

**TOWN OF HORIZON CITY, TEXAS**  
**BASIC FINANCIAL STATEMENTS AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED SEPTEMBER 30, 2017**

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**HORIZON CITY**

Incorporated 1988

**TOWN OF HORIZON CITY, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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, 2017. 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 2017**

- The Town's total assets amounted to \$33,014,963. This represents an increase of 22% from the prior year.
- Total assets exceeded liabilities by \$16,578,739 (net position). This represents an increase of 59% from the prior year.
- Total capital assets, net of accumulated depreciation amounted to \$18,650,981. This represents an increase of 77% from the prior year.
- Unrestricted net position, available to meet the Town's ongoing obligations, totaled \$4,256,371. The amount invested in capital assets, net of related debt, totaled \$12,005,097. Net position restricted for state mandated funds was \$317,271. This represents an increase of 36%, 71% and 13% from prior year, respectively.
- The Town's governmental fund statement shows a combined ending fund balance of \$13,240,569, a decrease of \$2,611,827 in comparison with the prior year fund balance.
- Total liabilities amounted to \$16,436,224 of which \$1,596,580 is due in less than one year. This represents a decrease of \$266,925 and an increase of \$296,753, respectively, in comparison with the prior year.
- General Fund revenues were approximately 9% 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 \$612,976.
- The Town's primary source of revenue comes from property taxes levied for general purpose and debt service, which amounted to \$3,751,360 in the current fiscal year. This represents approximately a 12% 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 \$0.452723 per \$100 of assessed valuation to \$0.491756. Total revenues amounted to \$12,546,617. This represents an increase of 56% from the prior year.

## FINANCIAL HIGHLIGHTS FISCAL YEAR 2017 (Continued)

- Total debt service expenditures for the year amounted to \$1,220,951. The outstanding balance in bonds payable was \$15,202,725 at the end of the fiscal year.
- The Town received \$4,747,081 in federal, state and local grant awards in the current fiscal year. This represents approximately a 279% 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, \$4,120,772 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 \$2,055,965 during 2017, of which \$338,133 was reserved for street maintenance and \$338,133 was reserved for economic development. Total sales taxes increased by approximately 12% from the prior year.
- The Town invested \$8,635,466 in equipment, software, and infrastructure, resulting in a 77% 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 \$7,801,258 for infrastructure. At the end of the fiscal period, the balance in the Capital Improvements Fund was \$8,556,841, representing an 31% 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 \$100,646 at September 30, 2017, 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 2% from the prior year.
- During 2017, the Town's Capital Improvements Fund transferred a total of \$105,864 to Special Revenue Funds in order to cover infrastructure and other expenses not reimbursed by federal grant awards. The Town's General Fund transferred a total of \$92,787 to the Debt Service Fund in order to provide debt service payments, a total of \$37,864 to the Special Revenue Fund – Transportation Reinvestment Zone in order to establish Special Revenue Funds, and a total of \$937 to the Special Revenue Fund – State and Local Grants in order to provide funds that were not reimbursed by the grant.
- During 2017, the Town entered into an interlocal agreement with the Horizon Regional Municipal Utility District ("District") in order to gain access to an easement on the District's property for the Darrington Drainage Project. In return, the Town will grant the Town's property and collaborate with the District on the District Backfill Project by transporting fill dirt removed from the District property during the Darrington Drainage project as backfill on the designated District site.

## **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 18 and 19 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, 2017. 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, 2017. 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, finance, executive, public services, building services, community development, public safety – police, public safety – dispatch, 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 20 through 26.

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, building services 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 27 through 53 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 53.

## 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 \$16,578,739 reflecting an increase of \$6,136,150 over the previous fiscal year. This increase is primarily the result of federal grant awards and increases in sales tax revenue, property tax revenue and license, permits and fees revenue. The table below summarizes the Town's total assets, liabilities and net position for the fiscal years ended September 30, 2017 and 2016, respectively.

	<b>Net Position</b>	
	<b><u>Governmental Activities</u></b>	
	<b><u>09/30/17</u></b>	<b><u>09/30/16</u></b>
Cash and cash equivalents	\$12,325,426	\$13,994,776
Investments	1,497,088	2,046,685
Receivables (taxes, grants, other miscellaneous)	480,331	556,186
Prepaid expenses	61,137	32,761
Capital assets, net of accumulated depreciation	<u>18,650,981</u>	<u>10,515,330</u>
Total assets	<u>33,014,963</u>	<u>27,145,738</u>
Short-term liabilities	1,596,580	1,299,827
Long-term liabilities	<u>14,839,644</u>	<u>15,403,322</u>
Total liabilities	<u>16,436,224</u>	<u>16,703,149</u>
Net position:		
Invested in capital assets, net of related debt	12,005,097	7,040,239
Restricted for State mandated funds	317,271	280,614
Unrestricted	<u>4,256,371</u>	<u>3,121,736</u>
Total net position	<u>\$16,578,739</u>	<u>\$10,442,589</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 2017, the Town collected \$12,547,827 in revenues from all sources, while expending \$6,411,677, resulting in a net increase in financial position. The table below summarizes the fiscal years 2017 and 2016 revenues and expenses for the Town, respectively.

**Change in Net Position**

	<u>Year Ended</u>	
	<u>09/30/17</u>	<u>09/30/16</u>
Charges for services licenses, permits and fees	\$ 1,529,746	\$ 1,040,462
Operating grants and contributions	209,704	170,436
Capital grants and contributions	<u>4,544,227</u>	<u>1,089,944</u>
Total program revenues	<u>6,283,677</u>	<u>2,300,842</u>
Property taxes-general purpose	3,753,080	3,367,316
Sales taxes	2,055,965	1,832,810
Franchise taxes	368,996	326,253
Interest income	56,311	50,680
Miscellaneous income	<u>29,798</u>	<u>155,737</u>
Total general revenues	<u>6,264,150</u>	<u>5,732,796</u>
Total revenues	<u>12,547,827</u>	<u>8,033,638</u>
Public safety – police	1,865,480	2,388,456
General government	837,612	997,575
Public safety – dispatch	727,132	
Interest on long-term debt	578,793	585,738
Community development	528,933	514,930
Parks and recreation	338,578	360,057
Public services	333,459	265,105
Building services	269,113	225,220
Finance	243,816	
Municipal court	240,157	209,394
Planning	209,121	171,726
Code enforcement	180,728	193,923
Executive	48,149	
Storm water	<u>10,606</u>	<u>28,729</u>
Total expenses	<u>6,411,677</u>	<u>5,940,853</u>
Change in net position	<u>\$ 6,136,150</u>	<u>\$ 2,092,785</u>

## GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

### Governmental Activities

The largest ongoing revenue source for the Town's governmental activities is property taxes of \$3,753,080, which represents 30% of the total revenues. Another significant source of revenue for governmental activities is state sharing of sales taxes. The revenue sharing totals \$2,056,000 or 16% of total revenues for governmental activities. Additional significant sources of revenue for governmental activities are charges for services, fees, fines, and forfeitures of \$1,529,746 or 12% of total revenues for governmental activities. During the current fiscal year, the Town received \$4,544,227 of capital grants and contributions, which represent 36% of the total revenues.

The largest expenditure category among governmental activities was public safety, totaling \$1,865,480 or 29% of total expenditures. This expenditure category includes the cost of the Town providing police protection 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 for each of these functions.

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>09/30/17</u>	<u>09/30/16</u>	<u>09/30/17</u>	<u>09/30/16</u>
Public safety - police	\$ 1,865,480	\$ 2,388,456	\$ 1,217,969	\$1,899,048
General government	837,612	997,575	(28,139)	504,226
Public safety – dispatch	727,132		727,132	
Community development	528,933	514,930	(4,015,294)	(575,014)
Parks and recreation	338,578	360,057	338,578	360,057
Public services	333,459	265,105	333,459	265,105
Building services	269,113	225,220	269,113	225,220
Finance	243,816		243,816	
Municipal court	240,157	209,394	(3,312)	(18,747)
Planning	209,121	171,726	209,121	171,726
Code enforcement	180,728	193,923	180,728	193,923
Executive	48,149		48,149	
Storm water	10,606	28,729	10,606	28,729
Interest on long-term debt	<u>578,793</u>	<u>585,738</u>	<u>578,793</u>	<u>585,738</u>
Totals	<u>\$6,411,677</u>	<u>\$ 5,940,853</u>	<u>\$ 110,719</u>	<u>\$3,640,011</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 \$13,240,569, a decrease of \$2,611,827 compared to the prior year fund balance. Of this amount, \$1,469,406 (11%) constitutes unassigned fund balance, which is available for spending at the Town's discretion. Of the total fund balances, approximately 88% (or \$11,710,026) is restricted for statutory requirements or committed for Town Council purposes. Less than 1% (or \$61,137) 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 \$2,806,867, an increase of \$612,976 compared to the prior year fund balance. Of this amount, \$1,423,924 (51%) is unassigned and available for spending at the Town's discretion. Of the remaining fund balances, \$1,321,806 (47%) is restricted for statutory requirements or committed for Town Council purposes and \$61,137 (2%) is in non-spendable form.

The Special Revenue Fund for Safe Routes to School had a 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 Special Revenue Fund for Street Maintenance is used to account for the expenditures of sales taxes reserved for maintaining existing streets. The Fund receives 0.025% of sales tax revenue every year as determined by voter referendum. The balance in this fund at year-end was \$826,587, an increase of \$296,978 compared to the prior year and is classified as funds committed by Town Council.

The Town's Debt Service Fund is used to account for the payment of principal and interest 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 \$64,626, an increase of \$23,656 from the previous year, and is classified as unassigned funds.

## FINANCIAL ANALYSIS OF THE TOWN'S FUNDS (Continued)

### Governmental Funds (Continued)

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 \$8,556,841, a decrease of \$3,809,388 compared to the prior year, and is classified as funds committed by Town Council.

The Town's Aggregate Non-Major Funds had a combined fund balance of \$985,648, a decrease of \$260,951. The decrease is due to a classification of the Special Revenue Fund for Street Maintenance as a major fund for the current year. The Aggregate Non-Major Funds represent unused grant awards and sales taxes reserved for economic development. Of the total combined fund balance remaining in Aggregate Non-Major Funds, \$1,002,579 is classified as committed by Town Council and \$2,213 is restricted for statutory requirements. One of the non-major funds had a deficit balance of \$19,144, which is expected to be covered by the Capital Improvements fund if short falls continue in future periods.

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

	<u>2017</u>	<u>2016</u>
General Fund	\$ 2,806,867	\$ 2,193,891
Special Revenue Fund – Safe Route to School		
Special Revenue Fund – Street Maintenance	826,587	526,609
Debt Service Fund	64,626	40,970
Capital Improvements Fund	8,556,841	12,366,229
Aggregate Non-Major Funds	<u>985,648</u>	<u>724,697</u>
Combined Fund Balance	<u>\$13,240,569</u>	<u>\$15,852,396</u>

The 19% 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 Sources

Governmental fund revenues for the fiscal year ended September 30, 2017 and a comparison with the governmental fund revenues in the prior fiscal year are as follows:

	<u>2017</u> <u>Amount</u>	<u>Percent</u> <u>of Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>Over 2016</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Property taxes	\$ 3,751,360	30.0%	\$ 388,513	11.6%
Sales taxes	2,055,965	16.5%	223,155	12.2%
Grant income	4,747,081	37.8%	3,492,887	278.5%
Licenses, permits and fees	841,620	6.7%	354,457	72.8%
Charges for services	444,657	3.5%	119,499	36.8%
Franchise taxes	368,996	2.9%	42,743	13.1%
Fines and forfeitures	243,469	1.9%	15,328	6.7%
Interest income	56,311	0.4%	5,631	11.1%
Contributions	6,850	0.1%	664	10.7%
Other income	<u>30,308</u>	<u>0.2%</u>	<u>(125,429)</u>	<u>(80.5)%</u>
Total	<u>\$12,546,617</u>	<u>100%</u>	<u>\$4,517,448</u>	<u>56.3%</u>

## GENERAL FUND BUDGETARY HIGHLIGHTS

The original adopted General Fund budget for fiscal year September 30, 2017, totaled \$5,454,142. This was an increase of \$398,134 over the prior year budget. An increase in sales tax revenue, franchise tax revenue, charge for services and licenses and permits revenue were the primary drivers in the revenue increase. The increase in budgeted revenue was to support a 2% increase in salaries for all non-uniformed employees except those limited by employment contract, and a 3% increase for all uniformed employees covered by the Collective Bargaining Agreement. In addition, the increase in budgeted revenue supported the increase in related contributions to the employees' 457B Plan Contribution up to 6% and the increase in number of employees in current year.

The General Fund adopted budget was amended twice during the 2017 fiscal year. The amendments increased the budget by \$67,111. The first amendment changed the use of \$25,676 from salary expense to debt service expense. The second amendment was to increase the debt service expense by \$67,111.

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 license fees and permits is consistent with increased 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 an increase in charges to El Paso County Emergency Services Districts #1 and #2 for dispatching services provided through two interlocal agreements to cover the increased number of dispatchers and the increase in salary expense.

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 2017, the Town expended \$229,070 less than budgeted in the General Fund.

**Final Budget Versus Actual Results  
General Fund**

	<b><u>Original Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance Favorable (Unfavorable)</u></b>
<b>Revenues/inflows:</b>				
Property taxes	\$2,577,358	\$2,577,358	\$2,604,621	\$ 27,263
Sales taxes	1,279,115	1,279,115	1,379,699	100,584
Franchise taxes	334,710	334,710	368,996	34,286
Fines and forfeitures	309,996	309,996	243,469	(66,527)
Licenses, permits and fees	455,216	455,216	841,620	386,404
Charges for services	441,835	441,835	444,657	2,822
Interest income			23,740	23,740
Contributions			6,850	6,850
Other income	<u>55,912</u>	<u>55,912</u>	<u>30,308</u>	<u>(25,604)</u>
 Total revenues	 <u>\$5,454,142</u>	 <u>\$5,454,142</u>	 <u>\$5,943,960</u>	 <u>\$ 489,818</u>
 <b>Expenditures/outflows:</b>				
General government	\$ 687,860	\$ 677,280	\$ 637,184	\$ 40,096
Finance	251,446	251,446	243,816	7,630
Executive	52,896	52,896	48,149	4,747
Public services	327,518	327,518	326,210	1,308
Building services	302,876	297,966	264,804	33,162
Community development	317,427	308,352	271,754	36,598
Public safety - police	1,566,510	1,579,064	1,586,478	(7,414)
Public safety - dispatch	789,060	733,468	726,911	6,557
Municipal court	256,382	256,382	240,077	16,305
Parks and recreation	355,540	327,660	309,080	18,580
Planning	230,147	228,494	209,041	19,453
Code enforcement	228,630	228,630	171,564	57,066
Storm water	47,850	22,850	8,780	14,070
Debt service		92,787	92,787	
Capital improvements	<u>40,000</u>	<u>136,460</u>	<u>155,548</u>	<u>(19,088)</u>
 Total expenditures	 <u>\$5,454,142</u>	 <u>\$5,521,253</u>	 <u>\$5,292,183</u>	 <u>\$ 229,070</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 \$18,650,981, net of accumulated depreciation. Major capital asset events during the current fiscal year included the following:

## CAPITAL ASSETS (Continued)

- The Town's investment in machinery and equipment increased by approximately \$117,143 due to the net change from the acquisition of public safety equipment, including portable and communication equipment and park equipment, and the disposal of a vehicle and other equipment.
- The Town's investment in infrastructure increased by \$1,648,287, of which \$1,577,262 represents infrastructure from The Safe Route to School Colonel John O. Ensor and Carroll T. project completed in 2017.
- Construction in progress for all on-going infrastructure projects amounted to \$10,367,876 at year-end, of which \$4,074,801 represents in-kind federal and state awards for the Darrington Widening Project.

Capital assets held by the Town are summarized as follows:

### Capital assets, net of accumulated depreciation

	<u>09/30/17</u>	<u>09/30/16</u>
Land	\$ 745,140	\$ 745,140
Building and improvements	551,538	578,729
Machinery and equipment	624,896	684,704
Infrastructure	6,361,531	4,977,886
Construction in progress	<u>10,367,876</u>	<u>3,528,871</u>
Total capital assets, net	<u>\$ 18,650,981</u>	<u>\$ 10,515,330</u>

Additional information on the Town's capital assets can be found in the notes to the financial statements on pages 40 and 41 of this report.

## LONG-TERM DEBT

At the end of the fiscal year, the Town had long-term debt outstanding in the amount of \$15,339,788. The Town's debt is composed of general obligation bonds and accrued compensated absences at September 30, 2017. The following table shows the change in long-term debt from 2016 to 2017:

**Long-Term Debt  
Year Ended September 30,**

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Bonds payable	\$14,740,000	\$15,200,000	\$(460,000)
Bond premium	462,725	484,759	(22,034)
Note payable		156,561	(156,561)
Compensated absences	<u>137,063</u>	<u>106,776</u>	<u>30,287</u>
Total	<u>\$15,339,788</u>	<u>\$15,948,096</u>	<u>\$(608,308)</u>

More detailed information about the Town’s long-term liabilities is presented in the notes to the financial statements on pages 41 through 43 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.

Continuing financial growth is projected. The Town enjoys steady growth and development in what was primarily a retirement community. With the continued development of commercial establishments and housing and construction and reconstruction of public infrastructure, 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, will increase the sales and franchise 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 blue ink, appearing to read "Ruben Mendoza", is written over the printed name.

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, 2017, 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

221 N. KANSAS, STE 1300

EL PASO, TX 79901

WWW.SBNGCPA.COM

(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, 2017, 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 14 and 54 through 60, 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 May 15, 2018, 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 solely 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 the effectiveness of Town of Horizon City, Texas' 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, P.C.

El Paso, Texas  
May 15, 2018

**TOWN OF HORIZON CITY, TEXAS**

**STATEMENT OF NET POSITION**

**September 30, 2017**

<b><u>ASSETS</u></b>	<b>Governmental <u>Activities</u></b>
Cash and cash equivalents	\$ 12,325,426
Investments	1,497,088
Taxes receivable	235,960
Grants receivable	120,527
Other receivables, net	123,844
Prepaid expenses	61,137
Non-depreciable capital assets	11,113,016
Depreciable capital assets, net of accumulated depreciation	<u>7,537,965</u>
Total assets	<u>33,014,963</u>
 <b><u>LIABILITIES</u></b>	
Accounts payable	847,563
Accrued liabilities	248,873
Due within one year:	
Compensated absences	20,144
Bonds payable	480,000
Due in more than one year:	
Compensated absences	116,919
Bonds payable, net	<u>14,722,725</u>
Total liabilities	<u>16,436,224</u>
 <b><u>NET POSITION</u></b>	
Net position:	
Invested in capital assets, net of related debt	12,005,097
Restricted for State mandated funds	317,271
Unrestricted	<u>4,256,371</u>
Total net position	<u>\$ 16,578,739</u>

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

TOWN OF HORIZON CITY, TEXAS

STATEMENT OF ACTIVITIES

Year Ended September 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Direct Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expenses) and Changes in Net Position</u>
		<u>Charges for Services, Fees, Fines and Forfeitures</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Public safety - police	\$1,865,480	\$ 444,657	\$ 202,854	\$	\$ (1,217,969)
General government	837,612	841,620	6,850		10,858
Public safety - dispatch	727,132				(727,132)
Community development	528,933			4,544,227	4,015,294
Parks and recreation	338,578				(338,578)
Public services	333,459				(333,459)
Building services	269,113				(269,113)
Finance	243,816				(243,816)
Municipal court	240,157	243,469			3,312
Planning	209,121				(209,121)
Code enforcement	180,728				(180,728)
Executive	48,149				(48,149)
Storm water	10,606				(10,606)
Interest on long-term debt	<u>578,793</u>				<u>(578,793)</u>
Total governmental activities	<u>\$6,411,677</u>	<u>\$1,529,746</u>	<u>\$ 209,704</u>	<u>\$ 4,544,227</u>	<u>(128,000)</u>
		General revenues:			
					3,753,080
					2,055,965
					368,996
					56,311
					<u>29,798</u>
					6,264,150
					6,136,150
					<u>10,442,589</u>
					<u>\$ 16,578,739</u>

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

**TOWN OF HORIZON CITY, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

September 30, 2017

	<b>General Fund</b>	<b>Special Revenue Fund - Safe Routes to School</b>	<b>Street Maintenance Fund</b>	<b>Debt Service Fund</b>	<b>Capital Improvements Fund</b>	<b>Aggregate Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>							
Cash and cash equivalents, non-pooled	\$ 2,231,370	\$	\$	\$	\$ 9,015,182	\$ 808,196	\$ 12,054,748
Pooled cash and cash equivalents	278,211			8,716		(16,249)	270,678
Investments						200,230	200,230
Pooled investments	405,760		850,837	2,324		37,937	1,296,858
Taxes receivable	179,530			56,430			235,960
Due from other funds				19,846	95,833	937	116,616
Grants receivable		96,866				23,661	120,527
Other receivables, net	123,844						123,844
Prepaid expenses	<u>61,137</u>						<u>61,137</u>
Total assets	<u>\$ 3,279,852</u>	<u>\$ 96,866</u>	<u>\$ 850,837</u>	<u>\$ 87,316</u>	<u>\$ 9,111,015</u>	<u>\$ 1,054,712</u>	<u>\$ 14,480,598</u>
 <b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u></b>							
Liabilities:							
Accounts payable	\$ 206,982	\$ 58,114	\$ 24,250	\$	\$ 554,174	\$ 4,043	\$ 847,563
Accrued liabilities	167,264					7,940	175,204
Due to other funds	<u>20,783</u>	<u>38,752</u>				<u>57,081</u>	<u>116,616</u>
Total liabilities	<u>395,029</u>	<u>96,866</u>	<u>24,250</u>		<u>554,174</u>	<u>69,064</u>	<u>1,139,383</u>
Deferred inflows of resources:							
Deferred property taxes	<u>77,956</u>			<u>22,690</u>			<u>100,646</u>
Total deferred inflows of resources	<u>77,956</u>			<u>22,690</u>			<u>100,646</u>
Fund balances:							
Nonspendable	61,137						61,137
Restricted	315,058					2,213	317,271
Committed	1,006,748		826,587		8,556,841	1,002,579	11,392,755
Unassigned	<u>1,423,924</u>			<u>64,626</u>		<u>(19,144)</u>	<u>1,469,406</u>
Total fund balances	<u>2,806,867</u>		<u>826,587</u>	<u>64,626</u>	<u>8,556,841</u>	<u>985,648</u>	<u>13,240,569</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,279,852</u>	<u>\$ 96,866</u>	<u>\$ 850,837</u>	<u>\$ 87,316</u>	<u>\$ 9,111,015</u>	<u>\$ 1,054,712</u>	<u>\$ 14,480,598</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, 2017**

Total fund balances of governmental funds in the balance sheet	\$ 13,240,569
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	22,636,423
Accumulated depreciation	<u>(3,985,442)</u> 18,650,981
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	100,646
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	(15,202,725)
Compensated absences	(137,063)
Accrued interest	<u>(73,669)</u> (15,413,457)
Total net position of governmental activities	<u>\$ 16,578,739</u>

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, 2017

	<u>General Fund</u>	<u>Special Revenue Fund - Safe Routes to School</u>	<u>Street Maintenance Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>							
Property taxes	\$ 2,604,621	\$	\$	\$ 1,146,739	\$	\$	\$ 3,751,360
Sales taxes	1,379,699		338,133			338,133	2,055,965
Grant income		469,426			4,074,801	202,854	4,747,081
Licenses, permits and fees	841,620						841,620
Charges for services	444,657						444,657
Franchise taxes	368,996						368,996
Fines and forfeitures	243,469						243,469
Interest income	23,740		1,349	5,081	22,933	3,208	56,311
Contributions	6,850						6,850
Other income	<u>30,308</u>						<u>30,308</u>
Total revenues	<u>5,943,960</u>	<u>469,426</u>	<u>339,482</u>	<u>1,151,820</u>	<u>4,097,734</u>	<u>544,195</u>	<u>12,546,617</u>
<b><u>EXPENDITURES</u></b>							
Public safety - police	1,586,478					140,937	1,727,415
Public safety - dispatch	726,911					221	727,132
General government	637,184			1,265		99,067	737,516
Parks and recreation	309,080						309,080
Community development	271,754		17,954				289,708
Public services	326,210						326,210
Building services	264,804						264,804
Finance	243,816						243,816
Municipal court	240,077						240,077

(Continued)

**TOWN OF HORIZON CITY, TEXAS**

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

**Year Ended September 30, 2017**

	<b>General Fund</b>	<b>Special Revenue Fund - Safe Routes to School</b>	<b>Street Maintenance Fund</b>	<b>Debt Service Fund</b>	<b>Capital Improvements Fund</b>	<b>Aggregate Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b><u>EXPENDITURES (Continued)</u></b>							
Code enforcement	\$ 171,564	\$	\$	\$	\$	\$	\$ 171,564
Planning	209,041						209,041
Executive	48,149						48,149
Storm water	8,780						8,780
Debt service:							
Principal				616,325			616,325
Interest				603,361			603,361
Capital outlay	<u>155,548</u>	<u>575,290</u>	<u>21,550</u>	<u>        </u>	<u>7,801,258</u>	<u>81,820</u>	<u>8,635,466</u>
Total expenditures	<u>5,199,396</u>	<u>575,290</u>	<u>39,504</u>	<u>1,220,951</u>	<u>7,801,258</u>	<u>322,045</u>	<u>15,158,444</u>
Excess (deficit) of revenues over (under) expenditures	<u>744,564</u>	<u>(105,864)</u>	<u>299,978</u>	<u>(69,131)</u>	<u>(3,703,524)</u>	<u>222,150</u>	<u>(2,611,827)</u>

(Continued)

**TOWN OF HORIZON CITY, TEXAS**

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

**Year Ended September 30, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund - Safe Routes to School</u>	<u>Street Maintenance Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvements Fund</u>	<u>Aggregate Non-Major Funds</u>	<u>Total Governmental Funds</u>
Other financial sources (uses):							
Interfund transfers	\$ (131,588)	\$ 105,864	\$ _____	\$ 92,787	\$ (105,864)	\$ 38,801	\$ _____
Total other financial sources (uses)	<u>(131,588)</u>	<u>105,864</u>	<u>_____</u>	<u>92,787</u>	<u>(105,864)</u>	<u>38,801</u>	<u>_____</u>
Net change in fund balance	612,976		299,978	23,656	(3,809,388)	260,951	(2,611,827)
Fund balance, beginning of the year	<u>2,193,891</u>	<u>_____</u>	<u>526,609</u>	<u>40,970</u>	<u>12,366,229</u>	<u>724,697</u>	<u>15,852,396</u>
Fund balance, end of the year	<u>\$ 2,806,867</u>	<u>\$ _____</u>	<u>\$ 826,587</u>	<u>\$ 64,626</u>	<u>\$ 8,556,841</u>	<u>\$ 985,648</u>	<u>\$ 13,240,569</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, 2017**

Net change in fund balances – total governmental funds \$ (2,611,827)

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	8,635,466	
Depreciation expense	<u>(499,305)</u>	8,136,161

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	1,720
-----------------------------------	-------

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.

616,325

In the statement of activities, the outstanding balance of bond premium 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.

22,270

The net effect of sales of capital assets is to decrease net assets.

(510)

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	2,298
Change in compensated absences payable	<u>(30,287)</u>

Change in net position of governmental activities \$ 6,136,150

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, 2017**

	<b><u>Agency Funds</u></b>
<b><u>ASSETS</u></b>	
Investments, at fair value	<u>\$1,016,305</u>
Total assets	<u>1,016,305</u>
<b><u>LIABILITIES</u></b>	
Deferred compensation payable	<u>1,016,305</u>
Total liabilities	<u>1,016,305</u>
<b><u>NET POSITION HELD IN TRUST</u></b>	
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, 2017.

#### **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 five 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.

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 receives 0.25% of sales tax revenue every year as determined by voter referendum.

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

(Continued)

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Accounting (Continued)

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

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

*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 receives 0.25% of sales tax revenue 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 – 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 – 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 - 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.

*Special Revenue Fund - Keep Horizon Beautiful* – This Special Revenue Fund is used to account for donations committed for environment work.

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.

(Continued)

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

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Accounting (Continued)

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

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

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

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

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.

(Continued)

**TOWN OF HORIZON CITY, TEXAS**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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 investment accounts discretely presented in 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 El Paso Central Appraisal District reflected a taxable value of \$757,021,376 for the year ended September 30, 2017. 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 2016-2017 tax rate was \$.491756, per \$100 of assessed valuation. The Town incurred expenditures of \$49,370 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2017.

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, 2017, 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, 2017, nonspendable fund balance consists of prepaid expenses in the amount of \$61,137.

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 \$317,271 at September 30, 2017 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 \$11,392,755 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 improvement 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, 2017.

(Continued)

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

**DEPOSITS**

At September 30, 2017, the reported amount of the Town's deposits was \$12,325,426 and the bank balance was \$12,325,524. These deposits are held in deposit accounts and money market funds. Cash held in the Capital Improvement Plan Fund has been committed through Town Ordinance to be used in infrastructure projects. Cash held in the General Fund totaling \$441,700 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, 2017, all deposits held by the Town were classified as Category 1.

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

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

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

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

(Continued)

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

**DEPOSITS (Continued)**

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

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

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

Investments consist of the following at September 30, 2017:

	<u>Category</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
General Fund	A	\$ 405,760	\$ 405,760
Street Maintenance Fund	A	850,837	850,837
Debt Service Fund	A	2,324	2,324
Aggregate Non-Major Funds	A	<u>238,167</u>	<u>238,167</u>
Total		<u>\$1,497,088</u>	<u>\$1,497,088</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 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, 2017, the Town had the following investments in single issuers representing more than five percent of the total investments on-hand:

Issuer A	\$200,230
Issuer B	199,788
Issuer C	199,774
Issuer D	199,162
Issuer E	100,123
Issuer F	99,971
Issuer G	99,829
Issuer H	99,655
Issuer I	99,588
Issuer J	99,484
Issuer K	<u>99,484</u>
Total	<u>\$1,497,088</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. Deposits were insured by the FDIC up to \$250,000. The Town has an investment policy which requires collateralizations for certain types of investments. 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, 2017, pledged collateral funds securing the Town's deposits had a fair market value of \$11,109,064. Management does not believe the Town is exposed to any significant credit risk.

**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, 2017:

State of Texas – Safe Routes to Schools	\$96,866
Stone Garden	10,210
Border Star	<u>13,451</u>
Total	<u>\$120,527</u>

(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, 2017 is as follows:

<b><u>Receivable Fund</u></b>	<b><u>Payable Fund</u></b>	<b><u>Amount</u></b>
Capital Improvements Fund	Special Revenue – Transportation Reinvestment Zone No. 2	\$ 57,081
Capital Improvements Fund	Special Revenue – Safe Routes to School	38,752
Debt Service	General Fund	19,846
Aggregate Non-Major Funds	General Fund	<u>937</u>
Total		<u>\$116,616</u>

**PROPERTY TAX AND OTHER RECEIVABLES**

Property tax and other receivables consist of the following at September 30, 2017:

	<b><u>Gross</u></b>	<b><u>Allowance for Uncollectible Accounts</u></b>	<b><u>Net</u></b>
Governmental activities:			
Property taxes, current	\$135,314	\$	\$135,314
Property taxes, delinquent	<u>100,646</u>	<u>          </u>	<u>100,646</u>
Property taxes, total	235,960		235,960
Other	<u>124,613</u>	<u>(769)</u>	<u>123,844</u>
Total governmental activities	<u>\$360,573</u>	<u>\$(769)</u>	<u>\$359,804</u>

(Continued)

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

**CAPITAL ASSETS**

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

	<b>September</b>				<b>September</b>
	<b><u>30, 2016</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Transfers</u></b>	<b><u>30, 2017</u></b>
Non-depreciable capital assets:					
Land	\$ 745,140	\$	\$	\$	\$ 745,140
Construction in progress	<u>3,528,871</u>	<u>8,416,267</u>	<u>          </u>	<u>(1,577,262)</u>	<u>10,367,876</u>
Total non-depreciable capital assets	\$ <u>4,274,011</u>	\$ <u>8,416,267</u>	\$ <u>          </u>	\$ <u>(1,577,262)</u>	\$ <u>11,113,016</u>
Depreciable capital assets:					
Building and improvement	\$ 851,522	\$	\$	\$	\$ 851,522
Equipment	2,506,252	145,174	(28,031)		2,623,395
Infrastructure	<u>6,400,203</u>	<u>74,025</u>	<u>(3,000)</u>	<u>1,577,262</u>	<u>8,048,490</u>
	<u>9,757,977</u>	<u>219,199</u>	<u>(31,031)</u>	<u>1,577,262</u>	<u>11,523,407</u>
Less accumulated depreciation for:					
Building and improvements	(272,793)	(27,191)			(299,984)
Equipment	(1,821,548)	(204,982)	28,031		(1,998,499)
Infrastructure	<u>(1,422,317)</u>	<u>(267,132)</u>	<u>2,490</u>	<u>          </u>	<u>(1,686,959)</u>
Total accumulated depreciation	<u>(3,516,658)</u>	<u>(499,305)</u>	<u>30,521</u>	<u>          </u>	<u>(3,985,442)</u>
Depreciable capital assets, net	<u>6,241,319</u>	<u>(280,106)</u>	<u>(510)</u>	<u>1,577,262</u>	<u>7,537,965</u>
Total capital assets, net	\$ <u>10,515,330</u>	\$ <u>8,136,161</u>	\$ <u>(510)</u>	\$ <u>          </u>	\$ <u>18,650,981</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, 2017 as follows:

Community development	\$ 239,225
Public safety – police	138,065
General government	69,809
Parks and recreation	29,498
Code enforcement	9,164
Public services	7,249
Building services	4,309
Storm water	1,826
Municipal court	80
Planning	<u>80</u>
Total provisions for depreciation	<u>\$499,305</u>

**LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended September 30, 2017:

	<b><u>Balance at</u></b>			<b><u>Balance at</u></b>		<b><u>Due Within</u></b>
	<b><u>September</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b><u>September</u></b>		<b><u>One Year</u></b>
	<b><u>30, 2016</u></b>			<b><u>30, 2017</u></b>		
Compensated absences	\$ 106,776	\$201,028	\$(170,741)	\$ 137,063		\$ 20,144
Note payable	156,561		(156,561)			
Bonds payable, net	<u>15,684,759</u>	<u>          </u>	<u>(482,034)</u>	<u>15,202,725</u>		<u>480,000</u>
	<u>\$15,948,096</u>	<u>\$201,028</u>	<u>\$(809,336)</u>	<u>\$15,339,788</u>		<u>\$500,144</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, 2017, employees had approximately 7,105 hours of accumulated paid-time-off.

Total accrued compensated absences	<u>\$137,063</u>
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(Continued)

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

**LONG-TERM DEBT (Continued)**

***Bonds Payable***

The Town issued \$750,000 of Public Improvement Revenue Bonds, Series 2005 to finance the cost of rehabilitation and improvements to infrastructure. Interest only payments 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. \$ 495,000

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%. 14,245,000

Total bonds payable outstanding 14,740,000

Unamortized bond premium 462,725

Total bonds payable, net 15,202,725

Total long-term debt \$15,339,788

(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:

<b><u>Year Ending September 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Debt Service</u></b>
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	565,000	497,681	1,062,681
2023-2027	3,180,000	2,131,698	5,311,698
2028-2032	3,675,000	1,480,864	5,155,864
2033-2037	4,315,000	725,600	5,040,600
2038	<u>970,000</u>	<u>38,800</u>	<u>1,008,800</u>
Totals	\$ <u>14,740,000</u>	<u>\$7,072,798</u>	\$ <u>21,812,798</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%:

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

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

<b><u>Redemption Date</u></b>	<b><u>Principal Amount</u></b>
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 \$100,646 at September 30, 2017, 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 arises 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	\$ 97,750
Technology Fund	95,599
Children's Fund	64,740
PEG Capital Fund	47,960
Time Payments	8,202
Stone Garden Grant	2,213
STDS	714
Truancy	<u>93</u>
Total	<u>\$317,271</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 includes the following:

Capital Improvements Plan Fund	\$ 8,556,841
Economic Development	1,001,254
Other Capital Improvements	566,373
Street Construction and Maintenance	826,587
Stabilization by City Charter	<u>441,700</u>
Total	<u>\$ 11,392,755</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, 2017, the Town matched 3% of the participants’ contributions into the Plan. Town contributions amounted to \$100,725 while employee contributions totaled \$86,845 for the year ended September 30, 2017. Total assets of the Plan amounted to \$1,016,305 at September 30, 2017.

**INTERFUND TRANSFERS**

The Town’s interfund transfers were made to provide matching funds for the Safe Routes to School grant, provide debt service payments, establish Special Revenue Fund – Transportation Reinvestment Zone, and provide funds for Special Revenue Fund - State and Local Grants and were as follows for the year ended September 30, 2017:

<b><u>From</u></b>	<b><u>To</u></b>	<b><u>Amount</u></b>
Capital improvements	Special Revenue Fund - Safe Routes to School	\$105,864
General	Debt service	92,787
General	Special Revenue Fund - Transportation Reinvestment Zone	37,864
General	Special Revenue Fund - State and Local Grants	<u>937</u>
		<u>\$237,452</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. At September 30, 2017, Claim No. AU14761 was pending with Texas Municipal League – Intergovernmental Risk Pool involving a collision with the Town's official vehicle. Subsequently, a judgment was rendered; however, the actual amount is pending. Therefore, no liability has been accrued at September 30, 2017.

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. Future minimum payments are as follows:

<b><u>Year Ending September 30,</u></b>	
2021	\$ 29,011
2022	60,097
2023	92,622
2024	128,440
2025	168,241
Thereafter	<u>7,197,760</u>
	<u>\$7,676,171</u>

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, 2017, the Town has entered into various easement agreements with various property owners in connection with the project.

(Continued)

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

**COMMITMENTS AND CONTINGENCIES (Continued)**

**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 through 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 relocation. Total matching payments made by the Town from inception of the project through September 30, 2017 amount to \$648,306.

At the end of the project, any unused matching funds may 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, 2017, the Town recognized an in-kind grant award for this project totaling \$4,074,801, of which \$3,429,400 represents federal funds and \$645,401 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. and Col. John O. Ensor Middle and Carroll T. Welch Elementary Schools. 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 \$272,844, respectively. The Town is also responsible for any construction costs in excess of the budgets established in the Advance Funding Agreements.

(Continued)

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

**COMMITMENTS AND CONTINGENCIES (Continued)**

**Texas Department of Transportation (Continued)**

During the year ended September 30, 2017, the Town incurred \$529,318 for construction costs related to Col. John O. Ensor Middle and Carroll T. Welch Elementary Schools. The Town received federal assistance for this project totaling \$423,455. In addition, the Town received in-kind construction supervision services from TXDOT valued at approximately \$45,971. Safe Route to Schools Project on Col. John O. Ensor Middle and Carroll T. Welch Elementary Schools was completed in the year ended September 30, 2017 and two reimbursement requests were outstanding at September 30, 2017. The Town began the construction phase for the project on Eastlake Blvd. in October 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 for 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 Walk Path and Crocker Dr. intersection and the Horizon Blvd. Bike Walk Path and Rifton Ct. intersection. The Town is required to furnish all necessary maintenance required for the improvements made 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.

**City of El Paso**

The Town entered into an interlocal agreement with the City of El Paso in which the Town will receive animal shelter service from the City. The period of the contract began on September 1, 2016 for a year and the contract automatically renews every year. Total compensation for the services provided by the City is \$128,447, 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 environmental services from the City, including but not limited to vector control and air control. The period of the contract begins on September 1, 2017 and ends on August 31, 2018. Total compensation for the services provided by the City is \$14,094, and is to be paid by the Town in equal quarterly installments.

(Continued)

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

**COMMITMENTS AND CONTINGENCIES (Continued)**

**City of El Paso (Continued)**

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, 2017 and ends on August 31, 2018. Total compensation for the services provided by the City is \$126,257, and is to be paid by the Town in equal quarterly installments.

**County of El Paso**

The Town entered into an interlocal agreement with the County of El Paso in which the Town will receive animal control services by and through the El Paso County Sheriff's Office. The period of the contract begins on March 1, 2017 and ends on February 28, 2018. Total compensation for the services provided by the County is \$42,129, and is to be paid by the Town in three monthly installments.

**Horizon Regional Municipal Utility District**

The Town entered into an interlocal agreement with the Horizon Regional Municipal Utility District ("District") in which the Town will grant the Town's property as consideration for an easement on District's property for the Darrington Drainage Project. In addition, the Town will collaborate with the District on the District Backfill Project by transporting fill dirt removed from the District property during the Darrington Drainage project as backfill on the designated District site.

**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 a day, 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, 2017 was \$108,058. The agreement requires the annual contract amount to be revisited every year and approved by both parties. The service amount for fiscal year 2017-2018 has been agreed to totaling \$106,587, to be received quarterly.

(Continued)

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

**COMMITMENTS AND CONTINGENCIES (Continued)**

**Other Commitments (Continued)**

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 a day, 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, 2017 was \$336,599. The agreement requires the annual contract amount to be revisited every year and approved by both parties. The service amount for fiscal year 2017-2018 has been agreed to totaling \$331,605, to be received quarterly.

The Town entered into an agreement with the Horizon Regional Municipal Utility District (“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, 2017.

**Post-retirement benefits**

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

(Continued)

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

**RELATED PARTY**

Economic Development Corporation was established in 2011 and receives 0.25% of sales taxes collected by the Town, as designated by Council Ordinance. The Corporation is reported as a blended component unit as its governing body is appointed by the Town’s Council and it 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.

**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.

**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 Construction Cluster. The total awards expended by the Town under this Federal award totaled \$3,852,855 for the year ended September 30, 2017; therefore, the program is considered a major program for the purpose of the Uniform Guidance.

**CONCENTRATION OF REVENUE**

The Town receives a substantial amount of its in-kind support from government grants.

Approximately 36% of support and revenues came from the following sources for year ended September 30, 2017:

Texas Department Transportation – Darrington Widening	32%
Texas Department Transportation – Safe Routes to School	<u>4%</u>
	<u>36%</u>

(Continued)

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

**LEASE AGREEMENTS**

In November 2017, 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,**

2018	\$ 55,434
2019	54,850
2020	<u>41,703</u>
	<u>\$151,987</u>

Total rental expense under this agreement was \$59,420 for the year ended September 30, 2017.

**SUBSEQUENT EVENTS**

Effective October 16, 2017, the Town entered into a contract with Del Mar Contracting, Inc. for the N. Darrington Drainage Improvement. The total contract amount is established at \$1,301,553.

Effective October 19, 2017, the Town entered into a contract with Del Mar Contracting, Inc. for Eastlake Safe Route to School Project. The total contract amount is established at \$712,614.

Effective January 1, 2018, the Town enrolled in the Texas Municipal Retirement System (TMRS) through ordinance No. 236. All employees whose position requires more than 1,000 hours per year becomes a member of the System as a condition of their employment. In accordance with the provision of the TMRS Act, employees contribute 5% of their earnings and the Town contributes 5.93%. This rate will remain in effect for the year and throughout 2019. The System's actuary shall determine the annual contribution rate necessary to fund within the amortization period determined as applicable to the Town under the TMRS Act. In addition, the Town elected to participate in the Supplemental Death Benefits Fund of the System for each of the Town's employees who are members of the system for the purpose of providing in-service death benefits and post-retirement death benefits. Due to the enrollment in the TMRS, the existing 457B plan was terminated as of December 31, 2017. Participants in 457B plan are fully vested in all employer contributions at termination. Funds in 457B plan accounts must be liquidated in full within 12 months of termination of the plan. Participants were provided with options of a personal IRA rollover or withdrawals after tax payment.

Subsequent events were evaluated through May 15, 2018 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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues/inflows:</b>				
Property taxes	\$ 2,577,358	\$ 2,577,358	\$ 2,604,621	\$ 27,263
Sales taxes	1,279,115	1,279,115	1,379,699	100,584
Franchise taxes	334,710	334,710	368,996	34,286
Fines and forfeitures	309,996	309,996	243,469	(66,527)
Licenses, permits and fees	455,216	455,216	841,620	386,404
Charges for services	441,835	441,835	444,657	2,822
Interest income			23,740	23,740
Contributions			6,850	6,850
Other income	<u>55,912</u>	<u>55,912</u>	<u>30,308</u>	<u>(25,604)</u>
 Total revenues	 <u>5,454,142</u>	 <u>5,454,142</u>	 <u>5,943,960</u>	 <u>489,818</u>
 <b>Expenditures/outflows:</b>				
General government	687,860	677,280	637,184	40,096
Finance	251,446	251,446	243,816	7,630
Executive	52,896	52,896	48,149	4,747
Public services	327,518	327,518	326,210	1,308
Building services	302,876	297,966	264,804	33,162
Community development	317,427	308,352	271,754	36,598
Public safety - police	1,566,510	1,579,064	1,586,478	(7,414)
Public safety - dispatch	789,060	733,468	726,911	6,557
Municipal court	256,382	256,382	240,077	16,305
Parks and recreation	355,540	327,660	309,080	18,580
Planning	230,147	228,494	209,041	19,453
Code enforcement	228,630	228,630	171,564	57,066
Storm water	47,850	22,850	8,780	14,070
Capital improvements	<u>40,000</u>	<u>136,460</u>	<u>155,548</u>	<u>(19,088)</u>
 Total expenditures	 <u>5,454,142</u>	 <u>5,428,466</u>	 <u>5,199,396</u>	 <u>229,070</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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Excess of revenues over expenditures	\$ _____	\$ 25,676	\$ 744,564	\$ 718,888
Other financial uses:				
Transfers out	_____	(92,787)	(131,588)	(38,801)
Total other financing uses	_____	(92,787)	(131,588)	(38,801)
Excess of revenue (expenditures) over expenditures (revenues) - budgetary basis		(67,111)	612,976	680,087
Fund balance, beginning of year	<u>2,193,891</u>	<u>2,193,891</u>	<u>2,193,891</u>	_____
Fund balance, end of year	<u>\$2,193,891</u>	<u>\$2,126,780</u>	<u>\$ 2,806,867</u>	<u>\$ 680,087</u>

See notes to required supplementary information.

**TOWN OF HORIZON CITY, TEXAS**

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

**Year Ended September 30, 2017**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
Revenues/inflows:				
Property taxes	\$ 1,135,880	\$1,135,880	\$1,146,739	\$ 10,859
Interest income	<u>                    </u>	<u>                    </u>	<u>5,081</u>	<u>5,081</u>
Total revenues	<u>1,135,880</u>	<u>1,135,880</u>	<u>1,151,820</u>	<u>15,940</u>
Expenditures/outflows:				
General government			1,265	(1,265)
Principal	529,413	622,200	616,325	5,875
Interest	<u>606,467</u>	<u>606,467</u>	<u>603,361</u>	<u>3,106</u>
Total expenditures	<u>1,135,880</u>	<u>1,228,667</u>	<u>1,220,951</u>	<u>7,716</u>
Excess of revenues (expenditures) over expenditures (revenues)	<u>                    </u>	<u>(92,787)</u>	<u>(69,131)</u>	<u>23,656</u>
Other financial sources:				
Transfers in	<u>                    </u>	<u>92,787</u>	<u>92,787</u>	<u>                    </u>
Total other financing sources	<u>                    </u>	<u>92,787</u>	<u>92,787</u>	<u>                    </u>
Excess of revenue over expenditures - budgetary basis			23,656	23,656
Fund balance, beginning of the year	<u>40,970</u>	<u>40,970</u>	<u>40,970</u>	<u>                    </u>
Fund balance, end of the year	<u>\$ 40,970</u>	<u>\$ 40,970</u>	<u>\$ 64,626</u>	<u>\$ 23,656</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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Sales taxes	\$ 311,916	\$ 311,916	\$ 338,133	\$ 26,217
Interest income	<u>                    </u>	<u>                    </u>	<u>1,349</u>	<u>1,349</u>
Total revenues	<u>311,916</u>	<u>311,916</u>	<u>339,482</u>	<u>27,566</u>
Expenditures/outflows:				
Community development	224,600	224,600	17,954	206,646
Capital outlay	<u>                    </u>	<u>                    </u>	<u>21,550</u>	<u>(21,550)</u>
Total expenditures	<u>224,600</u>	<u>224,600</u>	<u>39,504</u>	<u>185,096</u>
Excess of revenues over expenditures	87,316	87,316	299,978	212,662
Fund balance, beginning of the year	<u>526,609</u>	<u>526,609</u>	<u>526,609</u>	<u>                    </u>
Fund balance, end of the year	<u>\$ 613,925</u>	<u>\$ 613,925</u>	<u>\$ 826,587</u>	<u>\$ 212,662</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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues/inflows:				
Sales taxes	\$ 311,916	\$ 311,916	\$ 338,133	\$ 26,217
Interest income	<u>                    </u>	<u>                    </u>	<u>3,135</u>	<u>3,135</u>
Total revenues	<u>311,916</u>	<u>311,916</u>	<u>341,268</u>	<u>29,352</u>
Expenditures/outflows:				
General government	72,500	99,500	99,067	433
Capital outlay	<u>230,000</u>	<u>203,000</u>	<u>                    </u>	<u>203,000</u>
Total expenditures	<u>302,500</u>	<u>302,500</u>	<u>99,067</u>	<u>203,433</u>
Excess of revenues over expenditures	9,416	9,416	242,201	232,785
Fund balance, beginning of the year	<u>759,053</u>	<u>759,053</u>	<u>759,053</u>	<u>                    </u>
Fund balance, end of the year	<u>\$ 768,469</u>	<u>\$ 768,469</u>	<u>\$1,001,254</u>	<u>\$ 232,785</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, Debt Service 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.

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.

(Continued)

**TOWN OF HORIZON CITY, TEXAS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(CONTINUED)**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 2017.

**BUDGET OVER-EXPENDITURES**

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

General Fund:	
Capital improvements	\$19,088
Public safety - police	7,414
Transfers out	<u>38,801</u>
Total	<u>\$65,303</u>
Debt Service Fund:	
General government	\$ <u>1,265</u>
Total	\$ <u>1,265</u>
Special Revenue Fund - Street Maintenance Fund:	
Capital improvements	<u>\$21,550</u>
Total	<u>\$21,550</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 portable buildings, new street maintenance project, line-item transfer of budget for a new public safety – dispatch department with shared costs and establishment of a special fund – Transportation Reinvestment Zone.

**OTHER SUPPLEMENTARY INFORMATION**

TOWN OF HORIZON CITY, TEXAS

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

September 30, 2017

	<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>
<b><u>ASSETS</u></b>						
Cash and equivalents, non-pooled	\$ 806,871	\$	\$	\$	\$ 1,325	\$ 808,196
Pooled cash and cash equivalents		(8,252)	(7,997)			(16,249)
Investments	200,230					200,230
Pooled investments				37,937		37,937
Due from other funds		937				937
Grants receivable		<u>13,451</u>	<u>10,210</u>			<u>23,661</u>
Total assets	<u>\$ 1,007,101</u>	<u>\$ 6,136</u>	<u>\$ 2,213</u>	<u>\$ 37,937</u>	<u>\$ 1,325</u>	<u>\$ 1,054,712</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
Liabilities:						
Accounts payable	\$ 4,043	\$	\$	\$	\$	\$ 4,043
Accrued liabilities	1,804	6,136				7,940
Due to other funds				<u>57,081</u>		<u>57,081</u>
Total liabilities	<u>5,847</u>	<u>6,136</u>		<u>57,081</u>		<u>69,064</u>
Fund balances:						
Restricted			2,213			2,213
Committed	1,001,254				1,325	1,002,579
Unassigned				<u>(19,144)</u>		<u>(19,144)</u>
Total fund balances	<u>1,001,254</u>		<u>2,213</u>	<u>(19,144)</u>	<u>1,325</u>	<u>985,648</u>
Total liabilities and fund balances	<u>\$ 1,007,101</u>	<u>\$ 6,136</u>	<u>\$ 2,213</u>	<u>\$ 37,937</u>	<u>\$ 1,325</u>	<u>\$ 1,054,712</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, 2017

	<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>
<b><u>REVENUES</u></b>						
Sales taxes	\$ 338,133	\$	\$ 68,517	\$	\$	\$ 338,133
Grant income		134,337				202,854
Interest income	<u>3,135</u>			<u>73</u>		<u>3,208</u>
Total revenues	<u>341,268</u>	<u>134,337</u>	<u>68,517</u>	<u>73</u>		<u>544,195</u>
<b><u>EXPENDITURES</u></b>						
General government	99,067					99,067
Public safety - police		74,335	66,602			140,937
Public Safety - dispatch		221				221
Community development						
Capital outlay		<u>63,338</u>		<u>18,482</u>		<u>81,820</u>
Total expenditures	<u>99,067</u>	<u>137,894</u>	<u>66,602</u>	<u>18,482</u>		<u>322,045</u>
Excess of revenues (expenditures) over expenditures (revenues)	<u>242,201</u>	<u>(3,557)</u>	<u>1,915</u>	<u>(18,409)</u>		<u>222,150</u>
Other financial sources:						
Interfund transfers		<u>937</u>		<u>37,864</u>		<u>38,801</u>
Total other financial sources		<u>937</u>		<u>37,864</u>		<u>38,801</u>
Net change in fund balance	242,201	(2,620)	1,915	19,455		260,951
Fund balance, beginning of the year	<u>759,053</u>	<u>2,620</u>	<u>298</u>	<u>(38,599)</u>	<u>1,325</u>	<u>724,697</u>
Fund balance, end of the year	<u>\$ 1,001,254</u>	<u>\$</u>	<u>\$ 2,213</u>	<u>\$ (19,144)</u>	<u>\$ 1,325</u>	<u>\$ 985,648</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, 2017, and the related notes to the financial statements, which collectively comprise Town of Horizon City, Texas' basic financial statements and have issued our report thereon dated May 15, 2018.

**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.

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 2017-001.

### **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, P.C.

El Paso, Texas  
May 15, 2018

**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, 2017. 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.

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, 2017.

### **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. 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, P.C.

El Paso, Texas  
May 15, 2018

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

Year Ended September 30, 2017

Program Title	Federal CFDA Number	Agency or Pass- Through Number	Contract Period	Award Amount	Federal/State Expenditures
<b>FEDERAL EXPENDITURES</b>					
<b>U.S. Department of Transportation</b>					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Reconstruction Cluster					
Darrington Road Widening	20.205	0924-06-457	8/27/14 - Completion	\$ 10,116,721	\$ 3,429,400
Safe Routes to School	20.205	0924-06-511	12/27/15 - Completion	\$ 1,091,377	<u>423,455</u>
<b>Total Highway Planning and Construction Cluster</b>					<u>3,852,855</u>
Total 20.205					<u>3,852,855</u>
<b>Total U.S. Department of Transportation</b>					<u>3,852,855</u>
<b>U.S. Department of Homeland Security</b>					
<i>Passed through Office of the Governor</i>					
Operation Stonegarden - FY2015	97.067	3007401	10/1/15 - 10/30/17	\$ 66,400	55,697
Operation Stonegarden - FY2016	97.067	3007402	11/1/16 - 8/31/18	\$ 49,484	10,210
Interoperable Communications Coverage Improvement Project Grant	97.067	2950802	9/1/16 - 8/31/17	\$ 63,585	<u>63,585</u>
Total 97.067					<u>129,492</u>
<b>Total U.S. Department of Homeland Security</b>					<u>129,492</u>
<b>U.S. Department of Treasury</b>					
<i>Passed through US Immigration and Customs Enforcement, SAC El Paso</i>					
Treasury Forfeiture Fund Program - Joint Law Enforcement Operations	21.000	Unknown	10/1/14 - 9/30/17	\$ 5,600	<u>2,610</u>
<b>Total U.S. Department of Treasury</b>					<u>2,610</u>
<b>Total federal expenditures</b>					<u>3,984,957</u>

(Continued)

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

**Year Ended September 30, 2017**

Program Title	Federal CFDA Number	Agency or Pass- Through Number	Contract Period	Award Amount	Federal/State Expenditures
<b>STATE EXPENDITURES</b>					
<i>Passed through Texas Department of Transportation</i>					
Highway Planning and Reconstruction Cluster					
Darrington Road Widening	State	0924-06-457	8/27/14 - Completion	\$ 2,406,837	\$ 645,401
Safe Routes to School	State	0924-06-511	12/27/15 - Completion	\$ 68,614	<u>45,971</u>
Total Highway Planning and Reconstruction Cluster					<u>691,372</u>
<i>Passed through Office of the Governor</i>					
Local Border Security Program (LBSP -17)					
Local Border Security Program (LBSP -17)	State	2999502	9/1/16-8/31/17	\$ 62,583	54,492
Local Border Security Program (LBSP -18)	State	2999503	9/1/17-8/31/18	\$ 67,660	<u>13,451</u>
Total Local Border Security Program					<u>67,943</u>
Law Enforcement Officer Standards and Education Grant	State	Unknown	10/1/15 - 9/30/16	\$ 2,809	<u>2,809</u>
<b>Total state expenditures</b>					<u>762,124</u>
<b>Total federal and state expenditures</b>					<u>\$ 4,747,081</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, 2017.

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, 2017 amount to \$648,306. Total federal awards expended by the pass-through agency from inception of the project through September 30, 2017 amount to \$4,080,600. Total matching funds provided by the pass-through agency amounted to \$744,709 at September 30, 2017. 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 67%, or \$ 45,971, 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, 2017**

**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 Construction 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, 2017**

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

**Finding 2017-001:**

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

**Criteria and Condition:** During fiscal years ended September 30, 2017, 2016 and 2015, 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 financial statements 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 recurring 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 2017 fiscal year. We expect the new software to be entirely functional before the end of the fiscal year ending 2018.

(Continued)

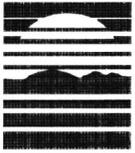
**TOWN OF HORIZON CITY, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**(CONTINUED)**

**Year Ended September 30, 2017**

**III. SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**Finding 2016-001:**

**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 2017-001.



HORIZON CITY

Incorporated 1988

**TOWN OF HORIZON CITY, TEXAS**

**CORRECTIVE ACTION PLAN**

**Year Ended September 30, 2017**

**Finding 2017-001:**

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

**Management's View:** The implementation of our new accounting software began in October 2014 and has been completed. However, due to the extended time related to the installation and use, we find that additional training is needed.

**Proposed Corrective Action:** We expect the new software to be entirely functional before the end of the fiscal year 2018.

**Anticipated completion date: September 30, 2018**