

TOWN OF HORIZON CITY, TEXAS

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED SEPTEMBER 30, 2016

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REQUIRED SUPPLEMENTARY INFORMATION
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HORIZON CITY

Incorporated 1988

TOWN OF HORIZON CITY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2016

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, 2016. 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 2016

- The Town's total assets amounted to \$27,145,738; of which \$10,515,330 represent capital assets. Total assets exceeded liabilities by \$10,442,589 (net position).
- Unrestricted net position, available to meet the Town's ongoing obligations, totaled \$3,121,736. The amount invested in capital assets, net of related debt, totaled \$7,040,239. Net position restricted for state mandated funds was \$280,614.
- The Town's governmental fund statement shows a combined ending fund balance of \$15,852,396, a decrease of \$218,760 in comparison with the prior year fund balance.
- Total liabilities amounted to \$16,703,149 of which \$1,299,827 is due in less than one year.
- General Fund revenues were approximately 7% more than budgeted, while actual expenses were less than budgeted expenses by approximately 4%, resulting in an overall increase to the General Fund end of year balance of \$764,155.
- The Town's primary source of revenue comes from property taxes levied for general purpose and debt service, which amounted to \$3,362,847 in the current fiscal year. This represents approximately a 6% increase in comparison to the amount of property tax revenue collected in the prior fiscal year. The change is attributed to an increase in the property tax rate from \$0.427998 per \$100 of assessed valuation to \$0.452723. Total revenues amounted to \$8,029,169.

FINANCIAL HIGHLIGHTS FISCAL YEAR 2016 (Continued)

- Total debt service expenditures for the year amounted to \$692,931. Outstanding balance in bonds payable and notes payable was \$15,841,320 at the end of the fiscal year.
- The Town received \$1,254,194 in federal, state and local grant awards in the current fiscal year. This represents approximately a 24% increase from the amount of grant awards received in the prior fiscal year. The increase is attributed to the receipt of Federal assistance for the improvement of Darrington Road and transportation enhancement near school zones. From the total amount of grant income recognized, \$773,151 represents in-kind donations recognized by costs incurred by the Texas Department of Transportation in infrastructure projects inside the Town's jurisdiction. All grant awards received in the current fiscal year were used for infrastructure projects and public safety.
- The Town's revenues from sales taxes amounted to \$1,832,810 during 2016, of which \$302,417 was reserved for street maintenance and \$302,417 was reserved for economic development. Total sales taxes increased by approximately 18% from the prior year.
- The Town invested \$2,924,634 in equipment, software, and infrastructure, resulting in a 36% increase in capital assets, net of accumulated depreciation. The Capital Improvements Fund maintains proceeds from Combination Tax and Revenue Series 2014 Certificates of Obligation, which have been reserved by Town ordinance to be issued in infrastructure projects included in the Capital Improvements Master Plan. The Town's Capital Improvement Fund provided \$2,250,220 for infrastructure. At the end of the fiscal period, the balance in the Capital Improvements Fund was \$12,366,229, representing an 11% decrease from the prior year.
- The Town reports deferred inflows of resources on its general and debt service funds. Deferred inflows of resources represent an acquisition of fund balance that applies to a future period which will not be recognized as an inflow of resources until that time. Unavailable revenues in the amount of \$98,926 at September 30, 2016, represent the portion of property tax revenue receivable not collected within 60 days following the end of the fiscal year. This represents an increase of 5% from the prior year.
- During 2016, the Town's Capital Improvements Fund transferred a total of \$79,198 to Special Revenue funds in order to cover infrastructure and other expenses not reimbursed by federal grant awards.
- During 2016, the Town entered into an interlocal agreement with the County of El Paso and the Camino Real Regional Mobility Authority for the funding of improvements to Eastlake Blvd. The total project has a budgeted cost of \$19,055,090, from which the Town is responsible for \$4,325,505 or 22.7%. The Town has designated revenues from incremental property tax values on the Transportation Reinvestment Zone No. 2 to fund its share of this agreement. Payments to the Authority for the Town's participation in the project are expected to begin on May 1, 2020 and continue annually until May 2028.

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 17 and 18 of this report.

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, 2016. 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, 2016. 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, storm water, code enforcement, 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 19 through 25.

The Town's finances are segregated into five types of funds: General Fund, Special Revenue Funds, Debt Service Fund, Capital Improvements Fund, and Agency Fund.

The General Fund reflects revenues and expenditures to provide all the basic Town services to the community, such as public safety, general government, streets, public works and community services.

FUND FINANCIAL STATEMENTS (Continued)

The Special Revenue Funds are utilized to recognize and segregate revenues derived from grants and payments from other agencies not included in the General Fund. Grant revenues accounted for in the Special Revenue Funds have been restricted for specific uses by external authorities or regulation.

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

The Capital Improvements Fund is utilized to account for the use of reserved funds for the costs of infrastructure and other development projects. The balance remaining in this fund has been designated for these purposes by the Town Council Members and its activity is not included in the General Fund.

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

The Town does not maintain any Proprietary Funds.

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 20 and 23 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 26 through 50 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 and its Special Revenue Funds for which a budget has been approved by Town Council. The report also includes other supplementary information consisting of the Town's combining schedules of Aggregate Non-Major Funds. The required and other supplementary information can be found beginning on page 51.

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. The Town's net position (total assets and deferred outflows less liabilities and deferred inflows) at fiscal year-end totaled \$10,442,589 reflecting an increase of \$2,092,785 over the previous fiscal year. This increase is primarily the result of federal grant awards and increases in sales tax revenue and property tax revenue. The table below summarizes the Town's total assets, liabilities and net position for the fiscal years ended September 30, 2016 and 2015, respectively.

	<u>Governmental Activities</u>	
	<u>09/30/16</u>	<u>09/30/15</u>
Cash and cash equivalents	\$13,994,776	\$15,643,409
Investments	2,046,685	649,722
Receivables (taxes, grants, other miscellaneous)	556,186	428,089
Prepaid expenses	32,761	41,169
Capital assets, net of accumulated depreciation	<u>10,515,330</u>	<u>8,091,237</u>
Total assets	<u>27,145,738</u>	<u>24,853,626</u>
Short-term liabilities	1,299,827	716,238
Long-term liabilities	<u>15,403,322</u>	<u>15,787,584</u>
Total liabilities	<u>16,703,149</u>	<u>16,503,822</u>
Net position:		
Invested in capital assets, net of related debt	7,040,239	6,194,027
Restricted for State mandated funds	280,614	243,526
Unrestricted	<u>3,121,736</u>	<u>1,912,251</u>
Total net position	<u>\$10,442,589</u>	<u>\$ 8,349,804</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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 2016, the Town collected \$8,033,638 in revenues from all sources, while expending \$5,940,853, resulting in a net increase in financial position. The table below summarizes the fiscal years 2016 and 2015 revenues and expenses for the Town, respectively.

Change in Net Position

	<u>Year Ended</u>	
	<u>09/30/16</u>	<u>09/30/15</u>
Fines and forfeitures	\$ 325,158	\$ 247,699
Charges for services licenses, permits and fees	715,304	453,519
Operating grants and contributions	170,436	136,449
Capital grants and contributions	<u>1,089,944</u>	<u>883,418</u>
Total program revenues	<u>2,300,842</u>	<u>1,721,085</u>
Property taxes-general purpose	3,367,316	3,182,609
Sales taxes	1,832,810	1,555,019
Franchise taxes	326,253	329,494
Interest income	50,680	58,177
Miscellaneous income	<u>155,737</u>	<u>72,853</u>
Total general revenues	<u>5,732,796</u>	<u>5,198,152</u>
Total revenues	<u>8,033,638</u>	<u>6,919,237</u>
Public safety	2,388,456	2,146,619
General government	997,575	1,058,020
Interest on long-term debt	585,738	583,969
Community development	514,930	350,507
Parks and recreation	360,057	320,027
Public services	265,105	244,520
Public works	225,220	250,860
Municipal court	209,394	229,863
Code enforcement	193,923	174,394
Planning	171,726	204,426
Storm water	<u>28,729</u>	<u>13,223</u>
Total expenditures	<u>5,940,853</u>	<u>5,576,428</u>
Change in net position	<u>\$2,092,785</u>	<u>\$1,342,809</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Governmental Activities

The largest ongoing revenue source for the Town’s governmental activities is property taxes at approximately \$3,367,000, which represents 42% of the total revenues. Another significant source of revenue for governmental activities is state sharing of sales taxes. The revenue sharing totals approximately \$1,833,000 or 23% of total revenues for governmental activities. An additional significant source of revenue for governmental activities are fees for permits and licenses of approximately \$715,304 or 9% of total revenues for governmental activities. During the current fiscal year, the Town received approximately \$1,089,000 of capital grants and contributions, which represent 14% of the total revenues.

The largest expenditure category among governmental activities was public safety, totaling approximately \$2,388,000 or 40% of total expenditures. This expenditure category includes the cost of the Town providing police protection and dispatch of emergency medical services to residents.

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>09/30/16</u>	<u>09/30/15</u>	<u>09/30/16</u>	<u>09/30/15</u>
Public safety	\$2,388,456	\$2,146,619	\$1,899,048	\$1,810,918
General government	997,575	1,058,020	504,226	803,753
Community development	514,930	350,507	(575,014)	(532,911)
Parks and recreation	360,057	320,027	360,057	320,027
Public services	265,105	244,520	265,105	244,520
Public works	225,220	250,860	225,220	250,860
Municipal court	209,394	229,863	(18,747)	(17,836)
Code enforcement	193,923	174,394	193,923	174,394
Planning	171,726	204,426	171,726	204,426
Storm water	28,729	13,223	28,729	13,223
Interest on long-term debt	<u>585,738</u>	<u>583,969</u>	<u>585,738</u>	<u>583,969</u>
Totals	<u>\$5,940,853</u>	<u>\$5,576,428</u>	<u>\$3,640,011</u>	<u>\$3,855,343</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.

The Town's governmental fund statements show a combined ending fund balance of \$15,852,396, a decrease of \$218,760 in comparison with the prior year fund balance. Of this amount, \$934,298 (5%) constitutes unassigned fund balance, which is available for spending at the Town's discretion. Of the total fund balances, approximately 94% (or \$14,885,337) is restricted for statutory requirements or committed for Town Council purposes. Less than 1% (or \$32,761) of the combined ending fund balance represents prepaid expenses in non-spendable form.

As mentioned earlier, the General Fund is the chief operating fund of the Town. The ending balance in the General Fund is \$2,193,891, an increase of \$764,155 in comparison with the prior year fund balance. Of this amount, \$931,927 (43%) is unassigned and available for spending at the Town's discretion. Of the remaining fund balances, \$1,229,203 (56%) is restricted for statutory requirements or committed for Town Council purposes and \$32,761 (1%) is in non-spendable form.

The Special Revenue Fund for Safe Routes to School had total fund balance of \$0 at year-end. This Special Revenue Fund recognizes and segregates revenue derived from federal grants for the construction of infrastructure projects. Any shortfalls in fund balance are covered by the Capital Improvements fund.

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 property taxes levied for interest and principal at the approved debt rate. Any shortfalls are covered by transfers from other funds. At the end of the fiscal year, the Debt Service Fund had total fund balance of \$40,970 of which the entire amount is classified as unassigned.

The Town's Capital Improvements Fund is used to account for the designation of proceeds from Combination Tax and Revenue Series 2014 Certificates of Obligation that are to be used for future infrastructure and commercial development projects. The balance in this fund at year-end was \$12,366,229 which is classified as funds committed by Town Council.

The Town's Aggregate Non-Major Funds had a combined fund balance of \$1,251,306 at year-end, representing unused grant awards and sales taxes reserved for economic development and street improvements by voter referendum. From the total combined fund balance remaining in Aggregate Non-Major Funds, \$1,286,987 was classified as committed by Town Council and \$2,918 was restricted for statutory requirements. One of the non-major funds in his group had a deficit balance of \$38,599, which is expected to be covered by the Capital Improvements fund if short falls continue in future periods.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued)

Governmental Funds (Continued)

**Changes in Year-End Fund Balance
September 30,**

	<u>2016</u>	<u>2015</u>
General Fund	\$ 2,193,891	\$1,429,736
Major Special Revenue Funds		
Debt Service Fund	40,970	34,489
Capital Improvements Fund	12,366,229	13,839,583
Aggregate Non-Major Funds	<u>1,251,306</u>	<u>767,348</u>
Combined Fund Balance	<u>\$15,852,396</u>	<u>\$16,071,156</u>

The 1% decrease in overall fund balance can be primarily attributed to the payment of debt service for certificates of obligation and continuing investments in infrastructure. In addition, the increases in these expenditures are offset by increases in property tax revenue, sales tax revenue and charges for permits and licenses.

Revenue Source

Governmental fund revenues for the fiscal year ended September 30, 2016 and a comparison with the governmental fund revenues in the prior fiscal year are as follows:

	<u>2016 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2015</u>	<u>Percent Increase (Decrease)</u>
Property taxes	\$3,362,847	41.9%	\$ 193,957	6.1%
Sales taxes	1,832,810	22.8%	277,791	17.9%
Grant income	1,254,194	15.6%	242,532	24.0%
Licenses, permits and fees	487,163	6.1%	241,101	98%
Franchise taxes	326,253	4.1%	(3,241)	(1.0)%
Charges for services	325,158	4.0%	117,701	56.7%
Fines and forfeitures	228,141	2.8%	(19,558)	(7.9)%
Interest income	50,680	0.6%	(7,497)	(12.9)%
Contributions	6,186	0.2%	(2,019)	(24.6)%
Other income	<u>155,737</u>	<u>1.9%</u>	<u>82,884</u>	<u>113.8%</u>
Total	<u>\$8,029,169</u>	<u>100%</u>	<u>\$1,123,651</u>	<u>16.3%</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The increase in property taxes is due to an increase in the property tax rate from \$0.427998 per \$100 of assessed valuation to \$0.452723, in addition to increasing property values. The increase in sales tax revenue and franchise tax revenue is attributed to a continued increase in sales experienced by commercial establishments in the Town's taxing jurisdiction. The increase in grant income is attributed to Federal funds used for the improvement of Darrington Road and the continuation of a Safe Routes to School Project for Col. John O. Ensor Middle School and Carroll T. Welch Elementary School. The increase in license fees and permits is consistent with increasing commercial real estate development in the area, in addition to adjustments made to the coding fee schedule to match fees to those charged by nearby jurisdictions. The increase in charges for services is attributed to a full fiscal year of two interlocal agreements with El Paso Emergency Districts #1 and #2 for dispatching services, in comparison to only a partial period in the previous year.

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 2016, the Town expended \$216,015 less than budgeted in the General Fund.

Final Budget Versus Actual Results General Fund

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues/inflows:				
Property taxes	\$2,721,751	\$2,721,751	\$2,729,820	\$ 8,069
Sales taxes	1,089,160	1,089,160	1,227,976	138,816
Franchise taxes	304,500	304,500	487,163	182,663
Fines and forfeitures	352,680	352,680	326,253	(26,427)
Licenses, permits and fees	228,996	228,996	325,158	96,162
Charges for services	335,321	335,321	228,141	(107,180)
Interest income			20,603	20,603
Contributions			6,186	6,186
Other income	23,600	88,561	155,737	67,176
Transfers from other funds		<u>49,500</u>		<u>(49,500)</u>
Total revenues	<u>\$5,056,008</u>	<u>\$5,170,469</u>	<u>\$5,507,037</u>	<u>\$ 336,568</u>

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

Final Budget Versus Actual Results General Fund (Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures/outflows:				
General government	\$ 984,674	\$ 984,674	\$ 902,103	\$ 82,571
Public services	262,101	262,101	258,105	3,996
Public works	217,518	217,518	221,540	(4,022)
Community development	243,968	243,968	212,749	31,219
Public safety	2,145,901	2,168,003	2,106,108	61,895
Municipal court	226,388	226,388	209,233	17,155
Parks and recreation	300,940	350,440	330,105	20,335
Planning	315,971	315,971	171,646	144,325
Code enforcement	229,577	229,577	183,989	45,588
Storm water	45,800	45,800	28,729	17,071
Debt service			64,345	(64,345)
Capital improvements	<u>83,170</u>	<u>126,029</u>	<u>265,802</u>	<u>(139,773)</u>
Total expenditures	<u>\$5,056,008</u>	<u>\$5,170,469</u>	<u>\$4,954,454</u>	<u>\$ 216,015</u>

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 and construction in progress).

The Town's investment in capital assets for its governmental activities was \$10,515,330, 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 \$296,769 due to the acquisition of public safety equipment, including vehicles and communication equipment.
- The Town's investment in infrastructure increased by \$2,627,865, of which \$773,151 represents in-kind federal and state awards for improvements to Darrington Road and school traffic zones. The Kenazo Illumination project was completed in 2016. The total cost incurred for the project from inception to 2016 was \$316,837. Construction in progress for all on-going infrastructure projects amounted to \$3,528,871 at year-end.

CAPITAL ASSETS (Continued)

Capital assets held by the Town are summarized as follows:

Capital assets, net of accumulated depreciation

	<u>09/30/16</u>	<u>09/30/15</u>
Land	\$ 745,140	\$ 745,140
Building and improvements	578,729	552,794
Machinery and equipment	684,704	660,636
Infrastructure	4,977,886	4,914,824
Construction in progress	<u>3,528,871</u>	<u>1,217,843</u>
Total capital assets, net	<u>\$10,515,330</u>	<u>\$8,091,237</u>

Additional information on the Town's capital assets can be found in the notes to the financial statements on pages 38 and 39 of this report.

LONG-TERM DEBT

At the end of the fiscal year, the Town had long-term debt outstanding in the amount of \$15,948,096. The Town's debt is composed of general obligation bonds, notes payable and accrued compensated absences at September 30, 2016. The following table shows the change in long-term debt from 2015 to 2016:

Long-Term Debt Outstanding at Year-End; Year Ended September 30,

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Bonds payable	\$15,200,000	\$15,230,000	\$(30,000)
Bond premium	484,759	506,793	(22,034)
Note payable	156,561		156,561
Compensated absences	<u>106,776</u>	<u>94,138</u>	<u>12,638</u>
Total	<u>\$15,948,096</u>	<u>\$15,830,931</u>	<u>\$117,165</u>

More detailed information about the Town's long-term liabilities is presented in the notes to the financial statements on pages 39 through 41 of this report.

ECONOMIC FACTORS AND FUTURE PLANS

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 primarily a retirement community. With the continued development of commercial establishments 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.

The Town has adopted a five 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 the 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 black ink, appearing to read "Ruben Mendoza". The signature is fluid and cursive, written over a light blue horizontal line.

Honorable Mayor Ruben Mendoza
Town of Horizon City, Texas

INDEPENDENT AUDITORS' REPORT

To Honorable Mayor Ruben Mendoza
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 Town of Horizon City, Texas ("the Town") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Horizon City, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

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

(Continued)

To Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

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 Town of Horizon City, Texas, as of September 30, 2016, and the respective changes in financial position 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 13 and 50 through 55, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Horizon City, Texas' basic financial statements. The combining aggregate non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

(Continued)

To Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

Other Matters (Continued)

Other Information (Continued)

The combining aggregate non-major fund financial statements and the schedule of expenditures of federal and state awards 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 combining aggregate non-major fund financial statements and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2017, on our consideration of 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.

SBNG, PC

El Paso, Texas
April 11, 2017

TOWN OF HORIZON CITY, TEXAS

STATEMENT OF NET POSITION

September 30, 2016

<u>ASSETS</u>	Governmental <u>Activities</u>
Cash and cash equivalents	\$ 13,994,776
Investments	2,046,685
Taxes receivable	204,004
Grants receivable	337,347
Other receivables, net	14,835
Prepaid expenses	32,761
Non-depreciable capital assets	4,274,011
Depreciable capital assets, net of accumulated depreciation	<u>6,241,319</u>
Total assets	<u>27,145,738</u>
 <u>LIABILITIES</u>	
Accounts payable	527,633
Accrued liabilities	227,420
Due within one year:	
Compensated absences	14,916
Note payable	69,858
Bonds payable	460,000
Due in more than one year:	
Compensated absences	91,860
Note payable	86,703
Bonds payable, net	<u>15,224,759</u>
Total liabilities	<u>16,703,149</u>
 <u>NET POSITION</u>	
Net position:	
Invested in capital assets, net of related debt	7,040,239
Restricted for State mandated funds	280,614
Unrestricted	<u>3,121,736</u>
Total net position	<u>\$ 10,442,589</u>

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

TOWN OF HORIZON CITY, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenues</u>			<u>Net Revenue (Expenses) and Changes in Net Position</u>
<u>Direct Expenses</u>	<u>Charges for Services, Fees, Fines and Forfeitures</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:				
Public safety	\$2,388,456	\$ 325,158	\$164,250	\$ (1,899,048)
General government	997,575	487,163	6,186	(504,226)
Community development	514,930			575,014
Parks and recreation	360,057			(360,057)
Public services	265,105			(265,105)
Public works	225,220			(225,220)
Municipal court	209,394	228,141		18,747
Code enforcement	193,923			(193,923)
Planning	171,726			(171,726)
Storm water	28,729			(28,729)
Interest on long-term debt	<u>585,738</u>			<u>(585,738)</u>
Total governmental	<u>\$5,940,853</u>	<u>\$1,040,462</u>	<u>\$170,436</u>	<u>\$ 1,089,944</u> <u>(3,640,011)</u>
		General revenues:		
		Property taxes		3,367,316
		Sales taxes		1,832,810
		Franchise taxes		326,253
		Interest income		50,680
		Miscellaneous income		<u>155,737</u>
		Total general revenues		<u>5,732,796</u>
		Change in net position		2,092,785
		Net position, beginning of year		<u>8,349,804</u>
		Net position, end of year		<u>\$ 10,442,589</u>

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

TOWN OF HORIZON CITY, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2016

	General Fund	Special Revenue Fund - Safe Routes to School	Debt Service Fund	Capital Improvements Fund	Aggregate Non-Major Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and cash equivalents, non-pooled	\$ 860,555	\$	\$	\$ 12,355,830	\$ 691,781	\$ 13,908,166
Pooled cash and cash equivalents	100,846		(1,205)		(13,031)	86,610
Investments	1,447,191				599,494	2,046,685
Taxes receivable	162,017		41,987			204,004
Due from other funds			20,801	198,279		219,080
Grants receivable		316,793			20,554	337,347
Other receivables, net	14,835					14,835
Prepaid expenses	32,761					32,761
Total assets	<u>\$ 2,618,205</u>	<u>\$ 316,793</u>	<u>\$ 61,583</u>	<u>\$ 12,554,109</u>	<u>\$ 1,298,798</u>	<u>\$ 16,849,488</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>						
Liabilities:						
Accounts payable	\$ 178,352	\$ 157,113	\$	\$ 187,880	\$ 4,288	\$ 527,633
Accrued liabilities	146,848				4,605	151,453
Due to other funds	20,801	159,680			38,599	219,080
Total liabilities	<u>346,001</u>	<u>316,793</u>		<u>187,880</u>	<u>47,492</u>	<u>898,166</u>
Deferred inflows of resources:						
Deferred property taxes	78,313		20,613			98,926
Total deferred inflows of resources	<u>78,313</u>		<u>20,613</u>			<u>98,926</u>
Fund balances:						
Nonspendable	32,761					32,761
Restricted	277,696				2,918	280,614
Committed	951,507			12,366,229	1,286,987	14,604,723
Unassigned	931,927		40,970		(38,599)	934,298
Total fund balances	<u>2,193,891</u>		<u>40,970</u>	<u>12,366,229</u>	<u>1,251,306</u>	<u>15,852,396</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,618,205</u>	<u>\$ 316,793</u>	<u>\$ 61,583</u>	<u>\$ 12,554,109</u>	<u>\$ 1,298,798</u>	<u>\$ 16,849,488</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, 2016

Total fund balances of governmental funds in the balance sheet \$ 15,852,396

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	14,031,988	
Accumulated depreciation	<u>(3,516,658)</u>	10,515,330

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

Deferred property taxes		98,926
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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:

Bonds payable	(15,684,759)	
Notes payable	(156,561)	
Compensated absences	(106,776)	
Accrued interest	<u>(75,967)</u>	<u>(16,024,063)</u>

Total net position of governmental activities \$ 10,442,589

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, 2016

	General Fund	Special Revenue Fund - Safe Routes to School	Debt Service Fund	Capital Improvements Fund	Aggregate Non-Major Funds	Total Governmental Funds
<u>REVENUES</u>						
Property taxes	\$2,729,820	\$	\$ 633,027	\$	\$	\$ 3,362,847
Sales taxes	1,227,976				604,834	1,832,810
Grant income		339,436		750,508	164,250	1,254,194
Licenses, permits and fees	487,163					487,163
Franchise taxes	326,253					326,253
Charges for services	325,158					325,158
Fines and forfeitures	228,141					228,141
Interest income	20,603		3,304	26,358	415	50,680
Contributions	6,186					6,186
Other income	<u>155,737</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>155,737</u>
Total revenues	<u>5,507,037</u>	<u>339,436</u>	<u>636,331</u>	<u>776,866</u>	<u>769,499</u>	<u>8,029,169</u>
<u>EXPENDITURES</u>						
Public safety	2,106,108				132,662	2,238,770
General government	902,103		1,264		8,828	912,195
Parks and recreation	330,105					330,105
Community development	212,749				74,875	287,624
Public services	258,105					258,105
Public works	221,540					221,540
Municipal court	209,233					209,233

(Continued)

TOWN OF HORIZON CITY, TEXAS

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

Year Ended September 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund - Safe Routes to School</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<u>EXPENDITURES (Continued)</u>						
Code enforcement	\$ 183,989	\$	\$	\$	\$	\$ 183,989
Planning	171,646					171,646
Storm water	28,729					28,729
Debt service:						
Principal	55,011		30,000			85,011
Interest	9,334		598,586			607,920
Capital outlay	<u>265,802</u>	<u>418,634</u>	<u> </u>	<u>2,171,022</u>	<u>69,176</u>	<u>2,924,634</u>
Total expenditures	<u>4,954,454</u>	<u>418,634</u>	<u>629,850</u>	<u>2,171,022</u>	<u>285,541</u>	<u>8,459,501</u>
Excess (deficit) of revenues over (under) expenditures	<u>552,583</u>	<u>(79,198)</u>	<u>6,481</u>	<u>(1,394,156)</u>	<u>483,958</u>	<u>(430,332)</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS

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

Year Ended September 30, 2016

	General Fund	Special Revenue Fund - Safe Routes to School	Debt Service Fund	Capital Improvements Fund	Aggregate Non-Major Funds	Total Governmental Funds
Other financial sources (uses):						
Interfund transfers	\$	\$ 79,198	\$	\$ (79,198)	\$	\$
Proceeds from note payable	<u>211,572</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>211,572</u>
Total other financial sources (uses)	<u>211,572</u>	<u>79,198</u>	<u> </u>	<u>(79,198)</u>	<u> </u>	<u>211,572</u>
Net change in fund balance	764,155		6,481	(1,473,354)	483,958	(218,760)
Fund balance, beginning of the year	<u>1,429,736</u>	<u> </u>	<u>34,489</u>	<u>13,839,583</u>	<u>767,348</u>	<u>16,071,156</u>
Fund balance, end of the year	<u><u>\$ 2,193,891</u></u>	<u><u> </u></u>	<u><u>\$ 40,970</u></u>	<u><u>\$12,366,229</u></u>	<u><u>\$ 1,251,306</u></u>	<u><u>\$15,852,396</u></u>

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

TOWN OF HORIZON CITY, TEXAS

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

Year Ended September 30, 2016

Net change in fund balances – total governmental funds \$ (218,760)

Amounts reported in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the government-wide statements, the cost of those assets are depreciated over their estimated useful lives:

Capital outlays	2,924,634	
Depreciation expense	<u>(500,541)</u>	2,424,093

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 deferred property tax revenues.

Change in deferred property taxes	4,469
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The proceeds from notes payable provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

(211,572)

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 position.

85,011

In the statement of activities, the outstanding balance of bonds premiums is reduced every time an interest payment is made. Bond premiums are amortized using the straight-line method over the term of the certificates of obligation. Interest expense in the statement of activities is reduced by bond amortization recognized every year.

22,034

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 accrued interest payable	148
Change in compensated absences payable	<u>(12,638)</u>

Change in net position of governmental activities \$ 2,092,785

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

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

September 30, 2016

	<u>Agency Funds</u>
<u>ASSETS</u>	
Investments, at fair value	<u>\$985,283</u>
Total assets	<u>985,283</u>
<u>LIABILITIES</u>	
Deferred compensation payable	<u>985,283</u>
Total liabilities	<u>985,283</u>
<u>NET POSITION HELD IN TRUST</u>	
Net position held in-trust	<u>\$</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, (“the Town”) 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 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, 2016.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – As required by generally accepted accounting principles, these financial statements present the activities of the Town, its component units and fiduciary activities. All activities of the Town are governmental in nature and are financed through taxes and other non-exchange transactions. Component units are legally separate organizations for which the Town is financially accountable or other organizations whose nature and significant relationship with the Town are such that exclusion would cause the Town’s financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and (i) either the Town’s ability to direct the organization or (ii) the potential for the organization to provide a financial benefit to or impose a financial burden on the Town. The Town’s fiduciary activities are accounted for in the Agency Fund.

Blended component units, although legally separate entities are, in substance, part of the Town’s operations. Accordingly, data from these units are combined with data of the primary government. The discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. Further, the Town is not aware of any entity which would consider itself to be a discrete component unit of the Town.

(Continued)

TOWN OF HORIZON CITY, TEXAS

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Blended Component Units –

Town of Horizon City Type 4B Economic Development Corporation – Established to promote economic development activities within the Town of Horizon City, Texas in order to eliminate unemployment, encourage public welfare and develop projects of public interest related to sports, culture, tourism, amusement and commerce. The Corporation was established in 2011 and receives 0.25% of sales taxes collected by the Town, as designated by Council Ordinance. The Corporation meets the requirements for blending because its governing body is appointed by the Town's Council and is managed as a department of the Town under the direction of the Town's management. The Corporation's activities are reported in the Town's governmental activities as a special revenue fund. Separate financial statements are not prepared for the Corporation. The Corporation's fiscal year ends on September 30.

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.

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

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.

(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 (Continued) – 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.

In addition to assets and liabilities, the government fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

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 funds:

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.

Special Revenue Fund - Safe Routes to School – This Special Revenue Fund is used to account for the expenditures of federal grant awards that have been restricted for use in the development of safer school zones. Grant revenue is recognized when compliance with the various contract requirements is achieved.

Debt Service Fund – Accounts for the accumulation of financial resources for the payment of principal and interest on the Town’s general obligation debt.

Capital Improvements Fund – Accounts for the capital expenditures of Combination Tax and Revenue Certificates of Obligation proceeds designated for the use in infrastructure and commercial development projects.

(Continued)

TOWN OF HORIZON CITY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued) – Additionally, the Town reports the following non-major governmental funds:

Special Revenue Fund – Street Maintenance – This Special Revenue Fund is used to account for the expenditures of sales taxes reserved for maintaining existing streets. The Fund accounts for 0.25% of sales tax revenue received every year as determined by voter referendum.

Special Revenue Fund – Economic Development – This Special Revenue Fund is used to account for the expenditures of sales taxes reserved for fostering economic growth in the Town. The Fund accounts for 0.25% of sales tax revenue received every year as determined by voter referendum. Expenditures for economic growth are determined by the Economic Development Corporation, a blended component unit of the Town, and approved by the Town Council.

Special Revenue Fund – Stonegarden – This Special Revenue Fund is used to account for the expenditures of federal awards that have been restricted to be used in public service. Grant revenue is recognized when compliance with the various contract requirements is achieved.

Special Revenue Fund – State and Local Grants – This Special Revenue Fund is used to account for the expenditures of state and local awards that have been restricted to be used in public service. Grant revenue is recognized when compliance with the various contract requirements is achieved.

Special Revenue Fund - Transportation Reinvestment Zone – This Special Revenue Fund is used to account for tax revenues generated from the incremental tax values on the Transportation Reinvestment Zone Number Two created by Town Ordinance pursuant to Section 222.106 of the Texas Transportation Code (“Municipal TRZ Act”). TRZ Number Two Revenues are restricted for the development of the Eastlake Blvd. Expansion Project.

The Town reports the following fiduciary fund:

Agency Fund – The Agency Fund is used to account for the Town’s 457 (b) Deferred Compensation Fund, which is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. A fiduciary statement of net position is presented. The Agency funds are accounted for on a spending or “economic resources” measurement focus.

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.

(Continued)

TOWN OF HORIZON CITY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued) – 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.

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.

(Continued)

TOWN OF HORIZON CITY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Town maintains and controls one major cash pool. The balance and activity in the cash pool is allocated to each individual fund of the Town. In addition, the Town holds non-pooled cash and investments accounts discretely presented on separate funds.

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.

Property Tax Calendar – The Town is responsible for the assessment, collection, and apportionment of property taxes. The Council levies property taxes on October 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$741,513,882 for the year ended September 30, 2016. 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 2015-2016 tax rate was \$.452723, per \$100 of assessed valuation. The Town incurred expenditures of \$42,042 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2016.

Grants and Contracts Receivable – Grants and contracts receivable are stated at net realizable value. In determining whether or not to record an allowance for doubtful accounts, management makes a judgmental determination based on an evaluation of the facts and circumstances related to each account. At September 30, 2016, management determined all outstanding grants and contracts receivable to be fully collectable. Accordingly, no allowance has been established.

(Continued)

TOWN OF HORIZON CITY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 position, 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 in varying amounts based on length of service. Earned compensated absences 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.

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 and premiums are deferred and amortized over the life of the bonds using a method that approximates the effective interest method. Bonds payable are reported net of the applicable bond discounts or premiums. Bond issuance costs, with the exception of prepaid bond insurance, are reported as expenses in the period incurred.

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.

(Continued)

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources – In addition to assets and liabilities, the statement of net position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

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. At September 30, 2016, nonspendable fund balance consists of prepaid expenses in the amount of \$32,761.

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 \$280,614 at September 30, 2016 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 \$14,604,723 is composed of funds for street development and maintenance, economic development and capital improvement.

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. Amounts may be assigned by Town Council by resolution.

Unassigned fund balance – amounts that are available for any purpose; these amounts are reported in the Town’s General Fund and Debt Service Fund.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position – Net position is 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".

Net position/fund balance flow assumptions – Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements and restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted balances to have been depleted before unrestricted balances are applied.

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 position.

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 collectability of its accounts receivable. The allowance for doubtful accounts amounted to \$769 at September 30, 2016.

(Continued)

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

DEPOSITS

At September 30, 2016, the reported amount of the Town's deposits was \$13,994,776 and the bank balance was \$14,074,310. These deposits are held in deposit accounts and money market funds. Cash held in the Construction in Progress fund has been committed through Town Ordinance to be used in infrastructure projects. Cash held in the General Fund totaling \$413,661 has been reserved as a stabilization amount through Council Ordinance.

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, 2016, 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.

(Continued)

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

DEPOSITS (Continued)

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.

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, 2016:

	<u>Category</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
General Fund	A	\$1,447,191	\$1,447,191
Aggregate Non-Major Funds	A	<u>599,494</u>	<u>599,494</u>
Total		<u>\$2,046,685</u>	<u>\$2,046,685</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 WestStar Bank in the name of the Town. All certificates of deposit are fully insured by the FDIC.

(Continued)

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

DEPOSITS (Continued)

Concentration of Credit Risk - The Town places no limit on the amount the Town may invest in any one issuer. At September 30, 2016, the Town had the following investments in single issuers representing more than five percent of the total investments on-hand:

Issuer A	\$249,943
Issuer B	249,805
Issuer C	247,918
Issuer D	<u>199,724</u>
Total	<u>\$947,390</u>

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 insured by the FDIC up to \$250,000. Management evaluates the exposure to credit risk for deposits exceeding the amount insured by the FDIC by comparing the amounts of cash on-hand to collateral funds. At September 30, 2016, pledged collateral funds securing the Town's deposits had a fair market value of \$12,719,708. Management does not believe the Town is exposed to any significant credit risk.

(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, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvements Fund	Special Revenue – Safe Routes to School	\$159,680
Capital Improvements Fund	Special Revenue – Transportation Reinvestment Zone No. 2	38,599
Debt Service	General Fund	<u>20,801</u>
Total		<u>\$219,080</u>

PROPERTY TAX AND OTHER RECEIVABLES

Property tax and other receivables consist of the following at September 30, 2016:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Governmental activities:			
Property taxes, current	\$105,078	\$	\$105,078
Property taxes, delinquent	<u>98,926</u>	<u> </u>	<u>98,926</u>
Property taxes, total	204,004		204,004
Other	<u>15,604</u>	<u>(769)</u>	<u>14,835</u>
Total governmental activities	<u>\$219,608</u>	<u>\$(769)</u>	<u>\$218,839</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, 2016:

State of Texas – Safe Routes to Schools	\$316,793
Stone Garden	11,463
Border Star	<u>9,091</u>
Total	<u>\$337,347</u>

(Continued)

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

CAPITAL ASSETS

Capital asset activity for the District for the year ended September 30, 2016, was as follows:

	September 30, 2015	Increases	Decreases	Transfers	September 30, 2016
Non-depreciable capital assets:					
Land	\$ 745,140	\$	\$	\$	\$ 745,140
Construction in progress	<u>1,217,843</u>	<u>2,627,865</u>	<u> </u>	<u>(316,837)</u>	<u>3,528,871</u>
Total non-depreciable capital assets	<u>\$1,962,983</u>	<u>\$2,627,865</u>	<u>\$ </u>	<u>\$(316,837)</u>	<u>\$ 4,274,011</u>
Depreciable capital assets:					
Building and improvements	\$ 803,883	\$ 47,639	\$	\$	\$ 851,522
Equipment	2,257,122	249,130			2,506,252
Infrastructure	<u>6,083,366</u>	<u> </u>	<u> </u>	<u>316,837</u>	<u>6,400,203</u>
	<u>9,144,371</u>	<u>296,769</u>	<u> </u>	<u>316,837</u>	<u>9,757,977</u>
Less accumulated depreciation for:					
Building and improvements	(251,089)	(21,704)			(272,793)
Equipment	(1,168,542)	(225,062)			(1,821,548)
Infrastructure	<u>(1,596,486)</u>	<u>(253,775)</u>	<u> </u>	<u> </u>	<u>(1,422,317)</u>
Total accumulated depreciation	<u>(3,016,117)</u>	<u>(500,541)</u>	<u> </u>	<u> </u>	<u>(3,516,658)</u>
Depreciable capital assets, net	<u>6,128,254</u>	<u>(203,772)</u>	<u> </u>	<u>316,837</u>	<u>6,241,319</u>
Total capital assets, net	<u>\$8,091,237</u>	<u>\$2,424,093</u>	<u>\$ </u>	<u>\$ </u>	<u>\$10,515,330</u>

(Continued)

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

CAPITAL ASSETS (Continued)

Depreciation expense was charged to function/programs of the government for the year ended September 30, 2016 as follows:

Community development	\$ 227,306
Public safety	149,686
General government	72,742
Parks and recreation	29,952
Code enforcement	9,934
Public services	7,000
Public works	3,680
Municipal court	161
Planning	<u>80</u>
Total provisions for depreciation	<u>\$500,541</u>

LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2016:

	Balance at September 30, 2015	Additions	Reductions	Balance at September 30, 2016	Due Within One Year
Compensated absences \$	94,138	\$194,783	\$(182,145)	\$ 106,776	\$ 14,916
Note payable		211,572	(55,011)	156,561	69,858
Bonds payable, net	<u>15,736,793</u>	<u> </u>	<u>(52,034)</u>	<u>15,684,759</u>	<u>460,000</u>
	<u>\$15,830,931</u>	<u>\$406,355</u>	<u>\$(289,190)</u>	<u>\$15,948,096</u>	<u>\$544,774</u>

Compensated absences

The Town's leave policy allows employees to accumulate paid-time-off up to 80 hours per year with a maximum accumulation of 800 hours. Upon termination, any accumulated paid-time-off will be paid to the employee. As of September 30, 2016, employees had approximately 5,347 hours of accumulated paid-time-off.

Total accrued compensated absences	<u>\$106,776</u>
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(Continued)

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

LONG-TERM DEBT (Continued)

Note Payable

The Town issued a promissory note in the amount of \$211,572 with the interest rate of 5.89% to purchase four vehicles. The note is unsecured and matures in December 2018. \$156,561

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 are due at an interest rate of 3.95% from date of issuance through February 23, 2007. Varying principal and interest payments are due semi-annually beginning August 15, 2007 through 2029. 525,000

The Town issued \$14,675,000 of Combination Tax and Revenue Bonds, Series 2014 to finance the cost of rehabilitation and improvements to infrastructure. Interest only payments are due at 4% of face value from the date of issuance through February 2017. Interest rate varies from 3.25% to 4.0% over the term of the bonds. Varying principal and interest payments are due semi-annually beginning August 15, 2017 through 2038. The original bond issue included a \$532,500 offering premium to be amortized over the life of the bond. The effective yield rate is approximately 3.65%. 14,675,000

Total bonds payable outstanding 15,200,000
 Unamortized bond premium 484,759

Total bonds payable, net 15,684,759

Total long-term debt \$15,948,096

Future maturities of the note payable is as follows:

Year Ending
September 30,

2017	\$ 69,858
2018	74,086
2019	<u>12,617</u>
Totals	<u>\$156,561</u>

(Continued)

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

LONG-TERM DEBT (Continued)

Annual debt service for the outstanding bonds is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2017	\$ 460,000	\$ 597,401	\$ 1,057,401
2018	480,000	579,016	1,059,016
2019	495,000	559,831	1,054,831
2020	520,000	540,045	1,060,045
2021	540,000	519,263	1,059,263
2022-2026	3,055,000	2,253,795	5,308,795
2027-2031	3,595,000	1,616,173	5,211,173
2032-2036	4,150,000	889,675	5,039,675
2037-2038	<u>1,905,000</u>	<u>115,000</u>	<u>2,020,000</u>
Totals	<u>\$15,200,000</u>	<u>\$7,670,199</u>	<u>\$22,870,199</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 portion of Series 2014 bond certificates having a stated maturity of August 15, 2036 and August 15, 2038 are subject to mandatory sinking fund redemption prior to maturity at face value plus any accrued interest at the redemption date on the respective dates and in principal amounts as follows:

4% Term Certificates due August 15, 2036, priced to yield 4.05%:

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2035	\$860,000
August 15, 2036	\$895,000

4% Term Certificates due August 15, 2038, priced to yield 4.09%:

<u>Redemption Date</u>	<u>Principal Amount</u>
August 15, 2037	\$935,000
August 15, 2038	\$970,000

(Continued)

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

DEFERRED INFLOWS OF RESOURCES

Unavailable revenues in the amount of \$98,926 at September 30, 2016, represent property tax revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Governmental funds report deferred inflows of resources 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. Unavailable revenue received after 60 days is fully recognized as revenue on the government-wide statements. Unavailable revenue at the government-wide level arise only when the Town receives resources before it has a legal claim to them.

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	\$ 90,026
Technology Fund	85,400
Children's Fund	61,558
PEG Capital Fund	32,166
Time Payments	7,739
LEOSE Grant	2,620
STDS	714
Stone Garden Grant	298
Truancy	<u>93</u>
Total	<u>\$280,614</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 Improvements Plan Fund	\$12,366,229
Economic Development	759,053
Other Capital Improvements	539,171
Street Construction and Maintenance	526,609
Stabilization by Council Ordinance	<u>413,661</u>
Total	<u>\$14,604,723</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), GASB Statement No. 32, "Accounting and Financial Reporting for IRS Code Section 457 Deferred Compensation Plans" and GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." Under these provisions, all assets and income of the Plan are not reported within the Town's financial statements. The assets of the Plan are in the custody of the Town and are reported as an Agency Fund in the accompanying financial statements.

Under the terms of the Plan, employees may contribute from their earnings up to the maximum amount allowed by the Internal Revenue Service annually. The Town will match three percent of all the participating employees' annual base salary to the Plan. In addition, the Town provides an additional match of up to 3% for all elective contributions made by employees every year. In fiscal year ended September 30, 2016, the Town matched 3% of the participants' contributions into the Plan. Town contributions amounted to \$99,481 while employee contributions totaled \$123,319 for the year ended September 30, 2016. Total assets of the Plan amounted to \$985,283 at September 30, 2016.

INTERFUND TRANSFERS

The Town's interfund transfers were made to provide matching funds for the Safe Routes to School grant and were as follows for the year ended September 30, 2016:

<u>From</u>	<u>To</u>	<u>Amount</u>
Capital improvements	Special Revenue Fund – Safe Routes to School	<u>\$79,198</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

RISK POOL

The Town is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; and natural disaster. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amounts of loss can be reasonably estimated. 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, 2016.

The Town had no changes in insurance coverage from the prior year, and there were no settlements that exceeded insurance coverage in the last three years.

COMMITMENTS AND CONTINGENCIES

County of El Paso and Camino Real Regional Mobility Authority

The Town entered into an interlocal agreement with the County of El Paso ("the County") and the Camino Real Regional Mobility Authority ("the Authority"), to provide funding for improvements to Eastlake Blvd. referred to as the "Eastlake Blvd. Phase 2 Roadway Improvement Project". The project is defined in the Town's Ordinance No. 0219 and includes design and reconstruction of the existing roadway, with the possibility of adding new connections between other existing roadways, pedestrian improvements, and aesthetic improvements such as landscaping and public arts.

The Authority has been designated as a regional mobility authority to which the County remits revenue collected from Special Vehicle Registration Fees. In addition, the Authority has issued its Senior Lien Vehicle Registration Fee Revenue Bonds, Series 2014 ("2014 VRF 2014 Bonds") to finance various transportation projects within the County, including developing and constructing such projects at the County's request. The County and the Authority have included the Town in their interlocal agreement for the Eastlake Blvd. Phase 2 Roadway Improvement Project in order to define the Town's responsibilities and to repay the Authority for the Town's proportionate share of the costs of the Project.

The Authority has procured and managed the design services and had procured and will manage construction services for the project. The Town and the County have acknowledged their responsibility for their proportionate share of project costs, including environmental costs, planning, procurement, utility relocation, design and construction management. The total budget for the project has been established at \$19,055,090, of which the Town has committed to \$4,325,505 or 22.7% of the actual costs. Responsibility for any budget overruns will be resolved between the three parties in future contract amendments, as considered necessary. Any change orders proposed for the project will be reviewed and signed by both the Authority and the Town.

(Continued)

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

COMMITMENTS AND CONTINGENCIES (Continued)

County of El Paso and Camino Real Regional Mobility Authority (Continued)

The Town's proportionate share for the costs of the project will be determined at project completion, at the time of the project's final acceptance by the three parties. The Town shall pay the amounts agreed to the Authority with annual payments commencing on May 1, 2020, and each year thereafter until the final payment date in 2038, when any outstanding balance shall be due and payable. The Town's annual interest costs will be at the same rate as the interest rate for 2014 VRF 2014 Bonds. In the event that the project is funded using the Authority's surplus funds, the interest rate will then be 3.73% per annum. Interest shall accrue and be paid on the outstanding balance of the Town's obligation until its maturity or earlier repayment, with interest to begin to accrue on the Project's Final Acceptance date.

Moreover, the Town has assigned the incremental tax revenue from the Transportation Reinvestment Zone No. 2 ("TRZ2") to provide funding for this project for the term necessary to fully reimburse the funds advanced by the Authority. Upon final acceptance of the project, the Town shall have the exclusive obligation to maintain and operate the improvements.

The Town is responsible for the acquisition of right-of-way, including any specific easements and rights of entry necessary for project design, development and construction. As of September 30, 2016, the Town has entered into various easement agreements with various property owners in connection with the project.

Texas Department of Transportation

The Town entered into a Local Transportation Project Advance Funding Agreement with the Texas Department of Transportation ("TXDOT") for the Widening of Darrington Road. The agreement provides access to Federal and State funds for the construction of two additional lanes on Darrington Road, one of the Town's principal arteries. Funding for construction and supervision is provided by the U.S. Department of Transportation and passed to TXDOT on a reimbursement basis. TXDOT is responsible for managing federal and state funds committed to this project. Accordingly, all Federal and State funds expended for this project are recognized by the Town as an in-kind donation. Estimated budgets for the project are established in the Advance Funding Agreement and total \$13,304,173. The Agreement stipulates the Town's participation (match) in the project's budget, which is not to exceed \$780,615. In addition, any costs incurred for the project in excess of Federal and State budget caps are to be matched by the Town. As stipulated in the agreement, the Town is to make an upfront match payment for engineering and environmental costs totaling \$90,275. Upon the completion of the project's design phase, the Town is required to make a second match payment for construction costs totaling \$558,031. Moreover, the Town is also responsible for 20% of the cost of any purchases of land required for the project and 20% of the cost of any utility reallocation. Total matching payments made by the Town from inception of the project through September 30, 2016 amount to \$644,677.

(Continued)

TOWN OF HORIZON CITY, TEXAS

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES (Continued)

Texas Department of Transportation (Continued)

At the end of the project, any unused matching funds might be used to cover any cost in excess of Federal or State budget caps. Remaining matching funds, if any, are to be returned to the Town at the completion of the project. The Town's policy is to recognize any matching funds returned as a reduction of total cost of infrastructure at the end of the project. During the fiscal year ended September 30, 2016, the Town recognized an in-kind grant award for this project totaling \$750,508, out of which \$651,200 represents Federal funds and \$99,308 represents State funds.

The Town entered into two Local Transportation Project Advance Funding Agreements with TXDOT to provide access to Federal Funds for the construction of two Safe Routes to Schools infrastructure projects on Eastlake Blvd., Col. John O. Ensor Middle School and Carroll T. Welch Elementary School. The agreements stipulate the Town as the responsible party for providing design and engineering services for the two projects. Funding for construction and supervision is provided by the U.S. Department of Transportation and passed to the Town by the Texas Department of Transportation on a reimbursement basis. Estimated budgets for each project are established in the Advance Funding Agreement and total \$1,276,564 and \$1,432,835, respectively. The Town's participation is budgeted to be \$243,087 and \$272,884, respectively. The Town is also responsible for any construction costs in excess of the budgets established in the Advance Funding Agreements. During the year ended September 30, 2016, the Town incurred \$395,991 for construction costs related to Col. John O. Ensor Middle School and Carroll T. Welch Elementary School. The Town received Federal assistance for this project totaling \$316,793. In addition, the Town received in-kind construction supervision services from TXDOT valued at approximately \$22,643. The Town expects to begin the construction phase for the project on Eastlake Blvd. in 2017.

The Town entered into an Advance Funding Agreement for Voluntary Maintenance with the Texas Department of Transportation for the maintenance of landscape and pavement on the Horizon Blvd. Bike/Walk Path. The Town is required to furnish all necessary maintenance required to improvements of the Bike/Walk Path. The Texas Department of Transportation will not be responsible for reimbursing the Town for any costs incurred in providing maintenance to the Walk/Bike Path.

The Town entered into an Advance Funding Agreement for Voluntary Maintenance with the Texas Department of Transportation for the maintenance of landscaping and an irrigation system placed on the area between the Horizon Blvd. Bike and Crocker Dr. intersection and the Horizon Blvd. Bike and Rifton Ct. intersection. The Town is required to furnish all necessary maintenance required to improvements developed in the area. The Texas Department of Transportation will not be responsible for reimbursing the Town for any costs incurred in providing maintenance to the landscaping and irrigation system.

(Continued)

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

COMMITMENTS AND CONTINGENCIES (Continued)

City of El Paso

The Town entered into an interlocal agreement with the City of El Paso in which the Town will receive environmental services from the City, including but not limited to animal control and rabies prevention. The period of the contract begins on September 1, 2016 and ends on October 31, 2017. Total compensation for the services provided by the City is \$171,437, and is to be paid by the Town in equal monthly installments.

The Town entered into an interlocal agreement with the City of El Paso in which the Town will receive public health services from the City, including but not limited to providing food handling permits, disease control and immunization services. The period of the contract begins in September 1, 2016 and ends on August 31, 2017. Total compensation for the services provided by the City is \$142,480, and is to be paid by the Town in equal monthly installments.

Other Commitments

The Town entered into an interlocal agreement with the El Paso Emergency Services District #1 (“ESD#1”) in which the Town’s public safety department will provide dispatching services to ESD#1, including but not limited to providing staff 24 hours, 7 days a week, to answer emergency services and dispatch responses to ESD#1 personnel. The period of the contract began October 1, 2014 and ended September 30, 2015. At the end of the term, the contract will be renewed every year unless both parties agree to terminate the agreement. Total compensation for the services provided by the Town during the year ended September 30, 2016 was \$56,900. The agreement requires the annual contract amount to be revisited every year and approved by both parties. The service amount for fiscal year 2016-2017 has been agreed at \$106,647, to be received quarterly.

The Town entered into an interlocal agreement with the El Paso Emergency Services District #2 (“ESD#2”) in which the Town’s public safety department will provide dispatching services to ESD#2, including but not limited to providing staff 24 hours, 7 days a week, to answer emergency services and dispatch responses to ESD#2 personnel. The period of the contract began on March 1, 2015 and ended on September 30, 2015. At the end of the term, the contract will be renewed every year unless both parties agree to terminate the agreement. Total compensation for the services provided by the Town during the year ended September 30, 2016 was \$268,258. The agreement requires the annual contract amount to be revisited every year and approved by both parties. The service amount for fiscal year 2016-2017 has been agreed at \$335,188, to be received quarterly.

(Continued)

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

COMMITMENTS AND CONTINGENCIES (Continued)

Other Commitments

The Town entered into an agreement with the Horizon Regional Municipal Utility District (“The District”) in order to establish collaborative efforts with respect to the relocation or reconstruction of various water lines that are deemed necessary for the construction roadway improvements. Pursuant to the agreement, certain water lines and sanitary sewer lines must be relocated and constructed as they conflict with the Town’s Industrial Park project. Both parties have agreed that the Town will provide funding for the required relocation and construction costs for the identified water lines. Upon completion of construction, the Town shall determine the actual cost of construction for the portion of the project attributable to District infrastructure constructed by the Town, for which the District will be obligated to repay the Town.

In connection with its Capital Improvements Plan, the Town has contracts with general contractors and professional engineering providers for the design, construction and supervision of various infrastructure projects. The Town expects the contracts to be completed or renewed within a one-year term.

Litigation

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, 2016.

Post-retirement benefits

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

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.

(Continued)

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

MAJOR FEDERAL PROGRAM

Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (“the Uniform Guidance”), defines a major program as a program with expenditures of federal funds in excess of \$750,000, unless other standards are established by funding sources. The total awards received from the Texas Department of Transportation are considered pass-through funds from the Department of Transportation under the Highway Planning and Reconstruction Cluster. The total awards expended by the Town under this Federal award totaled \$1,089,944 for the year ended September 30, 2016; therefore, the program is considered a major program for the purpose of the Uniform Guidance.

LEASE AGREEMENTS

In November 2015, the Town extended its lease agreement for the court and police department building for an additional 26 month period. Future minimum lease payments are as follows:

Year Ending September 30,

2017	\$59,016
2018	<u>14,754</u>
	<u>\$73,770</u>

Total rental expense under this agreement was \$56,862 for the year ended September 30, 2016.

SUBSEQUENT EVENTS

In November 2016, the Town purchased a lot of land identified to be used for the widening of Darrington Road. The Town acquired the property for a total cost of \$75,825, funded from the Capital Improvements Fund. The Town expects the Texas Department of Transportation to reimburse 80% of the cost of the land purchase.

Effective November 8, 2016, the Town entered into a contract with CSA Constructors for drainage and road improvements to Horizon Industrial Park Street. The total contract amount is established at \$4,882,227.

Subsequent events were evaluated through April 11, 2017, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HORIZON CITY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues/inflows:				
Property taxes	\$2,721,751	\$2,721,751	\$2,729,820	\$ 8,069
Sales taxes	1,089,160	1,089,160	1,227,976	138,816
Franchise taxes	304,500	304,500	487,163	182,663
Fines and forfeitures	352,680	352,680	326,253	(26,427)
Licenses, permits and fees	228,996	228,996	325,158	96,162
Charges for services	335,321	335,321	228,141	(107,180)
Interest income			20,603	20,603
Contributions			6,186	6,186
Other income	23,600	88,561	155,737	67,176
Transfers from other funds	<u> </u>	<u>49,500</u>	<u> </u>	<u>(49,500)</u>
 Total revenues	 <u>5,056,008</u>	 <u>5,170,469</u>	 <u>5,507,037</u>	 <u>336,568</u>
Expenditures/outflows:				
General government	984,674	984,674	902,103	82,571
Public services	262,101	262,101	258,105	3,996
Public works	217,518	217,518	221,540	(4,022)
Community development	243,968	243,968	212,749	31,219
Public safety	2,145,901	2,168,003	2,106,108	61,895
Municipal court	226,388	226,388	209,233	17,155
Parks and recreation	300,940	350,440	330,105	20,335
Planning	315,971	315,971	171,646	144,325
Code enforcement	229,577	229,577	183,989	45,588
Storm water	45,800	45,800	28,729	17,071
Debt service:				
Principal			55,011	(55,011)
Interest			9,334	(9,334)
Capital improvements	<u>83,170</u>	<u>126,029</u>	<u>265,802</u>	<u>(139,773)</u>
 Total expenditures	 <u>5,056,008</u>	 <u>5,170,469</u>	 <u>4,954,454</u>	 <u>216,015</u>
 Excess of revenues over expenditures	 <u> </u>	 <u> </u>	 <u>552,583</u>	 <u>552,583</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
(Continued)**

Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Excess of revenue over expenditures - budgetary basis	\$	\$	\$ 552,583	<u>\$ 552,583</u>
Fund balance, beginning of year	<u>1,429,736</u>	<u>1,429,736</u>	<u>1,429,736</u>	
Fund balance, end of year	<u>\$1,429,736</u>	<u>\$1,429,736</u>	<u>\$ 1,982,319</u>	

Explanation of differences between Revenues, Expenditures and Other Financing Uses for Budgetary Funds on a Budgetary Basis and GAAP General Fund on a GAAP basis:

Budget basis revenues over expenditures	<u>\$ 552,583</u>
Non-budgeted funds:	
Proceeds from line-of-credit	<u>211,572</u>
Total non-budgeted funds	<u>211,572</u>
GAAP basis surplus	764,155
Fund balance, beginning of the year	<u>1,429,736</u>
Fund balance, end of the year	<u>\$ 2,193,891</u>

See notes to required supplementary information.

TOWN OF HORIZON CITY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - STREET MAINTENANCE FUND**

Year Ended September 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Sales taxes	\$ 224,167	\$ 224,167	\$ 302,417	\$ 78,250
Total revenues	<u>224,167</u>	<u>224,167</u>	<u>302,417</u>	<u>78,250</u>
Expenditures/outflows:				
Community development	224,100	174,600	74,875	99,725
Transfers to other funds	<u> </u>	<u>49,500</u>	<u> </u>	<u>49,500</u>
Total expenditures	<u>224,100</u>	<u>224,100</u>	<u>74,875</u>	<u>149,225</u>
Excess of revenues over expenditures	67	67	227,542	227,475
Fund balance, beginning of the year	<u>299,067</u>	<u>299,067</u>	<u>299,067</u>	<u> </u>
Fund balance, end of the year	<u>\$ 299,134</u>	<u>\$ 299,134</u>	<u>\$ 526,609</u>	<u>\$ 227,475</u>

See notes to required supplementary information.

TOWN OF HORIZON CITY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - ECONOMIC DEVELOPMENT CORP.**

Year Ended September 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Sales taxes	\$ 224,167	\$ 224,167	\$ 302,417	\$ 78,250
Interest income	<u> </u>	<u> </u>	<u>415</u>	<u>415</u>
Total revenues	<u>224,167</u>	<u>224,167</u>	<u>302,832</u>	<u>78,665</u>
Expenditures/outflows:				
General government	<u>100,000</u>	<u>100,000</u>	<u>8,828</u>	<u>91,172</u>
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>8,828</u>	<u>91,172</u>
Excess of revenues over expenditures	124,167	124,167	294,004	169,837
Fund balance, beginning of the year	<u>465,049</u>	<u>465,049</u>	<u>465,049</u>	<u> </u>
Fund balance, end of the year	<u>\$ 589,216</u>	<u>\$ 589,216</u>	<u>\$ 759,053</u>	<u>\$ 169,837</u>

See notes to required supplementary information.

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, Street Maintenance Fund and Economic Development Fund are 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 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 2016.

(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:	
Capital improvements	\$139,773
Debt service	64,345
Public works	<u>4,022</u>
 Total	 <u>\$208,140</u>

The Council made supplemental appropriations of excess revenues subsequent to year-end which were sufficient to cover the current year over-expenditures. The primary over-expenditures were related to investments in vehicles, new long-term debt issued and increasing cost of salaries.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF HORIZON CITY, TEXAS

COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES -
AGGREGATE NON-MAJOR FUNDS

September 30, 2016

	<u>Special Revenue Fund - Street Maintenance</u>	<u>Special Revenue Fund - Economic Development Corp.</u>	<u>Special Revenue Fund - State and Local Grants</u>	<u>Special Revenue Fund - Stonegarden Grant</u>	<u>Special Revenue Fund - Transportation Reinvestment Zone</u>	<u>Special Revenue Fund - Keep Horizon Beautiful</u>	<u>Aggregate Non-Major Funds</u>
<u>ASSETS</u>							
Cash and equivalents, non-pooled	\$ 526,609	\$ 163,847	\$	\$	\$	\$ 1,325	\$ 691,781
Pooled cash and cash equivalents			(1,866)	(11,165)			(13,031)
Investments		599,494					599,494
Grants receivable			9,091	11,463			20,554
Total assets	<u>\$ 526,609</u>	<u>\$ 763,341</u>	<u>\$ 7,225</u>	<u>\$ 298</u>	<u>\$</u>	<u>\$ 1,325</u>	<u>\$ 1,298,798</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Accounts payable	\$	\$ 4,288	\$	\$	\$	\$	\$ 4,288
Accrued liabilities			4,605				4,605
Due to other funds					38,599		38,599
Total liabilities		<u>4,288</u>	<u>4,605</u>		<u>38,599</u>		<u>47,492</u>
Fund balances:							
Restricted			2,620	298	0		2,918
Committed	526,609	759,053				1,325	1,286,987
Unassigned					(38,599)		(38,599)
Total fund balances	<u>526,609</u>	<u>759,053</u>	<u>2,620</u>	<u>298</u>	<u>(38,599)</u>	<u>1,325</u>	<u>1,251,306</u>
Total liabilities and fund balances	<u>\$ 526,609</u>	<u>\$ 763,341</u>	<u>\$ 7,225</u>	<u>\$ 298</u>	<u>\$</u>	<u>\$ 1,325</u>	<u>\$ 1,298,798</u>

See independent auditors' report.

TOWN OF HORIZON CITY, TEXAS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - AGGREGATE NON-MAJOR FUNDS

Year Ended September 30, 2016

	<u>Special Revenue Fund - Street Maintenance</u>	<u>Special Revenue Fund - Economic Development Corp.</u>	<u>Special Revenue Fund - State and Local Grants</u>	<u>Special Revenue Fund - Stonegarden Grant</u>	<u>Special Revenue Fund - Transportation Reinvestment Zone</u>	<u>Special Revenue Fund - Keep Horizon Beautiful</u>	<u>Aggregate Non-Major Funds</u>
<u>REVENUES</u>							
Sales taxes	\$ 302,417	\$ 302,417	\$	\$ 58,058	\$	\$	\$ 604,834
Grant income			106,192				164,250
Interest income		415					415
Total revenues	<u>302,417</u>	<u>302,832</u>	<u>106,192</u>	<u>58,058</u>			<u>769,499</u>
<u>EXPENDITURES</u>							
General government		8,828					8,828
Public safety			74,604	58,058			132,662
Community development	74,875						74,875
Capital outlay			30,577		38,599		69,176
Total expenditures	<u>74,875</u>	<u>8,828</u>	<u>105,181</u>	<u>58,058</u>	<u>38,599</u>		<u>285,541</u>
Excess of revenues (expenditures) over expenditures (revenues)	227,542	294,004	1,011		(38,599)		483,958
Fund balance, beginning of the year	<u>299,067</u>	<u>465,049</u>	<u>1,609</u>	<u>298</u>		<u>1,325</u>	<u>767,348</u>
Fund balance, end of the year	<u>\$ 526,609</u>	<u>\$ 759,053</u>	<u>\$ 2,620</u>	<u>\$ 298</u>	<u>\$ (38,599)</u>	<u>\$ 1,325</u>	<u>\$ 1,251,306</u>

See independent auditors' report.

AUDITORS' SECTION

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 the Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

Mayor and Town Council Members:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Horizon City, Texas as of and for the year ended September 30, 2016, 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 April 11, 2017.

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 (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 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.

(Continued)

To the Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See finding 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Horizon City, Texas' 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*.

Town of Horizon City, Texas' Response to Finding

Town of Horizon City, Texas' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Horizon City, Texas' response was not subjected to the auditing procedures applied 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SBNG, PC

El Paso, Texas
April 11, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

To the Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

Mayor and Town Council Members:

Report on Compliance for Each Major Federal Program

We have audited Town of Horizon City, Texas' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Town of Horizon City, Texas' major federal programs for the year ended September 30, 2016. Town of Horizon City, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Horizon City, Texas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Horizon City, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Horizon City, Texas' compliance.

(Continued)

To the Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

Opinion on Each Major Federal Program

In our opinion, Town of Horizon City, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of Town of Horizon City, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Horizon City, Texas' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Horizon City, Texas' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

To the Honorable Mayor Ruben Mendoza
and Members of Town Council
Town of Horizon City, Texas

Report on Internal Control over Compliance (Continued)

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

SBNG, PC

El Paso, Texas
April 11, 2017

**TOWN OF HORIZON CITY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

Year Ended September 30, 2016

Program Title	Federal CFDA Number	Agency or Pass- Through Number	Contract Period	Award Amount	Federal/State Expenditures
FEDERAL EXPENDITURES					
U.S. Department of Transportation					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Reconstruction Cluster					
Darrington Road Widening	20.205	0924-06-457	8/20/14 - Completion	\$ 10,116,721	\$ 651,200
Safe Routes to School	20.205	0924-06-511	12/27/15 - Completion	\$ 1,091,377	316,793
Safe Routes to School	20.205	0924-06-514	12/27/15 - Completion	\$ 972,346	<u> </u>
Total Highway Planning and Reconstruction Cluster					<u>967,993</u>
Total 20.205					<u>967,993</u>
Total U.S. Department of Transportation					<u>967,993</u>
U.S. Department of Homeland Security					
<i>Passed through El Paso County Sheriff's Office</i>					
Operation Stonegarden - FY2014	97.067	3007401	10/1/14 - 8/31/16	\$ 69,290	47,353
Operation Stonegarden - FY2015	97.067	3007401	8/1/15 - 8/31/17	\$ 66,400	<u>10,705</u>
Total 97.067					<u>58,058</u>
Total U.S. Department of Homeland Security					<u>58,058</u>
Total Federal Expenditures					<u>1,026,051</u>

(Continued)

TOWN OF HORIZON CITY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(CONTINUED)

Year Ended September 30, 2016

Program Title	Federal CFDA Number	Agency or Pass- Through Number	Contract Period	Award Amount	Federal/State Expenditures
STATE EXPENDITURES					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Reconstruction Cluster					
Darrington Road Widening	State	0924-06-457	8/20/14 - Completion	\$ 2,406,837	\$ 99,308
Safe Routes to School	State	0924-06-511	12/27/15 - Completion	\$ 68,614	22,643
Safe Routes to School	State	0924-06-514	12/27/15 - Completion	\$ 61,313	<u> </u>
Total Highway Planning and Reconstruction Cluster					<u>121,951</u>
Local Border Security Program (LBSP -15)	State	LSBP 15	3/1/15-9/30/15	\$ 58,617	6,634
Local Border Security Program (LBSP -16)	State	LSBP 16	10/1/15-8/31/16	\$ 59,000	59,000
Local Border Security Program (LBSP -17)	State	LSBP 17	9/1/16-8/31/17	\$ 62,583	<u>8,091</u>
Total Local Border Security Program					<u>73,725</u>
Interoperable Communications Coverage Improvement Project Grant	State	2950801	10/1/15-7/31/16	\$ 30,577	<u>30,577</u>
Law Enforcement Officer Standards and Education Grant	State	Unknown	10/1/15 - 9/30/16	\$ 1,890	<u>1,890</u>
Total State Expenditures					<u>228,143</u>
Total Federal and State Expenditures					<u>\$ 1,254,194</u>

See notes to schedule of expenditures of federal and state awards.

TOWN OF HORIZON CITY, TEXAS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Town of Horizon City, Texas is presented to assist in understanding Town of Horizon City, Texas' Schedule of Expenditures of Federal and State Awards. The Schedule and notes are representations of Town of Horizon City, Texas' management, who is responsible for their integrity and objectivity.

Basis of Accounting and Presentation – The Schedule of Expenditures of Federal and State Awards is prepared using the accrual basis of accounting.

Sub-recipients – There were no sub-recipients of the Federal and State Awards received by Town of Horizon City, Texas for the year ended September 30, 2016.

In-Kind Award Reporting – Expenditures of the federal award for the Darrington Road Widening Project received under the Highway Planning and Reconstruction Cluster are composed entirely of in-kind awards provided by the United States Department of Transportation and the Texas Department of Transportation, the pass-through agency. Federal expenditures for this award are managed by the pass-through agency and are used in the design, construction and supervision of improvements of a major road within the Town's limits. The Town is responsible for making matching payments to the pass-through agency for design, engineering, construction, purchase of land, utilities relocation and supervision at various phases of the project. Total matching payments provided by the Town to the pass-through agency from inception of the project through September 30, 2016 amount to \$644,677. Total Federal awards incurred by the pass-through agency from inception of the project through September 30, 2016 amount to \$651,200 at September 30, 2016. Total matching funds provided by the pass-through agency amounted to \$99,308 at September 30, 2016. The Town's policy is to recognize the Federal and state funds used for this project as an in-kind award on the basis of historical cost, as reported by the pass-through agency to the Town.

Total expenditures of state awards for the Safe Routes to School Projects received under the Highway Planning and Reconstruction Cluster include an in-kind match of supervision and oversight costs provided by the Texas Department of Transportation, the pass-through agency. Total in-kind award is valued at approximately \$68,614 of which 33%, or \$ 22,643, was recognized as an in-kind grant award in the current fiscal year.

Indirect Cost Rate – Town of Horizon did not elect to use the 10% de minimis indirect cost rate.

TOWN OF HORIZON CITY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Town of Horizon City, Texas.
2. There was a significant deficiency disclosed by the audit of the financial statements of Town of Horizon City, Texas as reported in the 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*.
3. No instances of non-compliance material to the financial statements of Town of Horizon City, Texas, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs were disclosed by the audit as reported in the Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditors' report on compliance for the major Federal Award programs for Town of Horizon City, Texas expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The program tested as a major program was Highway Planning and Reconstruction Cluster, CFDA 20.205.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Town of Horizon City, Texas qualified as a low-risk auditee.

(Continued)

TOWN OF HORIZON CITY, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Year Ended September 30, 2016

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

Finding 2016-001:

Generation of Financial Statements under the Government-Wide Basis of Accounting – Repeated with Modification

Criteria and Condition: During fiscal years ended September 30, 2016, 2015 and 2014, the Town’s general ledger reflected all discrete balances for fund basis accounts and only opening balances for government-wide basis accounts. The Town’s accounting system required manual adjustments to present accurate government-wide basis accounts at the end of the fiscal period. While the Town does not produce government-wide financial statements internally, the accounting system maintains records for depreciable capital assets, non-depreciable capital assets, and long-term debt. Management of the Town has readily available information to monitor these long-term balances, but the accounting system has not been configured to produce a statement of net position or a statement of activities. The Town is in the process of designing a new accounting system module that will allow government-wide basis to be produced internally.

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 absence of government-wide financial statements, which focus on long-term finances and solvency, may impact management’s ability to evaluate the Town’s financial condition on a recurrent basis.

Recommendation: We recommend that the Town continue to monitor long-term balances and implement the specialized modules in its accounting system to be able to produce government-wide basis financial statements on a regular basis.

Management’s Response: The implementation of our new accounting software began in October 2014 and has continued through the end of the 2016 fiscal year. We expect the new software to be entirely functional before the end of the fiscal year ending 2017.

(Continued)

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

Year Ended September 30, 2016

III. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Finding 2015-001:

Discrete Presentation of Fund Basis and Government-Wide Basis of Accounting – The Town’s accounting system required manual adjustments to present accurate government-wide basis accounts at the end of the fiscal period. This finding has not been entirely corrected and is repeated with modification as Finding 2016-001.