER POSTEMPLOYMENT BENEFITS

Supplemental Death Benefits

The City also participates in the cost sharing multiple-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.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE J -- OTHER POSTEMPLOYMENT BENEFITS (Continued)

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 contributions to the TMRS SDBF for the fiscal years ending December 31, 2017, 2016 and 2015 were \$8,678, \$7,319, and \$8,174, respectively, which equaled the required contributions each year.

Retiree Health Insurance

Eligible retirees of the City and their dependents may participate in the health insurance plan of the City. The City contributes \$200 per month towards the retiree's premiums for those that are at or over age 50 with 20 years of service. Eligible employees are those that attain age 60 with 5 years of service or 20 years of service regardless of age. Benefits terminate at age 65. As of October 1, 2015, the City terminated the benefit for any current or future employees with less than 18 years of service.

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual OPEB cost for the fiscal year ending September 30, 2017, is as follows:

Annual Required Contribution (ARC)	\$ 20,465
Interest on OPEB Obligation	9,781
Amortization of Prior Year Net OPEB Obligation	<u>(13,861)</u>
Annual OPEB Cost	16,385
Contributions Made	<u>(17,207)</u>
Increase (Decrease) in Net OPEB Obligation	(822)
Net OPEB Obligation (Asset), Beginning of Year	<u>244,526</u>
Net OPEB Obligation (Asset), End of Year	<u><u>\$ 243,704</u></u>

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE J -- OTHER POSTEMPLOYMENT BENEFITS (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year	Annual OPEB		Contribution Made	Percentage of AOC Contribution	Net OPEB Obligation
	Cost (AOC)	 			
2017	\$ 16,385		\$ 17,207	105%	\$ 243,704
2016	\$ 16,365		\$ 17,207	105%	\$ 244,526
2015	\$ 69,096		\$ 18,404	27%	\$ 245,368

The funded status of the City's retiree health care plan, under GASB Statement No. 45, as of October 1, 2015 (the most recent valuation date) is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2015	\$ -	\$ 251,850	0%	\$ 251,850	\$ 268,562	94%

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation Rate	3.00%
Investment Rate of Return	1.00%
Actuarial Cost Method	Projected Unit
Amortization Method	Level
Amortization Period	30 years
Healthcare Cost Trend	Level 5%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE K -- HIGHER EDUCATION AUTHORITY

On August 6, 2013, the City created a nonprofit corporation under Section 53.35(b) of The Texas Education code. The creation of this nonprofit corporation established a Higher Education Authority (the Authority) for the purpose of assisting in the financing of accredited primary and secondary schools as provided by state law. In accordance with the terms establishing the nonprofit corporation, the city is not liable for any expenses incurred in establishing or administering the Higher Education Authority. The Authority is not consolidated into the financial statements of City because it does not meet the requirements of being treated as a component unit of the City under governmental accounting standards. As of September 30, 2017, the Authority had issued two series of bonds:

Issue	Original		Amount Outstanding	Maturity
	Principal			
2013 Series	\$ 2,500,000		\$ 2,500,000	2028
2016 Series		5,000,000	4,868,000	2035

NOTE L -- COMMITMENTS AND CONTINGENCIES

Litigation

The City is the subject of various other claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

Commitments

The City has entered into several contracts related to construction projects. The amounts as of September 30, 2017 were as follows:

Commitment	Estimated Project		Expended to Date	Estimated Future Commitment
	Cost to City			
Elevated Storage Tank:				
Engineering	\$ 229,040		\$ 150,115	\$ 78,925
Construction		1,498,000	278,200	1,219,800
Water Distribution Projects:				
Engineering		495,080	323,068	172,012
Construction		3,388,293	1,649,637	1,738,656
Master Plan		57,500	51,750	5,750
	\$ 5,667,913		\$ 2,452,770	\$ 3,215,143

CITY OF HONDO
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017

NOTE M -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to \$1,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Budgetary Comparison Schedule – Economic Development Fund
- Schedule of Changes – Net Pension Liability
- Schedule of Pension Contributions
- Schedule of Funding Progress – Other Post-Employment Benefit

CITY OF HONDO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Ad Valorem Taxes	\$ 1,047,716	\$ 1,047,716	\$ 1,051,482	\$ 3,766
Sales Taxes	975,000	975,000	1,006,029	31,029
Other Taxes	42,000	42,000	69,966	27,966
Licenses and Permits	128,600	128,600	162,402	33,802
Grants and Donations	9,500	205,233	170,568	(34,665)
Charges for Services	310,954	310,954	368,227	57,273
Fines and Penalties	176,000	176,000	111,206	(64,794)
Interest Income	-	-	12,649	12,649
Miscellaneous	69,056	69,056	45,023	(24,033)
TOTAL REVENUES	2,758,826	2,954,559	2,997,552	42,993
EXPENDITURES				
<i>Current:</i>				
General Government	1,017,943	1,100,426	912,533	187,893
Tax and Finance	235,717	221,715	244,780	(23,065)
Public Safety	1,724,825	1,739,604	1,759,014	(19,410)
Municipal Court	109,986	109,986	116,165	(6,179)
Public Works	1,051,923	1,031,861	1,006,556	25,305
Parks, Recreation and Golf Course	1,355,782	1,345,292	1,359,964	(14,672)
Library	318,914	318,914	291,436	27,478
Capital Outlay	639,833	950,737	686,618	264,119
<i>Debt Service:</i>				
Principal	31,975	31,975	31,975	-
Interest and Fiscal Charges	318	318	318	-
TOTAL EXPENDITURES	6,487,216	6,850,828	6,409,359	441,469
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,728,390)	(3,896,269)	(3,411,807)	484,462
OTHER FINANCING SOURCES (USES)				
Proceeds from Disposal of Assets	2,000	2,000	17,234	15,234
Payments in Lieu of Taxes	3,155,000	3,155,000	3,154,988	(12)
Transfers In	129,747	(77,782)	(49,394)	28,388
TOTAL OTHER FINANCING SOURCES (USES)	3,286,747	3,079,218	3,122,828	43,610
Net Change in Fund Balance	(441,643)	(817,051)	(288,979)	528,072
Beginning Fund Balance	2,687,313	2,687,313	2,687,313	-
Ending Fund Balance	\$ 2,245,670	\$ 1,870,262	\$ 2,398,334	\$ 528,072

CITY OF HONDO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – ECONOMIC DEVELOPMENT CORPORATION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales Taxes	\$ 479,375	\$ 479,375	\$ 503,014	\$ 23,639
Interest Income	4,000	4,000	7,718	3,718
TOTAL REVENUES	483,375	483,375	510,732	27,357
EXPENDITURES				
<i>Current:</i>				
General Government	160,131	160,131	130,678	29,453
Capital Outlay	385,000	420,000	305,916	114,084
<i>Debt Service:</i>				
Principal	75,831	75,831	90,831	(15,000)
Interest	61,122	61,122	35,830	25,292
TOTAL EXPENDITURES	682,084	717,084	563,255	153,829
Excess (Deficiency) of Revenues Over (Under) Expenditures	(198,709)	(233,709)	(52,523)	181,186
OTHER FINANCING SOURCES (USES)				
Transfers Out	(30,000)	(30,000)	(30,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	(30,000)	(30,000)	(30,000)	-
Net Change in Fund Balance	(228,709)	(263,709)	(82,523)	181,186
Beginning Fund Balance	2,462,720	2,462,720	2,462,720	-
Ending Fund Balance	\$ 2,234,011	\$ 2,199,011	\$ 2,380,197	\$ 181,186

CITY OF HONDO

NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2017

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund, Debt Service and Economic Development Fund.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

The City does not use encumbrances.

CITY OF HONDO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS
LAST THREE CALENDAR YEARS

	Total Pension Liability		
	2014	2015	2016
Service Cost	\$ 380,720	\$ 454,101	\$ 451,176
Interest (on the Total Pension Liability)	876,063	928,615	930,512
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(9,620)	(333,876)	(147,843)
Change of Assumptions	-	66,360	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(530,190)</u>	<u>(536,015)</u>	<u>(652,613)</u>
Net Change in Total Pension Liability	716,973	579,185	581,232
Total Pension Liability - Beginning	<u>12,589,918</u>	<u>13,306,891</u>	<u>13,886,076</u>
Total Pension Liability - Ending	<u><u>\$ 13,306,891</u></u>	<u><u>\$ 13,886,076</u></u>	<u><u>\$ 14,467,308</u></u>
Plan Fiduciary Net Position			
	2014	2015	2016
Contributions - Employer	\$ 367,137	\$ 375,069	\$ 361,571
Contributions - Employee	191,417	199,868	199,981
Net Investment Income	652,089	17,814	819,014
Benefit Payments, Including Refunds of Employee Contributions	<u>(530,190)</u>	<u>(536,015)</u>	<u>(652,613)</u>
Administrative Expense	(6,808)	(10,850)	(9,249)
Other	<u>(560)</u>	<u>(538)</u>	<u>(497)</u>
Net Change in Plan Fiduciary Net Position	673,085	45,348	718,207
Plan Fiduciary Net Postion - Beginning	<u>11,399,193</u>	<u>12,072,278</u>	<u>12,117,626</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 12,072,278</u></u>	<u><u>\$ 12,117,626</u></u>	<u><u>\$ 12,835,833</u></u>
Net Pension Liability (Asset) - Ending	\$ 1,234,613	\$ 1,768,450	\$ 1,631,475
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	90.72%	87.26%	88.72%
Covered Employee Payroll	\$ 3,828,342	\$ 3,997,364	\$ 3,869,430
Net Pension Liability as a Percentage of Covered Employee Payroll	32.25%	44.24%	42.16%

Information for this schedule is being accumulated prospectively until 10 years is presented.

CITY OF HONDO
SCHEDULE OF CITY CONTRIBUTIONS
LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially Determined Contribution	\$ 374,593	\$ 353,707	\$ 387,082
Contributions in Relation to the Actuarially Determined Contribution	<u>375,510</u>	<u>353,707</u>	<u>387,082</u>
Contribution Deficiency (Excess)	<u><u>\$ (917)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
 Covered Employee Payroll	 \$ 3,979,540	 \$ 3,887,020	 \$ 4,283,333
 Contributions as a Percentage of Covered Employee Payroll	 9.44%	 9.10%	 9.04%

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen (13) months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.5% to 10.5% including Inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and femal rates multiplied by 103% and projected on a fully generational basis with scale BB.

Information for this schedule is being accumulated prospectively until 10 years is presented.

CITY OF HONDO
SCHEDULE FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFIT – RETIREE HEALTH INSURANCE
LAST FOUR ACTUARIAL VALUATIONS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/1/2015	\$ -	\$ 251,850	\$ 251,850	0%	\$ 268,562	94%
10/1/2013	\$ -	\$ 502,446	\$ 502,446	0%	\$ 3,599,235	14%
10/1/2011	\$ -	\$ 582,864	\$ 582,864	0%	\$ 3,238,487	18%
10/1/2010	\$ -	\$ 590,591	\$ 590,591	0%	\$ 3,244,678	18%

Note: On October 1, 2015, the City closed the program for all employees with less than 18 years of service.



SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

- Combining Statements – Nonmajor Governmental Funds
- Comparative Individual Fund Statements
 - General Fund
 - Economic Development Corporation
 - Electric Utility
 - Water and Sewer Utility
 - Airport
 - Sanitation

CITY OF HONDO
COMBINING BALANCE SHEETS
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	Special Revenue Funds		
	Debt Service	Seizure & Forfeiture	Unclaimed Funds
ASSETS			
Cash and Cash Equivalents	\$ 165,856	\$ 12,089	\$ 6,306
Certificates of Deposit	-	-	7,608
Property Taxes Receivable (net)	20,627	-	-
Other Receivables (net)	-	-	-
Restricted Cash and Investments	-	-	-
TOTAL ASSETS	<u>\$ 186,483</u>	<u>\$ 12,089</u>	<u>\$ 13,914</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCED & FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ -	\$ 2,350	\$ 12,232
Unearned Revenue	-	4,040	-
<i>Total Liabilities</i>	<i><u>-</u></i>	<i><u>6,390</u></i>	<i><u>12,232</u></i>
<i>Deferred Inflows of Resources:</i>			
Unavailable Property Tax Revenue	20,627	-	-
<i>Total Deferred Inflows</i>	<i><u>20,627</u></i>	<i><u>-</u></i>	<i><u>-</u></i>
<i>Fund Balances:</i>			
Nonspendable:			
Perpetual Care Trust	-	-	-
Restricted For:			
Debt Service	165,856	-	-
Cemetery Maintenance	-	-	-
Police Department	-	5,699	-
Tourism Development	-	-	-
Committed For:			
South TX Regional Training Center	-	-	-
Other	-	-	1,682
<i>Total Fund Balances</i>	<i><u>165,856</u></i>	<i><u>5,699</u></i>	<i><u>1,682</u></i>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	<u>\$ 186,483</u>	<u>\$ 12,089</u>	<u>\$ 13,914</u>

Special Revenue Funds		Permanent Fund		Capital Projects Fund	Total Nonmajor Funds
STRTC Fund	Hotel Tax	Perpetual Care			
\$ 67,391	\$ 85,408	\$ 25,155	\$ -	\$ 362,205	
-	-	-	-	-	7,608
-	-	-	-	-	20,627
34,354	51,321	-	-	-	85,675
-	-	532,590	-	-	532,590
<u>\$ 101,745</u>	<u>\$ 136,729</u>	<u>\$ 557,745</u>	<u>\$ -</u>	<u>\$ 1,008,705</u>	

\$ 1,898	\$ 1,220	\$ -	\$ -	\$ 17,700
<u>5,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,310</u>
<u>7,168</u>	<u>1,220</u>	<u>-</u>	<u>-</u>	<u>27,010</u>

-	-	-	-	20,627
-	-	-	-	20,627

-	-	532,590	-	532,590
-	-	-	-	165,856
-	-	25,155	-	25,155
-	-	-	-	5,699
-	135,509	-	-	135,509
94,577	-	-	-	94,577
-	-	-	-	1,682
<u>94,577</u>	<u>135,509</u>	<u>557,745</u>	<u>-</u>	<u>961,068</u>

<u>\$ 101,745</u>	<u>\$ 136,729</u>	<u>\$ 557,745</u>	<u>\$ -</u>	<u>\$ 1,008,705</u>
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CITY OF HONDO
COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017

	<u>Special Revenue Funds</u>		
	Debt Service	Seizure & Forfeiture	Unclaimed Funds
REVENUES			
Ad Valorem Taxes	\$ 326,992	\$ -	\$ -
Other Taxes	-	-	-
Charges for Services	-	-	-
Fines and Forfeitures	-	6,280	-
Interest Income	-	-	73
TOTAL REVENUES	<u>326,992</u>	<u>6,280</u>	<u>73</u>
EXPENDITURES			
<i>Current:</i>			
General Government	-	-	653
Public Safety	-	1,000	-
Capital Outlay	-	-	-
<i>Debt Service:</i>			
Principal	262,101	-	-
Interest and Fiscal Charges	75,223	-	-
Bond Issue Costs	25,504	-	-
TOTAL EXPENDITURES	<u>362,828</u>	<u>1,000</u>	<u>653</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(35,836)	5,280	(580)
OTHER FINANCING SOURCES (USES)			
Refunding Bond Proceeds	1,300,000	-	-
Payment to Refunding Escrow Agent	(1,272,005)	-	-
Transfer Out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>27,995</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(7,841)	5,280	(580)
Fund Balances at Beginning of Year	<u>173,697</u>	<u>419</u>	<u>2,262</u>
Fund Balances at End of Year	<u>\$ 165,856</u>	<u>\$ 5,699</u>	<u>\$ 1,682</u>

		Permanent			
Special Revenue Funds		Fund	Capital	Total	
STRTC Fund	Hotel Tax	Perpetual Care	Projects Fund	Nonmajor Funds	
\$ -	\$ -	\$ -	\$ -	\$ 326,992	
	119,793			119,793	
63,748	-	13,300		77,048	
	-	-		6,280	
	-	2,292		2,365	
63,748	119,793	15,592	-	532,478	
41,545	95,822	16,215	-	154,235	
-	-	-	-	1,000	
-	-	23,788	-	23,788	
	-	-	-	262,101	
-	-	-	-	75,223	
-	-	-	-	25,504	
41,545	95,822	40,003	-	541,851	
22,203	23,971	(24,411)	-	(9,373)	
-	-	-	-	1,300,000	
-	-	-	-	(1,272,005)	
-	-	-	(14,898)	(14,898)	
-	-	-	(14,898)	13,097	
22,203	23,971	(24,411)	(14,898)	3,724	
72,374	111,538	582,156	14,898	957,344	
\$ 94,577	\$ 135,509	\$ 557,745	\$ -	\$ 961,068	

**CITY OF HONDO
COMPARATIVE BALANCE SHEETS
GENERAL FUND
SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,020,916	\$ 1,374,408
Certificates of Deposit	876,552	897,625
Receivables (net of allowances for uncollectibles):		
Property Taxes	74,690	68,485
Other Receivables	195,153	188,430
Prepaid Items	66,382	2,040
Due from Other Funds	<u>682,259</u>	<u>647,845</u>
TOTAL ASSETS	<u><u>\$ 2,915,952</u></u>	<u><u>\$ 3,178,833</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 231,650	\$ 316,029
Accrued Expenditures	155,635	95,075
Unearned Revenue	<u>55,643</u>	<u>12,303</u>
<i>Total Liabilities</i>	<u><u>442,928</u></u>	<u><u>423,407</u></u>
<i>Deferred Inflows of Resources:</i>		
Unavailable Property Tax Revenue	<u>74,690</u>	<u>68,113</u>
<i>Total Deferred Inflows of Resources</i>	<u><u>74,690</u></u>	<u><u>68,113</u></u>
<i>Fund Balances:</i>		
Nonspendable		
Prepaid Items	66,382	2,040
Restricted for		
Municipal Court	24,325	19,376
Committed For		
Capital Projects	85,786	252,332
Other	-	16,438
Unassigned	<u>2,221,841</u>	<u>2,397,127</u>
<i>Total Fund Balance</i>	<u><u>2,398,334</u></u>	<u><u>2,687,313</u></u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u><u>\$ 2,915,952</u></u>	<u><u>\$ 3,178,833</u></u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
GENERAL FUND
SEPTEMBER 30, 2017 AND 2016

	2017	2016
REVENUES		
Ad Valorem Taxes	\$ 1,051,482	\$ 945,186
Sales Taxes	1,006,029	1,087,992
Other Taxes	69,966	66,732
Licenses and Permits	162,402	218,810
Grants and Donations	170,568	10,629
Charges for Services	368,227	335,776
Fines and Penalties	111,206	101,527
Interest Income	12,649	7,491
Miscellaneous	45,023	63,189
TOTAL REVENUES	<u>2,997,552</u>	<u>2,837,332</u>
EXPENDITURES		
<i>Current:</i>		
General Government	912,533	861,803
Tax and Finance	244,780	188,522
Public Safety	1,759,014	1,596,770
Municipal Court	116,165	101,102
Public Works	1,006,556	1,029,662
Parks, Recreation and Golf Course	1,359,964	1,193,238
Library	291,436	245,110
Capital Outlay	686,618	689,086
<i>Debt Service:</i>		
Principal	31,975	30,240
Interest and Fiscal Charges	318	2,053
TOTAL EXPENDITURES	<u>6,409,359</u>	<u>5,937,586</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,411,807)</u>	<u>(3,100,254)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from Disposal of Assets	17,234	585,333
Payments in Lieu of Taxes	3,154,988	3,155,000
Transfers In	(49,394)	142,338
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,122,828</u>	<u>3,882,671</u>
Net Change in Fund Balance	<u>(288,979)</u>	<u>782,417</u>
BEGINNING FUND BALANCE	<u>2,687,313</u>	<u>1,904,896</u>
ENDING FUND BALANCE	<u>\$ 2,398,334</u>	<u>\$ 2,687,313</u>

**CITY OF HONDO
COMPARATIVE BALANCE SHEETS
ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Cash Equivalents	\$ 530,857	\$ 610,520
Certificates of Deposit	1,772,081	1,764,364
Receivables (net of allowances for uncollectibles):		
Other Receivables	<u>81,381</u>	<u>88,169</u>
TOTAL ASSETS	<u>\$ 2,384,319</u>	<u>\$ 2,463,053</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ -	\$ 333
Accrued Expenditures	<u>4,122</u>	<u>-</u>
<i>Total Liabilities</i>	<u>4,122</u>	<u>333</u>
<i>Fund Balances:</i>		
Restricted for Economic Development	<u>2,380,197</u>	<u>2,462,720</u>
<i>Total Fund Balance</i>	<u>2,380,197</u>	<u>2,462,720</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,384,319</u>	<u>\$ 2,463,053</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES
ECONOMIC DEVELOPMENT CORPORATION
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUES		
Sales Taxes	\$ 503,014	\$ 543,996
Grants and Donations	-	-
Interest Income	7,718	2,722
TOTAL REVENUES	<u>510,732</u>	<u>546,718</u>
 EXPENDITURES		
<i>Current:</i>		
General Government	130,678	116,412
Capital Outlay	305,916	67,264
<i>Debt Service:</i>		
Principal	90,831	74,746
Interest and Fiscal Charges	35,830	63,923
TOTAL EXPENDITURES	<u>563,255</u>	<u>322,345</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(52,523)</u>	<u>224,373</u>
 OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	(30,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(30,000)</u>	<u>-</u>
 Net Change in Fund Balance	<u>(82,523)</u>	<u>224,373</u>
 BEGINNING FUND BALANCE	<u>2,462,720</u>	<u>2,238,347</u>
ENDING FUND BALANCE	<u>\$ 2,380,197</u>	<u>\$ 2,462,720</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF NET POSITION
ELECTRIC UTILITY
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 1,766,186	\$ 1,659,236
Receivables (net of allowances for uncollectibles)	1,636,075	1,782,418
Inventory	167,015	295,292
<i>Total Current Assets</i>	<u>3,569,276</u>	<u>3,736,946</u>
Property and Equipment (net)	779,807	710,098
TOTAL ASSETS	<u>4,349,083</u>	<u>4,447,044</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	85,921	101,640
LIABILITIES		
<i>Current Liabilities:</i>		
Accounts Payable	1,115,749	661,227
Accrued Wages	21,162	12,984
Accrued Interest	1,465	4,551
Accrued Compensated Absences	8,720	5,775
Deposits and Unearned Revenue	314,599	285,562
Current Portion of Long-Term Debt	45,000	36,495
<i>Total Current Liabilities</i>	<u>1,506,695</u>	<u>1,006,594</u>
<i>Long-term Liabilities:</i>		
Long-term Debt (Net of Current Portion)	515,000	557,373
Net OPEB Obligation	26,127	26,194
Net Pension Liability	155,853	167,054
<i>Total Long-term Liabilities</i>	<u>696,980</u>	<u>750,621</u>
TOTAL LIABILITIES	<u>2,203,675</u>	<u>1,757,215</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	28,625	25,559
NET POSITION		
Net Investment In Capital Assets	219,807	116,230
Unrestricted (Deficit)	1,982,897	2,649,680
TOTAL NET POSITION	<u>\$ 2,202,704</u>	<u>\$ 2,765,910</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET
POSITION
ELECTRIC UTILITY
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for Utility Service	\$ 8,949,684	\$ 9,868,414
Miscellaneous Charges	<u>229,288</u>	<u>295,401</u>
TOTAL OPERATING REVENUES	<u><u>9,178,972</u></u>	<u><u>10,163,815</u></u>
OPERATING EXPENSES		
Personnel	473,510	499,958
Materials and Supplies	<u>450,221</u>	<u>279,516</u>
Services	<u>5,889,110</u>	<u>5,545,936</u>
Maintenance	-	25,198
Depreciation	<u>55,291</u>	<u>55,948</u>
TOTAL OPERATING EXPENSES	<u><u>6,868,132</u></u>	<u><u>6,406,556</u></u>
OPERATING INCOME (LOSS)	<u><u>2,310,840</u></u>	<u><u>3,757,259</u></u>
NONOPERATING REVENUES (EXPENSES)		
Bond Issue Costs	(11,379)	-
Interest Expense	<u>(18,424)</u>	<u>(29,039)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u><u>(29,803)</u></u>	<u><u>(29,039)</u></u>
INCOME (LOSS) BEFORE TRANSFERS	<u><u>2,281,037</u></u>	<u><u>3,728,220</u></u>
TRANSFERS		
Payment in Lieu of Taxes	(2,775,000)	(2,775,000)
Transfers Out	<u>(69,243)</u>	<u>(94,000)</u>
TOTAL TRANSFERS	<u><u>(2,844,243)</u></u>	<u><u>(2,869,000)</u></u>
CHANGE IN NET POSITION	<u><u>(563,206)</u></u>	<u><u>859,220</u></u>
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u><u>2,765,910</u></u>	<u><u>1,906,690</u></u>
NET POSITION (DEFICIT) AT END OF YEAR	<u><u>\$ 2,202,704</u></u>	<u><u>\$ 2,765,910</u></u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF NET POSITION
WATER AND SEWER UTILITY
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 662,459	\$ 1,360,873
Receivables (net of allowances for uncollectibles)	631,851	473,922
Inventory	159,337	61,178
<i>Total Current Assets</i>	<u>1,453,647</u>	<u>1,895,973</u>
Restricted Cash	5,112,221	-
Property and Equipment (net)	10,174,317	8,087,549
TOTAL ASSETS	<u>16,740,185</u>	<u>9,983,522</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	<u>72,584</u>	<u>88,780</u>
LIABILITIES		
<i>Current Liabilities:</i>		
Accounts Payable	508,085	93,243
Accrued Wages	22,346	14,980
Accrued Interest	29,089	13,246
Accrued Compensated Absences	6,331	5,079
Deposits and Unearned Revenue	94,950	85,850
Current Portion of Long-Term Debt	450,500	195,515
<i>Total Current Liabilities</i>	<u>1,111,301</u>	<u>407,913</u>
<i>Long-term Liabilities:</i>		
Long-term Debt (Net of Current Portion)	7,503,450	2,666,323
Net OPEB Obligation	27,841	27,910
Net Pension Liability	149,273	160,813
<i>Total Long-term Liabilities</i>	<u>7,680,564</u>	<u>2,855,046</u>
TOTAL LIABILITIES	<u>8,791,865</u>	<u>3,262,959</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	<u>23,022</u>	<u>19,863</u>
NET POSITION		
Net Investment In Capital Assets	6,856,614	6,521,131
Unrestricted (Deficit)	1,141,268	268,349
<i>TOTAL NET POSITION</i>	<u>\$ 7,997,882</u>	<u>\$ 6,789,480</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET
POSITION
WATER AND SEWER UTILITY
SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Charges for Utility Service	\$ 3,775,606	\$ 2,755,846
Miscellaneous Charges	100,727	111,341
TOTAL OPERATING REVENUES	<u>3,876,333</u>	<u>2,867,187</u>
OPERATING EXPENSES		
Personnel	491,799	405,186
Materials and Supplies	437,001	379,601
Services	839,683	979,871
Maintenance	-	39,229
Depreciation	369,732	374,872
TOTAL OPERATING EXPENSES	<u>2,138,215</u>	<u>2,178,759</u>
OPERATING INCOME (LOSS)	<u>1,738,118</u>	<u>688,428</u>
NONOPERATING REVENUES (EXPENSES)		
Grants	266,356	13,096
Interest Income	5,751	78
Bond Issue Costs	(232,618)	(20,580)
Interest Expense	(153,823)	(71,937)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(114,334)</u>	<u>(79,343)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>1,623,784</u>	<u>609,085</u>
TRANSFERS		
Payment in Lieu of Taxes	(379,988)	(380,001)
Transfers Out	(35,394)	(35,394)
TOTAL TRANSFERS	<u>(415,382)</u>	<u>(415,395)</u>
CHANGE IN NET POSITION	<u>1,208,402</u>	<u>193,690</u>
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u>6,789,480</u>	<u>6,595,790</u>
NET POSITION (DEFICIT) AT END OF YEAR	<u>\$ 7,997,882</u>	<u>\$ 6,789,480</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF NET POSITION
AIRPORT
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
<i>Current Assets:</i>		
Receivables (net of allowances for uncollectibles)	\$ 120,739	\$ 117,599
Inventory	29,954	34,302
<i>Total Current Assets</i>	<u>150,693</u>	<u>151,901</u>
 Property and Equipment (net)	 16,937,045	 17,556,173
TOTAL ASSETS	<u>17,087,738</u>	<u>17,708,074</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	33,334	41,143
 LIABILITIES		
<i>Current Liabilities:</i>		
Accounts Payable	5,573	118,787
Accrued Wages	6,809	3,621
Accrued Interest	444	1,379
Accrued Compensated Absences	2,883	5,081
Deposits and Unearned Revenue	11,973	46,612
Due to Other Funds	678,883	615,082
Current Portion of Long-Term Debt	15,000	11,058
<i>Total Current Liabilities</i>	<u>721,565</u>	<u>801,620</u>
 <i>Long-term Liabilities:</i>		
Long-term Debt (Net of Current Portion)	155,000	168,891
Net OPEB Obligation	10,374	10,407
Net Pension Liability	59,371	64,936
<i>Total Long-term Liabilities</i>	<u>224,745</u>	<u>244,234</u>
TOTAL LIABILITIES	<u>946,310</u>	<u>1,045,854</u>
 DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	12,313	10,790
 NET POSITION		
Net Investment In Capital Assets	16,767,045	17,376,224
Unrestricted (Deficit)	(604,596)	(683,651)
TOTAL NET POSITION	<u>\$ 16,162,449</u>	<u>\$ 16,692,573</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET
POSITION
AIRPORT
SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES		
Fuel Sales	\$ 291,066	\$ 320,701
Rentals and Leases	482,095	505,532
Miscellaneous Charges	3,740	1,038
TOTAL OPERATING REVENUES	<u>776,901</u>	<u>827,271</u>
OPERATING EXPENSES		
Personnel	229,034	212,364
Materials and Supplies	356,533	269,337
Services	262,561	271,593
Maintenance	-	63,012
Depreciation	506,733	494,022
TOTAL OPERATING EXPENSES	<u>1,354,861</u>	<u>1,310,328</u>
OPERATING INCOME (LOSS)	<u>(577,960)</u>	<u>(483,057)</u>
NONOPERATING REVENUES (EXPENSES)		
Grants	50,280	50,122
Gain on the Sale of Land	-	244,198
Interest Income	1,717	-
Bond Issue Costs	(3,433)	-
Interest Expense	(2,682)	(8,420)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>45,882</u>	<u>285,900</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(532,078)</u>	<u>(197,157)</u>
TRANSFERS		
Transfers In	14,898	143,991
Transfers Out	(12,944)	(12,944)
TOTAL TRANSFERS	<u>1,954</u>	<u>131,047</u>
CHANGE IN NET POSITION	<u>(530,124)</u>	<u>(66,110)</u>
NET POSITION (DEFICIT) AT BEGINNING OF YEAR	<u>16,692,573</u>	<u>16,758,683</u>
NET POSITION (DEFICIT) AT END OF YEAR	<u>\$ 16,162,449</u>	<u>\$ 16,692,573</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF NET POSITION
SANITATION
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 155,763	\$ 241,336
Receivables (net of allowances for uncollectibles)	130,827	131,948
TOTAL ASSETS	<u>286,590</u>	<u>373,284</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	2,022	2,513
LIABILITIES		
<i>Current Liabilities:</i>		
Accounts Payable	108,613	204,215
Accrued Wages	572	-
Total Current Liabilities	<u>109,185</u>	<u>204,215</u>
<i>Long-term Liabilities:</i>		
Net OPEB Obligation	540	542
Net Pension Liability	3,720	4,070
Total Long-term Liabilities	<u>4,260</u>	<u>4,612</u>
TOTAL LIABILITIES	<u>113,445</u>	<u>208,827</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	737	642
NET POSITION		
Unrestricted	174,430	166,328
TOTAL NET POSITION	<u>\$ 174,430</u>	<u>\$ 166,328</u>

CITY OF HONDO
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET
POSITION
SANITATION
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for Utility Service	\$ 1,306,345	\$ 1,250,012
Miscellaneous Charges	22,300	21,621
TOTAL OPERATING REVENUES	<u>1,328,645</u>	<u>1,271,633</u>
OPERATING EXPENSES		
Personnel	14,144	11,574
Services	1,305,671	1,191,517
TOTAL OPERATING EXPENSES	<u>1,319,815</u>	<u>1,203,091</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>8,830</u>	<u>68,542</u>
TRANSFERS		
Transfers Out	<u>(728)</u>	-
TOTAL TRANSFERS	<u>(728)</u>	-
CHANGE IN NET POSITION	8,102	68,542
NET POSITION AT BEGINNING OF YEAR	<u>166,328</u>	<u>97,786</u>
NET POSITION AT END OF YEAR	<u>\$ 174,430</u>	<u>\$ 166,328</u>



COMPLIANCE SECTION



INDEPENDENT AUDITOR'S REPORT

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

Management, Mayor and Council of
City of Hondo, Texas

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Hondo as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Hondo's basic financial statements, and have issued our report thereon dated January 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Hondo'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 City of Hondo's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Hondo'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 City'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 City of Hondo'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*.

We noted certain other matters that have been reported to management in a separate letter dated January 15, 2018.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "Armstrong, Vaughan & Associates, P.C." The signature is written in a cursive style with a large, stylized 'A' at the beginning.

Armstrong, Vaughan & Associates, P.C.

January 15, 2018

HONDO



THIS IS GOD'S COUNTRY