

**MINUTES OF PROCEEDINGS
SPECIAL JOINT MEETING OF
LA FERIA CITY COMMISSION
LA FERIA INDUSTRIAL DEVELOPMENT CORPORATION
LA FERIA ECONOMIC DEVELOPMENT CORPORATION
TUESDAY, AUGUST 29, 2017 AT 6:30 PM**

Be it known that the City of La Feria City Commission met in special session on **Tuesday, August 29, 2017, at 6:30 P.M.** in the Chaparral Building 108 S. Main St., La Feria, Texas 78559 **as a joint meeting with the Board Members of the La Feria Industrial Development Corporation and La Feria Economic Development Corporation.** The purpose of said meeting was to consider and take action on those items of City Business as was duly posted by agenda in accordance with State Open Meetings Law. The following City Commission members were present at said meeting.

Ms. Olga H. Maldonado	Mayor
Mr. Eric Hoff	City Commissioner/Mayor Pro-Tem
Mr. Jesse Zuniga	City Commissioner
Mr. Donato Garcia	City Commissioner
Mr. Julian Guevara, Jr.	City Commissioner
Ms. Esmeralda Lozano	City Commissioner

The following City staff members were present.

Mr. Jaime S. Sandoval	City Manager
Mr. Ricardo Navarro	City Attorney
Ms. Rebecca Hayward	City Attorney
Mr. Frank Rios	Finance Director
Ms. Amanda Morales	City Secretary

The following LFIDC members were present at this meeting.

Mr. Francisco Garcia	Vice President
Mr. Ramon F. Gonzalez	Secretary/Treasurer
Ms. Berta L. Mascorro	Board Member

Absent:	Mr. Jimmy de Leon	Board Member
	Ms. Michelle Gomez Vela	Board Member

The following LFEDC members were present

Mr. Eric Hoff	Board Member
Ms. Olga Maldonado	Board Member
Mr. Donato Garcia	Board Member
Mr. Jose R. Becerra	Board Member
Mr. Francisco Loya, Jr.	Board Member
Mr. Julian Guevara, Jr.	Board Member

At 6:30 P.M., Commissioner Lozano gave the invocation. After the invocation, Mayor Maldonado led everyone in attendance in the Pledge of Allegiance to the Flag of the United States. She then declared that a quorum of the City Commission was present and called the meeting to order.

LFIDC Vice President Francisco Garcia declared a quorum present and called the meeting to order. A quorum of the LFEDC was also present.

PRESENTATION AND POSSIBLE ACTION TO ACCEPT FINANCIAL AUDIT FOR CITY AND COMPONENT UNITS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2016.

Mr. Quintin Anderson of Carr, Riggs & Ingram began by presenting the financial report for the La Feria Economic Development Corporation and noted financial highlights for fiscal year 2015-2016. The LFEDC has assets in the amount of \$1,684,784 and Liabilities in the amount of \$871,622 resulting in a Net Position of \$813,162. Mr. Anderson noted that the bulk of the Corporation's assets are properties and a large parcel of land. Operating Revenues for fiscal year 15-16 totaled \$355,134 and consisted of lease income (\$33,474), and non-property taxes (\$321,660). The Corporation's operating expenses include contractual services (\$72,339), Interest (\$26,295), Economic Development Incentives (\$5,000) and Payments to primary government (\$126,209) and depreciation (\$27,400). Mr. Anderson noted that his firm identified a material weakness relating to the internal control over financial reporting. In conducting the audit, it was found that numerous year end accrual adjustments, allocations, and reconciliations that should have been made were not made. The firm identified the cause of the condition to be the City's lack of detailed written financial accounting procedures and closing processes. Now that new personnel have come in, the finance department is currently working towards stabilizing the accounting for the City to a level that meets expectations.

Mr. Anderson then reviewed the financial statements for the La Feria Industrial Development Corporation. The assets (\$4,845,369) of the IDC exceeded its liabilities (\$1,001,789) at the close of the fiscal year by \$3,843,789, which is an increase of about 2% in comparison with the prior year. However, only 2% of this total amount, \$83,664 may be used to meet the IDC's ongoing projects and obligations to citizens and creditors. Total operating revenue for the IDC was \$517,601 and is made up of non-property taxes (\$321,661) and lease income (\$195,940). Operating expenses include Contractual services (\$126,481), Materials, Supplies and repairs (\$16,467), heat, light and power (\$9,711), other expenses (\$83,933) and Depreciation (\$59,460). Mr. Anderson said his firm also identified the same material weakness in accounting practices noted in the EDC report. As stated in the financial report, accounting records were materially misstated prior to the application of audit adjustments which were identified during the audit. The lack of development of detailed written financial accounting procedures and closing processes made the closing process significantly more difficult. Financial closing for year 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. Mr. Anderson also noted that the Corporation had not complied with the reporting requirements for the USDA RBEG loan program.

Mr. Anderson proceeded to review the financial statements for the City of La Feria. He noted that revenue sources included property taxes (\$1,586,021), sales tax (\$652,124), charges for services (\$544,572), unrestricted investment earnings (\$391), hotel/motel taxes (\$12,644), franchise taxes (\$351,152), capital grants and contributions (\$8,618,878), and operating grants and contributions (\$577,477). It was explained in the financial statements that actual property tax revenues were \$53,564 less than budgeted. Revenues were over budgeted. Sales tax revenues were \$56,233 more than budgeted due to increases in commercial activity in the community.

Expenditures for the City are usually broken down into two categories; governmental activities and business type activities. Expenses for governmental activities included general government (\$5,476,382), Public Safety (\$1,337,138), Highways and streets (\$846,875), Health and welfare (\$76,011), Culture and recreation (\$1,238,114), and interest and long-term debt (\$729,020). Expenses for Business type activities include sanitation services (\$523,874). 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 (done before the end of the fiscal year) incorrectly allocated portions of cost for this project to the capital outlay portion. 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 city not properly monitoring the City's budgetary compliance throughout the year.

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. Total general fund revenues were \$10,489,314 and total general fund expenditures were \$11,968,233. The fund balance currently has a deficit of \$1,879,340. Mr. Anderson explained that the general fund has been operating with a negative balance, or deficit, since 2013. The last year that there was a surplus in this fund was 2012. The fund balance at that time was \$597,888. General budgeting and finance practices advise that the City should keep a general fund balance equivalent to three months of operating expenses in case of emergency. Operating expenses for three months would roughly amount to \$900,000.

Mr. Anderson explained that there were material weaknesses and significant deficiencies identified during the audit. There was also noncompliance material to financial statements noted. Several findings were due to the same lack of financial accounting procedures and processes noted in the IDC and EDC financial statements. Tests of the City's major federal grant programs revealed significant deficiencies and instances of noncompliance. 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. In one instance, the City was not able to provide adequate documentation that the City complied with all requirements of Texas Procurement Laws due to improper filing and retention of records.

In response to a question from Commissioner Lozano, Mr. Anderson noted that turn over in key positions may have contributed to the poor record keeping and insufficient accounting practices. Mr. Anderson explained that "Key positions" were the City

Manager, Finance Director, Assistant Finance Director and City Secretary. Commissioner Lozano reminded all present that the positions were all held during the fiscal year by staff who had been in those positions for several years before leaving the City.

The City Water & Sewer System was also found not to be in compliance with bond covenants related to revenue bonds. The revenue bonds are 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. The audit states that, "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 city issued Certificates of obligation, series 2015 for the purpose of constructing several capital improvements in and around the city. The proceeds of the certificates are restricted for 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. 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. Any amount spent should have been repayed to the obligation fund within a year. Repayment has not occurred, and the amount spent out of the restricted fund has grown during fiscal year 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.

Commissioner Lozano made a motion to accept the financial audit for the fiscal year ending September 30, 2016 for the City of La Feria. The motion was seconded by Commissioner Guevara and passed unanimously.

Mr. Garcia made a motion to accept the financial audit of the La Feria Industrial Development Corporation for the fiscal year ending September 30, 2016. The motion was seconded by Mr. Gonzalez and passed unanimously.

Mr. Guevara made a motion to accept the financial audit for the Economic Development Corporation for the fiscal year ending September 30, 2016. The motion was seconded by Mr. Becerra and passed unanimously.

EXECUTIVE SESSION – THE COMMISSION WILL ENTER INTO CLOSED EXECUTIVE SESSION TO DISCUSS THE FOLLOWING:

- **ATTORNEY CLIENT CONSULTATION WITH LEGAL COUNSEL PURSUANT TO TEX. GOV. CODE §551.071(1) REGARDING LEGAL DUTIES AND OBLIGATIONS CONNECTED WITH THE AUDIT FOR FISCAL YEAR ENDING SEPTEMBER 30, 2016.**

Mayor Maldonado announced that there was no need to meet in executive session and no action was taken on this item.

ADJOURNMENT

There being no further business to discuss, Commissioner Lozano made a motion to adjourn the meeting. The motion was seconded by Mayor Pro-Tem Hoff and passed unanimously.

APPROVED:


Berta L. Mascorro, Board President

ATTEST:


Amanda Morales, City Secretary