



PRESS RELEASE REGARDING:

CITY OF LA FERIA FINANCIAL STATEMENTS FOR FISCAL YEAR 2016, BEGINNING OCTOBER 1, 2015 AND ENDING SEPTEMBER 30, 2016

Summary Statement:

Late last year, our newly hired City Manager undertook review of the City's fiscal health in light of the budget that had been adopted for Fiscal Year 2017.

Under that review, the City Manager was unable to account for certain funds and moneys that were not reflected in the City's accounting records. A separate, but limited, audit of the City's fiscal records at that time confirmed the inability to account for certain funds. As he was required to do, this concern was reported to the City Commission.

Because of these concerns, the City instructed and allowed its regular auditors to take the additional time and expense needed to resolve discrepancies in the City's records, and to account for all funds to the fullest extent possible. In addition, any concerns about accounting irregularities, errors, or other questionable transactions were to be reported as part of the City's annual audit.

The City's auditors completed this task in August 2017, and presented their detailed report to the City Commission at the meeting held on August 29, 2017.

The audit was able to provide a reasonable, but not an absolute, level of accountability for the funds that could not previously be accounted for. The City's prior inability to account for certain funds was a function of the poor state of fiscal records that existed at the time. The City's auditors reviewed and corrected the records and were then able to give their report, which, for the most part, was able to trace the City's funds.

The FY2016 audit was successful in that it provided a reasonably accurate picture of the City's true state of fiscal affairs. However, the audit is also troubling because it also identified at least three major areas of concern. These are:

- 1) that the City has exceeded its budgeted appropriations for the last three budget years;

- 2) that certain reserve funds were, where required to to be maintained by law and by covenants, had been depleted; and
- 3) that certain restricted funds, obtained as debt and dedicated for specific capital improvement projects, had been improperly transferred and improperly used for other expenditures.

The City is now faced with a general fund that has a serious deficit balance. Further, because the City overextended itself to capital improvement projects that it could not truly afford, the City does not have the reasonable level of liquidity that a City the size of La Feria ought to have.

Now the true state of the City's fiscal health has been determined, the current City Commission and City administration is committed to establishing a plan moving forward to eliminate its deficit position, to restoration of mandatory reserves, and to liquidation of certain capital investments, in order to reestablish a proper balance of liquidity for the City.

A more detailed set of fiscal facts is listed below. Each of the facts is confirmed and corroborated by the FY2016 annual audit materials.

Detailed Fact Statement:

FACT: At the end of the FY 2015-2016, the fund balance for the general fund had a deficit balance of **\$1,879,430.00** due to overestimated revenues.

FACT: The City exceeded budgeted appropriations by \$1,275,817.00 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!**

FACT: 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 Ordinance 2015-03. 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.

FACT: The General Fund and other funds expended significant amounts of cash from the Bond Fund in order to pay for expenditures necessary for the capital projects. These funds were also needed for general operations, due to the fact the General Fund was already operating in a **DEFICIT**.

FACT: 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 has asserted that the prior FY2014-2015 general fund deficits would be**

addressed, but during 2016 the deficit in the general fund INCREASED.

FACT: 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. **Which is a violation of the City's Charter.**

FACT: A significant portion of the bond proceeds were **TRANSFERRED** during FY2015-2016 into the City's pool cash fund, which were consumed by other funds of the City.

FACT: General government expenditures were \$2,126,006.00 higher than budgeted due to significantly larger amounts of expenditures incurred for the General Land Office (GLO) drainage project. **The final budget amendment incorrectly allocated portions of cost for this project to the capital outlay portion.**

FACT: Capital outlay expenditures were \$918,783.00 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.

FACT: Total expenditures exceeded the budget by **\$1,275,817.00**, 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.

FACT: In addition, 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. 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.

FACT: 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 (**-\$537,328.36**).

FACT: 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. The lack of available resources resulted in the Water and Sewer System needing to draw the funds out to pay the debt service. **The Water and Sewer System is out of COMPLIANCE with the requirements of the bond covenants.**

FY2014-2015 FINANCIAL STATEMENTS

FACT: The City had **three funds** with a negative fund balance, including the general fund, at

September 30, 2015. Negative fund balance amounts can obscure financial statement information.

FACT: The City has a General Fund balance deficit totaling **\$373,315.00** at September 30, 2015.

FACT: During the year, the City's Certificate of Obligations Series 2015 fund advanced the general fund and other funds operating cash flow. The Certificates of Obligation Series 2011 fund **HAD** to advance funds in fiscal year 2014 also, which indicates the City has yet to address these deficits.

FACT: Each year, the Component Units of the IDC and the Water and Sewer System record a liability due to the City to offset negative claim on cash (since the City uses pool cash, a negative claim on cash simply represents a liability to the pool and in this case, the General Fund or other funds of the City). Management states that these are temporary transfers which are immediately repaid after year end, which does occur from an accounting perspective because the transaction is reversed in the beginning of the next fiscal year. **However, in essence, no transaction has actually taken place and the same liability to the City from the Component Units exists from year to year.**

FY2013-2014 FINANCIAL STATEMENTS

FACT: The City had **three funds** with a negative fund balance, including the General Fund, at September 30, 2014. Negative fund balance amounts can obscure financial statement information.

FACT: The City has a General Fund balance deficit totaling **\$1,105,380.00** at September 30, 2014.

FACT: During the year, the City's Certificates of Obligation Series 2011 fund advanced the general fund and other funds operating cash flow, **which is indicative of a deteriorating financial position** and emphasizes the need for increased fund balance reserves.

FACT: **Two instances** were noted in which expenditures exceeded budgeted amounts at the functional level. General government exceeded budget by \$922,687.00 and capital outlay exceeded budget by \$600,489.00.

All financial statements are public information and are available for review.