

TOWN OF HORIZON CITY, TEXAS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2013

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TOWN OF HORIZON CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

As management of Town of Horizon City, Texas, we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal year ended September 30, 2013. We encourage readers to consider this information in conjunction with the basic financial statements.

Fund-based financial reporting and government-wide reporting are not viewed as being in conflict; however, they are not comparable. A significant portion of this analysis focuses on the changes in the government-wide statements, while still providing information on the Town's fund-based comparative changes.

FINANCIAL HIGHLIGHTS FISCAL YEAR 2013

- The Town's total assets exceeded its liabilities by \$5,448,162 (net position).
- Unrestricted net assets, available to meet the Town's ongoing obligations, totaled \$2,122,666. The amount invested in capital assets, net of related debt, totaled \$3,159,101. Net assets restricted for state mandated funds were \$166,395.
- The Town's governmental fund statement shows a combined ending fund balance of \$2,288,553, and decrease of \$645,331 in comparison with the prior year fund balance.
- Total liabilities amounted to \$1,475,042, of which \$510,191 is due in less than one year.
- General Fund revenues were approximately 11% less than budgeted, while actual expenses were less than budgeted expenses by approximately 5%, resulting in an overall decrease to the General Fund end of year balance.
- The Town purchased \$398,480 of equipment and land resulting in a 6% increase in capital assets.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Town also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the financial position of the Town, and are similar to private sector financial statements. The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements appear on pages 12 and 13 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)

The Statement of Net Position presents information on all the Town's assets and liabilities, with the difference between the two reported as net position as of September 30, 2013. Net position is shown in three categories: 1) invested in capital assets, net of related debt, 2) restricted for state mandated funds, and 3) unrestricted.

The Statement of Activities presents information showing how the Town's net position changed during the fiscal year ended September 30, 2013. It provides a breakdown of revenues and expenses by function. All changes in net position are reported as soon as the underlying event which contributes to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods. Examples of such items include revenues earned and expenses incurred but not yet paid, all of which will produce changes in cash in a future fiscal period.

Both statements attempt to distinguish functions of the Town that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees. The governmental activities of the Town include general government, public services, public works, community development, public safety, municipal court, physical environment, parks and recreation, and planning. The Town does not engage in any business-type activities. Contributions made by the Town to the 457 Deferred Compensation Plan are held and administered by a third-party.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town only has governmental funds. The governmental funds financial statements are on pages 14 through 19.

The Town's finances are segregated into four funds: General Fund, Debt Service Fund, Special Revenue Fund, and Agency Fund.

The General Fund reflects revenues and expenditures to provide all the basic Town services to the community, such as Police, General Government, Streets, Public Works and Community services.

The Special Revenue Fund is utilized to recognize and segregate revenues derived from grants and payments from other agencies not included in the General Fund.

The Debt Service Fund is utilized to account for the payment of general long-term debt principal, interest, and related costs.

The Agency Fund accounts for the activity in the Town's deferred compensation fund.

The Town does not maintain any Proprietary Funds.

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are used to account for essentially the same functions of those reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Town's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

The focus of governmental funds is narrower than that of government-wide financial statements. Therefore, it can be useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations have been provided as a link between the governmental fund statements and the government-wide financial statements to assist in this comparison. Pages 15 and 18 provide a reconciliation of the balance sheet of governmental funds to the statement of net position as well as a reconciliation of the statement of revenues, expenditures and changes in funds balance of governmental funds to the statement of activities.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide fund financial statements. The notes to the financial statements can be found on pages 20 through 35 of this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the Town's budgetary comparison schedules for its General Fund. The required supplementary information can be found beginning on page 36.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

Net Position (Continued)

The Town's net position (total assets and deferred outflows less liabilities and deferred inflows) at fiscal year-end totaled \$5,448,162, reflecting a decrease of \$277,027 over the previous fiscal year. This decrease is primarily the result of increased salaries and wages. The table below summarizes the Town's total assets, liabilities and net position for the fiscal years ended September 30, 2013 and 2012, respectively.

Net Position		
	<u>Governmental Activities</u>	
	<u>09/30/13</u>	<u>09/30/12</u>
Cash	\$ 67,237	\$ 389,612
Investments	2,199,915	2,314,187
Receivables (taxes, grants, other miscellaneous)	413,758	469,152
Capital assets, net of accumulated depreciation	<u>4,242,294</u>	<u>4,131,304</u>
Total assets	<u>6,923,204</u>	<u>7,304,255</u>
Short-term liabilities	510,191	371,546
Long-term liabilities	<u>964,851</u>	<u>1,207,520</u>
Total liabilities	<u>1,475,042</u>	<u>1,579,066</u>
Net position:		
Invested in capital assets, net of related debt	3,159,101	2,853,023
Restricted for State mandated funds	166,395	112,830
Unrestricted	<u>2,122,666</u>	<u>2,759,336</u>
Total net position	<u>\$5,448,162</u>	<u>\$5,725,189</u>

Other indicators of the Town's financial position and performance are revenues; program, general and restricted, and budget performance. Comparison of this indicator data as they are accumulated over the years may provide the reader with information of developing trends in the Town's financial health.

For fiscal year 2013, the Town collected some \$4,142,750 in revenues from all sources, while expending \$4,419,777, resulting in a net decrease in financial position. The table on the next page summarizes the fiscal years 2013 and 2012 revenues and expenditures for the Town, respectively.

Change in Net Position

	<u>09/30/13</u>	<u>09/30/12</u>
Municipal court fines and fees	\$ 264,319	\$ 281,955
Licenses and permits	308,073	211,171
Operating grants and contributions	41,519	14,048
Capital grants and contributions	<u>140,860</u>	<u>297,824</u>
Total program revenues	<u>754,771</u>	<u>804,998</u>
Property taxes-general purpose	2,236,817	2,128,496
Sales taxes	765,789	656,447
Franchise taxes	272,553	283,375
Interest income	34,124	35,315
Miscellaneous income	<u>78,696</u>	<u>342,976</u>
Total general revenues	<u>3,387,979</u>	<u>3,446,609</u>
Total revenues	<u>4,142,750</u>	<u>4,251,607</u>
General government	1,119,635	949,829
Public services	159,002	109,831
Public works	350,141	341,785
Community development	233,990	501,700
Public safety	1,657,704	1,514,176
Municipal court	231,579	185,192
Parks and recreation	363,936	312,760
Planning	132,300	172,309
Code enforcement	130,821	91,505
Interest on long-term debt	<u>40,669</u>	<u>58,165</u>
Total expenditures	<u>4,419,777</u>	<u>4,237,252</u>
Change in net position	<u>\$(277,027)</u>	<u>\$ 14,355</u>

Governmental Activities

The largest ongoing revenue source for the Town's governmental activities is property taxes at approximately \$2,237,000 which represents 54% of the total revenues. Another significant source of revenue for governmental activities is state sharing of sales taxes. The revenue sharing totals approximately \$766,000 or 18% of total revenues for governmental activities. An additional significant source of revenue for governmental activities is licenses, permits, and fees of approximately \$572,000 or 14% of total revenues for governmental activities.

Governmental Activities (Continued)

The largest expenditure category among governmental activities was public safety, totaling approximately \$1,658,000 or 38% of total expenditures. This expenditure category includes the cost of the Town providing fire rescue and emergency medical services to residents.

Governmental activities decreased the Town's net position by \$277,027. This was due primarily to an increase in salary and wages during the fiscal year.

The following table presents the cost of each of the Town's programs – as well as each program's net cost (total cost less fees generated by the activities). The net cost shows the financial burden placed on the Town's taxpayers by each of these functions.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>09/30/13</u>	<u>09/30/12</u>	<u>09/30/13</u>	<u>09/30/12</u>
General government	\$1,119,635	\$ 949,829	\$ (811,562)	\$ (738,658)
Public services	159,002	109,831	(159,002)	(109,831)
Public works	350,141	341,785	(350,141)	(341,785)
Community development	233,990	501,700	(233,990)	(501,700)
Public safety	1,657,704	1,514,176	(1,475,325)	(1,202,304)
Municipal court	231,579	185,192	32,740	96,763
Parks and recreation	363,936	312,760	(363,936)	(312,760)
Planning	132,300	172,309	(132,300)	(172,309)
Code enforcement	130,821	91,505	(130,821)	(91,505)
Interest on long-term debt	<u>40,669</u>	<u>58,165</u>	<u>(40,669)</u>	<u>(58,165)</u>
Totals	<u>\$4,419,777</u>	<u>\$4,237,252</u>	<u>\$(3,665,006)</u>	<u>\$(3,432,254)</u>

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As noted above, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental Funds (Continued)

As mentioned earlier, the General Fund is the chief operating fund of the Town. The Town's governmental fund statements show an ending fund balance of \$2,288,553, a decrease of \$645,331 in comparison with the prior year fund balance. Of this amount, \$1,258,971 (or 55%) constitutes unassigned fund balance, which is available for spending at the Town's discretion. Of the total fund balances, 45% (or \$1,029,582) is restricted for statutory requirements and committed for Town Council purposes.

The Debt Service and Special Revenue Funds each had a total fund balance of \$0 at year-end. This is due to the fact that while the Town's Debt Service Fund is used to account for the payment of principal, interest and expenditures on long-term debt during the fiscal year, it relies on transfers from other funds. These transfers are designed to meet the expense requirements of each fiscal year, and no fund balance is intended to be retained in the Debt Service Fund. The Special Revenue fund recognizes and segregates revenues derived from grants and payments from other agencies. Any shortfalls in fund balance are covered by the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's annual budget reflects the financial commitment to services and improvements by the governing body. As such, budget performance at the end of the fiscal year may be used as an indicator of the Town's progress toward stated goals and objectives. During fiscal year 2013, the Town expended \$226,553 less than budgeted in the General Fund. In addition, transfers in the amount of \$553,286 were made to the special revenue and debt service funds for the purpose of purchasing new capital assets and payment of debt principal and interest.

CAPITAL ASSETS

The Town's financial statements present capital assets in two categories: those assets subject to depreciation (such as buildings and equipment) and those not subject to depreciation (such as land).

The Town's investment in capital assets for its governmental activities was \$4,242,294, net of accumulated depreciation. Major capital asset events during the current fiscal year included the following:

- The Town's investment in machinery and equipment increased by approximately \$110,856 due to the acquisition of public safety and street maintenance equipment.
- The Town's investment in improvements and infrastructure increased by approximately \$287,624 due to the Walk and Bike Path and Safe Routes projects.

CAPITAL ASSETS (Continued)

Capital assets held by the Town are summarized as follows:

Capital assets, net of accumulated depreciation

	<u>09/30/13</u>	<u>09/30/12</u>
Land	\$ 745,140	\$ 745,140
Building and improvements	593,934	614,031
Machinery and equipment	619,188	658,754
Infrastructure	<u>2,284,032</u>	<u>2,113,379</u>
Total capital assets, net	<u>\$4,242,294</u>	<u>\$4,131,304</u>

Additional information on the Town's capital assets can be found in the notes to the financial statements on pages 29 and 30 of this report.

LONG-TERM DEBT

At the end of the fiscal year, the Town had long-term debt outstanding in the amount of \$1,176,795. The Town's debt represents general obligation bonds, notes payable, capital leases, and accrued compensated absences.

More detailed information about the Town's long-term liabilities is presented in the notes to the financial statements on pages 30 through 32 of this report.

SUMMARY

The Town's financial health remains good with sufficient resources to continue the current level of service delivery. Improvements to the accounting system and continuing changes to the Town's internal fiscal policies and procedures will further enhance the Town's ability to monitor revenues and expenditures, as well as promote greater management oversight and control.

The prognosis for continued financial growth in the Town is good. The Town enjoys steady growth and development in what was a primarily agriculture based economy. With the continued development of farm land to commercial and housing, the property tax base will continue to increase. Increases in housing units will bring new families to the Town and a concurrent increase in sales by local vendors thus, increasing the sales tax rebates to the Town. The continuing growth of these two income streams will ensure that the Town remains on firm financial ground for the foreseeable future.

FUTURE PLANS

The Town has adopted a three year Capital Improvement Plan (CIP) that focuses on the construction, reconstruction, and repair of public infrastructure. The projects will be funded by various sources that include the Town's Transportation Reinvestment Zone, the State's Surface Transportation Program, and Certificates of Obligation (CO's); with majority of the projects being funded by the issuance of the CO's. Through implementation of the CIP, the Town is looking to stimulate growth and expansion in its commercial and industrial sectors to help diversify its tax base, while providing its citizens with proper roadway and drainage improvements.

REQUESTS FOR INFORMATION

Questions concerning this analysis or the financial statements should be directed to the City Clerk, at 915-852-1046 or by mail to: Town of Horizon City, Texas, Attn: City Clerk, 14999 Darrington, Horizon City, Texas 79928.

A handwritten signature in blue ink, appearing to read 'Walter Miller', with a long horizontal flourish extending to the right.

Mayor Walter Miller
Town of Horizon City, Texas



Schmid Broadbuss
Nugent Gano PC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To Honorable Mayor Walter Miller
and Members of Town Council
Town of Horizon City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Horizon City, Texas (the Town), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Horizon City, Texas' basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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.

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To Honorable Mayor Walter Miller
and Members of Town Council
Town of Horizon City, Texas

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, each major fund, and the aggregate remaining fund information of the Town of Horizon City, Texas, as of September 30, 2013, and the respective changes in financial position and 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 and budgetary comparison information on pages 1 through 9 and 35 through 36, respectively, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2014 on our consideration of the Town of Horizon City, Texas' 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 Town of Horizon City, Texas' internal control over financial reporting and compliance.

Schmid Broaddus August & Gano PC

El Paso, Texas
May 13, 2014

TOWN OF HORIZON CITY, TEXAS

STATEMENT OF NET POSITION

September 30, 2013

<u>ASSETS</u>	Governmental <u>Activities</u>
Cash and cash equivalents	\$ 67,237
Investments	2,199,915
Taxes receivable	161,986
Grants receivable	233,637
Other receivables, net	18,135
Capital assets, net of accumulated depreciation	<u>4,242,294</u>
Total assets	<u>6,923,204</u>
 <u>LIABILITIES</u>	
Accounts payable and accrued liabilities	298,247
Due within one year:	
Compensated absences	13,748
Bonds and notes payable	198,196
Due in more than one year:	
Compensated absences	79,854
Bonds and notes payable	<u>884,997</u>
Total liabilities	<u>1,475,042</u>
 <u>NET POSITION</u>	
Net position:	
Invested in capital assets, net of related debt	3,159,101
Restricted for State mandated funds	166,395
Unrestricted, undesignated	<u>2,122,666</u>
Total net position	<u>\$5,448,162</u>

The accompanying notes are an integral
part of these financial statements.

TOWN OF HORIZON CITY, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2013

	Program Revenues			Net Revenue (Expenses) and Changes in Net Position
	Charges for Services, Fees, Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	
<u>FUNCTIONS/PROGRAMS</u>	<u>Direct Expenses</u>			<u>Governmental Activities</u>
Primary government:				
Public safety	\$ 1,657,704			\$(1,475,325)
General government	1,119,635	\$ 41,519	\$ 140,860	(811,562)
Parks and recreation	363,936			(363,936)
Public works	350,141			(350,141)
Community development	233,990			(233,990)
Municipal court	231,579			32,740
Public services	159,002			(159,002)
Planning	132,300			(132,300)
Code enforcement	130,821			(130,821)
Interest on long-term debt	40,669			(40,669)
	<u>\$ 4,419,777</u>	<u>\$ 41,519</u>	<u>\$ 140,860</u>	<u>(3,665,006)</u>
Total governmental activities				
General revenues:				
Property taxes, levied for general purposes				2,236,817
Sales taxes				765,789
Franchise taxes				272,553
Interest income				34,124
Miscellaneous				78,696
				<u>3,387,979</u>
Total general revenues				
				(277,027)
Change in net position				
Net position, beginning of year				<u>5,725,189</u>
Net position, end of year				<u>\$ 5,448,162</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF HORIZON CITY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2013

	<u>General Fund</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 65,982	\$ 1,255	\$ 67,237
Investments	2,199,915		2,199,915
Taxes receivable	161,986		161,986
Due from other funds	234,892		234,892
Grants receivable		233,637	233,637
Other receivables, net	<u>18,135</u>		<u>18,135</u>
Total assets	<u>\$2,680,910</u>	<u>\$ 234,892</u>	<u>\$2,915,802</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 77,483	\$	\$ 77,483
Accrued liabilities	220,764		220,764
Due to other funds		234,892	234,892
Deferred revenue	<u>94,110</u>		<u>94,110</u>
Total liabilities	<u>392,357</u>	<u>234,892</u>	<u>627,249</u>
<u>FUND BALANCES</u>			
Restricted	166,395		166,395
Committed	863,187		863,187
Unassigned	<u>1,258,971</u>		<u>1,258,971</u>
Total fund balances	<u>2,288,553</u>		<u>2,288,553</u>
Total liabilities and fund balances	<u>\$2,680,910</u>	<u>\$ 234,892</u>	<u>\$2,915,802</u>

The accompanying notes are an integral
part of these financial statements.

TOWN OF HORIZON CITY, TEXAS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION**

Year Ended September 30, 2013

Total fund balances of governmental funds in the balance sheet \$ 2,288,553

Amounts reported 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 governmental funds:

Governmental capital assets	6,594,920	
Accumulated depreciation	<u>(2,352,626)</u>	4,242,294

Certain property tax revenues will be collected after year-end but are not available soon enough to pay for the current periods expenditures, and therefore, are deferred on the modified accrual basis in governmental funds. 94,110

Some liabilities applicable to the Town's governmental activity are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.

Compensated absences	(93,602)	
Notes payable	(478,193)	
Bonds payable	<u>(605,000)</u>	<u>(1,176,795)</u>

Total net position of governmental activities \$ 5,448,162

The accompanying notes are an integral part
of these financial statements.

TOWN OF HORIZON CITY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

Year Ended September 30, 2013

	<u>General Fund</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property taxes	\$2,225,324	\$	\$2,225,324
Sales taxes	765,789		765,789
Franchise taxes	272,553		272,553
Licenses, permits and fees	308,073		308,073
Fines and forfeitures	264,319		264,319
Interest income	34,124		34,124
Grant income		182,379	182,379
Other income	<u>78,696</u>		<u>78,696</u>
Total revenues	<u>3,948,878</u>	<u>182,379</u>	<u>4,131,257</u>
<u>EXPENDITURES</u>			
General government	1,092,788		1,092,788
Public services	151,375		151,375
Public works	272,302		272,302
Community development	232,836		232,836
Public safety	1,459,806	101,428	1,561,234
Municipal court	231,490		231,490
Parks and recreation	337,205		337,205
Planning	132,300		132,300
Code enforcement	130,821		130,821
Debt service:			
Principal		195,088	195,088
Interest		40,669	40,669
Capital outlay		<u>398,480</u>	<u>398,480</u>
Total expenditures	<u>4,040,923</u>	<u>735,665</u>	<u>4,776,588</u>
Excess of expenditures over revenues	<u>(92,045)</u>	<u>(553,286)</u>	<u>(645,331)</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)**

Year Ended September 30, 2013

	<u>General Fund</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
Other financial sources (uses):			
Transfers	<u>\$ (553,286)</u>	<u>\$ 553,286</u>	<u>\$</u>
Total other financial sources (uses)	<u>(553,286)</u>	<u>553,286</u>	<u></u>
Net change in fund balance	<u>(645,331)</u>		<u>(645,331)</u>
Fund balance, beginning of the year	<u>2,933,884</u>	<u></u>	<u>2,933,884</u>
Fund balance, end of the year	<u>\$2,288,553</u>	<u>\$</u>	<u>\$ 2,288,553</u>

The accompanying notes are an integral
part of these financial statements.

TOWN OF HORIZON CITY, TEXAS

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended September 30, 2013

Net change in fund balances – total governmental funds \$ (645,331)

Amounts reported in the statement of activities are different because:

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital outlays	\$398,480	
Depreciation expense	<u>(287,490)</u>	110,990

Because some property taxes will not be collected for several months after the Town's fiscal year ends, they are not considered as "available" revenues in the governmental funds. They are, however, recorded as revenues in the statement of activities. This represents the increase in unearned property tax revenues.

Change in deferred property taxes	11,493
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The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets.	195,088
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Certain items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in compensated absences payable	<u>50,733</u>
--	---------------

Change in net position of governmental activities	<u><u>\$ (277,027)</u></u>
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The accompanying notes are an integral
part of these financial statements.

TOWN OF HORIZON CITY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

September 30, 2013

	<u>Agency Funds</u>
<u>ASSETS</u>	
Investments	<u>\$ 635,679</u>
Total assets	<u>\$ 635,679</u>
<u>LIABILITIES</u>	
Deferred compensation payable	<u>\$ 635,679</u>
Total liabilities	<u>\$ 635,679</u>

The accompanying notes are an integral
part of these financial statements.

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

The Town of Horizon City, Texas, operates under a Council-Mayor form of government. The Mayor and all council members are elected at large. The Town provides general administrative services, public safety, streets and roads maintenance, public service, municipal court, and community development. The Town's Council (the Council) is responsible for legislative and fiscal control of the Town.

The accounting and reporting framework and the more significant accounting principles and practices of the Town of Horizon City, Texas (the Town) are discussed in subsequent sections of the notes to the financial statements. The remainder of the notes to the financial statements are organized to provide explanations including required disclosures, of the Town's financial activities for the fiscal year ended September 30, 2013.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – As required by generally accepted accounting principles, these financial statements present the activities of the Town. The financial statements of the Town consist of only the funds and account groups of the Town. There are no business-type or fiduciary fund activities conducted by the Town. All activities of the Town are governmental in nature and are financed through taxes, and other non-exchange transactions.

Based on the application of the criteria set forth by the Government Accounting Standards Board, management has determined that no component units exist which would require inclusion in this report. The Town has no oversight responsibility over any other governmental entity, since no other entities are considered to be controlled by or dependent on the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. Further, the Town is not aware of any entity which would consider the Town to be a component unit.

Government-Wide and Fund Financial Statements – The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the Town. The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not included among program revenues are reported instead as general revenue.

Aggregate non-major governmental funds are reported as a separate column in the fund financial statements. The Town has four governmental funds.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property tax revenues are recognized in the year for which they are levied.

Governmental fund financial statements are reported using the 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

Grants and entitlements and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Town receives cash.

Fund Accounting – The Town's accounting system is operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts for recording its assets, liabilities, revenues, expenditures, and fund balances. The various funds are for the purpose of carrying on specific activities or to obtain certain objectives. The various funds are grouped by type in the financial statements.

The Town reports the following major governmental fund:

General Fund – The General Fund is the primary operating fund of the Town. It is used to account for all financial resources of the general government, except those accounted for in another fund.

Additionally, the Town reports the following non-major governmental funds:

Special Revenue Fund – The Special Revenue Fund is used to account for the expenditures of revenues that have been restricted to specific programs or projects in contract agreements, including community development. Contract revenue is recognized when compliance with the various contract requirements is achieved.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued) –

Usually this occurs at the time expenditures are made and the contract matching requirements are met. Contract revenues received before the revenue recognition has been met are reported as deferred revenue, a liability account. When the revenue recognition has been met, contract revenue not yet received is reported as accounts receivable.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Agency Fund – The Agency Fund is used to account for the Town's Deferred Compensation Fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of the interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, and then unrestricted resources as needed.

Revenues – Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Town, available means expected to be received within 60 days of fiscal year-end. Under the modified accrual basis, interest and charges for services are considered to be both measurable and available at fiscal year-end.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Exchange and Non-Exchange Transactions (Continued) – Non-exchange transactions, in which the Town receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Town must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Town on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures – On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Budgets and Budgetary Accounting – The Town is required by the Texas Constitution to adopt an annual balanced budget. The Town Council officially adopts the annual budget ordinance and all project ordinances and has the authority to amend such ordinances. All budgets are prepared on the budgetary basis of accounting as required by Texas law.

Cash and Cash Equivalents and Investments – Funds on deposit were maintained in interest bearing accounts and secured at the balance sheet date by the Federal Deposit Insurance Corporation and U.S. Government Securities.

Statutes authorize the Town to invest in Certificates of Deposit, repurchase agreements, passbook, bankers' acceptances, and other available bank investments, provided that approved securities are pledged in an amount equal to the amount of funds on deposit.

For presentation in the financial statements, investments with an original maturity of three months or less, at the time they are purchased by the Town, are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments. Investments are recorded at fair value, which is based on quoted market prices.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Calendar – The Town is responsible for the assessment, collection, and apportionment of property taxes. The Council levies property taxes on September 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$707,339,189 for the year ended September 30, 2013. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31, of the year following in which levied. On January 1, of each year, a tax lien attaches to property to secure the payment of tax revenues, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable in the current period. The Town's 2012-2013 tax rate was \$.317286, per \$100 of assessed valuation. The District incurred expenditures of \$27,688 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2013.

Capital Assets – General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are recorded at cost (or estimated historical cost) if purchased or constructed and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of the donation. The Town maintains a capitalization threshold of \$2,500. The Town maintains infrastructure asset records consistent with all other capital assets. Infrastructure is capitalized upon completion of construction. Improvements are also capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Depreciation is determined using the straight-line method over the estimated useful lives of the capital assets.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	40
Machinery and equipment	7
Office furniture and equipment	7
Infrastructure	25

Compensated Absences – The Town's regular employees are granted compensated absence pay for vacation and sick leave in varying amounts based on length of service. Sick leave may be carried over up to a specified number of hours. Compensated absences are reported as accrued liabilities in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees which are included in wages and benefits payable.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable is reported net of the applicable bond discounts. Bond issuance costs are reported as deferred charges and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issue costs. Bond proceeds are reported as another financing source net of applicable premium or discount. Issue costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Deferred Revenues – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues at the government-wide level arise only when the Town receives resources before it has a legal claim to them.

Fund Balance – Beginning with fiscal year 2011, the Town implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained.

Restricted fund balance – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors). Restricted fund balance in the amount of \$166,395 at September 30, 2013 represents amounts mandated by the State of Texas.

Committed fund balance – amounts that can be spent only for specific purposes determined by a resolution of the Town Council, the Town’s highest level of decision-making authority. The committed fund balance of \$863,187 is composed of funds for street development and maintenance, economic development and capital improvement.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance – (Continued)

Assigned fund balance – amounts the Town intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

Unassigned fund balance – amounts that are available for any purpose; these amounts can be reported only in the Town's General Fund.

Net Position – Net position are displayed in three components:

- 1) Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Restricted net position – consists of net position with constraints placed on their use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Internal Balances – Amounts reported in the fund financial statements as interfund receivables, payables and advances, if any, are eliminated in the government-wide governmental columns of the statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Allowance for Doubtful Accounts – Accounts receivable are stated net of an allowance for doubtful accounts. Management periodically evaluates the collectibility of its accounts receivable. The allowance for doubtful accounts amounted to \$25,179 at September 30, 2013.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

DEPOSITS

At September 30, 2013, the reported amount of the Town's deposits was \$67,237 and the bank balance was \$55,591. The bank balance was fully insured by federal depository insurance at multiple institutions. Cash amounts held in the non-major funds are restricted for specific purposes and are shown on the financial statements as restricted cash.

Statutes require the classification of funds held by the Town into three categories:

Category 1 consists of "active" funds – those funds required to be kept in "cash" or "near cash" status for immediate use by the Town. Such funds must be maintained as cash, withdrawable on demand, including negotiable order of withdrawal (NOW) accounts. At September 30, 2013, all deposits held by the Town were classified as Category 1.

Category 2 consists of "inactive" funds – those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds – those funds not needed for immediate use, but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 1) Commercial paper;
- 2) Bankers' acceptances;
- 3) Repurchase agreements;
- 4) Certificates of deposit; and
- 5) Obligation of, or Guaranteed by Governmental Agencies, such as letters of credit or direct obligations.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's investment policy requires deposits to be 100% secured by collateral valued at market less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Collateral agreements must be approved prior to deposit of funds. The Council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

INVESTMENTS (Continued)

The investment of surplus funds is governed by a policy of the Town. Investments in collateral mortgage obligations are prohibited. The maximum allowable stated maturity of any authorized investment type cannot exceed three months to maturity.

The Town's investments are categorized to give an indication of the level of risk assumed by the Town at fiscal year-end. The categories are described as follows:

- Category A: Insured, registered, or securities held by the Town or its agent in the Town's name.
- Category B: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.
- Category C: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent, but not in the Town's name.

Investments consist of the following at September 30, 2013:

	<u>Category</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
General Fund	A	<u>\$2,199,915</u>	<u>\$2,199,915</u>

The Town's investments consisted of certificates of deposit. Investments are reported at fair value which approximates cost. All investments are maintained with Wells Fargo Advisors and First National Bank in the name of the Town.

Concentration of Credit Risk - The Town places no limit on the amount the Town may invest in any one issuer. Nearly all of the Town's investments are held at Wells Fargo Advisors.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. All deposits were fully insured by the FDIC.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

INTERFUND RECEIVABLES AND PAYABLES

The composition of the Town's interfund balances as of September 30, 2013 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Special revenue	<u>\$234,892</u>

GRANTS RECEIVABLE

Grants receivable arise from amounts due to the Town from granting agencies for allowable expenditures not reimbursed at year-end. Grants receivable consisted of the following at September 30, 2013:

State of Texas -- Safe Routes to School Program	\$186,400
Border Star	37,506
Stone Garden	6,337
State of Texas -- Walk and Bike Path	<u>3,394</u>
Total	<u>\$233,637</u>

CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ <u>745,140</u>	\$ _____	\$ _____	\$ <u>745,140</u>
Other capital assets:				
Buildings and improvements	803,883			803,883
Machinery and equipment	1,747,101	110,856		1,857,957
Infrastructure	<u>2,900,316</u>	<u>287,624</u>	_____	<u>3,187,940</u>
Total other capital assets at historical cost	<u>5,451,300</u>	<u>398,480</u>	_____	<u>5,849,780</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

CAPITAL ASSETS (Continued)

Less accumulated depreciation for:				
Buildings and improvements	\$ (189,852)	\$ (20,097)		\$ (209,949)
Machinery and equipment	(1,088,347)	(150,422)		(1,238,769)
Infrastructure	<u>(786,937)</u>	<u>(116,971)</u>	<u> </u>	<u>(903,908)</u>
Total accumulated depreciation	<u>(2,065,136)</u>	<u>(287,490)</u>	<u> </u>	<u>(2,352,626)</u>
Other capital assets, net	<u>3,386,164</u>	<u>110,990</u>	<u> </u>	<u>3,497,154</u>
Capital assets, net	<u>\$ 4,131,304</u>	<u>\$ 110,990</u>	<u>\$ </u>	<u>\$ 4,242,294</u>

Depreciation expense was charged to function/programs of the government for the year ended September 30, 2013 as follows:

Public safety	\$ 96,470
Public works	77,839
General government	77,580
Parks and recreation	26,731
Public services	7,627
Community development	1,154
Municipal court	<u>89</u>
Total provisions for depreciation	<u>\$287,490</u>

LONG-TERM DEBT

Long-term debt of the governmental activities as of September 30, 2013 is composed of the following notes payable, bond issues, and capital leases:

Notes Payable

Note payable to the Texas Department of Transportation in the amount of \$200,000 for the reconstruction of an existing roadway. Interest is at 3.70% per annum, payable in annual installments of \$37,781. Loan matures in July 2014. The note is secured by pledged revenues. \$ 36,431

Note payable to First National Bank in the amount of \$700,000 for the purchase of land. Interest is at 2.2% per annum, payable in monthly installments of \$12,341. Loan matures October 2016. The note is secured by a certificate of deposit. 441,762

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

Bonds Payable

The Town issued \$750,000 of Public Improvement Revenue Bonds, Series 2005 to finance the cost of rehabilitation and improvements to infrastructure. Interest only payments at 3.95% from date of issuance through February 23, 2007. Varying principal and interest payments are due semi-annually starting on August 15, 2007 through 2029.

\$ 605,000

Total accrued compensated absences 93,602

Total long-term debt \$1,176,795

Annual debt service for the outstanding bonds and notes are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 198,196	\$ 33,532
2015	167,912	28,085
2016	151,516	23,816
2017	70,569	20,870
2018	30,000	19,553
2019-2023	180,000	78,605
2024-2029	<u>285,000</u>	<u>41,278</u>
Total	<u>\$1,083,193</u>	<u>\$245,739</u>

Totals of principal and interest components equal required minimum payments for periods shown, and total principal equals the net present value of these bonds and notes.

The following is a summary of changes in governmental activities long-term debt for the year ended September 30, 2013:

	<u>Balances October 1, 2012</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance September 30, 2013</u>	<u>Due Within One Year</u>
Notes payable	\$ 648,281	\$	\$ (170,088)	\$ 478,193	\$173,196
Bonds payable	630,000		(25,000)	605,000	25,000
Compensated absences	<u>144,335</u>	<u>99,543</u>	<u>(150,276)</u>	<u>93,602</u>	<u>13,748</u>
Total	<u>\$1,422,616</u>	<u>\$99,543</u>	<u>\$(345,364)</u>	<u>\$1,176,795</u>	<u>\$211,944</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

ACCRUED COMPENSATED ABSENCES

The Town's leave policy allows employees to accumulate sick leave and vacation leave. Upon termination, any accumulated vacation will be paid to the employee. Accumulated sick leave is not paid upon termination, but rather, only upon illness while in the employ of the Town. As of September 30, 2013, employees had approximately 5,314 hours of accumulated vacation leave, totaling \$93,602.

DEFERRED REVENUE

In the governmental-wide financial statements, property taxes receivable and related revenue include all amounts due to the Town, regardless of when cash is received. Over time, substantially all property taxes are collected. In the governmental fund financial statements, property tax revenues are considered available when they become due or past due and receivable within the current period. The Town considers taxes as available if they are collected within 60 days after fiscal year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. The remaining taxes are analyzed and an allowance provision is established to the extent that their collectability is improbable.

RESTRICTED NET POSITION AND RESTRICTED FUND BALANCE

Restricted net position and restricted fund balance consist of those funds that are restricted for use as mandated by the State of Texas, and include the following:

Security Fund	\$ 65,846
Technology Fund	52,842
Children's Fund	40,817
Time Payments	6,083
Truancy	<u>807</u>
Total	\$ <u>166,395</u>

COMMITTED FUND BALANCE

Committed fund balance consists of those funds that can be spent only for specific purposes as determined by the Town Council, and include the following:

Capital Improvement	\$453,527
Street Construction and Maintenance	134,076
Economic Development	<u>275,584</u>
Total	\$ <u>863,187</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

DEFERRED COMPENSATION PLAN

All Town employees who have been employed for 90 days or more, are eligible to participate in the Town's Deferred Compensation Plan (the Plan) adopted under the provisions of Internal Revenue Code 457 (Deferred Compensation Plans With Respect to Service for State and Local Governments) and GASB Statement No. 32, "Accounting and Financial Reporting for IRS Code Section 457 Deferred Compensation Plans." Under these provisions, all assets and income of the Plan are not reported within the Town's financial statements.

Under the terms of the Plan, employees may contribute up to 33.3%, or \$8,000 of their earnings into an annuity contract. In fiscal year ended September 30, 2013, the Town matched 3% of the participants' contributions into the Plan. Town contributions amounted to \$67,703 for the year ended September 30, 2013. Total assets of the Plan amounted to \$635,679, for the year ended September 30, 2013.

RISK POOL

The Town is a participant in an intergovernmental risk pool for its workers' compensation, liability, and property insurance. Participants in this pool are required to pay "premiums" on the insurance selected. Should a loss occur, the Town is liable only for the deductible. The risk pool purchases reinsurance to cover future losses. The Town is not liable for future claims and, therefore, no liability has been accrued at September 30, 2013.

COMMITMENTS AND CONTINGENCIES

The Town is party to various legal proceedings, which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Town and, therefore, no liability was accrued at September 30, 2013.

The Town provides no post-retirement benefits to retired employees.

In 2012, the Town entered into a three year lease agreement for the court and police department building, effective November 1, 2012 requiring monthly rental payments of \$4,200. The lease expires October 31, 2015. Rent expense for the year ended September 30, 2013 was \$54,009.

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum lease payments are as follows:

Year Ending September 30,

2014	\$ 50,400
2015	50,400
2016	<u>4,200</u>
	\$ <u>105,000</u>

FEDERAL AND STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

GASB NO. 63

In June 2011, the Governmental Accounting Standards Board (GASB) approved statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Additionally, this statement amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets.

The provisions of GASB No. 63 were implemented by the Town October 1, 2012. The Town changed the method of presentation used for items that represent either consumption of net assets or the acquisition of net assets by the government that are applicable to future reporting periods and renamed the residual "net position", rather than "net assets".

(Continued)

TOWN OF HORIZON CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

SUBSEQUENT EVENTS

In October 2013, the Town received a grant in the amount of \$30,048 from the Department of Homeland Security to purchase equipment for the Police Department. In February 2014, the Town received a grant in the amount of \$54,050 from the Local Border Security Program to pay salaries in the Police Department.

In April 2014, the Town proposed to issue \$15,000,000 of Certificates of Obligations. Expected terms of the Certificates include interest, which is to be determined. The \$15,000,000 will accrue from the date of the initial delivery of the Certificates, and will be payable February 15 and August 15 of each year commencing February 15, 2015, until maturity on August 15, 2038 or prior redemption, and will be calculated on the basis of a 360 day year consisting of twelve 30 day months. The Certificates are secured by future collection of property taxes.

Subsequent events were evaluated through May 13, 2014, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HORIZON CITY, TEXAS
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended September 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Property taxes	\$2,164,168	\$2,164,168	\$2,225,324	\$ 61,156
Sales taxes	675,000	675,000	765,789	90,789
Franchise taxes	275,000	275,000	272,553	(2,447)
Licenses and permits	260,000	260,000	308,073	48,073
Fines and forfeitures	660,000	660,000	264,319	(395,681)
Interest income			34,124	34,124
Grant income	155,000	155,000		(155,000)
Other income	<u>250,000</u>	<u>250,000</u>	<u>78,696</u>	<u>(171,304)</u>
Total revenues	<u>4,439,168</u>	<u>4,439,168</u>	<u>3,948,878</u>	<u>(490,290)</u>
Expenditures/outflows:				
General government	944,038	944,038	1,092,788	(148,750)
Public services	153,615	153,615	151,375	2,240
Public works	273,896	273,896	272,302	1,594
Street department	226,378	226,378	232,836	(6,458)
Public safety	1,340,169	1,340,169	1,459,806	(119,637)
Municipal court	216,833	216,833	231,490	(14,657)
Parks and recreation	282,100	282,100	337,205	(55,105)
Planning	222,636	222,636	132,300	90,336
Code enforcement	132,386	132,386	130,821	1,565
Debt service	250,078	250,078		250,078
Capital improvements	<u>225,347</u>	<u>225,347</u>		<u>225,347</u>
Total expenditures	<u>4,267,476</u>	<u>4,267,476</u>	<u>4,040,923</u>	<u>226,553</u>
Excess of revenues over expenditures	<u>171,692</u>	<u>171,692</u>	<u>(92,045)</u>	<u>(263,737)</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS
BUDGETARY COMPARISON SCHEDULE

GENERAL FUND
(Continued)

Year Ended September 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Other financial uses:				
Transfers out	<u>\$ (475,425)</u>	<u>\$ (475,425)</u>	<u>\$ (553,286)</u>	<u>\$ (77,861)</u>
Total other financing uses	<u>(475,425)</u>	<u>(475,425)</u>	<u>(553,286)</u>	<u>(77,861)</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures	<u>\$ (303,733)</u>	<u>\$ (303,733)</u>	<u>(645,331)</u>	<u>\$ (341,598)</u>
Fund balance, beginning of year			<u>2,933,884</u>	
Fund balance, end of year			<u>\$2,288,553</u>	
Budget basis excess			<u>\$ (645,331)</u>	
Non-budgeted funds				
GAAP basis excess			<u>(645,331)</u>	
Fund balance, beginning of the year			<u>2,933,884</u>	
Fund balance, end of the year			<u>\$2,288,553</u>	

The accompanying notes to the required supplementary
schedule are an integral part of this schedule.

TOWN OF HORIZON CITY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Basis of Accounting – The Town's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received and cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

Budgetary Process – The budgetary process is prescribed by provisions of Title 4, Chapter 102, of the Local Government Code of the Texas Legislature and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the certificate of estimated resources and the appropriation resolution, both of which are prepared on the budgetary basis of accounting.

The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified by resolution of the Town Council. Only the General Fund is budgeted and appropriated. The level of budgetary control is at the department level for the Town. Any budgetary modifications at this level may only be made by resolution of the Town Council.

Under the Town's by-laws, revenues not specifically related to a particular fund shall be deposited into the Town's General Fund. Monies can only be transferred from the General Fund by resolution of the Town Council.

Estimated Resources – As part of the Town's budgetary process, the Council approves the official estimated resources. The official estimated resources states the projected revenue of each fund. Prior to September 30, the Town must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the official estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about October 1, the estimated resources is amended to include any unencumbered balances from the preceding year. The estimated resources may be further amended during the year if the Council determines that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year ended 2013.

(Continued)

TOWN OF HORIZON CITY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Appropriations – An annual appropriation resolution must be passed by September 15 of the preceding year for the period October 1 to September 30. The appropriation resolution fixes spending authority at the fund and department level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among funds and objects within a fund may be modified during the year only by a resolution of the Council. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriations in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as final budgeted amounts in the schedules of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations.

Lapsing of Appropriations – At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

BUDGET OVER-EXPENDITURES

The Town over-expended its budget in the following areas:

General Fund:	
General government	\$148,750
Public safety	119,637
Parks and recreation	55,105
Municipal Court	14,657
Street department	<u>6,458</u>
Total	<u>\$344,607</u>

The Council made supplemental appropriations of excess revenues subsequent to year-end which were sufficient to cover the current year over-expenditures.



Schmid Broadbus
Nugent Gano PC

Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

To Honorable Mayor Walter Miller
and Members of Town Council
Town of Horizon City, Texas

Mayor and Town Council Members:

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, each major fund, and the aggregate remaining fund information of Town of Horizon City, Texas as of and for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise Town of Horizon City, Texas' basic financial statements, and have issued our report thereon dated May 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Horizon City, Texas' internal control over financial reporting 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 Town of Horizon City, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Horizon City, Texas' internal control.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control as described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. The significant deficiencies noted were items 13-01 and 13-02.

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(Continued)

To Honorable Mayor Walter Miller
and Members of Town Council
Town of Horizon City, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Horizon City, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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 we reported to management of Town of Horizon City, Texas in a separate letter dated May 13, 2014.

Town of Horizon City, Texas' Response to Findings

Town of Horizon City, Texas' response to findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Horizon City, Texas response was not subjected to the auditing procedures in the audit of the financial statements and accordingly, we express no opinion on it.

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

Schmid Broaddus August & Gano PC

El Paso, Texas
May 13, 2014

TOWN OF HORIZON CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2013

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the Town of Horizon City, Texas.
2. Significant deficiencies were disclosed by the audit of the financial statements of the Town of Horizon City, Texas, as reported in the 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*.
3. No instances of noncompliance material to the financial statements of the Town of Horizon City, Texas, which would be required to be reported in accordance with *Governmental Auditing Standards*, were disclosed during the audit.

II. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Finding 13-01:

Integration of Financial Records Maintained by the Courts – Repeated with Modification

Criteria and Condition: We noted that the Court's financial records are maintained in an accounting system separate from the Town's financial records. The general ledger should include all of the financial transactions of the Town so it may be utilized to produce accurate and timely financial statements.

Cause: The Town transitioned to a new accounting software during 2011. However, due to financial considerations, the Court retained the old accounting software. The lack of integration of the two systems has the potential to create a disparity between the records maintained by the Court and the records maintained by the Town if timely and accurate reconciliations are not prepared.

Effect: As a consequence of maintaining records separate from the Town's general ledger, there is an increasing risk of misstating or omitting certain accounts or transactions. Continued lack of integration will cause delays in the issuance of financial statements, and will allow for possible irregularities, including fraud, to exist and continue without timely detection.

Recommendation: We recommend the Town record all of its activity and accounts through an integrated general ledger system. We suggest that this situation be corrected as soon as possible with recognition of the general ledger as the primary book of record and that efforts be made to ensure it is complete and accurate.

(Continued)

TOWN OF HORIZON CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

Year Ended September 30, 2013

Finding 13-01:

**Integration of Financial Records Maintained by the Courts – Repeated with modification
(Continued)**

Management's Response: Currently, the Town of Horizon City, Texas maintains two accounting systems. We have purchased one complete accounting software that can be utilized for all of the Town's funds. However, the software has not yet been fully implemented. We anticipate that full implementation will occur in fiscal year ending 2014.

Finding 13-02:

Discrete Presentation of Fund Basis and Government-Wide Bases of Accounting - Repeated

Criteria and Condition: We noted that the accounting system does not reflect discrete balances for fund basis accounts and government-wide basis accounts. Instead, the two bases are integrated into a single set of accounts. Whereas government-wide financial statements should reflect long-term liabilities and long-term assets, fund basis financial statements should reflect long-term liabilities as other financing sources in the year the proceeds are received and the acquisition of long-term assets should be recorded as capital outlay expenditures.

Cause: Although the accounting system used by the Town has the capability of maintaining records on multiple bases of accounting, the functionality has not yet been implemented.

Effect: The intermingling of the fund basis accounts and the government-wide basis of accounts may cause entries to be duplicated and financial statement amounts to be misstated.

Recommendation: We recommend that the Town segregate the fund basis and government-wide basis financial statement accounts by implementing the required functionality of the accounting system.

Management's Response: Currently, our accounting software does not have the capability to produce government-wide basis financial statements. We have purchased software to address this issue and anticipate full implementation will occur in fiscal year ending 2014.

(Continued)

TOWN OF HORIZON CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)

Year Ended September 30, 2013

III. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Finding 12-01:

Integration of Financial Records Maintained by the Courts – The Court's financial records are maintained in an accounting system separate from the Town's financial records. This finding has not been corrected.

Finding 12-02:

Discrete Presentation of Fund Basis and Government-Wide Bases of Accounting – The accounting system does not reflect discrete balances for fund basis accounts and government-wide basis accounts. This finding has not been corrected.