

CITY OF LA FERIA, TEXAS

FINANCIAL STATEMENTS

September 30, 2016



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City of La Feria, Texas
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REPORT



INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Commission
City of La Feria, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of La Feria, Texas ("the City") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of La Feria, Texas, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension system supplementary information on pages 7-21, 77-78 and 79-81, 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 City of La Feria, Texas's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal 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.

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The other supplementary information and the schedule of expenditures of federal 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 other supplementary information and the schedule of expenditures of federal 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 August 17, 2017, on our consideration of the City of La Feria's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of La Feria, Texas's internal control over financial reporting and compliance.

Caru, Riggs & Ingram, L.L.C.

Harlingen, Texas
August 17, 2017

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City of La Feria, Texas Management's Discussion and Analysis

As management of the City of La Feria, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of La Feria for the fiscal year ended September 30, 2016.

Financial Highlights

- The assets and deferred outflows of the City's primary government exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$18,728,767 (net position). Of this amount, \$2,602,613 is unrestricted net position.
- The assets of the City's component units exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$37,581,959 (net position). Unrestricted net position of \$498,791 is the result of the EDC and IDC having combined unrestricted net position of \$858,833, net of an unrestricted net position deficit of \$360,042 in the Water and Sewer System, primarily caused by the recognition of the net pension liability in accordance with GASB Statement No. 68.
- At the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,756,092, a decrease of \$4,039,549 from the prior year.
- At the end of the current fiscal year, the fund balance for the general fund had a deficit balance of \$1,879,340 due to overestimated revenues, including substantial delays in receiving grant reimbursements.
- The City's total debt (excluding component unit debt) decreased by \$337,360 (1.6%) during the current fiscal year. However, debt payments remain high.

Overview of the Financial Statements

The Annual Financial Report is composed of primarily the Financial Section. The Financial Section of this Annual Financial Report consists of four parts: (1) *management's discussion and analysis (this section)*, (2) *the basic financial statements*, (3) *required supplementary information*, and (4) *other supplementary information*, which is an optional section that presents additional information such as *combining non-major fund financial statements*.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.



City of La Feria, Texas Management's Discussion and Analysis

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include the Waste Disposal Fund.

The government-wide financial statements include not only the City itself (known as the primary government), but also legally separate component units for which the City is financially accountable: Industrial Development Corporation, the Economic Development Corporation and the Waterworks and Sewer System.

The government-wide financial statements begin on page 25 of this report.

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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and discretely presented component units.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities 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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three major and nine non-major governmental funds. Information for the major funds is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and the Certificates of Obligation – Series 2015 Fund both of which are considered to be major funds.



City of La Feria, Texas Management's Discussion and Analysis

Data from the nonmajor governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The City's governmental fund financial statements begin on page 28 of this report.

Proprietary Funds

The City maintains one proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its collection of waste and the pick-up of brush. There are no internal service funds being used by the City at this time.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Waste Disposal Fund.

The basic proprietary fund financial statements begin on page 32 of this report.

Discretely Presented Component Units

Discretely presented component units are legally separate from the City. The component units are intended to operate on a self-supporting basis through user charges or the collection of sales tax. The units are discretely presented because the City has a voting majority, imposition of will, financial benefit and financial accountability over the units. The units also maintain a September 30 fiscal year end. There are three discretely presented component units.

The discretely presented component unit's financial statements begin on page 36 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements begin on page 41 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligations to provide pension benefits to its employees. The City also presents a schedule of revenues, expenditures, and changes in fund balances – Budget and Actual for the general fund.

Required supplementary information begins on page 77 of this report.

City of La Feria, Texas Management's Discussion and Analysis

Other Information

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions.

Non-major governmental funds combining statements begin on page 84 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$18,728,767 at the close of the most recent fiscal year.

	Governmental Activities		Business-type Activities		Total		Component Unit Activities	
	9/30/16	9/30/15	9/30/16	9/30/15	9/30/16	9/30/15	9/30/16	9/30/15
Current and other assets	\$ 9,973,637	\$14,635,844	\$153,078	\$308,567	\$10,126,715	\$14,944,411	\$ 9,159,705	\$13,906,750
Capital assets	30,689,653	24,532,475	655,355	424,313	31,345,008	24,956,788	45,043,384	42,041,560
Total assets	40,663,290	39,168,319	808,433	732,880	41,471,723	39,901,199	54,203,089	55,948,310
Deferred outflows of resources	299,550	127,220	11,622	5,175	311,172	132,395	155,531	59,984
Long-term liabilities outstanding	19,803,268	20,140,627	145,994	163,471	19,949,262	20,304,098	7,839,150	8,314,777
Other liabilities	3,078,018	4,461,344	-	-	3,078,018	4,461,344	8,923,846	13,404,143
Total liabilities	22,881,286	24,601,971	145,994	163,471	23,027,280	24,765,442	16,762,996	21,718,920
Deferred inflows of Resources	25,854	8,073	994	328	26,848	8,401	13,665	3,806
Net position								
Net investment in capital assets	15,092,013	11,592,160	552,445	296,830	15,644,458	11,888,990	36,572,691	32,943,581
Restricted	481,696	360,527	-	-	481,696	360,527	510,477	769,540
Unrestricted	2,481,991	2,732,808	120,622	277,426	2,602,613	3,010,234	498,791	572,447
	\$18,055,700	\$14,685,495	\$673,067	\$574,256	\$18,728,767	\$15,259,751	\$37,581,959	\$34,285,568

Eighty-four percent of the City's net position reflects its investment in capital assets (e.g., land buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$481,696 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,602,613 may be used to meet the government's ongoing obligations to citizens and creditors.



City of La Feria, Texas Management's Discussion and Analysis

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The discretely presented component units' net position increased \$3,296,391 during the current fiscal year which can be attributed to increases in capital project activities and related grant receipts.

Governmental Activities

Governmental activities increased the City's net position by \$3,370,205. The key elements of this increase are described as follows:

- Significant revenues derived from capital grants and contributions.
- Significant revenues derived from charges for services and operating grants and contributions.

Capital improvements in the general government continued this year and were funded through the capital grants and contributions noted above resulting in an increase to net investment in capital assets, while unrestricted net position decreased slightly. The decrease in unrestricted net position was primarily the result in the net pension liability and overall reduction in the City's unrestricted cash.

The City's condensed Changes in Net Position along with last fiscal year's numbers are presented for comparison on the next page.

City of La Feria, Texas
Management's Discussion and Analysis

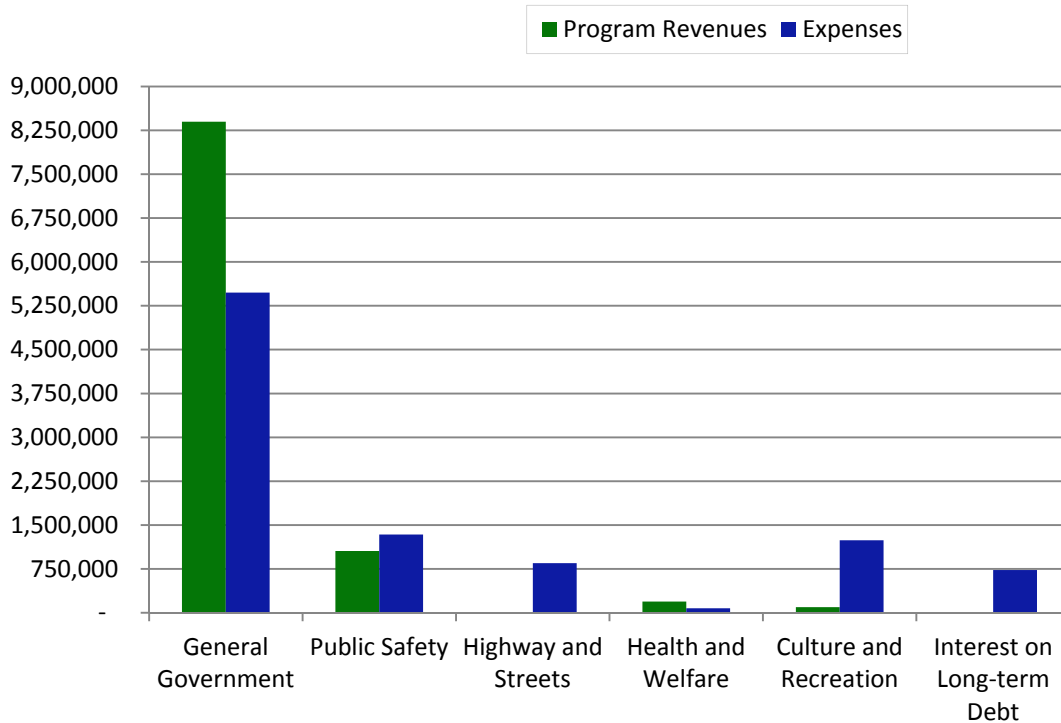
City of La Feria's Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Component Unit Activities	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015	9/30/2016	9/30/2015
Revenues:								
Program Revenues								
Charges for services	\$ 544,572	\$ 683,647	\$ 878,393	\$ 822,896	\$ 1,422,965	\$ 1,506,543	\$ 2,678,088	\$ 2,413,452
Operating grants and contributions	577,477	727,499	-	-	577,477	727,499	-	-
Capital grants and contributions	8,618,878	9,590,266	-	-	8,618,878	9,590,266	3,776,371	2,372,099
General Revenues:								
Property tax	1,586,021	1,390,567	-	-	1,586,021	1,390,567	-	-
Other taxes	1,015,920	997,608	-	-	1,015,920	997,608	643,321	617,036
Other	475,169	949,994	-	-	475,169	949,994	78,371	66,412
Total revenues	12,818,037	14,339,581	878,393	822,896	13,696,430	15,162,477	7,176,151	5,468,999
Expenses:								
General government	5,476,382	4,988,514	-	-	5,476,382	4,988,514	-	-
Public safety	1,337,138	1,414,720	-	-	1,337,138	1,414,720	-	-
Highways/streets	846,875	1,033,284	-	-	846,875	1,033,284	-	-
Health and welfare	76,011	404,708	-	-	76,011	404,708	-	-
Culture and recreation	1,238,114	1,430,664	-	-	1,238,114	1,430,664	-	-
Interest on long-term debt	729,020	625,416	-	-	729,020	625,416	-	-
Sanitation	-	-	523,874	587,391	523,874	587,391	-	-
Waterworks system	-	-	-	-	-	-	3,143,049	2,780,244
IDC	-	-	-	-	-	-	479,467	463,306
EDC	-	-	-	-	-	-	257,244	168,741
Total expenses	9,703,540	9,897,306	523,874	587,391	10,227,414	10,484,697	3,879,760	3,412,291
Increase/(decrease) in net assets before transfers	3,114,497	4,442,275	354,519	235,505	3,469,016	4,677,780	3,296,391	2,056,708
Transfers	255,708	351,111	(255,708)	(351,111)	-	-	-	-
Increase (decrease) in net position	3,370,205	4,793,386	98,811	(115,606)	3,469,016	4,677,780	3,296,391	2,056,708
Net position - beginning	14,685,495	10,611,959	574,256	717,464	15,259,751	11,329,423	34,285,568	32,561,701
Prior period adjustment	-	(719,850)	-	(27,602)	-	(747,452)	-	(332,841)
Net position - beginning, as adjusted	14,685,495	9,892,109	574,256	689,862	15,259,751	10,581,971	34,285,568	32,228,860
Net position - ending	\$ 18,055,700	\$ 14,685,495	\$ 673,067	\$ 574,256	\$ 18,728,767	\$ 15,259,751	\$ 37,581,959	\$ 34,285,568

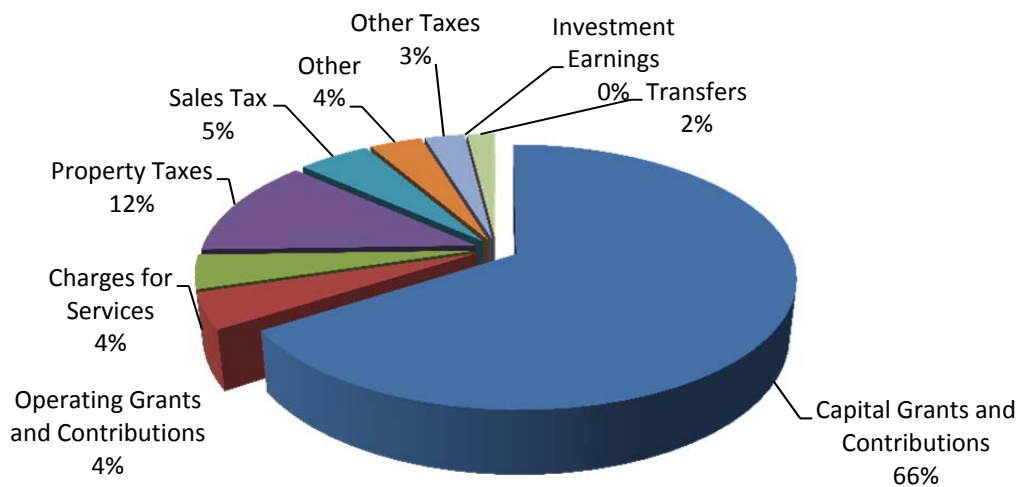
City of La Feria, Texas Management's Discussion and Analysis

An overview of the City's governmental expenses and revenue are presented in the charts below.

Expenses and Program Revenues - Governmental Activities



Revenue by Source - Governmental Activities



City of La Feria, Texas Management's Discussion and Analysis

Business-Type Activities

Business-type activities consist of operating expenses of \$520,085, transfers-out totaling \$255,708, revenues of \$878,393 and nonoperating expenses of \$3,789 resulting in an increase in net position of \$98,811. The key element of this increase in net position can be attributed to a decrease in the transfers-out:

- An annual transfer-out to the general government in the amount of \$255,708 compared to the prior year's net transfer-out of \$351,111.

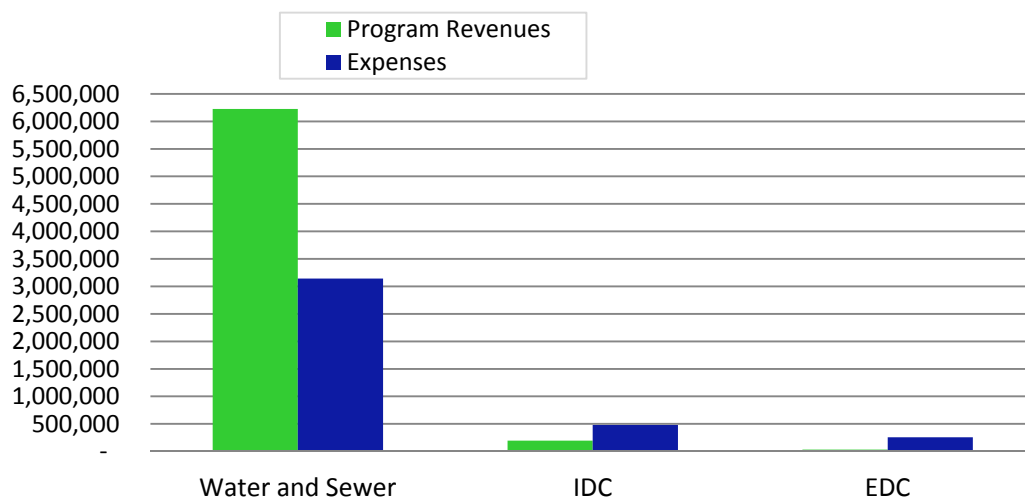
Discretely Presented Component Units

Component unit's activities increased their net position by \$3,296,391, accounting for approximately 8.77% of the total net position. Key elements of this increase are as follows:

- The Waterworks and Sewer System's net position increased by \$3,082,114 in comparison with the prior year. The key factor in this increase is due to the ongoing capital projects for the System which are being funded by the Texas Water Development Board (TWDB) in the form of forgivable loans.
- The La Feria Industrial Development Corporation's net position increased by \$64,695 during the current fiscal year and is attributed to increases in sales tax and lease revenues compared to the prior year. Sales tax revenues increased by 5.08% compared to last year's increase of 5.06%.
- The La Feria Economic Development Corporation's net position increased by \$149,582 and is attributed to increases in sales tax revenues of 5.08% compared to the prior year's slight increase of 3.06%. Operating expenses increased by 88% and is attributed to the new activity of leasing in 2016; the revenue from those leasing activities fully offset the expenses incurred.

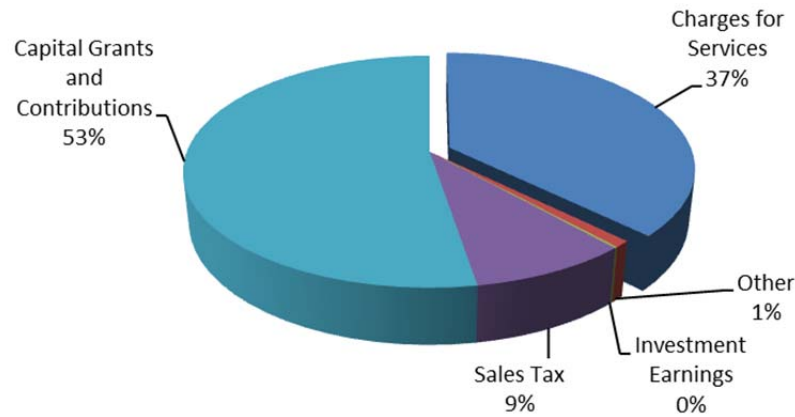
An overview of the component units' expenses and program revenues and revenues by source are presented in the following charts:

Expenses and Program Revenues - Component Unit Activities



City of La Feria, Texas Management's Discussion and Analysis

Revenue by Source - Component Unit Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of La Feria uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, an 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 following schedule presents a summary of general fund, special revenue funds, debt service fund, and capital projects fund revenues for the years ended September 30, 2016 and 2015.

Revenues: General, Special Revenue, Debt Service and Capital Projects Funds

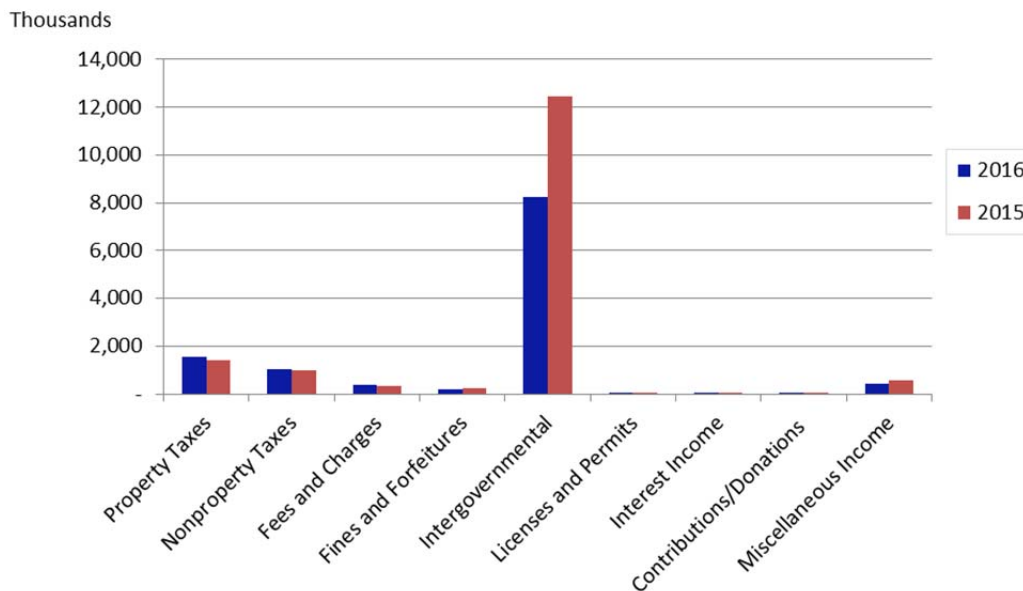
	2016 Amount	Percent of 2016 Total	2015 Amount	Percent of 2015 Total	Increase (Decrease) Over 2015	Percent of Increase (Decrease)
Revenues						
Property taxes	\$ 1,553,986	13.08%	\$ 1,385,922	8.63%	\$ 168,064	12.13%
Non-property taxes	1,015,920	8.55	996,850	6.21	19,070	1.9
Fees and charges	370,351	3.12	352,350	2.19	18,001	5.11
Fines and forfeitures	178,850	1.50	212,050	1.32	(33,200)	(15.66)
Intergovernmental	8,251,920	69.49	12,440,722	77.50	(4,188,802)	(33.67)
Licenses and permits	31,052	0.26	56,375	0.35	(25,323)	(44.92)
Interest income	391	0.00	757	0.00	(366)	(48.35)
Contributions and donations	57,215	0.48	59,627	0.37	(2,412)	(4.05)
Miscellaneous income	417,563	3.52	549,879	3.43	(132,316)	(24.06)
	<u>\$11,877,248</u>	<u>100.00%</u>	<u>\$16,054,532</u>	<u>100.00%</u>	<u>\$(4,177,284)</u>	<u>(26.02)%</u>

City of La Feria, Texas Management's Discussion and Analysis

Revenues from governmental funds decreased by \$4,177,284 or 26.02%. Key elements of this decrease shown above are as follows:

- Intergovernmental revenues decreased by \$4,188,802 or 33.67% compared to last year. The intergovernmental revenues consisted mostly of grant funds for capital projects which had less activity in the current year compared to prior years.
- Revenue from property and non-property taxes increased by 7.85%; reflecting increases in business activity in the community.

Governmental Revenues



The following schedule presents a summary of general fund, special revenue funds, debt service fund, and capital projects fund expenditures for the years ended September 30, 2016 and 2015.

Expenses: General, Special Revenue, Debt Service and Capital Projects Funds

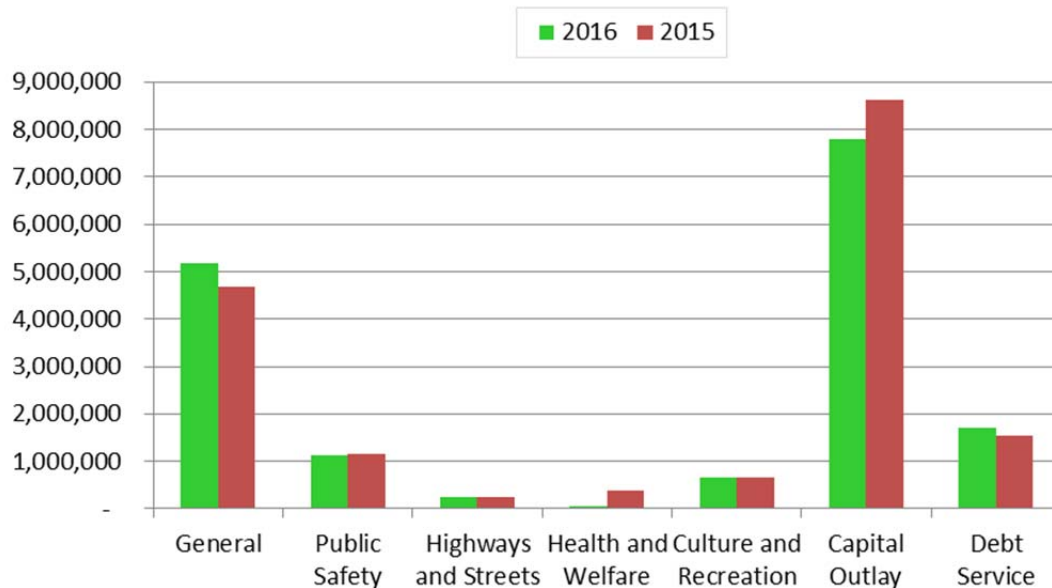
	2016 Amount	Percent of 2016 Total	2015 Amount	Percent of 2015 Total	Increase (Decrease) Over 2015	Percent of Increase (Decrease)
Expenditures						
General	\$ 5,189,881	30.91%	\$ 4,682,149	27.06%	\$ 507,732	10.84%
Public safety	1,135,966	6.77	1,147,419	6.63	(11,453)	(1.0)
Highways and streets	253,939	1.51	245,439	1.42	8,500	3.46
Health and welfare	67,385	0.40	393,246	2.27	(325,861)	(82.86)
Culture and recreation	660,152	3.93	662,716	3.83	(2,564)	(0.39)
Capital outlay	7,784,782	46.36	8,616,016	49.80	(831,234)	(9.65)
Debt service	1,698,400	10.12	1,555,167	8.99	143,233	9.21
	<u>\$16,790,505</u>	<u>100.00%</u>	<u>\$17,302,152</u>	<u>100.00%</u>	<u>\$(511,647)</u>	<u>(2.96)%</u>

City of La Feria, Texas Management's Discussion and Analysis

Governmental funds incurred expenditures of \$16,790,505, approximately 2.96% less expenditures for the City of La Feria, Texas compared to last year. Key elements of this decrease are as follows:

- General expenditures increased by \$507,732 due to increased expenses for the drainage project which includes locations outside of the City limits.
- Health and welfare expenditures decreased by \$325,861 due to the substantial completion of the home partnership investment program in the community.
- Capital outlay expenditures decreased by \$831,234 compared to last year due to decreased activity in capital projects. Capital outlay was for drainage improvements, the construction completion of two community safe room shelters, a fire station, Technical and Success Center, and other various capital additions. These expenditures are primarily funded by capital grants and proceeds from the 2015 Certificates of Obligation.

Governmental Expenditures



Governmental Fund Balances

The General Fund's fund balance began as a deficit of \$373,315 and further decreased by \$1,506,025 in fiscal year 2015-2016. This was due to substantial expenditures in capital improvements as well as general government expenditures for the drainage project. In addition, the City finished the construction of two community safe-room shelters, and also constructed a technical center, which is now being leased and used by a University. These projects were being funded with federal grants on a reimbursement basis, but there was also a required local match, which contributed to the decrease in fund balance. The following are the primary factors which can specifically account for the decrease in fund balance:

City of La Feria, Texas Management's Discussion and Analysis

- \$1,239,433 of reimbursable grant expenditures are included in deferred inflows – unavailable revenue as the funds are expected to be received, but the timing of when receipt will occur is unknown; therefore, these were not considered available to offset the related expenditures.
- The Drainage project being funded by both HMGP and GLO incurred expenditures to complete various phases of those projects, but certain projects allowable budgets were maxed out which resulted in nearly \$350,000 of cost overruns in those projects which were not considered eligible for reimbursement. The City had to cover these costs.

As described below in the discussion of the Certificates of Obligation Series 2015 Fund (the Bond Fund), the General Fund and other funds expended significant amounts of cash from the Bond Fund in order to pay for expenditures necessary for the projects noted above. These funds were also needed for general operations, due to the fact that the General Fund was already operating in a deficit. This resulted in the general fund and other funds owing the amounts spent back to the bond fund.

The Debt Service Fund's fund balance increased by \$149,197 in fiscal year 2015-2016 due primarily to an increase in property tax revenues of \$152,257 when compared to property tax revenue for the 2014-2015 fiscal year.

The Certificates of Obligation Series 2015 Fund's fund balance began with \$5,464,030, and decreased by \$2,374,036, which is the result of spending the proceeds of those bonds on capital projects which included the following:

- Purchase of police vehicles and other police equipment
- Construction of a Fire Station
- Various IT and computer system improvements
- Street light improvements
- Funding of the local match for the construction of the technical and success center (which had been partially funded by a federal grant)

The remaining fund balance in the Certificates of Obligation Series 2015 Fund is made up of \$417,161 of restricted cash and a \$2,981,452 receivable from other City Funds as well as the Component Units of the City, less accrued capital project payables. The receivables from other funds and component units represent amounts outstanding due to the Bond fund; a significant portion of the bond proceeds were transferred during 2016 into the City's pool cash fund, which were consumed by other funds of the City, resulting in the \$2,981,452 receivable.

Enterprise Funds – Business-Type Activities, Enterprise. La Feria, Texas' business-type activities include the collection of waste (garbage and brush). Operating revenue from these activities increased by \$55,497 during 2016 thereby accounting for approximately 6.7% growth in the revenues of the Enterprise Fund. The small growth in operating revenues is due to small volume increases for both the garbage and brush services.

Operating expenses in the business-type activities decreased by \$61,845 or 10.6%. The primary elements for this decrease are due to decreases in the costs of material, supplies, and repairs due to the purchase of new machinery for the garbage collection department and decreases in contracted services.



City of La Feria, Texas Management's Discussion and Analysis

Component Units Funds – Waterworks and Sewer System, Industrial Development Corp., Economic Development Corp.

La Feria, Texas' Component Units' activities' revenues increased by \$1,707,152 compared to the prior year, a 29% increase. Key elements of this increase are as follows:

- Capital grants and contributions increased by 59% from the prior year due to increased activity in the Water and Sewer System capital projects for which are being funded by the Texas Water Development Board (TWDB) in the form of forgivable loans.

Component Units' activities' expenses increased by a net amount of \$467,469, a 14% increase. Key elements of this increase are as follows:

- The Economic Development Corporation's expenses increased by 52% or \$88,503 from the previous year due primarily to increases in interest expense and depreciation.
- The Industrial Development Corporation increased expenses slightly from the previous year from \$463,306 to \$479,467. This is not a substantial change and is the result of normal fluctuations each year.
- The Waterworks and Sewer System increased operating expenses from the previous year by 13% or \$362,805, due mostly to increase in personnel due to filling vacant positions, increased depreciation, and an increase in pension expenses.

General Fund Budgetary Highlights

The original adopted budget had projected a net decrease in fund balance of \$495,529; the final amended budget resulted in a projected net decrease of \$89,776 in fund balance. The final actual change in fund balance was a decrease in fund balance of \$1,506,222. Expenditures exceeded appropriations by \$1,275,817.

Revenues

- Actual property tax revenues were \$53,564 less than budgeted. Revenues were over budgeted. Intergovernmental revenues were \$755,535 more than budgeted due to a higher volume of grant activity than anticipated.
- Sales tax revenues were \$56,233 more than budgeted due to increases in commercial activity in the community.



City of La Feria, Texas Management's Discussion and Analysis

Expenditures

- General government expenditures were \$2,126,006 higher than budgeted due to significantly larger amounts of expenditures incurred for the GLO drainage project. The final budget amendment incorrectly allocated portions of cost for this project to the capital outlay portion, as noted below.
- Capital outlay expenditures were \$918,783 less than budgeted due to poor planning and budgeting for the GLO project between the portion that was capital outlay and the portion that was not.
- Total expenditures exceeded the budget by \$1,275,817, which is the result of the significant adjustments to properly record activity in the fund after the final budget amendment had been approved, which were not taken into account on the final budget amendment.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2016, amounts to \$31,345,008 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, and machinery and equipment as well as construction in progress. The total increase in the City's investments in capital assets for the current fiscal year was \$6,388,200 or approximately 26%.

Major capital asset events during the fiscal year included the following:

- Completion of Community Dome Safe Room
- Purchase of police and fire equipment
- Drainage project improvement
- Purchase of brush truck
- Construction of Fire Station
- Construction of Technology and Success Center (where Our Lady of the Lake is operating from)

City of La Feria, Texas Management's Discussion and Analysis

City of La Feria's Capital Assets (Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	9/30/16	9/30/15	9/30/16	9/30/15	9/30/16	9/30/15
Land	\$ 1,839,299	\$ 1,639,262	\$ -	\$ -	\$ 1,839,299	\$ 1,639,262
Building and systems	6,640,708	5,024,972	-	-	6,640,708	5,024,972
Improvements and other than buildings	1,560,873	1,242,654	-	-	1,560,873	1,242,654
Machinery and equipment	1,729,926	1,644,493	655,355	424,313	2,385,281	2,068,806
Construction in progress	18,918,847	14,981,094	-	-	18,918,847	14,981,094
	<u>\$30,689,653</u>	<u>\$24,532,475</u>	<u>\$655,355</u>	<u>\$424,313</u>	<u>\$31,345,008</u>	<u>\$24,956,788</u>

Additional information on the City's capital assets can be found in Note 3 beginning on page 55 of this report.

Long-Term Debt

At year end, the City had a number of debt issues outstanding. These issues include \$17,440,000 of (limited) revenue certificates of obligation bonds, \$573,000 of tax notes, and \$2,870,000 of water and wastewater revenue bonds. The City's total long-term debt had a net decrease of \$830,305 during this fiscal year. The key factor in the net increase was the timely repayment of debt maturities, net of two separately issued tax notes, Series 2015 for \$315,000 and Series 2016 for \$303,000, and an increase in net pension liability of \$301,926.

Additional information on the City's long-term debt begins in Note 4 on page 61 of this report.

Economic Factors and Next Year's Budgets and Rates

- The occupancy rate of the government's central business district is estimated to remain at 91% for the past year.
- Sales tax increased by 4.8% compared to prior year's decrease of 5.06%. The sales tax revenue is expected to decrease by 3% for the next fiscal year.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2016-17 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 115 E. Commercial Avenue, La Feria, Texas 78559.

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FINANCIAL STATEMENTS



MAJOR FUNDS

The General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund: The Debt Service Fund accounts for the accumulation of resources for the payment of general long-term debt principal, interest, and related costs. An ad valorem tax rate and levy is required to be computed and levied, which will be sufficient to produce the money required to pay principal and interest as it becomes due and provide the interest and sinking fund reserve.

Capital projects fund: The Certificates of Obligation - Series 2015 Fund accounts for the construction of various capital improvements through the use of proceeds from this issuance of certificates of obligation.

BUSINESS-TYPE FUND

Proprietary fund: The Waste Disposal Fund was established to account for the activities of the City owned residential and commercial garbage collection system.

DISCRETELY PRESENTED COMPONENT UNITS

The Waterworks and Sewer System Fund was established to account for the City's water and sewer system respectively.

The Industrial Development Corporation (IDC) is a nonprofit 4A corporation and was established to promote, assist, and enhance economic activities in the City of La Feria, Texas.

The Economic Development Corporation (EDC) is a nonprofit 4B corporation and was established to promote, assist, and enhance economic activities in the City of La Feria, Texas.



City of La Feria, Texas
STATEMENT OF NET POSITION

September 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 75,883	\$ 54,955	\$ 130,838	\$ 475
Investments	75,000	-	75,000	-
Receivables (net of allowance for uncollectible)	4,237,215	98,123	4,335,338	979,738
Due from primary government	-	-	-	609,509
Due from component units	1,591,390	-	1,591,390	-
Inventories	25,218	-	25,218	56,416
Asset held for sale	-	-	-	65,000
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	425,119	-	425,119	7,016,088
Notes receivable	3,543,812	-	3,543,812	432,479
Capital assets (net of accumulated depreciation)				
Land	1,839,299	-	1,839,299	3,319,574
Building and system	6,640,708	-	6,640,708	2,233,966
Improvements other than buildings	1,560,873	-	1,560,873	-
Machinery and equipment	1,729,926	655,355	2,385,281	2,681,671
Infrastructure	-	-	-	26,758,711
Easements	-	-	-	117,758
Certificate of convenience and necessity	-	-	-	114,478
Construction in progress	18,918,847	-	18,918,847	9,817,226
Total assets	40,663,290	808,433	41,471,723	54,203,089
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	299,550	11,622	311,172	155,531
Total deferred outflows of resources	299,550	11,622	311,172	155,531
LIABILITIES				
Accounts payable and other				
current liabilities	2,260,484	-	2,260,484	470,120
Due to primary government	-	-	-	1,281,389
Due to component units	560,321	-	560,321	-
Unearned revenue	257,213	-	257,213	7,002,614
Liabilities payable from restricted assets	-	-	-	169,723
Noncurrent liabilities:				
Net pension liability	1,074,399	43,084	1,117,483	522,307
Due within one year	1,218,068	-	1,218,068	644,559
Due in more than one year, net	17,510,801	102,910	17,613,711	6,672,284
Total liabilities	22,881,286	145,994	23,027,280	16,762,996
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	25,854	994	26,848	13,665
Total deferred inflows of resources	25,854	994	26,848	13,665
NET POSITION				
Net investment in capital assets	15,092,013	552,445	15,644,458	36,572,691
Restricted for:				
Debt service	357,458	-	357,458	510,477
Tax increment reinvestment zone	124,238	-	124,238	-
Unrestricted	2,481,991	120,622	2,602,613	498,791
Total net position	\$ 18,055,700	\$ 673,067	\$ 18,728,767	\$ 37,581,959

The notes to the financial statements are an integral part of this statement.

City of La Feria, Texas
STATEMENT OF ACTIVITIES

For the year ended September 30, 2016

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 5,476,382	\$ 241,996	\$ 444,888	\$ 7,710,445
Public safety	1,337,138	175,441	71,741	808,433
Highways and streets	846,875	-	-	-
Health and welfare	76,011	31,152	60,848	100,000
Culture and recreation	1,238,114	95,983	-	-
Interest on long term debt	729,020	-	-	-
Total governmental activities	9,703,540	544,572	577,477	8,618,878
Business - type activities:				
Sanitation services	523,874	878,393	-	-
Total Business-type activities	523,874	878,393	-	-
Total primary government	10,227,414	1,422,965	577,477	8,618,878
Component Units:				
Waterworks and Sewer Systems	3,143,049	2,448,674	-	3,776,371
Industrial Development Corporation	479,467	195,940	-	-
Economical Development Corporation	257,244	33,474	-	-
Total component units	\$ 3,879,760	\$ 2,678,088	\$ -	\$ 3,776,371

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Hotel motel taxes

Unrestricted investment earnings

Other non operating revenue

Transfers

Total general revenues and transfers

Change in net position

Net position--beginning

Net position--ending

The notes to the financial statements are an integral part of this statement.

Exhibit 2

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business - type Activities	Total	Component Units
\$ 2,920,947	\$ -	\$ 2,920,947	\$ -
(281,523)	-	(281,523)	-
(846,875)	-	(846,875)	-
115,989	-	115,989	-
(1,142,131)	-	(1,142,131)	-
(729,020)	-	(729,020)	-
37,387	-	37,387	-
-	354,519	354,519	-
-	354,519	354,519	-
37,387	354,519	391,906	-
-	-	-	3,081,996
-	-	-	(283,527)
-	-	-	(223,770)
-	-	-	2,574,699
504,920	-	504,920	-
1,081,101	-	1,081,101	-
652,124	-	652,124	643,321
351,152	-	351,152	-
12,644	-	12,644	-
391	-	391	12,726
474,778	-	474,778	65,645
255,708	(255,708)	-	-
3,332,818	(255,708)	3,077,110	721,692
3,370,205	98,811	3,469,016	3,296,391
14,685,495	574,256	15,259,751	34,285,568
\$ 18,055,700	\$ 673,067	\$ 18,728,767	\$ 37,581,959

City of La Feria, Texas
BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2016

	General Fund	Debt Service Fund	Certificates of Obligation Series 2015 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,395	\$ 24,461	\$ -	\$ 50,027	\$ 75,883
Investments	75,000	-	-	-	75,000
Receivables, (net of allowance for uncollectibles)					
Property taxes	58,326	98,365	-	-	156,691
Nonproperty taxes	56,365	-	-	-	56,365
Service	78,585	-	-	-	78,585
Intergovernmental receivable	3,846,130	-	-	-	3,846,130
Other	-	-	-	99,444	99,444
Notes receivable	114,500	-	-	-	114,500
Due from other funds	104,605	384,673	2,679,577	124,238	3,293,093
Due from component units	979,514	-	301,875	-	1,281,389
Inventories	25,218	-	-	-	25,218
Restricted assets					
Temporarily restricted					
Cash and cash equivalents	6,369	-	417,161	1,589	425,119
Total assets	\$ 5,346,007	\$ 507,499	\$ 3,398,613	\$ 275,298	\$ 9,527,417
LIABILITIES					
Accounts payable	\$ 1,786,883	\$ 550	\$ 308,619	\$ 32,905	\$ 2,128,957
Accrued liabilities	46,094	-	-	106	46,200
Unearned revenue	257,213	-	-	-	257,213
Due to other funds	3,188,488	-	-	104,605	3,293,093
Due to component units	560,321	-	-	-	560,321
Total liabilities	5,838,999	550	308,619	137,616	6,285,784
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues					
Property taxes	49,549	89,191	-	-	138,740
Grants	1,239,433	-	-	-	1,239,433
Other	97,366	-	-	10,002	107,368
Total deferred inflows of resources	1,386,348	89,191	-	10,002	1,485,541
FUND BALANCES					
Nonspendable fund balances:					
Inventories	25,218	-	-	-	25,218
Notes receivable	114,500	-	-	-	114,500
Restricted fund balances:					
Retirement of long-term debt	-	417,758	-	-	417,758
Tax increment reinvestment zone	-	-	-	124,238	124,238
Capital projects	-	-	3,089,994	1,589	3,091,583
Unassigned	(2,019,058)	-	-	1,853	(2,017,205)
Total fund balance	(1,879,340)	417,758	3,089,994	127,680	1,756,092
Total liabilities, deferred inflows of resources and fund balance	\$ 5,346,007	\$ 507,499	\$ 3,398,613	\$ 275,298	\$ 9,527,417

The notes to the financial statements are an integral part of this statement.

City of La Feria, Texas

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

September 30, 2016

	Governmental Activities
Fund balance -- total governmental funds	\$ 1,756,092
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	30,689,653
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are therefore not reported in the funds:	
Unavailable revenue - property taxes	138,740
Unavailable revenue - grants	1,239,433
Unavailable revenue - other	107,368
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Long-term liabilities consist of:	
Bonds payable	(18,012,999)
Note and capital lease payable	(676,223)
Compensated absences	(39,647)
Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds.	(85,327)
Long-term notes receivable due from the component unit and others are not due and receivable in the current period and, therefore, are not reported in the funds. Including this amount in the statement of net position increases net position.	3,739,313
Recognition of the City's net pension liability required by GASB 68 in the amount of \$(1,074,399), deferred resource inflows related to pensions in the amount of \$(25,854), and deferred resource outflows related to pensions in the amount of \$299,550, result in a decrease in net position.	(800,703)
Net position of governmental activities	\$ 18,055,700

The notes to the financial statements are an integral part of this statement.

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

For the year ended September 30, 2016

	General Fund	Debt Service Fund	Certificates of Obligation Series 2015 Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property	\$ 459,496	\$ 1,056,074	\$ -	\$ 38,416	\$ 1,553,986
Sales	652,124	-	-	-	652,124
Franchise	351,152	-	-	-	351,152
Other	197	-	-	12,447	12,644
Licenses and permits	31,052	-	-	-	31,052
Intergovernmental	8,166,347	-	-	85,573	8,251,920
Fees and charges	273,798	-	-	96,553	370,351
Fines	178,850	-	-	-	178,850
Interest income	9	-	382	-	391
Contributions and donations	16,792	-	-	40,423	57,215
Other	359,497	34,033	-	24,033	417,563
Total revenues	10,489,314	1,090,107	382	297,445	11,877,248
Expenditures					
Current					
General government	5,089,180	21,269	-	79,432	5,189,881
Public safety	1,135,966	-	-	-	1,135,966
Highways and streets	253,939	-	-	-	253,939
Health and welfare	57,636	-	-	9,749	67,385
Culture and recreation	280,442	-	-	379,710	660,152
Debt service					
Principal retirement	76,707	978,000	-	-	1,054,707
Interest and fiscal agent fees	-	643,693	-	-	643,693
Capital outlay	5,074,363	-	2,374,418	336,001	7,784,782
Total expenditures	11,968,233	1,642,962	2,374,418	804,892	16,790,505
Excess (deficiency) of revenues over (under) expenditures	(1,478,919)	(552,855)	(2,374,036)	(507,447)	(4,913,257)
Other financing sources (uses)					
Transfers in	304,123	702,052	-	247,177	1,253,352
Transfers (out)	(949,229)	-	-	(48,415)	(997,644)
Issuance of debt	618,000	-	-	-	618,000
Total other financing sources (uses)	(27,106)	702,052	-	198,762	873,708
Net change in fund balances	(1,506,025)	149,197	(2,374,036)	(308,685)	(4,039,549)
Fund balances, beginning	(373,315)	268,561	5,464,030	436,365	5,795,641
Fund balances, ending	\$ (1,879,340)	\$ 417,758	\$ 3,089,994	\$ 127,680	\$ 1,756,092

The notes to the financial statements are an integral part of this statement.

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

September 30, 2016

	Governmental Activities
Net change in fund balances -- total governmental funds	\$ (4,039,549)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and depreciation is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay, of \$7,784,782 exceeded depreciation expense of (\$1,627,604).	6,157,178
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Other revenues which were accounted for as revenue in prior years on the statement of activities but for which resources were not available until the current year are revenues in the funds but not in the statement of activities.	
Unavailable revenues - property taxes	32,035
Unavailable revenues - grants and other	1,213,754
Compensated absences in the statement of activities did not require the use of current financial resources, and therefore are not expenditures in governmental funds. The compensated absences increased in the current year.	(4,471)
GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/15 caused the change in the ending net position to increase in the amount of \$90,939. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as a current year expense. This caused a decrease in the change in net position totaling \$(94,822). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(31,238). The result of these changes is to decrease the change in net position.	(35,121)
Repayment of non-current liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Bond principal	978,000
Notes payable principal	160,827
Capital lease principal	10,674
Receipts from long term notes receivable are recorded as revenues in governmental funds, but in the statement of net position they reduce long term	
Note receivable repayment from component unit	(305,000)
Note receivable repayment from TCF grant recipients	(94,795)
Recognition of current year accrued interest is not recorded in the governmental funds, but in the statement of activities they are recognized as interest expense.	(85,327)
Debt proceeds (bonds payable) provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	(618,000)
Change in net position of governmental activities	\$ 3,370,205

The notes to the financial statements are an integral part of this statement.

City of La Feria, Texas
PROPRIETARY FUND
STATEMENT OF NET POSITION

September 30, 2016

	Business-type Activities
	Waste Disposal Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 54,955
Service receivable, net	98,123
Total current assets	153,078
Noncurrent assets:	
Capital assets	
Machinery and equipment	1,705,128
Less accumulated depreciation	(1,049,773)
Total capital assets (net of accumulated depreciation)	655,355
Total assets	808,433
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to net pension liability	11,622
Total deferred outflows of resources	11,622
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 820,055
LIABILITIES	
Noncurrent liabilities	
Notes payable	\$ 102,910
Net pension liability	43,084
Total non current liabilities	145,994
Total liabilities	145,994
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to net pension liability	994
Total deferred inflows of resources	994
NET POSITION	
Net investment in capital assets	552,445
Unrestricted	120,622
Total net position	673,067
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 820,055

The notes to the financial statements are an integral part of this statement.

Exhibit 8
City of La Feria, Texas

**STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND**

For the Year Ended September 30, 2016

	Business-type Activities
	Waste Disposal Fund
Operating revenues	
Charges for services	\$ 878,393
Total operating revenues	878,393
Operating expenses	
Personnel services	73,757
Contractual services	269,755
Materials, supplies and repairs	75,874
Heat, light and power	27,809
Depreciation	72,890
Total operating expense	520,085
Income before transfers	358,308
Nonoperating revenues (expenses)	
Interest expense	(3,789)
Income before transfers	354,519
Transfers in	294,292
Transfers out	(550,000)
	(255,708)
Change in net position	98,811
Net position--beginning	574,256
Total net position, end of year	\$ 673,067

The notes to the financial statements are an integral part of this statement.



Exhibit 9
City of La Feria, Texas
STATEMENT OF CASH FLOWS
PROPRIETARY FUND

For the Year Ended September 30, 2016

	Business-type Activities
	Waste Disposal Fund
Cash flows from operating activities	
Receipts from customers and users	\$ 873,372
Payments to suppliers	(373,438)
Payments to employees	(72,442)
Net cash provided by operations	427,492
Cash flows from (to) noncapital financing activities	
Transfer out	(550,000)
Net cash (used) by noncapital financing activities	(550,000)
Cash flows from capital and related financing activities	
Principal paid on long-term debt	(24,573)
Interest paid on capital debt	(3,789)
Net cash used by capital and related financing activities	(28,362)
Cash flows from investing activities	
Purchase of capital assets	(9,640)
Net cash (used) by investing activities	(9,640)
Net (decrease) in cash and cash equivalents	(160,510)
Cash and cash equivalents, beginning of year	215,465
Cash and cash equivalents, end of year	\$ 54,955
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 358,308
Adjustments to reconcile net income from operations to net cash from operating activities	
Depreciation expense	72,890
Effect of increases and decreases in current assets and liabilities	
Decrease (increase) in receivables	(5,021)
Decrease (increase) in pension related deferred inflows of resources	(6,447)
Increase (decrease) in net pension liability	7,096
Increase (decrease) in pension related deferred inflows of resources	666
Total adjustments	69,184
Net cash provided by operations	\$ 427,492
<i>Supplemental disclosure of noncash activities</i>	
<i>The City General Fund transferred a newly purchased garbage truck to the Waste Disposal Fund during 2016</i>	\$ 294,292

The notes to the financial statements are an integral part of this statement.

City of La Feria, Texas
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET POSITION

September 30, 2016

	Waterworks and Sewer System	La Feria Industrial Development Corporation	La Feria Economic Development Corporation	Totals
ASSETS				
Cash and cash equivalents	\$ 475	\$ -	\$ -	\$ 475
Receivables				
Service	271,794	-	-	271,794
Other	705,202	2,743	-	707,945
Intergovernmental	-	24,594	584,914	609,508
Current portion of note receivable	-	39,231	101,601	140,832
Inventories	56,416	-	-	56,416
Asset held for sale	-	65,000	-	65,000
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	6,792,126	223,962	-	7,016,088
Total current assets	7,826,013	355,530	686,515	8,868,058
NOTES RECEIVABLE	-	247,184	44,463	291,647
CAPITAL ASSETS				
Depreciable				
Buildings	-	2,138,586	592,648	2,731,234
Water distribution system	14,158,891	-	-	14,158,891
Sewer distribution system	21,744,564	-	-	21,744,564
Furniture, fixture and equipment	3,603,295	24,184	-	3,627,479
Vehicles	462,316	-	-	462,316
	39,969,066	2,162,770	592,648	42,724,484
Less accumulated depreciation	(10,528,684)	(494,052)	(27,400)	(11,050,136)
	29,440,382	1,668,718	565,248	31,674,348
Non depreciable				
Land	357,079	2,573,937	388,558	3,319,574
Easements	117,758	-	-	117,758
Certificate of Convenience and Necessity	114,478	-	-	114,478
Construction in Progress	9,817,226	-	-	9,817,226
	10,406,541	2,573,937	388,558	13,369,036
Total capital assets (net of accumulated depreciation)	39,846,923	4,242,655	953,806	45,043,384
Total assets	47,672,936	4,845,369	1,684,784	54,203,089
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to net pension liability	155,531	-	-	155,531
Total deferred outflows of resources	155,531	-	-	155,531
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	\$ 47,828,467	\$ 4,845,369	\$ 1,684,784	\$ 54,358,620

The notes to the financial statements are an integral part of this statement.

**DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF NET POSITION**

For the year ended September 30, 2016

	Waterworks and Sewer System	La Feria Industrial Development Corporation	La Feria Economic Development Corporation	Totals
LIABILITIES				
Current liabilities				
Accounts payable	\$ 441,531	\$ 4,472	\$ -	\$ 446,003
Accrued expenses and other liabilities	19,917	4,200	-	24,117
Unearned revenues	6,604,884	-	44,192	6,649,076
Due to primary government	569,459	711,930	-	1,281,389
Current portion of long term debt	495,000	66,897	82,662	644,559
Total current liabilities	8,130,791	787,499	126,854	9,045,144
Current liabilities payable from restricted assets				
Meter deposits	169,723	-	-	169,723
Total current liabilities payable from restricted assets	169,723	-	-	169,723
Noncurrent liabilities				
Net pension liability	522,307	-	-	522,307
Unearned revenues	-	-	353,538	353,538
Notes payable, net of current portion	3,381,973	214,081	391,230	3,987,284
Revenue bonds payable (net of amortized discounts and deferred amount on refunding)	2,685,000	-	-	2,685,000
Total noncurrent liabilities	6,589,280	214,081	744,768	7,548,129
Total liabilities	14,889,794	1,001,580	871,622	16,762,996
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	13,665	-	-	13,665
	13,665	-	-	13,665
NET POSITION				
Net investment in capital assets	33,284,950	3,249,748	37,993	36,572,691
Restricted for debt service	100	510,377	-	510,477
Unrestricted:	(360,042)	83,664	775,169	498,791
Total net position	\$ 32,925,008	\$ 3,843,789	\$ 813,162	\$ 37,581,959
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
	\$ 47,828,467	\$ 4,845,369	\$ 1,684,784	\$ 54,358,620

City of La Feria, Texas
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES

For the year ended September 30, 2016

		Program revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Component units</u>				
Waterworks and Sewer System	\$ 3,143,049	\$ 2,448,674	\$ -	\$ 3,776,371
Industrial Development Corporation	479,467	195,940	-	-
Economic Development Corporation	257,244	33,474	-	-
Total component units	\$ 3,879,760	\$ 2,678,088	\$ -	\$ 3,776,371

General revenues:

Taxes

Sales taxes

Unrestricted investment earnings

Other non operating revenue (expense)

Total general revenues and transfers

Change in net position

Net position--beginning

Net position--ending

The notes to the financial statements are an integral part of this statement.

Component units			
Net (Expense) revenue change in Net Position			
Waterworks and Sewer System	La Feria Industrial Development Corporation	La Feria Economic Development Corporation	Totals
\$ 3,081,996	\$ -	\$ -	\$ 3,081,996
-	(283,527)	-	(283,527)
-	-	(223,770)	(223,770)
3,081,996	(283,527)	(223,770)	2,574,699
-	321,661	321,660	643,321
118	10,448	2,160	12,726
-	16,113	49,532	65,645
118	348,222	373,352	721,692
3,082,114	64,695	149,582	3,296,391
29,842,894	3,779,094	663,580	34,285,568
\$ 32,925,008	\$ 3,843,789	\$ 813,162	\$ 37,581,959





**NOTES TO
FINANCIAL STATEMENTS**



NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of La Feria, Texas (the “City”) was incorporated on March 22, 1915, under the provisions of the laws for the State of Texas. The home rule charter was adopted on November 7, 1989 and amended on May 12, 2007. The City operates under a City Commission - Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities (water and wastewater). The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - Blended component units, although legally separate entities, are in substance part of the government’s operations and so data from these units are combined with data of the primary government. The City does not include any blended component units.

Discretely presented component units - Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. Discretely presented component units include the following:

The City of La Feria Waterworks and Sewer System (the “System”) is governed by a five-member board appointed by the City. The System is intended to operate on a self-supporting basis through user water and sewer charges. The City has a voting majority, imposition of will, financial benefit and financial accountability over the System. The System also maintains a September 30 fiscal year end.

The La Feria Industrial Development Corporation (the “Corporation”) is a Section 4A non-profit industrial development corporation governed by a five-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote industrial development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30 fiscal year end.

The La Feria Economic Development Corporation (the “Corporation”) is a Section 4B non-profit industrial development corporation governed by a seven-member board appointed by the City. The Corporation is funded through a sales tax levy of one half of one percent. The purpose of the Corporation is to promote economic development within the City. The City has a voting majority, imposition of will, financial benefit and financial accountability over the Corporation. The Corporation also maintains a September 30 fiscal year end.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Complete financial statements of the individual component units can be obtained directly from their administrative offices as indicated.

Waterworks and Sewer System
115 East Commercial Avenue
La Feria, Texas 78559

La Feria Industrial Development Corporation
115 East Commercial Avenue
La Feria, Texas 78559

La Feria Economic Development Corporation
115 East Commercial Avenue
La Feria, Texas 78559

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function 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 segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. The City and its component units did not have fiduciary funds for this fiscal year. Major individual governmental funds and major individual enterprise funds are reported as separate columns 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, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (normally within 90 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund accounts for the accumulation of resources for the payment of general long-term debt principal, interest, and related costs. An ad valorem tax rate and levy is required to be computed and levied, which will be sufficient to produce the money required to pay principal and interest as it becomes due and provide the interest and sinking fund reserve.

The Certificates of Obligation Series 2015 Fund, a Capital Projects Fund, accounts for various capital improvements with the use of proceeds from the issuance of Certificates of Obligation Series 2015.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waterworks and Sewer System and of the waste disposal fund are charges to customers for sales and services. The Waterworks and Sewer System also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances Policies

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Fund balances are classified as follows:

- **Nonspendable:** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- **Restricted:** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** Resources that are constrained to specific purposes by a formal action of the City Commission such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the City Commission. City Commission action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- **Assigned:** Resources that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed.
- **Unassigned:** Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Within all other governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

Committed fund balance is established, modified and/or rescinded by the City Commission in the form of a resolution. City Commission action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

This policy delegates to the City Manager the authority to assign unrestricted fund balance amounts where the City's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

As of and during the year ended September 30, 2016, the City did not have any committed or assigned fund balance.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

a. Cash and Cash Equivalents

For purposes of the Statement of cash flows, cash and cash equivalents include all demand deposits and short-term investments (inclusive of restricted assets) with maturity dates within ninety days of the date initially acquired.

b. Deposits, Investments and Investment Policies

Investment Accounting Policy

The City is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments, which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The City policy authorizes all the State allowable investments.

The City's management believes that it has complied in all material respects with the requirements of the act and the City's investment policies.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterpart (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the City's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash Deposits

At September 30, 2016, the carrying amount of the City's deposits, (cash, certificates of deposit and interest-bearing savings accounts) was \$630,956. The City's cash deposits during the year ended September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held in the City's name by a bank other than the pledging bank except for the months of October 2015 through December 2015 and February of 2016. The collateral deficit ranged from \$1,401,372 to \$12,197.

Component Unit Cash Deposits

The component unit's unrestricted cash totaled \$ -0- at September 30, 2016.

Restricted cash for qualified business loans under the Revolving Loan and Intermediary Lending Programs totaled \$223,962. Restricted cash for meter deposits and debt service total \$187,717.

Restricted cash in the amount of \$6,604,884 represents loan forgiveness funds held in escrow which were provided by the Texas Water Development Board through the Disadvantaged Community Programs. The escrow accounts are on deposit at Bank of Texas and are not considered as a banking deposit for the City under the terms of the escrow agreements and loan forgiveness grants. The funds are restricted for approved system improvements and are disbursed to the City with the approval from the TWDB as funds are earned.

In addition, the following is disclosed regarding coverage of *combined balances on the date of highest deposit:

- a. Name of Bank Compass Bank.
- b. Amount of bond and/or market value of securities pledged as of the date of the highest *combined balance on deposit were \$4,493,834 and occurred during the month of October 2015. The combined deposit balances on that day were \$5,895,206.

The City's cash deposits were not properly secured at all times by FDIC insurance or by pledged collateral held in the City's name by a bank other than the pledging bank in accordance with Texas Law.

*Combined balances include all of the City of La Feria and component unit cash accounts on deposit at Compass Bank.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy is silent as to maximum investment maturities allowed. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

Description	Rate	Amount	Maturity	Days
Certificate of Deposit	.070%	\$75,000	November 26, 2016	365

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's only investment at year-end was the above-mentioned certificate of deposit.

Concentration of Credit Risk

The Investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act. The above-mentioned certificate of deposit represents 100% of total City investments.

Public Funds Investment Pools

The City had no funds in a public funds investment pool.

c. *Receivables and Payables*

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied as of October 1, on property values assessed as of January 1 of the same year. The tax levy are billed and considered past due February 1, at which time the applicable property is subject to lien, and penalties and interest are assessed.

d. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) basis. The costs of governmental fund inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. *Restricted Assets*

Restricted assets consist of amounts received for specific projects, sales tax, and amounts reserved for bond payments.

f. *Capital Assets*

The capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interests incurred during the construction phase of capital assets of business-type activities are not included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and system	25 to 50 years
Improvements other than buildings	3 to 10 years
Machinery and equipment	5 to 10 years
Infrastructure	5 to 25 years

g. *Compensated Absences*

The vacation allowance for eligible employees is based upon length of service according to the following schedule:

<u>Length of Service</u>	<u>Vacation Allowed</u>
After 1 year	5 days
After 2 years	10 days
After 5 years	12 days
After 10 years	15 days
After 20 years	20 days

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave accumulates at the rate of 5 days per year and may not be accumulated from year to year. In addition, upon termination from the City, employees will not be entitled to be paid for any unused sick leave, therefore, a liability for these amounts is not recorded

Vacation time may not be accrued for more than that allowed in a one-year period. Compensatory time (i.e., overtime for work performed beyond normal working hours) must be used within 30 workdays of being accrued. As a result, although unused vacation and compensatory time is payable to the employee upon termination, the accumulated amount at September 30, 2016 was recognized as accrued when earned during the one-year period in the government-wide and proprietary fund financial statements. Last year's liability was recognized for \$35,178, this year's liability due within a year is \$39,647. This amount is included under non-current liabilities, due within one year.

h. Long-Term Obligations

In the government-wide financial statement, and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as insurance costs on issuance, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

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

i. Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Commission is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Commission has, by resolution, authorized the City Manager to assign fund balance. The City Commission may also assign fund balance as it does when appropriating fund balances to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

k. *Net Position*

The City's Net Position is classified as follows:

Net investment in capital assets: consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position: consists of net position that is subject to a legally enforceable restriction on their use.

Unrestricted: consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

l. *Deferred Outflows and Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows related to pensions are reported for changes in actuarial assumptions, differences in projected and actual investment performance, and for contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from five sources: property taxes, payments in lieu of taxes, special assessments, noncurrent receivables and other. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows related to pensions are recorded for differences between actual and expected economic experience.

m. *Pensions*

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Pensions - Continued

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

n. Implementation of Accounting Standards

In the current fiscal year the City implemented the following new standards:

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

GASB Statement No. 73 extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. Currently the County does not have any pension plans that are not administered through a trust.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

There was no material impact on the City's financial statements as a result of the implementation of Statements mentioned above.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all funds (with the exception of capital projects funds, which adopt project based budgets) and lapse at fiscal year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. City Management submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted at City Hall to obtain taxpayer comments.
- d. Prior to October 1, the budget is adopted by the City Commission.
- e. Revisions that alter total expenditures of any fund must be approved by the City Commission. The legal level of budgetary control (the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts) is the functional basis (ex.: general government, public safety, highways and streets, health and welfare, culture and recreation) with the City manager being authorized to transfer budgeted amounts between functional categories within a fund without prior City Commission approval. The final annual amended appropriated budgets are used in this report.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Debt Service Fund.
- g. Budgets for the General, Special Revenue, Debt Service, and Capital Projects Funds were adopted on a basis consistent with GAAP.
- h. Appropriations lapse at the end of each fiscal year.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, a supplementary appropriation was necessary.

Deficit Fund Equity

A deficit balance in the general fund balance occurred in the amount of \$1,879,340 for the year ended September 30, 2016. Management is currently formulating a long term plan to address the deficit and improve the City's financial condition.

Excess of Expenditures over Appropriations

For the year ended September 30, 2016, expenditures exceed appropriations in all functions of the general fund except capital outlay. The variance was caused by expenditures from the Hazard Mitigation Grant Program (HMGP) and the drainage improvements funded through the Texas General Land Office (GLO). These expenditures are primarily funded through those grants, and amounts spent are either reimbursed or pending reimbursement to the City. The drainage project extends outside the City limits, and those sections of the drainage project are allocated to the general government function. The general fund exceeded budgeted appropriations by \$1,275,817 in total.

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. Receivables

1. Property Tax Receivable

Taxes are levied each October 1st and become delinquent on February 1st of the following year. Liens for unpaid taxes go into effect on July 1st of the year the taxes become delinquent. The City may not have a tax rate higher than \$2.50 per \$100 of assessed valuation. Statutes require that all assessments be made on 100% of fair value.

	General Fund	Debt Service Fund	Total
Gross property taxes receivable	\$107,620	\$146,770	\$254,390
Less allowance for doubtful accounts	(49,294)	(48,405)	(97,699)
<u>Net property taxes receivable</u>	<u>\$ 58,326</u>	<u>\$ 98,365</u>	<u>\$156,691</u>

2. Service Receivables

Service receivables consist of uncollected amounts billed to customers for water, sewer and other services.

At September 30, 2016, the City reflected service receivables of the following:

Primary Government	
Waste disposal services	\$ 98,123
<u>Service receivables</u>	<u>78,585</u>
	<u>\$176,708</u>
Component Units Activities	
Water services	\$148,787
<u>Sewer services</u>	<u>123,007</u>
	<u>\$271,794</u>

3. Governmental Activities

Receivables for governmental activities at September 30, 2016, consisted of the following:

	General	Debt Service Fund	Nonmajor Funds	Total
Receivables				
Property taxes	\$ 107,620	\$146,770	\$ -	\$ 254,390
Other taxes	56,365	-	-	56,365
Accounts	78,585	-	-	78,585
Intergovernmental	3,846,130	-	-	3,846,130
Other	-	-	99,444	99,444
Less allowance for uncollectibles	(49,294)	(48,405)	-	(97,699)
<u>Net total receivables</u>	<u>\$4,039,406</u>	<u>\$ 98,365</u>	<u>\$ 99,444</u>	<u>\$4,237,215</u>

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

B. Restricted Assets

Governmental Funds

General Fund	
Cash – seized by police department for future capital improvements	\$ 6,369
Certificate of Obligation Series 2011 Fund	1,589
Certificate of Obligation Series 2015 Fund	417,161
	<u>\$ 425,119</u>

Component Units

Enterprise Funds	
LFIDC Revolving Loan Fund – business loans	\$ 223,962
Debt Service Reserve	18,300
Meter deposits	168,942
Texas Water Development Board-grant/loan forgiveness escrow	6,604,884
	<u>\$7,016,088</u>

C. Net Position

Governmental activities net position is composed of three categories: Net investment in Capital Assets, Restricted and Unrestricted.

Net investment in capital assets consists of the following:

Long-term assets	
Capital assets, net of accumulated depreciation	\$30,689,653
Less related liabilities (bonds and notes payable)	(18,689,223)
Restricted investments (unexpended bond proceeds)	3,091,583
Net investment in capital assets	<u>15,092,013</u>

Restricted Net Position consists of the following:

Debt service	357,458
Tax Increment Reinvestment Zone	124,238

Unrestricted net position	<u>2,481,991</u>
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Total net position	<u>\$18,055,700</u>
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City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

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

Primary Government

	Beginning Balance October 1, 2015	Additions	Deletions	Transfers	Ending Balance September 30, 2016
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 1,639,262	\$ 200,037	\$ -	\$ -	\$ 1,839,299
Construction in progress	14,981,094	7,246,114	-	(3,308,361)	18,918,847
Total capital assets, not being depreciated	16,620,356	7,446,151	-	(3,308,361)	20,758,146
Capital assets, being depreciated					
Buildings and systems	6,891,579	6,670	-	2,069,698	8,967,947
Improvements other than buildings	12,039,564	-	-	1,238,663	13,278,227
Machinery and equipment	4,527,828	331,961	-	-	4,859,789
Total capital assets, being depreciated	23,458,971	338,631	-	3,308,361	27,105,963
Less accumulated depreciation for					
Buildings and systems	(1,866,607)	(460,632)	-	-	(2,327,239)
Improvements other than buildings	(10,796,910)	(920,444)	-	-	(11,717,354)
Machinery and equipment	(2,883,335)	(246,528)	-	-	(3,129,863)
Total accumulated depreciation	(15,546,852)	(1,627,604)	-	-	(17,174,456)
Total capital assets, being depreciated, net	7,912,119	(1,288,973)	-	3,308,361	9,931,507
Governmental activities capital assets, net	\$24,532,475	\$6,157,178	\$ -	\$ -	\$30,689,653

Business-type Activities

Capital assets, being depreciated					
Machinery and equipment	\$ 1,401,196	\$ 303,932	\$ -	\$ -	\$ 1,705,128
Total capital assets, being depreciated	1,401,196	303,932	-	-	1,705,128
Less accumulated depreciation for					
Machinery and equipment	(976,883)	(72,890)	-	-	(1,049,773)
Total accumulated depreciation	(976,883)	(72,890)	-	-	(1,049,773)
Total capital assets being depreciated, net	424,313	231,042	-	-	655,355
Business-type activities capital assets, net	\$ 424,313	\$ 231,042	\$ -	\$ -	\$ 655,355

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 246,908
Public safety	201,172
Highways and streets	592,936
Health and welfare	8,626
Culture and recreation	577,962

<u>Total depreciation expenses – governmental activities</u>	<u>\$1,627,604</u>
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Business-type activities

Sanitation	\$ 72,890
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<u>Total depreciation expenses – business-type activities</u>	<u>\$ 72,890</u>
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Discretely Presented Component Units

	Beginning Balance October 1, 2015	Additions	Deletions	Transfers	Ending Balance September 30, 2016
Waterworks and Sewer System					
Capital assets, not being depreciated					
Land	\$ 357,079	\$ -	\$ -	\$ -	\$ 357,079
Easement	117,758	-	-	-	117,758
CCN	114,478	-	-	-	114,478
Construction in progress	6,116,611	3,700,615	-	-	9,817,226
Total capital assets, not being depreciated	6,705,926	3,700,615	-	-	10,406,541
Capital assets, being depreciated					
Machinery and equipment	3,758,232	307,378	-	-	4,065,610
Infrastructure	35,816,841	86,615	-	-	35,903,456
Total capital assets, being depreciated	39,575,073	393,993	-	-	39,969,066
Less accumulated depreciation:					
Machinery	(1,193,543)	(190,396)	-	-	(1,383,939)
Infrastructure	(8,300,624)	(844,121)	-	-	(9,144,745)
Total accumulated depreciation	(9,494,167)	(1,034,517)	-	-	(10,528,684)
Total capital assets, being depreciated, net	30,080,906	(640,524)	-	-	29,440,382
Waterworks and Sewer System activities					
capital assets, net	\$36,786,832	\$3,060,091	\$ -	\$ -	\$39,846,923

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

	Beginning Balance October 1, 2015	Additions	Deletions	Transfers	Ending Balance September 30, 2016
Industrial Development Corporation					
Capital assets not being depreciated					
Land	\$2,573,937	\$ -	\$ -	\$ -	\$2,573,937
Total capital assets not being depreciated	2,573,937	-	-	-	2,573,937
Capital assets being depreciated					
Buildings and improvements	2,109,994	28,593	-	-	2,138,586
Furniture, fixtures and equipment	24,184	-	-	-	24,184
Total capital assets being depreciated	2,134,178	28,593	-	-	2,162,770
Less accumulated depreciation for					
Building and improvements	(410,409)	(59,459)	-	-	(469,868)
Furniture, fixtures and equipment	(24,184)	-	-	-	(24,184)
Total accumulated depreciation	(434,593)	(59,459)	-	-	(494,052)
Total capital assets being depreciated, net	1,699,585	(30,867)	-	-	1,668,718
Industrial Development Corporation activities capital assets, net	\$4,273,522	\$ (30,867)	\$ -	\$ -	\$4,242,655
Economic Development Corporation					
Capital assets not being depreciated					
Land	\$ 388,558	\$ -	\$ -	\$ -	\$ 388,558
Total capital assets not being depreciated	388,558	-	-	-	388,558
Capital assets being depreciated					
Buildings	592,648	-	-	-	592,648
Total capital assets being depreciated	592,648	-	-	-	592,648
Less accumulated depreciation					
Buildings and improvements	-	(27,400)	-	-	(27,400)
Total capital assets, being depreciated, net	\$ 981,206	\$ (27,400)	\$ -	\$ -	\$ 953,806

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

Construction Commitments

At September 30, 2016, the City was a party to the following contracts:

Governmental Funds:

Projects	Estimated Projected Costs	Expended to Date	Completed to Date	Construction in Progress	Estimated Amount Remaining
Drainage Improvements	\$19,302,679	\$11,635,325	-	\$11,635,325	\$7,667,354
Community Safe Rooms	5,407,060	4,989,256	-	4,989,256	417,804
Tech and Success Center	2,334,500	2,294,266	-	2,294,266	40,234
	<u>\$27,044,239</u>	<u>\$18,918,847</u>	<u>-</u>	<u>\$18,918,847</u>	<u>\$8,125,392</u>

The City was awarded a grant in the amount of \$18,400,000 from the U.S. Department of Housing and Urban Development (HUD) and passed through the Texas General Land Office (GLO) under the Community Development Block Grant Disaster Recovery Program to fund improvements to the public flood and drainage facilities and components, as well as watershed improvements. The GLO is the lead state agency for managing disaster recovery grants through HUD. Two grant funds were also awarded totaling \$2,892,026 from the U.S. Department of Homeland Security and passed through the Texas Department of Public Safety under the Hazard Mitigation Grant Program (HMGP) to supplement the drainage improvement at four sites and minimize flooding of the local expressway. Construction for this drainage project funded with HMGP grant funds started in October of 2013 and is expected to be completed by December 31, 2017. Construction of the watershed improvements and other public flood components funded with GLO funds is also expected to be completed by December 2017.

The City was awarded two grants totaling \$4,082,546 to assist in the construction of two community safe rooms. The funding was awarded and approved by the United States Department of Homeland Security-Federal Emergency Management Agency (FEMA) under the Hazard Mitigation Grant Program and passed through the State of Texas Department of Public Safety. The grants will provide 75% of the funding and the City will be utilizing funds from the CO 2011 proceeds to fund the other 25%. Both safe rooms were nearly completed by September 30, 2016.

The City was awarded a grant totaling \$1,000,000 from the Economic Development Administration (EDA) to assist in the construction of the City of La Feria Technical and Success Center. The Center was substantially complete by September 30, 2016, and has since been in use primarily for the operation of a University Campus. The total project was estimated to cost \$2,074,500, with the non-federal share of costs being funded by the use of bond proceeds for capital projects. An additional amount of about \$260,000 was anticipated to be spent on costs for paving and site improvements.

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

Construction Commitments

Waterworks and Sewer System:

Projects	Estimated Projected Costs	Expended to Date	Completed to Date	Construction in Progress	Estimated Amount Remaining
CIP Sewer Improvements	\$ 8,381,340	\$ 3,332,026	-	\$3,332,026	\$5,049,314
CIP Water Improvements	7,167,700	6,485,200	-	6,485,200	682,500
	<u>\$15,549,040</u>	<u>\$9,817,226</u>	<u>-</u>	<u>\$9,817,226</u>	<u>\$5,731,814</u>

The Texas Water Development Board (TWDB) approved a \$7,167,700 loan forgiveness loan from the Drinking Water State Revolving Fund (DWSRF) Disadvantaged Community Program to finance water system improvements on May 4, 2011. The proposed project consists of water treatment plant and distribution improvements and upgrades to comply with the disinfection byproducts rule. Improvements to the water treatment plant include electrical motor controls and the installation of a Supervisory Control and Data Acquisition (SCADA) system. The distribution improvements include extending water lines to provide first time service to disadvantaged areas, replacing water meters and implementing an automated meter reading and leak detection system to improve efficiency and reduce water loss. Construction on this project started in January 2014 and is expected to be completed by December 2017.

On May 4, 2011, the Texas Water Development Board (TWDB) also approved an \$8,381,340 loan forgiveness grant from the Clean Water State Revolving Fund (CWSRF) Disadvantaged Community Program to finance wastewater system improvements. The proposed project includes extending first-time sanitary sewer service to several disadvantaged areas by constructing and installing approximately 31,550 feet of pipe, three lift stations and manholes and related appurtenances. Also included in the project is the purchase and installation of a SCADA system at the System's wastewater treatment plant. Construction on this project began in April 2014 and is expected to be completed by the end of 2017.

The City participates in a number of grant programs funded by federal agencies. These programs are subject to compliance audits by the grantor agencies or their representatives. Audits of all these programs including the year ended September 30, 2016 have not been conducted. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

E. Inter-fund Receivables, Payables, and Transfers

The following is a summary of the composition of inter-fund balances at September 30, 2016:

Receivable Fund	Payable Fund		Total
	General Fund	Non-major Governmental Funds	
General Fund	\$ -	\$104,605	\$ 104,605
Debt Service	384,673	-	384,673
C. O. Bonds – Series 2015 Fund	2,679,577	-	2,679,577
Non-major Governmental Funds	124,238	-	124,238
	<u>\$3,188,488</u>	<u>\$104,605</u>	<u>\$3,293,093</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) inter-fund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. Balances due to the C.O. Bonds Series 2015 and non-major Governmental Funds are not anticipated to be repaid within one year.

Transfers

Inter-fund transfers for the year ended September 30, 2016, are as follows:

Transfer Out	Transfer In			Total
	General Fund	Debt Service Fund	Non-major Governmental Funds	
General Fund	\$ -	\$702,052	\$247,177	\$ 949,229
Non-major Governmental Funds	48,415	-	-	48,415
Subtotal	48,415	702,052	247,177	997,644
Business-type Activities	255,708	-	-	255,708
	<u>\$304,123</u>	<u>\$702,052</u>	<u>\$247,177</u>	<u>\$1,253,352</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies. Transfers to the debt service fund primarily represent resources which the general fund received from the La Feria Waterworks & Sewer System, EDC, and IDC, to fund the respective portion of debt service which is provided for those entities, where the debt is paid out of the debt service fund. Transfers to non-major governmental funds were made to provide subsidy and financial resources in support of the Library, Recreation Center, Home Grant projects, La Feria Baseball, Promotion of La Feria, and the La Feria Parks and Sports Complex Funds.

NOTE 4: LONG-TERM DEBT

1. General Government Bank Notes and Long-Term Notes Payable

Long-term notes payable at September 30, 2016 consist of the following:

City of La Feria

Note payable to *D.A. Werlla and A.G. Diesing* dated January 13, 2013, original principal amount of \$320,000, payable in fifty-nine monthly installments of \$2,700 (including interest) and a final payment due at maturity on January 18, 2018 in the amount of any unpaid principal and accrued unpaid interest. The note is secured by land being financed, a 24.041 acre tract of land purchased for the City's future economic development project and payable from general fund revenues. The balance at September 30, 2016 was \$265,090.

Note payable to *Government Capital Corporation - Southside Bank* dated February 7, 2014, original principal amount of \$373,474, payable in seven annual installments of \$59,316 (including interest) with the first payment due on November 15, 2014 and a final payment due at maturity on November 15, 2020. The note is payable from general fund revenues. The balance at September 30, 2016 was \$272,240.

2. General Government Capital lease

The government entered into a 10-year lease purchase agreement with Musco Finance, LLC on July 8, 2013, with the first payment due on July 8, 2014 for the acquisition and installation of a "green lighting project system" at one of the municipal baseball parks. The lighting equipment has a ten-year estimated useful life and is valued at \$122,000. The installation of the equipment was completed in October 2013. This year, \$12,200 was included in depreciation expense. This purchase lease agreement qualifies as a capital lease for accounting purposes and, therefore has been recorded at the present value of future minimum lease payments as of the inception date. The lease purchase agreement is secured by the lighting equipment being financed, and is payable from general fund revenues. A final payment of \$15,849 is due on July 8, 2023, at which time the title of the lighting equipment passes to the government and becomes property of the government. The balance at September 30, 2016 was \$91,495. The annual lease requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities
2017	\$ 15,849
2018	15,849
2019	15,849
2020	15,849
2021	15,849
2022-2023	31,698
Total minimum lease payments	110,943
Less amount representing interest	(19,448)
<u>Present value of minimum lease payments</u>	<u>\$ 91,495</u>

NOTE 4: LONG-TERM DEBT (Continued)

Enterprise Fund

Note payable to *Government Capital Corporation - Citizen's 1st Bank* dated March 22, 2013, original principal amount of \$173,247, payable in seven annual installments of \$28,360 (including interest) with the first payment due on December 1, 2013 and the final payment due at maturity on December 1, 2019. The note is payable from the Waste Disposal Fund revenues. The balance at September 30, 2016 was \$102,910.

Discretely Presented Component Units

La Feria Industrial Development Corporation, Inc., (IDC)

At year-end, the IDC had two long-term debts outstanding. The long-term debts, were incurred for the purchase of land for industrial development. The following table shows the loan description, original value, acquisition date, and year-end principal balance.

	Original Loan	Rate	Loan Date	Balance September 30,		Current Term Portion	Long- Term Portion
				2016	2015		
Public Works Warehouse & Land	\$340,000	6.50%	July 2007 & 2008	\$ 70,140	\$102,237	\$ 38,132	\$ 32,008
First Community Bank	303,467	5.50%	January 2013	210,838	237,870	28,765	182,073
				\$280,978	\$340,107	\$ 66,897	\$214,081

La Feria Economic Development Corporation, Inc., (EDC)

At year-end, the EDC had two long-term debt outstanding. The EDC signed a promissory note in the amount of \$46,000 on May 1, 2015 due to South Texas Collaborative for Housing Development, Inc. with an annual interest rate of 10% due if the principal amount is not paid by the maturity date of May 1, 2017; principal payments are not due until maturity. The funds were used to purchase four lots for the construction of four single family rental homes funded through the General Land Office (GLO) under the disaster recovery housing program. The grant funds will assist in providing affordable rental homes in La Feria. At September 30, 2016, the balance on the note payable was \$46,000.

The EDC entered into a long-term borrowing commitment with First Community Bank on June 15, 2015 for the purposes of buying land and building to be used for Economic Development activities. The note was issued for \$480,000 at an interest rate of 5.50%. At September 30, 2016, the balance outstanding was \$427,892. The current portion due is \$34,694.

3. Certificates of Obligation Bonds

Certificates of obligation bonds have only been issued for governmental activities.

- Proceeds from the Series 2004 were used to pave streets, purchase capital assets, and develop an industrial park.
- Proceeds from the Series 2011 were used for street improvements, the expansion to city hall, public works equipment, the fire department expansion, and the development of two dome/shelter facilities.
- Proceeds from the Series 2012A were used for the expansion of the library.
- Proceeds from the Series 2015 were used for a variety of capital projects throughout the City.

NOTE 4: LONG-TERM DEBT (Continued)

Certificates of obligation bonds are direct obligations and pledge the full faith credit of the City. These bonds are generally issued as 7-year serial bonds with non-equal amounts of principal maturing each year.

On December 6, 2011, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011 at a fixed rate of 3.9% in the amount of \$5,005,000 to finance the City's match of the funding needed for capital projects and further capital street improvements throughout the City. The City of La Feria Waterworks and Sewer System (the "System") was allocated \$670,000 of this amount to complete capital projects and meet certain local match grant requirements. The System agreed to pay its portion of debt services to the City as required annually until the bonds mature in 2032.

On December 22, 2011, the City of La Feria issued General Obligation Refunding Bonds, Series 2011 at a fixed rate of 3.4% in the amount of \$7,970,000 and a maturity date of May 15, 2028. The proceeds were used to refund the total outstanding principal balances of three prior bond series listed below which had interest rates ranging from 3.85% to 5.85%:

- The City of La Feria, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2000, (principal balance totaling \$255,000),
- City of La Feria, Texas Utility System Revenue Bonds, Series 2004, (principal balance totaling \$4,450,000) and
- City of La Feria, Texas Combination Tax and Limited Pledge Revenue Certificate of Obligation, Series 2008, (principal balance totaling \$3,060,000).

Accrued interest payments of \$115,110 and issuance costs of \$89,890 were also paid with part of the refunding bond proceeds. The refunding bonds were issued to restructure the City's debt service and associated tax rates in the coming years, and resulted in an economic net present value savings of \$399,256 (3.57%) and a gross savings of \$403,118. At September 30, 2016, the balance of the defeased debt still outstanding was \$5,395,000.

An inter-local agreement was signed by the City of La Feria, Texas (the "City") and the City of La Feria Waterworks and Sewer System (the "System") whereby the City agreed to refund the City of La Feria, Texas Utility System Revenue Bonds, Series 2004. In order to take advantage of lower interest rates the City refunded the bonds in the City's name and ultimately removed the long-term debt from the books of the System. However, the System is still responsible for their portion of the debt service payments related to the 2004 refunded bonds. The inter-local agreement provides for the System to make annual payments to the City for its portion of debt service related to these refunded bonds until 2027.

The City commission passed Resolution 2011-46 on November 1, authorizing the interlocal cooperative agreement between the City and the System for the two certificate issues mentioned above.

On February 24, 2015, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015 at a fixed rate of 3.210% in the amount of \$6,330,000 to finance the City's various ongoing capital projects. The bonds have principal and interest payments due every year on August 15 and February 15, with full maturity on February 15, 2035.

On October 1, 2015, the City issued Texas Tax Notes, Series 2015 at a fixed rate of 2.51% in the amount of \$315,000 to finance the City's purchase of a vector truck, which was purchased on behalf of the Water and Sewer System and transferred to the assets of the Water and Sewer System. The notes have interest payments due every year on August 15 and February 15, and principal payments due every year on August 15, with full maturity on August 15, 2022.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

On April 1, 2016, the City issued Texas Tax Notes, Series 2016 at a fixed rate of 2.53% in the amount of \$303,000 to finance the City's purchase of a garbage truck. The notes have interest payments due every year on February 15 and August 15, and principal payments due every year on February 15, with full maturity on February 15, 2023.

The following schedule reflects the remaining requirements for the System's portion of the GO Refunding, Series 2011 and CO Series 2011:

Year Ending September 30,	Due to Primary Government - GO Refunding Series 2011			Due to Primary Government - CO Series 2011			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2017	\$ 310,000	\$ 104,380	\$ 414,380	\$ -	\$ 26,130	\$ 26,130	\$ 440,510
2018	290,000	93,840	383,840	35,000	26,130	61,130	444,970
2019	300,000	83,980	383,980	35,000	24,765	59,765	443,745
2020	305,000	73,780	378,780	35,000	23,400	58,400	437,180
2021	315,000	63,410	378,410	40,000	22,035	62,035	440,445
2022-2026	1,355,000	156,060	1,511,060	210,000	86,580	296,580	1,807,640
2027-2031	146,973	6,630	153,603	260,000	41,730	301,730	455,333
2032-2036	-	-	-	55,000	2,145	57,145	57,145
	<u>\$3,021,973</u>	<u>\$ 582,080</u>	<u>\$3,604,053</u>	<u>\$ 670,000</u>	<u>\$ 252,915</u>	<u>\$ 922,915</u>	<u>\$4,526,968</u>

Certificates of obligation bonds currently outstanding as of September 30, 2016 are as follows:

Purpose	Interest Rates	Amount
<i>Certificates of obligation bonds</i>		
Governmental activities	3.40 – 4.00%	\$18,013,000

4. Revenue Bonds issued by Component Units

The City also issues bonds where the City allows the Waterworks and Sewer System (System), to pledge income derived from the acquired or constructed assets to pay debt service. The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the System is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions which require the City to maintain pledged revenues, as defined in the ordinances, for each year of at least equal to the annual debt service requirements.

The System, for the purpose of financing partially the improvements and extensions to the combined waterworks and sanitary sewer system, has revenue bonds, 2004-A, and 2009 at a 4.4% average interest rate with a maturity date of September 15, 2032. The bonds are secured by a lien on and pledge of the net revenues of the System.

The principal balance outstanding on these bonds at September 30, 2016 was \$2,870,000. City of La Feria, Texas Utility System Revenue Bonds, Series 2004 in the amount of \$4,450,000 were retired with proceeds from the City of La Feria, Texas GO Refunding Series 2011.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

Revenue bonds currently outstanding consist of the following:

Purpose	Interest Rates	Amount
Water/sewer infrastructure Waterworks & Sewer System	0.00% -5.26%	\$2,870,000

5. Changes in Long-Term Debt

During the year ended September 30, 2016, the following changes occurred:

	Beginning Balance 10/1/2015	Increase	Decrease	Ending Balance 9/30/2016	Due Within One Year
Governmental Activities					
<i>Certificate of Obligation Bonds</i>					
Texas Tax and Limited Pledge Revenue					
Certificate of Obligation - Series 2004	\$ 920,000	\$ -	\$ 230,000	\$ 690,000	\$ 235,000
Combination Tax and Limited Pledge					
Revenue Certificates of Obligation – Series 2011	4,895,000	-	70,000	4,825,000	475,000
General Obligation Refunding Bonds- Series 2011	5,965,000	-	470,000	5,495,000	80,000
Combination Tax and Limited Pledge					
Certificates of Obligation – Series 2012A	363,000	-	8,000	355,000	8,000
Combination Tax and Limited Pledge					
Certificates of Obligation – Series 2015	6,230,000	-	155,000	6,075,000	165,000
Tax Notes Series 2015	-	315,000	45,000	270,000	45,000
<u>Tax Notes Series 2016</u>	<u>-</u>	<u>303,000</u>	<u>-</u>	<u>303,000</u>	<u>43,290</u>
	18,373,000	618,000	978,000	18,013,000	1,051,290
Notes Payable	745,554	-	160,827	584,727	115,916
Net Pension Liability	884,728	189,671	-	1,074,399	-
Capital Lease	102,169	-	10,674	91,495	11,215
<u>Compensated Absences</u>	<u>35,176</u>	<u>49,288</u>	<u>44,817</u>	<u>39,647</u>	<u>39,647</u>
Total Governmental Activities	20,140,627	856,959	1,194,318	19,803,268	1,218,068
Business-type Activities					
Notes Payable	127,483	-	24,573	102,910	-
<u>Net pension Liability</u>	<u>35,988</u>	<u>7,096</u>	<u>-</u>	<u>43,084</u>	<u>-</u>
Total Business-type Activities	163,471	7,096	24,573	145,994	-
Component Units Activities					
Revenue Bonds					
Water and Sewer Infrastructure					
Revenue Bonds	3,045,000	-	175,000	2,870,000	185,000
Notes Payable	855,659	-	100,789	754,870	149,559
Net Pension Liability	417,145	105,162	-	522,307	-
<u>Due to primary government</u>	<u>3,996,973</u>	<u>-</u>	<u>305,000</u>	<u>3,691,973</u>	<u>310,000</u>
Total Component Units Activities	8,314,777	105,162	580,789	7,839,150	644,559
<u>Total Government-Wide Long-Term Obligations</u>	<u>\$28,618,875</u>	<u>\$969,217</u>	<u>\$1,799,680</u>	<u>\$27,788,412</u>	<u>\$1,862,627</u>

The City's other noncurrent liabilities are liquidated in the fund where the liability was incurred. Thus, the general fund satisfies most liabilities for governmental activities. In regard to business-type activities, other noncurrent liabilities are liquidated through the waste disposal fund.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for bonded indebtedness are as follows:

Year Ending September 30,	Governmental Activities Primary Government			Component Units Activities			Total Requirements
	General Obligation Bonds Principal	General Obligation Bonds Interest	Total	Revenue Bonds Principal	Revenue Bonds Interest	Total	
2017	\$ 1,051,290	\$ 613,563	\$ 1,664,853	\$ 185,000	\$ 105,437	\$ 290,437	\$ 1,955,290
2018	1,092,285	576,136	1,668,421	190,000	99,055	289,055	1,957,476
2019	1,127,285	536,897	1,664,182	195,000	92,292	287,292	1,951,474
2020	1,067,285	498,649	1,565,934	210,000	85,149	295,149	1,861,083
2021	1,103,285	460,494	1,563,779	215,000	77,230	292,230	1,856,009
2022-2026	5,325,570	1,918,770	7,244,340	1,185,000	252,006	1,437,006	8,681,346
2027-2031	4,279,000	861,495	5,140,495	635,000	31,724	666,724	5,807,219
2032-2036	2,853,000	200,537	3,053,537	55,000	-	55,000	3,108,537
2037-2041	94,000	12,005	106,005	-	-	-	106,005
2042-2046	20,000	350	20,350	-	-	-	20,350
	<u>\$18,013,000</u>	<u>\$ 5,678,896</u>	<u>\$23,691,896</u>	<u>\$2,870,000</u>	<u>\$ 742,893</u>	<u>\$3,612,893</u>	<u>\$27,304,789</u>

NOTE 5: RISK MANAGEMENT

The City is exposed to various uncertainties for losses related to intentional and unintentional torts; theft of, damage to and destruction of real and personal property; errors-and-omissions; catastrophes, medical and dental claims by employees; employee illnesses and injuries and pollution claims for which the City carries commercial insurance coverage. There have been no significant reductions in insurance coverage from the previous year. No negotiated settlements or jury awards have exceeded policy limits in any of the past three years. The City is a member of an intergovernmental risk pool.

The risk pool is an inter-local non-assessable agency with present unreserved resources in excess of \$395,900,000 (as of September 30, 2016, the most recently audited financial statements completed for the risk pool). Reinsurance is provided by several A and A++ rated companies in amounts ranging from \$1,000,000 to \$125,000,000 depending on type of insurance coverage.

City management is not aware of any pending or alleged claims that could exceed the policy limits of the present insurance coverage.

NOTE 6: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources in connection with the acquisition of the City's net position that is applicable to a future reporting period and so will not be recognized as an inflow of resources (revenue) until that time. At the end of the current fiscal year, deferred inflows of resources reported in the fund financial statements were as follows:

Governmental Funds	
Delinquent property taxes receivable	\$ 138,740
Grants and other	<u>1,346,801</u>
Total deferred inflows of resources for governmental funds	<u>\$1,485,541</u>

NOTE 6: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (Continued)

Deferred inflows related to the net pension liability are recognized in governmental activities and business-type activities in the amounts of \$25,854 and \$994, respectively. Component unit deferred inflows related to net pension liability are \$13,665. Deferred outflows related to pensions are \$299,550, \$11,622, and \$155,531 in the governmental activities, business-type activities, and component unit, respectively.

NOTE 7: COMMITMENTS AND CONTINGENCIES

1. *Litigation*

At September 30, 2016, the City was involved in various litigation matters, none of which can be reasonably determined as to the likelihood of outcome or financial impact on the City.

2. *Grant Programs*

The City as well as its component units participates in a number of grant programs funded by Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

- a. On November 19, 2009, the City of La Feria and the Texas Department of Agriculture (TDA) entered into Texas Capital Fund (TCF) Contract No. 729082 in which the City was required to perform certain economic development activities, i.e., infrastructure activities in the form of water, sewer, road and drainage as well as engineering and administration activities, in support of Allied Waste of the Rio Grande Valley (Company). The City was also required to ensure that the Company constructed three buildings at a site specified in the contract and create 30 permanent full-time equivalent jobs, of which 51% or 16 jobs must be held by low to moderate income persons. The TCF Contract No. 729082 expired on November 18, 2012, and although the City had completed the public infrastructure activities required pursuant to the contract, the Company failed to perform other necessary activities required by the contract and failed to create any jobs at the location by the required date of performance. Pursuant to the TCF rules and guidelines and by the Contract No. 729082, the City is required to repay all contract funds received to date, totaling \$301,942 for failure to meet contractual obligations and de-obligate any remaining funds.
- b. On September 23, 2009, the City of La Feria and TDA entered into TCF Contract No. 729102 in which the City was required to perform certain economic development activities, i.e., real estate activities in the form of acquisition and building construction as well as engineering and administration activities, in support of Little Lighthouse Children's Rehab (Company). The City was also required to ensure that the Company created and retained 27 permanent full-time equivalent jobs, of which 51% or 14 jobs must be held by low to moderate income persons. The TCF Contract 729102 expired on September 22, 2012 and the City had completed the real estate activities required pursuant to the contract; however, the Company had only created and retained 15 of the required 27 permanent full-time jobs. Pursuant to the TCF rules and guidelines and by Contract No. 729102, the City is required to repay contract funds for jobs that were not created by the Company, which amount to \$266,821.

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

On August 26, 2013, the City and the Texas Department of Agriculture signed a repayment agreement to repay the \$301,942 due under Contract No 729082 and the \$266,821 due under Contract No. 729102 in twelve (12) quarterly installments, beginning October 1, 2013 and ending July 1, 2016. The City will make an initial payment of \$47,396 to TDA by October 1, 2013, and the remaining eleven (11) payments of \$47,397 shall be due on January 1, April 1, July 1, and October 1 each year thereafter until the entire \$568,763 obligation is paid. As of 09/30/2016, the City issued payments totaling \$142,191; leaving a balance due to TDA of \$ -0-.

	Beginning Balance 10/01/2015	Decrease	Ending Balance 9/30/2016	Due Within One Year
TCF – TDA Repayment Agreement				
Contract – 729082 Allied Waste Project	\$ 75,486	\$ 75,486	\$ -	\$ -
Contract – 729102 Little Lighthouse	66,705	66,705	-	-
Total – TDA Repayment Agreement	\$142,191	\$142,191	\$ -	\$ -

Allied Waste and the Little Lighthouse entered into a separate agreement with the City to repay the contract funds received by each company which will offset the funds due to TDA from the City.

The amounts collected from Allied Waste fully offset the amounts paid to TDA for contract 729082. However, the City agreed to allow the Little Lighthouse to repay the City over a longer period of time than the City is required to repay TDA for contract 729102. The excess of amounts paid to TDA compared to what is received from the Little Lighthouse is considered account receivable and is considered fully collectible as Little Lighthouse continues to pay required amounts to the City.

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of La Feria participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees.

Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Plan Description

The City of La Feria participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2014</u>	<u>Plan Year 2015</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefits	41
Active employees	<u>56</u>
	<u>119</u>

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Contributions

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

Employees for the City of La Feria, Texas were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.76% and 9.77% in calendar 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$202,962 and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
<u>Total</u>	<u>100.0%</u>	

Discount Rate

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

City of La Feria, Texas
Notes to Financial Statements

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Changes in the City's net pension liability for TMRS pension for the fiscal year ended:

	City Increase (Decrease)			Component Unit Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at December 31, 2014	\$4,016,283	\$3,095,567	\$ 920,716	\$1,820,948	\$1,403,803	\$417,145
Changes for the year:						
Service cost	154,453	-	154,453	82,546	-	82,546
Interest	267,783	-	267,783	143,116	-	143,116
Change in benefit terms	-	-	-	-	-	-
Difference between expected/actual experience	(30,010)	-	(30,010)	(16,039)	-	(16,039)
Changes of assumptions	40,155	-	40,155	21,461	-	21,461
Contributions – employer	-	136,298	(136,298)	-	72,844	(72,844)
Contributions – employee	-	97,755	(97,755)	-	52,245	(52,245)
Net investment income	-	4,326	(4,326)	-	2,312	(2,312)
Benefit payments, including refunds of employee contributions	(111,787)	(111,787)	-	(59,744)	(59,744)	-
Administrative expenses	-	(2,635)	2,635	-	(1,409)	1,409
Other charges	-	(130)	130	-	(70)	70
Net changes	320,594	123,827	196,767	171,340	66,178	105,162
Balance at December 31, 2015	\$4,336,877	\$3,219,394	\$1,117,483	\$1,992,288	\$1,469,981	\$522,307

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would have been if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$1,760,172	\$1,117,483	\$ 592,686
Component unit's net pension liability	822,699	522,307	277,020
Total net pension liability	\$2,582,871	\$1,639,790	\$ 869,706

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended September 30, 2016, the City and component unit recognized a combined pension expense in the amount of \$258,869. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Economic experience (net of current year amortization)	\$ -	\$ 26,848	\$ -	\$13,665
Changes in actuarial assumptions	29,477	-	14,733	-
Differences between projected and actual investment earnings (net of current year amortization)	185,177	-	92,556	-
Contributions subsequent to the measurement date	96,519	-	48,243	-
Total	\$311,173	\$ 26,848	\$155,532	\$13,665

The \$96,519 and \$48,243 in the City and Component Unit, respectively, which is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	City	Component Unit
Year ending September 30,		
2017	\$47,813	\$23,871
2018	49,147	24,537
2019	49,625	24,775
2020	41,221	20,441
2021	-	-
Thereafter	-	-

NOTE 9: OTHER POST EMPLOYMENT BENEFITS

Plan Description

The City also participates in the cost sharing multiple-employer benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$5,047, \$5,148 and \$4,435, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates
(RETIREE – only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.06%	0.06%	100.0%
2015	0.07%	0.06%	100.0%
2016	0.07%	0.06%	100.0%

NOTE 10: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In prior years, the Internal Revenue Code specified that the plan's assets were the property of the City of La Feria until paid or made available to participants, subject only on an equal basis to the claims of the City's general creditors. A 1996 federal law requires all assets and income of Internal Revenue Code 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries.

Private corporations under contract with the City administer assets of the City's plan. The private administrators have amended the plans to comply with the new federal law. Consequently, the plan's assets and liabilities are not reported in the City's financial statements.

NOTE 11: TAX INCREMENT REINVESTMENT ZONE (TIRZ)

In 2007, the City of La Feria established a tax increment reinvestment zone (TIRZ) consisting of 759.66 acres through an inter-local agreement with Cameron County. A portion of the real property ad valorem taxes levied by both participating taxing entities will be set aside for capital improvement projects beginning with taxes levied after January 1st, 2008. The amount set aside for the TIRZ is based upon the incremental increase in the appraised value each January 1st compared to the base year appraised value of property in the zone as of January 1, 2007. The City will contribute 100% of property tax revenue portion generated from the TIRZ; Cameron County agreed to contribute 50% of the property tax revenue generated from the TIRZ through August 31, 2036. On December 27, 2013, The TIRZ contributed \$290,000 to a local developer for public improvements for a new 70-unit single family subdivision. As of September 30, 2016, the TIRZ fund balance was at \$124,238, of which \$124,238 represents an amount due from the general fund. This amount must be repaid to the TIRZ.

NOTE 12: RELATED ORGANIZATION TRANSACTIONS

As described in Note 1, the City has three discretely presented component units all of which have fiscal years ended September 30, 2016. During the year and at year end, the City and the components had the following transactions.

Due from Component Units - During the year, the City maintained receivables totaling \$569,459 and \$711,930 from the Waterworks and Sewer System and La Feria IDC for unreimbursed advances. In addition, a current receivable from the Waterworks and Sewer System of \$310,000 was due to the City for the System's current portion of debt service requirements on the 2011 Bond Series, as disclosed in Note 4. Total amounts due to the City from component units is \$1,591,390.

NOTE 12: RELATED ORGANIZATION TRANSACTIONS (Continued)

Payments from Component Units - Included in other Intergovernmental revenues are payments of \$158,978, \$164,977 and \$126,209 from the Waterworks and Sewer System, La Feria IDC and La Feria EDC, respectively, for their share of debt service related to General Obligation Refunding Bonds, Series 2011 and City of La Feria Certificates of Obligation, Series 2011, and for contributions to the Library and the Recreational Center.



**REQUIRED SUPPLEMENTARY
INFORMATION**

Exhibit A-1
City of La Feria, Texas
GENERAL FUND

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

For the fiscal year ended September 30, 2016

	Budgeted Amounts			Variance with Final Budget - Positive/ (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes:				
Property	\$ 787,154	\$ 513,060	\$ 459,496	\$ (53,564)
Sales	626,344	595,891	652,124	56,233
Franchise	381,671	316,215	351,152	34,937
Licenses and permits	38,300	28,492	31,052	2,560
Intergovernmental	6,760,318	7,410,812	8,166,347	755,535
Fees and charges	331,940	262,373	273,798	11,425
Fines	210,000	183,668	178,850	(4,818)
Interest income	70	11	9	(2)
Contributions and donations	1,200	15,582	16,792	1,210
Other	857,374	1,124,923	359,694	(765,229)
Total revenues	9,994,371	10,451,027	10,489,314	38,287
EXPENDITURES				
Current:				
General government:				
General government:	6,727,747	2,963,174	5,089,180	(2,126,006)
Public safety	1,263,281	1,085,303	1,135,966	(50,663)
Highways and streets	253,316	247,675	253,939	(6,264)
Health and welfare	68,020	53,151	57,636	(4,485)
Culture and recreation	274,229	273,440	280,442	(7,002)
Debt service:				
Prinicipal	76,707	76,527	76,707	(180)
Capital outlay	1,259,925	5,993,146	5,074,363	918,783
Total expenditures	9,923,225	10,692,416	11,968,233	(1,275,817)
Excess (deficiency) of revenues over (under) expenditures	71,146	(241,389)	(1,478,919)	(1,237,530)
OTHER FINANCING SOURCES (USES)				
Transfers in	29,786	66,113	304,123	238,010
Transfers (out)	(851,386)	(217,500)	(949,229)	(731,729)
Bond/loan proceeds	254,925	303,000	618,000	315,000
Total other financing sources and uses	(566,675)	151,613	(27,106)	(178,719)
Net change in fund balance	(495,529)	(89,776)	(1,506,025)	(1,416,249)
Fund balance - beginning	(373,315)	(373,315)	(373,315)	-
Fund balance - ending	\$ (868,844)	\$ (463,091)	\$ (1,879,340)	\$ (1,416,249)

Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all funds and lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year.
- b. City Management submits to the City Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted at City Hall to obtain taxpayer comments.
- d. Prior to October 1, the budget is adopted by the City Commission.
- e. Revisions that alter total expenditures of any fund must be approved by the City Commission. The legal level of budgetary control (the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts) is the functional basis (ex.: general government, public safety, highways and streets, health and welfare, culture and recreation) with the City manager being authorized to transfer budgeted amounts between functional categories within a fund without prior City Commission approval. The final annual amended appropriated budgets are used in this report.
- f. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Debt Service Fund.
- g. Budgets for the General, Special Revenue, Debt Service, and Capital Projects Funds were adopted on a basis consistent with GAAP.
- h. Appropriations lapse at the end of each fiscal year.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, a supplementary appropriation was necessary. However, the City exceeded budgeted appropriations by \$1,275,817.

City of La Feria, Texas

Schedule of Changes in Net Pension Liability and Related Ratios
For Agent Multiple Employer Pension Plan –
Texas Municipal Retirement System

	2016	2015
Total Pension Liability		
Service cost	\$ 236,999	\$ 208,767
Interest (on the total pension liability)	410,899	380,234
Changes of benefit terms	-	-
Difference between expected and actual experience	(46,049)	(16,944)
Changes of assumptions	61,616	-
Benefit payments, including refunds of employee contributions	(171,531)	(124,740)
Net change in total pension liability	491,934	447,317
Total pension liability – beginning	5,837,231	5,389,914
Total pension liability – ending (a)	\$6,329,165	\$5,837,231
Plan Fiduciary Net Position		
Contributions – employer	\$ 209,142	\$ 200,979
Contributions – employee	150,000	141,391
Net investment income	6,638	231,877
Benefit payments, including refunds of employee contributions	(171,531)	(124,740)
Administrative expense	(4,044)	(2,420)
Other	(200)	(199)
Net change in plan fiduciary net position	190,005	446,888
Plan fiduciary net position – beginning	4,499,370	4,052,482
Plan fiduciary net position – ending (b)	\$4,689,375	\$4,499,370
Net pension liability – ending (a) – (b)	\$1,639,790	\$1,337,862
Plan fiduciary net position as a percentage of total pension liability	74.09%	77.08%
Covered employee payroll	\$2,142,851	\$2,019,877
Net pension liability as a percentage of covered employee payroll	76.52%	66.23%

GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information of those years for which information is available.

City of La Feria, Texas
Schedule of Contributions
For Agent Multiple Employer Pension Plan –
Texas Municipal Retirement System

	2016	2015
Actuarially determined contribution	\$ 202,962	\$ 206,371
Contributions in relation to actuarially determined contribution	(202,962)	(206,371)
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$2,078,015	\$2,103,613
Contributions as a percentage of covered employee payroll	9.77%	9.81%

City of La Feria, Texas
Notes to Schedule of Contributions
For Agent Multiple Employer Pension Plan –
Texas Municipal Retirement System

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience – based table based on rates that are specific to the City’s plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

GASB 68 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information of those years for which information is available.

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OTHER SUPPLEMENTARY INFORMATION





City of La Feria, Texas
Non-Major Governmental Funds
Combining Statements

Special revenue fund: The Tax Increment Reinvestment Zone (TIRZ) Fund was established to account for a portion of property taxes levied by the City and Cameron County to facilitate the provision of capital improvements.

Special revenue fund: The Texas Capital Fund was established to account for the City's economic development grant received from the State.

Special revenue fund: The Bailey H. Dunlap Memorial Library fund accounts for the donations, grants and other funding resources received and expenditures for operating the public library.

Special revenue fund: The Home Grant Fund was established to account for the Federal grants awarded to provide assistance to first-time low-income homebuyers.

Special revenue fund: The Community Development Block Grant (CDBG) Fund was established to account for Federal grant awards which provide communities with flexible programs with resources to address a wide range of unique community development needs. The current CDBG grants complement capital improvements to the water and sewer system.

Special revenue fund: The La Feria Baseball/Football Fund was established to account for the activities specifically related to the Pony Baseball League and other youth sports programs.

Special revenue fund: The La Feria Recreation Center Fund accounts for the donations, grants and other funding resources received and expenditures for operating the City's recreation center.

Special revenue fund: The Promotion of La Feria Fund was established to account for the hotel/motel tax revenue and the activities specifically related to the promotion of the City of La Feria.

Capital projects fund: The Certificates of Obligation - Series 2011 Fund accounts for various capital improvements with the use of proceeds from the Series 2011 Certificates of Obligation.

City of La Feria, Texas
NON MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

September 30, 2016

	Special Revenue Funds					
	Tax Increment Reinvestment Zone Fund	Texas Capital Fund	Bailey H. Dunlap Memorial Library Fund	Home Grant Fund	Community Development Block Grant Fund	La Feria Baseball / Football Fund
ASSETS						
Cash and cash equivalents	\$ -	\$ 38,301	\$ 5,802	\$ 100	\$ 100	\$ -
Receivables						
Other	10,002	89,865	(423)	-	-	-
Due from other funds	124,238	-	-	-	-	-
Total assets	\$ 134,240	\$ 128,166	\$ 5,379	\$ 100	\$ 100	\$ -
LIABILITIES						
Accounts payable	-	25,161	2,341	-	-	-
Accrued liabilities	-	-	59	-	-	-
Due to other funds	-	104,505	-	-	100	-
Total liabilities	-	129,666	2,400	-	100	-
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - other	10,002	-	-	-	-	-
Total deferred inflows of resources	10,002	-	-	-	-	-
FUND BALANCES (DEFICIT)						
Restricted fund balances:						
Tax increment reinvestment zone	124,238	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Unassigned	-	(1,500)	2,979	100	-	-
Total fund balances	124,238	(1,500)	2,979	100	-	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 134,240	\$ 128,166	\$ 5,379	\$ 100	\$ 100	\$ -

Special Revenue Funds - Continued			Capital Projects Funds		Total Nonmajor Governmental Funds
La Feria Recreation Center Fund	Promotion of La Feria Fund	Total	Certificates of Obligation Series 2011 Fund	Total	
\$ 5,724	\$ -	\$ 50,027	\$ 1,589	\$ 1,589	\$ 51,616
-	-	99,444	-	-	99,444
-	-	124,238	-	-	124,238
\$ 5,724	\$ -	\$ 273,709	\$ 1,589	\$ 1,589	\$ 275,298
5,403	-	\$ 32,905	-	\$ -	\$ 32,905
47	-	106	-	-	\$ 106
-	-	104,605	-	-	\$ 104,605
5,450	-	137,616	-	-	137,616
-	-	10,002	-	-	10,002
-	-	10,002	-	-	10,002
-	-	124,238	-	-	124,238
-	-	-	1,589	1,589	1,589
274	-	1,853	-	-	1,853
274	-	126,091	1,589	1,589	127,680
\$ 5,724	\$ -	\$ 273,709	\$ 1,589	\$ 1,589	\$ 275,298

City of La Feria, Texas
NON MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES

For the year ended September 30, 2016

	Special Revenue Funds					
	Tax Increment Reinvestment Zone Fund	Texas Capital Fund	Bailey H. Dunlap Memorial Library Fund	Home Grant Fund	Community Development Block Grant Fund	La Feria Baseball / Football Fund
Revenues						
Property taxes	\$ 38,416	\$ -	\$ -	\$ -	\$ -	\$ -
Hotel / Motel tax	-	-	-	-	-	-
Intergovernmental	-	17,500	7,225	60,848	-	-
Fees and charges	-	-	570	-	-	65,773
Contributions and donations	-	-	20,887	-	-	943
Other	-	-	(158)	-	-	-
Total revenues	38,416	17,500	28,524	60,848	-	66,716
Expenditures						
Current						
General Government	-	19,000	-	50,560	-	9,872
Health and welfare	-	-	-	9,749	-	-
Culture and recreation	-	-	127,500	-	-	61,923
Capital outlay	-	-	-	-	-	-
Total expenditures	-	19,000	127,500	60,309	-	71,795
Excess (deficiency) of revenues over (under) expenditures	38,416	(1,500)	(98,976)	539	-	(5,079)
Other financing sources (uses)						
Transfers in	-	-	100,000	9,000	-	4,994
Transfers out	-	-	-	(9,539)	-	-
Total other financing sources (uses)	-	-	100,000	(539)	-	4,994
Net change in fund balances	38,416	(1,500)	1,024	-	-	(85)
Fund balances, beginning	85,822	-	1,955	100	-	85
Fund balance, ending	\$ 124,238	\$ (1,500)	\$ 2,979	\$ 100	\$ -	\$ -

Special Revenue Funds - Continued			Capital Projects Funds		Total Nonmajor Governmental Funds
La Feria Recreation Center Fund	Promotion of La Feria Fund	Total	Certificates of Obligation Series 2011 Fund	Total	
\$ -	\$ -	\$ 38,416	\$ -	\$ -	\$ 38,416
	12,447	12,447	-	-	12,447
	-	85,573	-	-	85,573
	30,210	96,553	-	-	96,553
17,708	885	40,423	-	-	40,423
24,191	-	24,033	-	-	24,033
41,899	43,542	297,445	-	-	297,445
-	-	79,432	-	-	79,432
-	-	9,749	-	-	9,749
132,329	57,958	379,710	-	-	379,710
-	-	-	336,001	336,001	336,001
132,329	57,958	468,891	336,001	336,001	804,892
(90,430)	(14,416)	(171,446)	(336,001)	(336,001)	(507,447)
118,767	14,416	247,177	-	-	247,177
(31,748)	-	(41,287)	(7,128)	(7,128)	(48,415)
87,019	14,416	205,890	(7,128)	(7,128)	198,762
(3,411)	-	34,444	(343,129)	(343,129)	(308,685)
3,685	-	91,647	344,718	344,718	436,365
\$ 274	\$ -	\$ 126,091	\$ 1,589	\$ 1,589	\$ 127,680

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COMPLIANCE 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 City Honorable Mayor and
Members of the City Council
City of La Feria, Texas

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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of La Feria, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of La Feria, Texas's basic financial statements and have issued our report thereon dated August 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of La Feria Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of La Feria Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of La Feria Texas's internal control.

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

Our consideration of internal control was for the limited purpose described in the 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-004, and 2016-006, that we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of La Feria, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-003, 2016-004, 2016-005, 2016-006 and 2016-007.

City of La Feria, Texas's Response to Findings

City of La Feria Texas's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of La Feria Texas's 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.

Caru, Riggs & Ingram, L.L.C.

Harlingen, Texas
August 17, 2017

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

To the City Honorable Mayor and
Members of the City Council
City of La Feria, Texas

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of City of La Feria, Texas's 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; 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 City of La Feria, Texas's 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 City of La Feria, Texas's compliance.

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Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2016-010 and 2016-011. Our opinion on each major federal program is not modified with respect to these matters.

City of La Feria, Texas's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of La Feria, Texas's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of City of La Feria, 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 City of La Feria, Texas's 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 City of La Feria, Texas's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-008, 2016-009, and 2016-011, that we consider to be significant deficiencies.

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City of La Feria, Texas's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of La Feria, Texas's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Caru, Riggs & Ingram, L.L.C.

Harlingen, Texas
August 17, 2017

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City of La Feria, Texas
Schedule of Findings and Questioned Costs

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

* Material weakness(es) identified? X yes no

* Significant deficiencies identified that are not considered to be material weakness(es)? X yes no

Noncompliance material to financial statements noted? X yes none reported

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

* Significant deficiencies identified that are not considered to be material weakness(es)? X yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? X yes no

Identification of major programs:

CFDA Number(s)

11.300

14.228

66.468

66.458

Name of Federal Program or Cluster

Investments for Public Works and Economic Development Facilities

Community Development Block Grants

Drinking Water State Revolving Funds

Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee? X yes no

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

PROGRAM

DESCRIPTION

2016-001

City Accounting

Criteria:

The City accounting and financial reporting process should involve systematic procedures so as to incorporate all aspects of the City's finances and reflect all activity of the City's funds in the proper classification and in accordance with accounting standards generally accepted in the United States of America applicable to state and local governments (GAAP).

Condition Found:

In conducting the audit of the City of La Feria, Texas, a large quantity of adjusting entries were required in order to properly state account balances and reconcile the ledger balances with subsidiary support or other evidence. Numerous year end accrual adjustments, allocations, and reconciliations that should be made were not made.

Context:

The City accounting records were materially misstated prior to the application of audit adjustments which were identified during the audit. The adjustments involved nearly every category of account balance, including cash, receivables, payables, liabilities, revenues, expenses, and fund balances/equity accounts. Audit procedures revealed that the most significant contributing factors were that the City was not able to reconcile important accounts such as cash in a timely manner, accounts receivables and payables were not reconciled at all, capital assets schedules were not updated in a timely manner, business type activities were not segregated into a separate fund, and grant expenditures were not being reconciled to reimbursements received.

Cause:

The City's lack of development of detailed written financial accounting procedures and closing processes, combined with the significant turnover which occurred during 2016 made the closing process significantly more difficult. Financial closing for 2016 was not formally started until nearly 3 months after year end, and during the closing process the new administration was only in place for one month.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

PROGRAM

DESCRIPTION

2016-001

City Accounting (Continued)

Effect:

The inability to maintain a set of timely accounting records presents a material weakness (deficiency) in controls over the accounting process. This increases the risk that the financial statements can be materially misstated, including interim financial information that is reported throughout the fiscal year.

Recommendation:

The City should develop detailed written accounting policies and procedures, including specific annual and periodic closing procedures and/or checklists. Reconciliations and monthly accounting should occur regularly throughout the year in accordance with GAAP in order to provide timely and accurate financial information. If deemed necessary, the City should evaluate the cost/benefit relationship of hiring additional staff and/or assigning new responsibilities to Finance personnel, the objective of which would be to free up time for the Finance Department to properly complete the required tasks to properly state the accounting records in a timely manner.

2016-002

***Controls over Federal Grant Awards Preparation of the
Schedule of Expenditures of Federal Awards, and Financial
Statements***

Criteria:

The City must have proper controls in place as required by the Uniform Guidance in 2 CFR 200, Subpart D §200.303 to effectively administer and monitor grant activity and compliance for all federal awards, and that also provide for accurate financial statement preparation which include an accurately prepared schedule of expenditures of federal awards in accordance with 2 CFR 200, Subpart F §200.510 (a) and (b). 2 CFR 200, Subpart F §200.512 also requires that the final audit be submitted within 9 months of the end of the period under audit.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

PROGRAM

DESCRIPTION

2016-002

***Controls over Federal Grant Awards Preparation of the
Schedule of Expenditures of Federal Awards, and Financial
Statements (Continued)***

Condition Found:

Tests of the City's major federal grant programs revealed significant deficiencies and instances of noncompliance, as noted in the other findings contained in this report. The schedule of expenditures of federal awards (SEFA) initially prepared by City Management did not accurately reflect or identify all of the expenditures of federal awards of the City during the fiscal year ended September 30, 2016. In addition, material weaknesses and significant deficiencies in the City's internal controls over financial reporting were identified. All of this resulted in the City not being able to complete and submit the financial statements and SEFA in a timely fashion.

Context:

Some grants had not been properly monitored for compliance, and were not properly reconciled between allowable expenditure activity in the general ledger and amounts claimed, which in some cases resulted in the City having reimbursable dollars expended but not claimed for reimbursement, or substantially delayed in the request for reimbursement. This resulted in unidentified expenditures of federal awards. Certain other federal awards were also not included in the initial SEFA provided. For the financial statements as a whole, a lack of timely, complete information and the high volume of required audit adjustments necessary in order to properly state and prepare the financial statements resulted in a substantial increase in the time required to complete the financial statements and to be able to submit the report in a timely fashion.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

PROGRAM

DESCRIPTION

2016-002

***Controls over Federal Grant Awards Preparation of the
Schedule of Expenditures of Federal Awards, and Financial
Statements (Continued)***

Cause:

The combination of deficiencies, high volume of required audit adjustments, and information that was not provided in a timely manner, all resulted in an inaccurate SEFA and financial information being submitted for audit, and the final preparation of the financial statements occurring beyond the statutory deadline. In addition, while the City does have some informal control policies and procedures in place, and has general operational knowledge of its ongoing federal programs and requirements for financial closing and reporting and is aware of the overall purpose of the SEFA and how it is prepared, the City does not have formally documented internal controls established for financial closing, compliance, and for preparation of the financial statements and the SEFA. The departure of various key management personnel during 2016 magnified the impact of such matters since certain informal processes may have been in place prior to their departure, and the new administration may not have been aware of these processes in the absence of a formal written policy and procedure manual.

Effect:

Lack of formal written policies and control practices within a formal policy and procedure manual increases the overall risk of misstatement and noncompliance. For fiscal year 2016, the lack of a formal policy and procedure manual compounded the impact of the departure of long term, key staff, and the City was unable to prepare an accurate SEFA or financial statements in a timely manner. The City also did not comply with the requirements of the Uniform Guidance 2 CFR 200, Subpart F §200.512 to have filed the audited financial statements within nine months of year end.

Recommendation:

The City should develop a detailed written accounting policies and procedures manual, including specific annual and periodic closing procedures and/or checklists. These procedures should detail specific internal controls which are designed to prevent or detect misstatements and noncompliance, and should be compliant with all of the requirements of the Uniform Guidance regarding required written internal control policies.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
2016-003	Bidding and Procurement
Criteria:	The City must comply with Texas Procurement Laws as set forth in Texas Local Government Code, Title 8, Subtitle A, Chapter 252 <i>Purchasing and Contracting Authority of Municipalities</i> . This includes, submitting the bid for public notice as required, obtaining and reviewing the bids, and selecting the lowest qualified bidder, among other requirements.
Condition Found:	In one instance out of 15 reviewed, the City was not able to provide adequate documentation that the City complied with all requirements of the bidding and procurement practices previously described.
Context:	We were not able to review individual original bids, a bid tabulation, and were not provided documentation supporting that the required public notices for bid had been posted. However, the minutes of the City Commission did indicate that the Commission had reviewed a bid tabulation and selected the lowest qualified bidder, which was the same vendor the City actually made payments to. However, in the absence of other supporting documentation, we could not complete all audit procedures to conclude the City fully complied with requirements of State Law.
Cause:	Improper filing and retention of records resulted in City Management not being able to produce the required documentation. The filing of these items would have taken place prior to when current City Management was working at the City, and this transition may have contributed to incorrectly filed documents. We also noted that for different types of bids, the filing of documentation supporting the bid files may have been in different locations within the City offices.
Effect:	The City may not have complied with the State requirements.
Recommendation:	The City should implement a standard filing system for transactions subject to bidding and procurement, with written policies defining where the documentation is to be stored and the individual in charge of overseeing the documentation.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
2016-004	Compliance with and Monitoring of Adopted Budget and Deficit Fund Balances (Continued)
Criteria:	As provided for in Texas Local Government Code, Title 4 Subtitle A, Chapter 102, the City is only allowed to spend municipal funds in strict compliance with the budget or the amended budget. The City should have internal control mechanisms in place to assure proper accounting for all expenditures, as well as controls to monitor the budget and assure expenditures are occurring in compliance with the budget.
Condition Found:	The City exceeded budgeted appropriations by \$1,275,817, and also did not properly monitor the City's budgetary compliance throughout the year. The City's general fund has been in a deficit position for the last three years.
Context:	The City expended \$1,275,817 of expenditures in excess of the final amended budget, which was approved for total appropriations of \$10,692,416. Actual expenditures were \$11,968,233. Audit adjustments which were made and posted as a result of audit procedures actually resulted in a reduction of expenditures posted in the general fund, indicating that this matter was not merely the result of unposted auditing/accounting entries and unrecorded accruals. The City has asserted that the prior year general fund deficits would be addressed, but during 2016 the deficit in the general fund increased.
Cause:	The lack of proper and timely financial closing process throughout the year resulted in account balances not being correctly stated on a timely basis. This would result in budgetary comparison information, and any resulting proposed budget amendments, to not be accurately computed. Furthermore, the final budget amendment was not formally entered into the accounting information system, and the City has not employed the formal use of encumbrances within its accounting system. The City also only approved one final budget amendment; this implies that the amendment was not submitted until after the resources were actually expended.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
2016-004	Compliance with and Monitoring of Adopted Budget and Deficit Fund Balances (Continued)
Effect:	The City did not comply with the budget. The lack of compliance with budgeted expenditures results in a lack of accountability for overall spending, which increases the difficulty of being able to properly conduct long term planning and make responsible budgetary decisions. This will also cause the City to have difficulty in addressing the deficit in fund balance. The City's failure to monitor the budget by not incorporating the final approved budget amendment into the accounting information system, as well as not utilizing encumbrances within the general ledger system, result in a continued risk of budget violation in the future if those matters are not properly addressed.
Recommendation:	The City should implement written procedures which Finance Department staff will implement, which will provide for (1) timely review and reconciliation of actual, accurate accounting data throughout the year, (2) formal integration of all budget amendments into the accounting system, (3) implement use of encumbrances for more accurate and timely monitoring of budget compliance, (4) timely submission of budget amendments to the commission prior to the actual act of expending resources in excess of budget.
2016-005	Compliance with Bond Covenants
Criteria:	The City Water & Sewer System has issued various revenue bonds, which are also governed by various regulations of the Texas Water Development Board and have certain covenants which require the establishment of a bond debt service reserve fund.
Condition Found:	The utility system revenue bond reserve fund had been established and maintained with proper balances, until the funds were drawn out during the 2016 fiscal year in order to pay the debt service of the revenue bonds. As a result, the ending balance of the reserve fund is not adequate to comply with the bond covenants.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
2016-005	Compliance with Bond Covenants (Continued)
Context:	Due to continued shortfalls in cash and available resources at the City, the bonds fund was drawn on in order to pay for debt service payments when due because there was not enough cash available at the time the payment was due. The fund was not replenished by the end of the year.
Cause:	The City's financial condition has not improved and continues to face various challenges. The lack of available resources resulted in the Water and Sewer System needing to draw the funds out to pay the debt service.
Effect:	The Water and Sewer System is out of compliance with the requirements of the bond covenants.
Recommendation:	We recommend that the City replenish the bond fund as soon as possible, and submit a formal corrective action to the Texas Water Development Board.
2016-006	Use of Restricted Funds, City Financial Condition
Criteria:	The City issued Certificates of Obligation, Series 2015 for the purpose of constructing various capital improvements in and around the City. The proceeds of the Certificates are restricted for the uses as defined in the City Ordinance 2015-03. The City also receives restricted revenues for a Tax Increment Reinvestment Zone (TIRZ) Fund, which are restricted for development within the TIRZ.
Condition Found:	The General Fund, Component Units, and certain other funds of the City spent the restricted resources obtained from the issuance of the 2015 Certificates of Obligation. Originally the amount was spent with the intention of it being repaid to the certificates of obligation fund within a year. However, repayment has not occurred, and the amount spent out of the restricted funds has grown during fiscal 2016, resulting in a significant shortfall in available resources for the restricted bond fund. Additionally, all of the resources collected for the TIRZ fund have been consumed in the general fund over the several years the TIRZ has existed, resulting in the TIRZ fund not having actual cash resources allocated to it.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

PROGRAM

DESCRIPTION

2016-006

Use of Restricted Funds, City Financial Condition (Continued)

Context:

The City has numerous significant financial commitments which at various times may strain the available resources of the City. As a result, the City does not always have enough working capital available to adequately cover all of its obligations with unrestricted resources, as the City may be awaiting reimbursements from grants or other resources to be collected.

Cause:

A variety of factors, including deficit fund balances in the City General Fund, and longer than normal time periods elapsing for the City to receive reimbursement on substantial expenditures for projects funded by grants, contributed to the declining financial condition of the City, resulting in expenditure of the restricted sources.

Effect:

If the City does not implement measures to correct this and replenish funds to the bond fund, the City could fail to comply with the bond ordinance and purposes for which the bonds were issued, and the City could fail to have available resources to pay for expenditures needed for the TIRZ.

Recommendation:

We recommend the City study the factors contributing to the failure to anticipate the situation the City now finds itself in, and implement whatever means necessary to improve the City's financial condition and replenish the funding to the Bond Fund and the TIRZ fund.

2016-007

Compliance with Bond Covenants

Criteria:

The City issued Tax Notes, Series 2015 and 2016 during the fiscal year ended September 30, 2016, which require the establishment of a debt service reserve fund which is to be maintained "separate and apart" from other funds and accounts of the City.

Condition Found:

The debt service fund has not maintained such debt service reserves for these notes in a separate depository account. The Debt service cash balance is only composed of the debt service fund's claim on the pool cash balance, which is shared by all other funds of the City.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

**Section II – Findings Relating to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
2016-007	Compliance with Bond Covenants (Continued)
Context:	Since the cash balances in the debt service fund are composed only of amounts in the City's pool cash and there is no distinct and separate account set up to fund these reserve funds, the pool cash amounts cannot meet the definition of these reserves since it is an account which is not separate and apart from other funds of the City.
Cause:	The City did not perform adequate review of the compliance requirements or follow through on the requirements to properly comply with this requirement.
Effect:	The City may be out of compliance with the requirements of the Tax Notes.
Recommendation:	We recommend that the City review the requirements of the Tax Notes, and take proper action to assure compliance with all requirements of the Tax Notes including establishment of separate bank accounts in which to fund the debt service reserve fund as required.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Reference Number 2016-008

Allowable Activities, Allowable Costs/Cost Principles

**CFDA 14.228 Community Development
Block Grant DRS210089
Federal Agency: US Department of
Housing and Urban Development Pass
through Texas General Land Office**

Criteria:	Internal controls should be properly designed and operating effectively to provide assurance that the City will comply with all of the relevant compliance requirements for a federal award.
Condition Found:	The City's internal controls over compliance for allowable costs/allowable activities were not operating effectively. City management approved expenditures for payment for the drainage improvement project which were later deemed to be unallowable.
Context:	In two instances out of fifty-one tested, expenditures were incurred and accounted for as project expenditures, but were not for costs which would be allowable for reimbursement. In one instance, the City paid an invoice twice – once to the wrong vendor and once to the correct vendor; this amount was later repaid by the vendor paid in error and was not requested for reimbursement. In the other instance, an expenditure was paid for what is an allowable cost, but the documentation was insufficient to support it as being reimbursable. If the City can obtain additional detail for the expenditure, the GLO has stated it is considered an allowable cost for reimbursement.
Questioned Costs:	None
Cause:	The two instances of expenditures incorrectly approved as being allowable appear to be the result of human error when reviewing expenditures for authorization for payment. City staff charged with reviewing and authorizing amounts to be paid from federal funds were not critical enough of the documentation provided for the expenditures.
Effect:	These matters increase the risk that costs may be included for reimbursements which are not allowable. In addition, in one of the instances identified, this also resulted in the City having paid for a significant expenditure amount which the City has not yet been reimbursed.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs (Continued)

Recommendation: City management should be thoroughly familiar with grant compliance requirements and the documentation standards required for costs to be considered allowable, and document specific reviews of expenditures for compliance with those requirements prior to approving for payment. City staff should inquire of the granting agency to clear up any questions for expenditures or invoices which may appear incomplete for which allow ability is not completely certain. Potential errors in processing invoices should be identified and staff responsible for reviewing expenditure documentation should be trained to be watchful for these errors.

Reference Number 2016-009 **Allowable Activities, Allowable Costs/Cost Principles, Cash Management**

**CFDA 14.228 Community Development
Block Grant DRS210089
Federal Agency: US Department of Housing
and Urban Development Pass through
Texas General Land Office**

Criteria: Internal controls should be properly designed and operating effectively to provide assurance that the City will comply with all of the relevant compliance requirements for a federal award.

Condition Found: The City's internal controls over compliance for cash management were not operating effectively. The City does not have a process by which the Finance Department reviews when expenditures are paid compared to when it is reimbursed, or for reconciling the activity recorded in the general ledger project expenditure accounts to the amounts requested on reimbursement claims.

Context: The City relies on a grant consultant to prepare reimbursement claims based on expenditures reported to the consultant. The consultant is only provided with invoices of the expenditures, and subsequently compiles the expenditures for reimbursements, which are sent to the City for review and approval prior to being requested. It was noted that there is no process undertaken by the City to verify the status of the payment for the expenditure being requested for reimbursement. In addition, in one instance, an allowable expenditure of \$5,107.90 was requested twice for reimbursement on two separate reimbursement claims. After this was identified in the audit process, the amount was reduced out of a subsequent reimbursement claim. There were also numerous expenditures identified during the audit which had not been claimed for reimbursement.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs (Continued)

Questioned Costs: None

Cause: There is no reconciliation being made between what is being claimed for reimbursement and the actual expenditures being recorded on the City's general ledger, and there is no review of the status of payments made or to be made to vendors prior to submission of a reimbursement claim. The City relies on a qualified consultant; however, the City must also have its own internal procedures to monitor the grant financial information and overall compliance.

Effect: The lack of a reconciliation process or review of payments being made to vendors increases the risk that costs may be reimbursed which have not been paid for, that costs may be incorrectly reimbursed, or even that the City may not identify costs for reimbursement. In addition, one instance was noted where the City was reimbursed twice for an expenditure, although the amount did not meet the threshold to be reported as a questioned cost.

Recommendation: The Finance Department should be more directly involved in the monitoring of financial activity for this project by preparing a reconciliation of expenditures recorded on the general ledger compared to amounts claimed or identified to be claimed for reimbursement.

Reference Number 2016-010 Reporting

***CFDA 11.300 Investments for Public
Works and Economic Development Facilities
Grant Award 08-01-04890
Federal Agency: US Department of
Commerce, Economic Development Administration***

Criteria: The City is required to file financial status reports (form SF-425) with the Economic Development Administration (EDA) throughout the year in order to comply with all requirements of the grant program.

Condition Found: The City did not file the SF-425 reports.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs (Continued)

Context:	One individual was charged with oversight of compliance with the majority of the compliance requirements for this grant. This individual was not a part of the finance department; the finance department was responsible for preparation and submission of the financial status reports, but the reports were never made.
Questioned Costs:	None
Cause:	The City failed to properly identify the risks of non-compliance and develop an adequate response to those risks by assuring that individuals were charged with completing all of the tasks required to be fully compliant, and there was no internal monitoring process which was designed to identify that this was not done.
Effect:	The City did not comply with the reporting requirements of the grant.
Recommendation:	The Finance Department should prepare all of the required reports immediately for submission to the EDA. The City should implement procedures for all grant programs to identify all compliance requirements, and assign individuals to be responsible for completing the required tasks, and separate individuals to be charged with actively overseeing and monitoring the programs.
Reference Number 2016-011	Allowable Activities, Allowable Costs/Cost Principles, Matching
CFDA 11.300 Investments for Public Works and Economic Development Facilities Grant Award 08-01-04890 Federal Agency: US Department of Commerce, Economic Development Administration	
Criteria:	Internal controls should be properly designed and operating effectively to provide assurance that the City will comply with all of the relevant compliance requirements for a federal award. These controls should provide assurance of compliance with allowable costs/cost principles and that the City will meet its required match.

City of La Feria, Texas
Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs (Continued)

Condition Found:	One of three reimbursement claims sampled included costs which could not be adequately supported or which were paid the incorrect amount. There were also two invoices identified as not having been properly accounted for between the amounts to be reimbursed from federal funds and from local funds. However, the City did in fact meet the required match.
Context:	One invoice did not have adequate supporting documentation, while the other invoice was recorded for the wrong amount. The City also recorded two invoices as being 100% expenditures of the capital projects fund, instead of 48% of the expenditure being recorded in the general fund, from where the federal funding was to be obtained. The City did in fact claim the correct amounts. The invoices which did not have adequate documentation or recorded at incorrect amounts were not significant and did not meet the threshold for being a questioned cost.
Questioned Costs:	None
Cause:	The City failed to properly implement all of its control practices thoroughly, and there was no internal monitoring process which was designed to identify that these matters were not properly addressed.
Effect:	Although no actual noncompliance was noted, and no amounts involved were large enough to be considered questioned costs, the City's failure to identify proper matching allocations could potentially cause the City to fail to meet matching requirements, or the City may cause expenditures to be recognized in the incorrect fund which may result in the improper use of restricted resources. Additionally, the City could have claimed costs for reimbursement which were not adequately supported.
Recommendation:	The Finance Department should implement formal monitoring and review of grant activities, including review of proper cost allocations in the funds as it relates to matching (when applicable), and periodic monitoring and review of documentation of expenditures supporting grant reimbursed amounts by someone other than the individual that originally prepared the grant reports and reimbursements.

City of La Feria, Texas
Schedule of Findings and Questioned Costs
Corrective Action Plan

PROGRAM DESCRIPTION

Schedule Reference Number: (2016-001)
Schedule Reference Number: (2016-006)

Corrective Action Plan:

CORRECTIVE ACTION PLAN

City Accounting
Use of Restricted Funds, City Financial Condition

During fiscal year 2015-16, the City's finance department went through a transition phase, where a period of four months, the City was without a finance director. This gap in key personnel led to the City not having the sufficient knowledge and manpower required to maintain its accounting records. Now that the positions have been filled, the finance department is currently working towards stabilizing the accounting for the City to a level that meets the expectations of the City Manager and City Commission. During the planning phase of next year's budget process, the City will determine if it has the financial resources available to hire an additional staff member for the finance department, whom will assist with primarily record keeping and other financial duties.

Schedule Reference Number: (2016-002)

Controls over Federal Grant Awards, Preparation of Expenditures of Federal Awards and Financial Statements

Corrective Action Plan:

Finance Department is in the process of reviewing all of its written policies it currently has, and will update as deemed necessary. For policies that are non-existent, personnel will deem to establish them, including consideration of the schedule of expenditures of federal awards and compliance.

Schedule Reference Number: (2016-003)

Bidding and Procurement

Corrective Action Plan:

During the upcoming budget process, City will determine if applicable funds exist to purchase a particular version of scanning software, allowing city personnel to scan in any and all documents to an electronic server, therefore, allowing staff to retrieve any important documents, when needed in the future. Staff will also keep original paper documents as secondary backup.

City of La Feria, Texas
Schedule of Findings and Questioned Costs
Corrective Action Plan

PROGRAM DESCRIPTION

Schedule Reference Number: (2016-004)

Corrective Action Plan:

CORRECTIVE ACTION PLAN

Compliance with and Monitoring of adopted budget and deficit fund balances

Finance department has implemented an electronic version of purchase orders, through its accounting software, INCODE. This allows for better monitoring of all purchases, since purchasing can be kept track of in a timely manner. By utilizing the electronic version, the system now delivers an onscreen message whenever a line item in the budget has gone over. Finance department has begun distributing monthly financial reports to all department heads of the City, to ensure that they are monitoring their spending levels.

Schedule Reference Number: (2016-010)

Corrective Action Plan:

EDA Compliance Finding

City has reached out to the Economic Development Administration (EDA) in effort to see what can be done about the failure to submit SF-425 reports, as required. EDA has acknowledged to the City that they will be allowed to submit any SF-425 reports that are past due.

Schedule Reference Number: (2016-005)
Schedule Reference Number: (2016-007)

Corrective Action Plan:

Compliance with bond covenants

City Manager and Finance Director have met directly with financial personnel from the Texas Water Development Board (TWDB) to discuss the pending issue. TWDB is willing to work with the City to establish an action plan on how to replenish the debt service reserve fund. Finance Director will review the plan and determine if indeed such plan can be reasonably followed, or if plan needs to be reworked to better accommodate the City's financial position. Finance department has since established a separate bank account with the City's financial depository, to ensure that all future debt payments are paid directly from this new bank account rather than the City's pooled cash bank account.

City of La Feria, Texas
Schedule of Findings and Questioned Costs
Corrective Action Plan

PROGRAM DESCRIPTION

CORRECTIVE ACTION PLAN

Schedule Reference Number: (2016-008)

Allowable Activities, Allowable Costs/Cost Principals – Community Development Block Grant

Corrective Action Plan:

City management is in the process of familiarizing itself with current grants and their requirements. Closer monitoring will be conducted on all invoices but particularly those dealing directly with granting agencies. City will attempt to contact the granting agency prior to submission of reimbursement request to verify if costs in question are indeed reimbursable.

Schedule Reference Number: (2016-009)

Allowable Activities, Allowable Costs/Cost Principals – Cash Management - Community Development

Schedule Reference Number: (2016-011)

Allowable Activities, Allowable Costs/Cost Principals, Matching – Investments for Public Works and Economic Development Facilities Grant

Corrective Action Plan:

Finance department will directly be more involved in the monitoring of project expenditures. A reconciliation of expenditures vs what is being requested and received will have to be conducted to cross reference which expenditures in particular the City is getting reimbursed for.

Contact Person:

Frank Rios, Finance Director

Implementation Time Frame:

Ongoing

City of La Feria, Texas
Schedule of Findings and Questioned Costs
Summary Schedule of Prior Audit Findings

PROGRAM

Schedule Reference Number:
(2015-001)

Corrective Action Plan:

CORRECTIVE ACTION PLAN

Collateralization of Deposits

The City implemented corrective actions to address this finding. No further corrective action is necessary.

Schedule Reference Number:
(2015-002)

Corrective Action Plan:

City Accounting

Condition has worsened, and is now a material weakness. See current year finding 2016-001. Corrective action is necessary.

Exhibit F-1
City of La Feria, Texas
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2016

	(01)	(02)	(A2)	(03)
Federal Grantor/ Pass/Through Grantor Program Title		Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
FEDERAL				
U. S. Department of Housing and Urban Development				
Passed through the General Land Office Community Development Block Grants		14.228	DRS210089	\$ 6,507,350
Passed through the Texas Department of Agriculture Community Development Block Grants		14.228	713271	17,500
Passed through the Texas Department of Housing and Community Affairs Home Investment Partnerships Program		14.239	1001442	60,848
Total U.S. Department of Housing and Urban Development				6,585,698
U. S. Department of Commerce				
Economic Development Administration <i>Economic Development Cluster</i> Investment for Public Works and Economic Development Facilities		11.300		883,200
<i>Total Economic Development Cluster</i>				883,200
Total U.S. Department of Commerce				883,200
U.S. Department of the Interior				
Passed through the Texas Department of Parks and Wildlife Outdoor Recreation, Acquisition, Development and Planning		15.916	48-00-1123	100,000
Total U.S. Department of the Interior				100,000
U.S. Department of Homeland Security				
Passed through the Texas Department of Public Safety Hazard Mitigation Grant (HMGP)		97.039	DR 1780-005	878,339
Passed through the Texas Department of Public Safety Hazard Mitigation Grant (HMGP)		97.039	DR 1791-354	97,657
Passed through the Texas Department of Public Safety Hazard Mitigation Grant (HMGP)		97.039	DR 1791-355	142,330
Passed through the Texas Department of Public Safety & Cameron County Homeland Security Grant Program		97.067		30,130
Total U.S. Department of Homeland Security				1,148,456
U.S. Environmental Protection Agency				
Passed through the Texas Water Development Board <i>CWSRF Cluster</i> Capitalization Grants for Clean Water State Revolving Funds		66.458	G110014	2,636,518
<i>Total CWSRF Cluster</i>				2,636,518
Passed through the Texas Water Development Board <i>DWSRF Cluster</i> Capitalization Grants for Drinking Water State Revolving Funds		66.468	G110026	809,186
<i>Total DWSRF Cluster</i>				809,186
Total passed through the Texas Water Development Board				3,445,704
Total U.S. Environmental Protection Agency				3,445,704
Total Federal Awards Expended				\$ 12,163,058

See accompanying notes on accounting policies of Schedule of Expenditures of Federal awards.



City of La Feria, Texas
Notes to Schedule of Expenditures of Federal Awards

Exhibit F-2

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of La Feria, Texas and its component units, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The City does not utilize the de minimus 10% indirect cost rate. Indirect costs, where applicable, are negotiated with the agency providing the award.

There were no payments made to subrecipients by the City during the year ended September 30, 2016.

NOTE 2- PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion, may be more than shown.

NOTE 3- FORGIVABLE LOANS

At September 30, 2016, the City has an outstanding forgivable loan with the Texas Water Development Board (TWDB) in the amount of \$8,381,340 under the Clean Water State Revolving Fund Program, CFDA #66.458. \$3,332,026 of these proceeds has been expended to date. The City also has an outstanding forgivable loan payable with the TWDB in the amount of \$7,167,700 under the Drinking Water State Revolving Fund Program, CFDA #66.468. \$6,485,200 of these proceeds have been expended to date. Expenditures for the current period are reported on the Schedule of Expenditures of Federal Awards.

NOTE 4 – NONCASH AWARDS

The City did not receive any noncash awards during the year ended September 30, 2016.

Discussion with City Personnel: The results of the audit were discussed at an exit briefing with the following grantee personnel:

Frank Rios, Finance Director
Jaime S. Sandoval, City Manager

No exceptions were taken to the factual contents of the items contained in this report.