### CITY OF LA FERIA, TEXAS

#### FINANCIAL STATEMENTS

September 30, 2017



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#### **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, 2017, 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, 2017, 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.

#### **Emphasis of Matters**

#### Change in Reporting Entity

As discussed in Note 1 to the financial statements, in 2017, the City determined that the Economic Development Corporation Type B component unit meets the criteria for being presented as a blended component unit, rather than as a discretely presented component unit. The impact of this change in reporting entity and the related prior period adjustment is further disclosed in Note 14 to the financial statements. Our opinion is not modified with respect to this matter.

#### **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 7-20, 75-76 and 77-79, 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.

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#### 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* 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.

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

Can, Rigge & Ingram, L.L.C.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of La Feria, Texas's 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.

Harlingen, Texas

August 20, 2018

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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, 2017.

#### **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 \$19,264,272 (net position). Of this amount, \$2,482,912 is unrestricted net position.
- The assets of the City's discretely presented component units exceeded its liabilities and deferred
  inflows at the close of the most recent fiscal year by \$38,877,625 (net position). Unrestricted net
  position of \$185,108 is the result of the IDC having unrestricted net position of 179,955, and
  unrestricted net position of \$5,153 in the Water and Sewer System.
- At the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$924,887, a decrease of \$831,205 from the prior year.
- At the end of the current fiscal year, the fund balance for the general fund had a deficit balance of \$2,779,287, primarily due to substantial delays in receiving grant reimbursements.
- The City's total debt (excluding component unit debt) decreased by \$1,241,170 (6.1%) 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 nonmajor 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.

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 and the Waterworks and Sewer System.

The government-wide financial statements begin on page 23 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 six 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, all of which are considered to be major funds.

Data from the non-major 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 26 of this report.

#### **Proprietary Funds**

The City maintains two proprietary funds, the Waste Disposal Fund and Economic Development Corporation, which are enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City's Waste Disposal fund accounts for its collection of waste and the pick-up of brush the Economic Development Corporation accounts for economic development activities of the corporation. 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 and Economic Development Corporation. The EDC is considered a blended component unit and presented as a propriety fund within the City.

The basic proprietary fund financial statements begin on page 30 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, and a board that is composed primarily of members other than City commissioners. The units also maintain a September 30 fiscal year end. There are two 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 39 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 75 of this report.

#### 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 82 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 \$19,264,272 at the close of the most recent fiscal year.

	Governme	Governmental Activities			Business-type Activities		Total			Component Unit Activities		
	9/30/2017	9	9/30/2016	9/30/2017	9/30/2016*	9/30/2017	9/30/2016		9/30/2017	9/30/2016*		
Current and other assets	\$ 7,165,951	\$	9,973,637	\$ 905,824	\$ 884,056	\$ 8,071,775	\$ 10,126,715	\$	7,393,816	\$ 8,428,727		
Capital assets	29,981,994		30,689,653	1,484,804	1,609,161	31,466,798	31,345,008		45,915,443	44,089,578		
Total assets	37,147,945		40,663,290	2,390,628	2,493,217	39,538,573	41,471,723		53,309,259	52,518,305		
Deferred outflows of resources	242,129		299,550	8,835	11,622	250,964	311,172		127,250	155,531		
Long-term liabilities outstanding	18,635,200		19,803,268	555,736	866,189	19,190,936	19,949,262		6,804,857	7,094,382		
Other liabilities	962,638		3,078,018	356,879	151,427	1,319,517	3,078,018		7,746,015	8,796,992		
Total liabilities	19,597,838		22,881,286	912,615	1,017,616	20,510,453	23,027,280		14,550,872	15,891,374		
Deferred inflows of resources	14,375		25,854	437	994	14,812	26,848		8,012	13,665		
Net position												
Net investment in capital assets	15,287,148		15,092,013	619,028	590,438	15,906,176	15,644,458		38,166,318	35,965,239		
Restricted	875,184		481,696	-	-	875,184	481,696		526,199	510,477		
Unrestricted	1,615,529		2,481,991	867,383	895,791	2,482,912	2,602,613		185,108	293,081		
	\$ 17,777,861	\$	18,055,700	\$1,486,411	\$ 1,486,229	\$19,264,272	\$ 18,728,767	\$	38,877,625	\$ 36,768,797		

<sup>\*</sup>as restated

Eighty-three 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, \$875,184 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,482,912, may be used to meet the government's ongoing obligations to citizens and creditors.

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 \$2,108,828 during the current fiscal year which can be attributed to capital project activities and related grant receipts.

#### **Governmental Activities**

Governmental activities decreased the City's net position by \$277,839. The key elements of this decrease are primarily related to increased depreciation on long-term assets and an increase in the net pension liability.

Capital improvements in the general government continued this year and were funded through capital grants and contributions, 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 of the net pension liability increase, and increased depreciation.

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

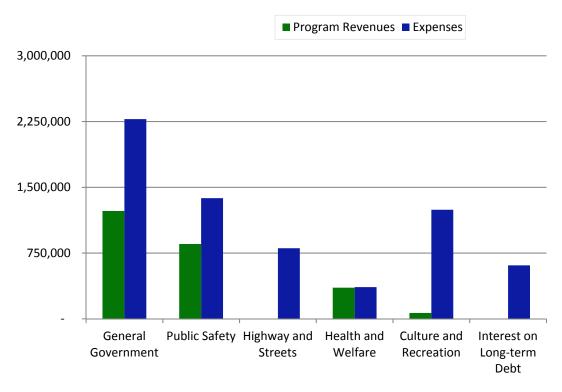
City of La Feria's Changes in Net Position

	Governmen	tal Activities	Business-ty	<b>Business-type Activities</b>		Total		Component Unit Activities	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016*	9/30/2017	9/30/2016	9/30/2017	9/30/2016*	
Revenues:									
Program Revenues									
Charges for services	\$ 687,690	\$ 544,572	\$ 944,103	\$ 911,867	\$ 1,631,793	\$ 1,456,439	\$ 2,612,214	\$ 2,644,614	
Operating grants and	φ σσ.,σσσ	ψ 3.1,372	Ψ 3.1,103	φ 311,007	ψ 1,031,733	Ψ 1, .50, .55	Ψ 2,012,211.	Ψ 2,0,01 .	
contributions	403,869	577,477	44,192	_	448,061	577,477	_		
Capital grants and	.03,003	3,	,131		1.0,001	377,77			
contributions	1,413,992	8,618,878	_	_	1,413,992	8,618,878	2,588,919	3,776,371	
General Revenues:	1, 113,332	0,010,070			1,113,332	0,010,070	2,500,515	3,7,0,3,1	
Property tax	1,620,093	1,586,021	_	_	1,620,093	1,586,021	_	_	
Other taxes	1,020,788	1,015,920	308,526	321,660	1,329,314	1,337,580	308,526	321,661	
Other	583,085	475,169	1,413	51,692	584,498	526,861	19,013	26,679	
Total revenues	5,729,517	12,818,037	1,298,234	1,285,219	7,027,751	14,103,256	5,528,672	6,769,325	
Expenses:									
General government	2,227,946	5,476,382			2,227,946	5,476,382			
Public safety	1,375,970	1,337,138	_	_	1,375,970	1,337,138	_	_	
Highways/streets	805,013	846,875	_	_	805,013	846,875	_	_	
Health and welfare	361,137	76,011	_	_	361,137	76,011	_	_	
Culture and recreation	1,244,121	1,238,114	_	_	1,244,121	1,238,114	_	_	
Interest on long-term debt	610,056	729,020	26,646	_	636,702	729,020	_	_	
Sanitation	-	-	546,542	523,874	546,542	523,874	_	_	
Economic development	_	_	107,977	257,244	107,977	257,244	_	_	
Waterworks system	_	_	-	-	-	-	3,000,354	3,143,049	
IDC	_	_	_	_	_	_	419,490	479,467	
Total expenses	6,624,243	9,703,540	681,165	781,118	7,305,408	10,484,658	3,419,844	3,622,516	
Increase/(decrease) in net									
assets before transfers	(894,726)	3,114,497	617,069	504,101	(277,657)	3,618,598	2,108,828	3,146,809	
Transfers	616,887	255,708	(616,887)	(255,708)	(277,037)	-	2,100,020	-	
Increase (decrease) in net position		3,370,205	182	248,393	(277,657)	3,618,598	2,108,828	3,146,809	
Net position - beginning	18,055,700	14,685,495	1,486,229	1,237,836	19,541,929	15,923,331	36,768,797	33,621,988	
Net position - ending	\$ 17,777,861	\$ 18,055,700	\$ 1,486,411	\$ 1,486,229	\$ 19,264,272	\$ 19,541,929	\$ 38,877,625	\$ 36,768,797	

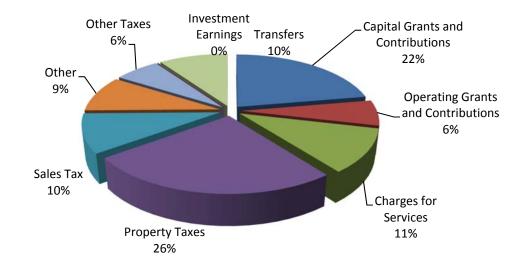
<sup>\*</sup> as restated

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**



#### **Business-Type Activities**

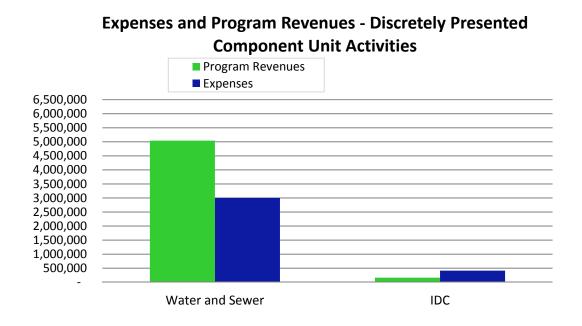
Business-type activities consist of operating expenses of \$681,165, transfers-out totaling \$616,887, and revenues of \$1,298,234 resulting in an increase in net position of \$182.

#### **Discretely Presented Component Units**

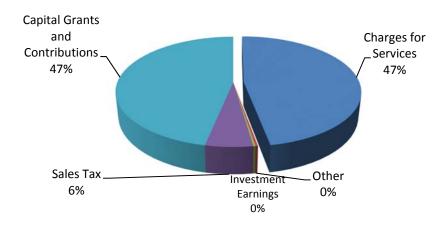
Component unit's activities increased their net position by \$2,108,828, accounting for approximately 5.42% of the total ending net position. Key elements of this increase are as follows:

- The Waterworks and Sewer System's net position increased by \$2,041,183. 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 \$67,645 during the current fiscal year and is attributed to increases in sales tax and lease revenues compared to the prior year.

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



#### **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, 2017 and 2016.

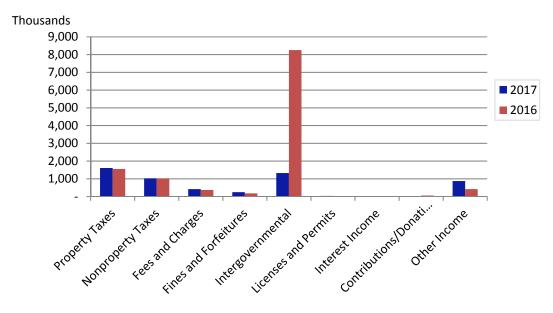
Revenues: General, Special Revenue, Debt Service and Capital Projects Funds

						Percent of
	2017	Percent of	2016	Percent of	(Decrease)	Increase
	Amount	2017 Total	Amount	2016 Total	Over 2016	(Decrease)
Revenues						
Property taxes	\$1,609,682	29.01%	\$1,553,986	13.08%	\$ 55,696	3.58%
Non-property taxes	1,020,788	18.39%	1,015,920	8.55	4,868	0.48%
Fees and charges	420,024	7.57%	370,351	3.12	49,673	13.41%
Fines and forfeitures	247,900	4.47%	178,850	1.50	69,050	38.61%
Intergovernmental	1,322,520	23.83%	8,251,920	69.49	(6,929,400)	-83.97%
Licenses and permits	35,413	0.64%	31,052	0.26	4,361	14.04%
Interest income	3,262	0.06%	391	-	2,871	734.27%
Contributions and donations	16,572	0.30%	57,215	0.48	(40,643)	-71.04%
Miscellaneous income	873,251	15.74%	417,563	3.52	455,688	109.13%
	\$5,549,412	100.00%	11,877,248	100.00%	\$ (6,327,836)	-53.28%

Revenues from governmental funds decreased by \$6,327,836 or 53.28% compared to the prior year. Key elements of this decrease shown above are as follows:

- Intergovernmental revenues decreased by \$6,929,400 or 83.97% compared to last year. The intergovernmental revenues consisted mostly of grant funds for capital projects which are now mostly complete and therefore had less activity in the current year compared to prior years.
- Revenue from property and non-property taxes increased by 2.36%; reflecting increases in business activity in the community.
- Fees, charges, and fines and forfeitures increased about 21.62% compared to the prior year.

#### **Governmental Revenues**



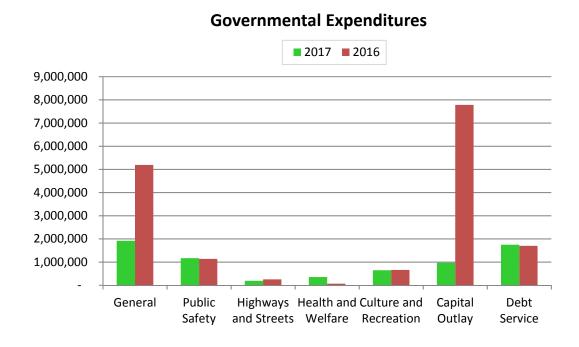
The following schedule presents a summary of general fund, special revenue funds, debt service fund, and capital projects fund expenditures for the years ended September 30, 2017 and 2016.

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

	2017 Amount	Percent of 2017 Total	2016 Amount	Percent of 2016 Total	Increase (Decrease) Over 2016	Percent of Increase (Decrease)
Expenditures						
General	\$1,916,709	27.39%	\$ 5,189,881	30.91%	\$ (3,273,172)	-63.07%
Public safety	1,168,251	16.70%	1,135,966	6.77%	\$ 32,285	2.84%
Highways and streets	192,779	2.75%	253,939	1.51%	\$ (61,160)	-24.08%
Health and welfare	352,231	5.03%	67,385	0.40%	\$ 284,846	422.71%
Culture and recreation	647,342	9.25%	660,152	3.93%	\$ (12,810)	-1.94%
Capital outlay	972,921	13.90%	7,784,782	46.36%	\$ (6,811,861)	-87.50%
Debt service	1,747,271	24.97%	1,698,400	10.12%	\$ 48,871	2.88%
	\$6,997,504	100.00%	\$ 16,790,505	100.00%	\$ (9,793,001)	-58.32%

Governmental funds incurred expenditures of \$6,997,504, approximately 58.32% less expenditures for the City of La Feria, Texas compared to last year. Key elements of this decrease are as follows:

- General expenditures decreased by \$3,273,172 due to decreased expenses for the drainage project which includes locations outside of the City limits.
- Capital outlay expenditures decreased by \$6,811,861 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 in the prior year. 2017 capital outlay was to finalize some of those projects plus additional routine additions. These expenditures are primarily funded by capital grants and proceeds from the 2015 Certificates of Obligation.



#### **Governmental Fund Balances**

The General Fund's fund balance began as a deficit of \$1,876,087 and further decreased by \$903,200 in fiscal year 2016-2017. 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:

- An increase of \$495,341 in deferred inflows for grants. These or reimbursable grant expenditures
  which 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 cost overruns in those projects which were not considered eligible for reimbursement. The City had to cover these costs. This was also the case for final expenditures of the City domes.

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 prior years 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 \$281,924 in fiscal year 2016-2017 due primarily to an increase in property tax revenues of \$148,498 when compared to property tax revenue for the 2015-2016 fiscal year.

The Certificates of Obligation Series 2015 Fund's fund balance began with \$3,089,994, and decreased by \$274,039, which is the result of spending the proceeds of those bonds on capital projects which was to fund the local match for the final phase of the City Dome Shelters.

The remaining fund balance in the Certificates of Obligation Series 2015 Fund is made up of \$2,286 of restricted cash and a \$2,899,128 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 this receivable. During 2017, the receivable decreased by \$82,324.

#### <u>Enterprise Funds – Business-Type Activities, Enterprise</u>.

La Feria, Texas' business-type activities include the collection of waste (garbage and brush and economic development activities). Operating revenue from these activities increased by \$11,602 during 2017. 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 increased by \$3,399 or 0.52%.

### <u>Component Units Funds – Waterworks and Sewer System, Industrial Development Corp., Economic Development Corp.</u>

La Feria, Texas' Component Units' activities' revenues decreased by \$1,568,192 compared to the prior year, a 23% decrease. Key elements of this decrease are as follows:

Capital grants and contributions decreased by 31% from the prior year due to decreased 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 decreased by a net amount of \$211,189, a 6% increase. Key elements of this decrease are due to management's efforts to reduce expenses.

#### **General Fund Budgetary Highlights**

The original adopted budget had projected a net increase in fund balance of \$39,966; the final amended budget resulted in a projected net increase of \$46,908 in fund balance. The final actual change in fund balance was a decrease in fund balance of \$903,200. However, expenditures did not exceed budgeted appropriations. Revenues collected were substantially less than budgeted

#### Revenues

Actual property tax revenues were \$65,168 less than budgeted. Revenues were over budgeted.
 Intergovernmental revenues were \$2,088,136 less than budgeted due significant delays in
 collection of grant reimbursements. This is reflected in the balance of deferred inflows for grants
 in the general fund.

#### **Expenditures**

General government expenditures were \$1,013,762 lower than budgeted due to substantially less
expenditures being incurred for the GLO drainage project, the primary portion of which was to be
reflected under "general government" expenditures.

#### **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, 2017, amounts to \$31,466,798 (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 decrease in the City's investments in capital assets for the current fiscal year was \$810,286 or approximately 2.6%.

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

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

	Governmen	tal Activities	Business-ty	pe Activities	Total		
	9/30/2017	9/30/2016	9/30/2017	9/30/2016	9/30/2017	9/30/2016	
Land	\$ 1,849,418	\$ 1,839,299	\$ 388,558	\$ 388,558	\$ 2,237,976	\$ 2,227,857	
Building and systems	14,067,267	6,640,708	543,298	565,248	14,610,565	7,205,956	
Improvements and other					-		
than buildings	776,123	1,560,873	-	-	776,123	1,560,873	
Machinery and equipment	1,454,360	1,729,926	552,948	655,355	2,007,308	2,385,281	
Construction in progress	11,834,826	18,918,847	-	-	11,834,826	18,918,847	
	\$ 29,981,994	\$ 30,689,653	\$ 1,484,804	\$ 1,609,161	\$31,466,798	\$ 32,298,814	

Additional information on the City's capital assets can be found in Note 3 beginning on page 54 of this report.

#### **Long-Term Debt**

At year end, the City had a number of debt issues outstanding. These issues include \$16,477,000 of (limited) revenue certificates of obligation bonds, \$484,710 of tax notes, and \$2,685,000 of water and wastewater revenue bonds. The City's total long-term debt had a net decrease of \$1,805,775 during this fiscal year. The key factor in the net increase was the timely repayment of debt maturities.

Additional information on the City's long-term debt begins in Note 4 on page 59 of this report.

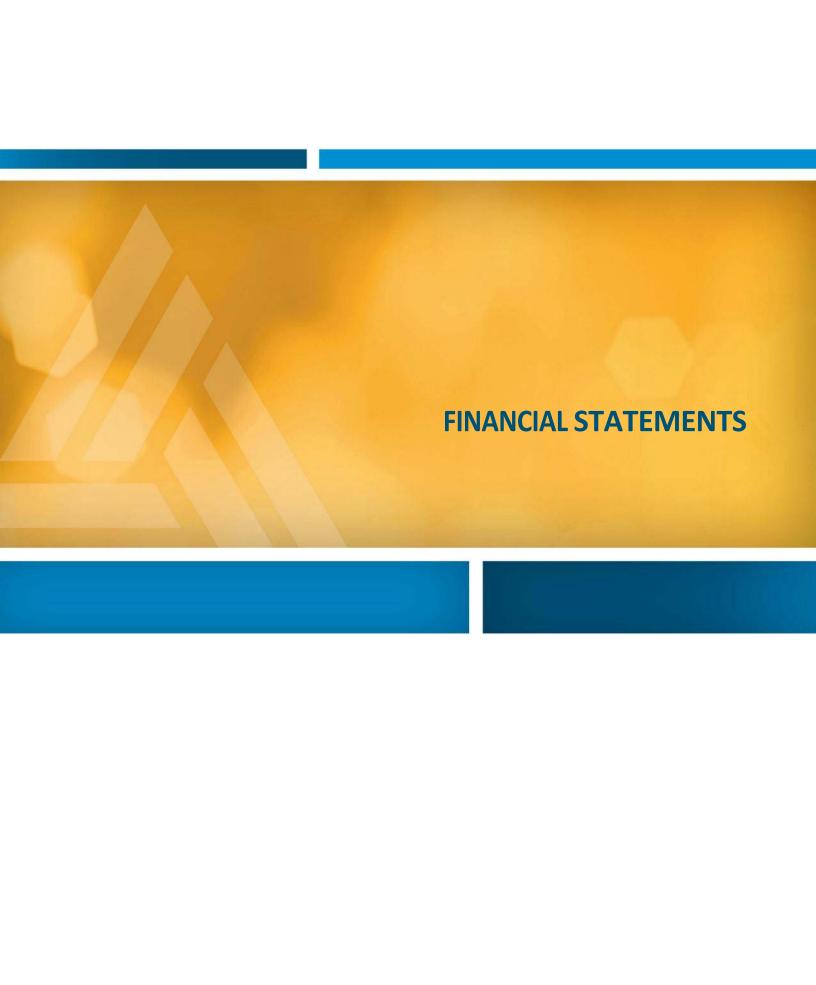
#### **Economic Factors and Next Year's Budgets and Rates**

- The occupancy rate of the government's central business district is estimated to remain at 91% for the past year.
- Sales tax decreased by 4.0% compared to prior year's increase of 4.8%. The sales tax revenue is expected to decrease by 2% 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 2017-18 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.



### City of La Feria, Texas Basic 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 FUNDS**

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

**Proprietary fund:** 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. The Corporation is a blended component unit due to its governance structure and is presented as a proprietary fund.

#### **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.

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# City of La Feria, Texas Statement of Net Position

September 30, 2017

<u>September 30, 2017</u>	P	Primary Government				
	Governmental	Business - type		(	Component	
	Activities	Activities	Total		Units	
ASSETS						
Cash and cash equivalents	\$ 306,848	\$ 62,114	\$ 368,962	\$	107,905	
Investments	73,646	-	73,646		-	
Receivables (net of allowance for uncollectible)	2,326,106	135,630	2,461,736		1,111,700	
Internal balances	(563,662)	563,662	-		-	
Due from primary government	-	-	-		612,850	
Due from component units	1,470,780	-	1,470,780		-	
Inventories	25,219	-	25,219		56,416	
Prepaid assets	21,945	-	21,945		-	
Restricted assets:						
Cash and cash equivalents	8,655	-	8,655		5,149,755	
Notes receivable	3,496,414	144,418	3,640,832		355,190	
Capital assets (net of accumulated depreciation)						
Land	1,849,418	388,558	2,237,976		2,878,576	
Building and system	14,067,267	543,298	14,610,565		5,896,343	
Improvements other than buildings	776,123	-	776,123		-	
Machinery and equipment	1,454,360	552,948	2,007,308		310,132	
Infrastructure		552,515			23,971,577	
	_	_	_			
Easements	-	-	-		117,758	
Certificate of convenience and necessity	-	-	-		114,478	
Construction in progress	11,834,826	-	11,834,826		12,626,579	
Total assets	37,147,945	2,390,628	39,538,573		53,309,259	
Deferred outflows of resources  Deferred outflows related to pensions  Total deferred outflows of resources	242,129 242,129	8,835 8,835	250,964 250,964		127,250 127,250	
Total deferred outliows of resources	242,123	0,033	230,304		127,230	
LIABILITIES						
Accounts payable and other						
current liabilities	718,286	44,192	762,478		1,182,722	
Due to primary government	-		-		1,470,780	
Due to component units	_	3,341	3,341		-	
Unearned revenue	244,352	309,346	553,698		4,921,386	
Liabilities payable from restricted assets	-	-	-		171,127	
Noncurrent liabilities:						
Net pension liability	1,082,937	43,498	1,126,435		526,512	
Due within one year	1,446,314	113,625	1,559,939		573,866	
Due in more than one year, net	16,105,949	398,613	16,504,562		5,704,479	
Total liabilities	19,597,838	912,615	20,510,453		14,550,872	
Total liabilities	19,397,838	312,013	20,310,433		14,330,872	
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to net pension liability	14,375	437	14,812		8,012	
Total deferred inflows of resources	14,375	437	14,812		8,012	
Total deserved innovation resources	1,,575		1,,012		0,012	
NET POSITION						
Net investment in capital assets	15,287,148	619,028	15,906,176		38,166,318	
Restricted for:	-, - ,	-,	,, -		,,	
Debt service	715 406		715 106			
	715,486	-	715,486		E26 100	
Capital projects funds	150.600	-	150.000		526,199	
Tax increment reinvestment zone	159,698	967 202	159,698		105 100	
Unrestricted	1,615,529	867,383	2,482,912	ć	185,108	
Total net position	\$ 17,777,861	\$ 1,486,411	\$ 19,264,272	\$	38,877,625	

### City of La Feria, Texas Statement of Activities

For the year ended September 30, 2017

			Program Revenu	es
		•	Operating	Capital
		Charges for	Grants and	Grants and
	Expenses	Services	Contributions	Contributions
Governmental activities:				
General government	\$ 2,227,946	\$ 329,097	\$ 55,000	\$ 845,839
Public safety	1,375,970	231,909	53,296	568,153
Highways and streets	805,013	-	-	-
Health and welfare	361,137	59,926	295,573	-
Culture and recreation	1,244,121	66,758	-	-
Interest on long term debt	610,056	-	-	-
Total governmental activities	6,624,243	687,690	403,869	1,413,992
Business - type activities:				
Sanitation services	546,542	921,356	-	-
Economic Development	107,977	22,747	44,192	-
Interest expense	26,646	-	-	-
Total Business-type activites	681,165	944,103	44,192	-
Total primary government	7,305,408	1,631,793	448,061	1,413,992
Component Units:				
Waterworks and Sewer Systems	3,000,354	2,451,754	-	2,588,919
Industrial Development Corporation	419,490	160,460	-	-
Total component units	\$ 3,419,844	\$2,612,214	\$ -	\$ 2,588,919

#### 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

Gain (loss) on sale of asset

Other non operating revenue

Transfers

Total general revenues and transfers

Change in net position

Net position--beginning

Prior period adjustment

Net position--ending

			Net (Expense	) Revenue and							
	Changes in Net Position										
	P	rima	ry Governmen	nt	Compo	onent Units					
Go	overnmental	Bu	siness - type		Cor	nponent					
	Activities		Activities	Total		Units					
\$	(998,010)	\$	-	\$ (998,010)	\$	-					
	(522,612)		-	(522,612)		-					
	(805,013)		-	(805,013)		-					
	(5,638)		-	(5,638)		-					
	(1,177,363)		-	(1,177,363)		-					
	(610,056)		-	(610,056)		_					
	(4,118,692)		-	(4,118,692)							
			274 914	374,814							
	-		374,814			-					
	-		(41,038)	(41,038)		-					
-	-		(26,646)	(26,646)							
			207.120	207 120							
	-		307,130	307,130							
	(4,118,692)		307,130	(3,811,562)		-					
	<u> </u>			<u> </u>							
	-		-	-	2	,040,319					
	-		-	-		(259,030)					
	_		-	-	1	,781,289					
	399,717		-	399,717		-					
	1,220,376		-	1,220,376		=					
	618,216		308,526	926,742		308,526					
	379,538		-	379,538		-					
	23,034		_	23,034		-					
	3,262		1,413	4,675		12,695					
	-		-	-		(1,440)					
	579,823		-	579,823		7,758					
	616,887		(616,887)	-							
	3,840,853		(306,948)	3,533,905		327,539					
	(277,839)		182	(277,657)		,108,828					
	18,055,700		673,067	18,728,767	37	,581,959					
	<u>-</u>		813,162	813,162		(813,162)					
\$	17,777,861	\$	1,486,411	\$ 19,264,272	\$ 38	,877,625					

# City of La Feria, Texas **Balance Sheet Governmental Funds**

September 30, 2017

september 30, 2017	General	Debt Service	Certificates of Obligation Series 2015	Other Governmental	Total Governmenta
	Fund	Fund	Fund	Funds	Funds
ASSETS					
Cash and cash equivalents	\$ 58,663	\$ 205,527	\$ -	\$ 42,658	\$ 306,848
Investments	37	73,609	-	-	73,646
Receivables, (net of allowance for uncollectibles)					
Property taxes	49,757	117,613	=	=	167,370
Nonproperty taxes	48,841	=	=	=	48,841
Service	111,710	-	-	-	111,710
Intergovernmental receivable	1,884,959	_	-	-	1,884,959
Other	, , =	_	-	113,226	113,226
Notes receivable	114,500	_	_	, -	114,500
Due from other funds	78,868	407,928	2,597,263	159,698	3,243,757
Due from component units	1,168,905	-	301,875	-	1,470,780
Inventories	25,219	_	-	_	25,219
Prepaid items	21,945	_	_	_	21,945
Restricted assets	21,343				21,545
Cash and cash equivalents	6,369	=	2,286	-	8,655
Total assets	\$ 3,569,773	\$ 804,677	\$ 2,901,424	\$ 315,582	\$ 7,591,456
LIABILITIES					
Accounts payable	\$ 484,253	\$ -	\$ 85,469	\$ 28,691	\$ 598,413
Accrued liabilities	40,739	<u>-</u>	-	-	40,739
Unearned revenue	244,352	_	_	-	244,352
Due to other funds	3,728,551	_	_	78,868	3,807,419
Total liabilities	4,497,895	-	85,469	107,559	4,690,923
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues					
Property taxes	44,156	104,995	-	-	149,151
Grants	1,734,774	_	-	-	1,734,774
Other	72,235	_	-	19,486	91,721
Total deferred inflows of resources	1,851,165	104,995	=	19,486	1,975,646
UND BALANCES					
Nonspendable fund balances:					
Inventories	25,219	-	-	-	25,219
Prepaid items	21,945	-	-	-	21,945
Notes receivable	114,500	-	-	-	114,500
Restricted fund balances:					
Retirement of long-term debt	=	699,682	=	=	699,682
Tax increment reinvestment zone	-	-	-	159,698	159,698
Capital projects	=	=	2,815,955	=	2,815,955
Assigned	-	-	-	30,339	30,339
Unassigned	(2,940,951)	-	-	(1,500)	(2,942,451
Total fund balance	(2,779,287)	699,682	2,815,955	188,537	924,887
Total liabilities, deferred inflows					

## Reconciliation of the Balance Sheet of the Governmental Funds to the Statement of Net Position

Septembe	r 30, 20	)17
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		Governmental Activities	
Fund balance total governmental funds	\$	924,887	
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.	2	9,981,994	
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expeditures and are therefore not reported in the funds:			
Unavailable revenue - property taxes		149,151	
Unavailable revenue - grants		1,734,774	
Unavailable revenue - other		91,721	
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	(1	.6,961,710)	
Note and capital lease payable		(549,091)	
Compensated absences		(41,462)	
Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds.		(79,134)	
The General Fund includes a note receivable of \$114,500; certain other long-term notes receivable due from the component units are not due and receivable in the current period and, therefore, are not reported in the funds. The total notes receivable from component units is \$3,381,914. Including this amount in the			
statement of net position increases net position.		3,381,914	
Recognition of the City's net pension liability required by GASB 68 in the amount of \$(1,082,937), deferred resource inflows related to pensions in the amount of \$(14,375), and deferred resource outflows related to pensions in the amount of			
\$242,129, result in a decrease in net position.		(855,183)	
		, , /	
Net position of governmental activities	\$ 1	7,777,861	

City of La Feria, Texas

# Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds

For the year ended September 30, 2017

	General	Debt Service	Certificates of Obligation Series 2015	Other Governmental	Total Governmental
	Fund	Fund	Fund	Funds	Funds
Revenues					
Taxes:					
Property	\$ 369,650	\$1,204,572	\$ -	\$ 35,460	\$ 1,609,682
Sales	618,216	-	-	-	618,216
Franchise	379,538	-	-	-	379,538
Other	2,599	-	-	20,435	23,034
Licenses and permits	35,413	-	-	-	35,413
Intergovernmental	1,026,947	-	-	295,573	1,322,520
Fees and charges	394,946	-	-	25,078	420,024
Fines	247,900	-	-	-	247,900
Interest income	653	2,609	-	-	3,262
Contributions and donations	16,572	-	-	-	16,572
Other	668,954	204,297	-	-	873,251
Total revenues	3,761,388	1,411,478	-	376,546	5,549,412
Expenditures					
Current					
General government	1,891,269	25,440	-	-	1,916,709
Public safety	1,168,251	-	-	-	1,168,251
Highways and streets	192,779	-	-	-	192,779
Health and welfare	52,669	-	-	299,562	352,231
Culture and recreation	611,657	-	-	35,685	647,342
Debt service					
Principal retirement	79,733	1,051,290	-	-	1,131,023
Interest and fiscal agent fees	-	616,248	-	-	616,248
Capital outlay	698,882	-	274,039	-	972,921
Total expenditures	4,695,240	1,692,978	274,039	335,247	6,997,504
Excess (deficiency) of revenues					
over (under) expenditures	(933,852)	(281,500)	(274,039)	41,299	(1,448,092)
Other financing sources (uses)					
Transfers in	524,963	563,424	-	24,400	1,112,787
Transfers (out)	(494,311)	-	-	(1,589)	(495,900)
Total other financing sources (uses)	30,652	563,424	-	22,811	616,887
Net change in fund balances	(903,200)	281,924	(274,039)	64,110	(831,205)
Fund balances, beginning	(1,876,087)	417,758	3,089,994	124,427	1,756,092
Fund balances, ending	\$ (2,779,287)	\$ 699,682	\$ 2,815,955	\$ 188,537	\$ 924,887

# Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds to the Statement of Activities

September 30	. 2017
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September 30, 2017		Governmental Activities	
Net change in fund balances total governmental funds	\$	(831,205)	
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 \$972,921, was exceeded by depreciation expense of (\$1,680,580).		(707,659)	
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 Unavailable revenues - grants and other		10,411 479,694	
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.		(1,815)	
GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/16 caused the change in the ending net position to increase in the amount of \$89,394. 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 \$(93,936). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(49,938). The result of these changes is to decrease the change in net position.		(54,480)	
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  Notes payable principal  Capital lease principal		1,051,290 68,518 11,215	
Receipts from long term notes receivable are recorded as revenues in governmental funds, but in the statement of net position they reduce long term receivables.  Note receivable repayment from component unit		(310,000)	
Recognition of current year accrued interest is not recorded in the governmental funds, but in the statement of activities they are recognized as inerest expense.		6,192	
Change in net position of governmental activities	\$	(277,839)	

# City of La Feria, Texas Proprietary Funds Statement of Net Position

September 30, 2017	Business-type		
	Activities		
		Economic Development	
	Fund	Corporation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 62,114 \$	62,114
Service receivable, net	111,209	=	111,209
Nonproperty taxes	-	24,421	24,421
Notes receivable, current portion	-	101,751	101,751
Due from other funds		563,662	563,662
Total current assets	111,209	751,948	863,157
Noncurrent assets:			
Notes receivable	-	42,667	42,667
Capital assets			
Land	-	388,558	388,558
Buildings	-	592,648	592,648
Machinery and equipment	1,732,383	-	1,732,383
Less accumulated depreciation	(1,179,435	) (49,350)	(1,228,785
Total capital assets (net of accumulated depreciation)	552,948	931,856	1,484,804
Total assets	664,157	1,726,471	2,390,628
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to net pension liability	8,835	=	8,835
Total deferred outflows of resources	8,835	-	8,835
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 672,992	\$ 1,726,471 \$	2,399,463
TO THE POST OF THE	φ 0.2,332	ψ <u>1,720,771</u> ψ	2,000,100
LIABILITIES			
Current liabilities	<b>^</b>	ć 2.244 Ć	2.244
Due to component units	\$ -	φ 5,5.1 φ	3,341
Unearned revenues	25.460	44,192	44,192
Current portion of long-term debt  Total current liabilities	25,469 25,469	88,156 135,689	113,625 161,158
	,	,	,
Noncurrent liabilities			
Unearned revenues	-	309,346	309,346
Notes payable	52,868	345,745	398,613
Net pension liability	43,498		43,498
Total non current liabilities	96,366	655,091	751,457
Total liabilities	121,835	790,780	912,615
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to net pension liability	437	-	437
Total deferred inflows of resources	437	=	437
NET POSITION			
Net investment in capital assets	474,611	144,417	619,028
Unrestricted	76,109	791,274	867,383
Total net position	550,720	935,691	1,486,411
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES			
AND NET POSITION	\$ 672,992	\$ 1,726,471 \$	2,399,463

City of La Feria, Texas
Proprietary Funds
Statement of Revenues and Expenses and
Changes in Net Position

For the Year Ended September 30, 2017

For the Year Ended September 30, 2017				
	Business-type			
	Activities			
	Waste	Economic		
	Disposal	Development		
	Fund	Corporation	Total	
Operating revenues		·		
Nonproperty taxes	\$ -	\$ 308,526	\$ 308,526	
Operating grants and contributions	-	44,192	44,192	
Charges for services	921,356	22,747	944,103	
Total operating revenues	921,356	375,465	1,296,821	
Operating expenses				
Personnel services	89,478	-	89,478	
Contractual services	269,759	86,027	355,786	
Materials, supplies and repairs	25,213	-	25,213	
Heat, light and power	32,430	-	32,430	
Depreciation	129,662	21,950	151,612	
Total operating expense	546,542	107,977	654,519	
Operating income	374,814	267,488	642,302	
Nonoperating revenues (expenses)				
Interest income	-	1,413	1,413	
Interest expense	(3,787)	(22,859)	(26,646)	
Total nonoperating revenues (expense)	(3,787)	(21,446)	(25,233)	
Income before transfers	371,027	246,042	617,069	
Transfers in	-	3,341	3,341	
Transfers out	(493,374)	(126,854)	(620,228)	
	(493,374)	(123,513)	(616,887)	
Change in net position	(122,347)	122,529	182	
Net positionbeginning	673,067	813,162	1,486,229	
Total net position, end of year	\$ 550,720	\$ 935,691	\$ 1,486,411	

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# City of La Feria, Texas Proprietary Funds Statement of Cash Flows

For the	Year Ended	l September	30 2017

For the Year Ended September 30, 2017		Business-type				
		Activities				
	Waste	Economic				
	Disposal	Development				
	Fund	Corporation	Total			
Cash flows from operating activities	runu	Corporation	Total			
Receipts from customers and users	\$ 908,270	\$ 331,445 \$	1,239,715			
Payments to suppliers	(327,402)		(413,429)			
Payments to employees	(86,834)		(86,834)			
Net cash provided by operations	494,034	245,418	739,452			
Cash flows from (to) noncapital financing activities						
Transfer in	-	3,341	3,341			
Transfer out	(493,374)	(126,854)	(620,228)			
Net cash used in noncapital financing activities	(493,374)	(123,513)	(616,887)			
Cash flows from capital and related financing activities						
Principal paid on long-term debt	(24,573)	(39,991)	(64,564)			
Interest paid on capital debt	(3,787)	(22,859)	(26,646)			
Net cash used in capital and related financing activities	(28,360)		(91,210)			
Cash flows from investing activities						
Payments received from notes receivable	-	1,646	1,646			
Interest income received	-	1,413	1,413			
Purchase of capital assets	(27,255)	-	(27,255)			
Net cash (used in) provided by investing activities	(27,255)	3,059	(24,196)			
Net (decrease) in cash and cash equivalents	(54,955)	62,114	7,159			
Cash and cash equivalents, beginning of year	54,955	-	54,955			
Cash and cash equivalents, end of year	\$ -	\$ 62,114 \$	62,114			
Reconciliation of operating income to net cash provided						
by operating activities:						
Operating income (loss)	\$ 374,814	\$ 267,488 \$	642,302			
Adjustments to reconcile net income from operations to net						
cash from operating activities						
Depreciation expense	129,662	21,950	151,612			
Non-cash operating grants	-	(44,192)	(44,192)			
Effect of increases and decreases in current						
assets and liabilities						
Decrease (increase) in receivables	(13,086)	172	(12,914)			
Decrease (increase) in pension related deferred inflows of resources	(557)	-	(557)			
Increase (decrease) in net pension liability	414	-	414			
Increase (decrease) in pension related deferred inflows of resources	2,787	-	2,787			
Total adjustments	119,220	(22,070)	97,150			
Net cash provided by operations	\$ 494,034	\$ 245,418 \$	739,452			

## City of La Feria, Texas

# **Discretely Presented Component Units Combining Statement of Net Position**

Cantamb	າຕະ ວດ	2017
Septemb	er su	, 2017

	Waterworks and Sewer System	La Feria Industrial Development Corporation	Totals
ASSETS			
Cash and cash equivalents	\$ 475	\$ 107,430	\$ 107,905
Receivables			
Service	272,796	-	272,796
Other	1,412,183	1,909	1,414,092
Intergovernmental	9,900	24,421	34,321
Current portion of note receivable	-	61,452	61,452
Due from primary government	-	3,341	3,341
Inventories	56,416	-	56,416
Restricted assets:	4 024 205	220.250	5 4 40 755
Cash and cash equivalents	4,921,386	228,369	5,149,755
Total current assets	6,673,156	426,922	7,100,078
NOTES RECEIVABLE	-	293,738	293,738
CAPITAL ASSETS			
Depreciable			
Buildings	4,280,258	2,146,486	6,426,744
Water distribution system	12,227,457	-	12,227,457
Sewer distribution system	21,732,311	-	21,732,311
Furniture, fixure and equipment	1,422,903	24,184	1,447,087
Vehicles	462,316	-	462,316
	40,125,245	2,170,670	42,295,915
Less accumulated depreciation	(11,563,279)	(554,584)	(12,117,863
	28,561,966	1,616,086	30,178,052
Non depreciable			
Land	357,079	2,521,497	2,878,576
Easements	117,758	-	117,758
Certificate of Convenience and Necessity	114,478	-	114,478
Construction in Progress	12,626,579	-	12,626,579
	13,215,894	2,521,497	15,737,391
Total capital assets (net of			
accumulated depreciation)	41,777,860	4,137,583	45,915,443
Total assets	48,451,016	4,858,243	53,309,259
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to net pension liability	127,250	-	127,250
Total deferred outflows of resources	127,250	-	127,250
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 48,578,266	\$ 4,858,243	\$ 53,436,509

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**

For the year ended September 30, 2017

For the year ended september 50, 2017						
		Vaterworks	- 1	La Feria ndustrial		
	and Sewer			Development		
		System	Corporation			Totals
LIABILITIES						
Current liabilities						
Accounts payable	\$	1,162,002	\$	10,296	\$	1,172,298
Accrued expenses and other liabilities		6,214		4,210		10,424
Unearned revenues		4,921,386		-		4,921,386
Due to primary government		749,849		720,931		1,470,780
Current portion of long term debt		515,000		58,866		573,866
Total current liailties		7,354,451		794,303		8,148,754
Current liabilities payable from restricted assets						
Meter deposits		171,127		-		171,127
Total current liabilties payable		·				
from restricted assets		171,127		-		171,127
Noncurrent liabilities						
Net pension liability		526,512		_		526,512
Notes payable, net of current portion		3,056,973		152,506		3,209,479
Revenue bonds payable		2,495,000		, -		2,495,000
Total noncurrent liabilities		6,078,485		152,506		6,230,991
Total liabilities		13,604,063		946,809		14,550,872
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to net pension liability		8,012		-		8,012
,		8,012		-		8,012
NET POSITION						
Net investment in capital assets		34,961,038		3,205,280		38,166,318
Restricted for capital projects		-		526,199		526,199
Unrestricted:		5,153		179,955		185,108
Total net position		34,966,191		3,911,434		38,877,625
TOTAL LIABILITIES, DEFERRED INFLOWS OF						
RESOURCES, AND NET POSITION	\$	48,578,266	\$	4,858,243	\$	53,436,509

# City of La Feria, Texas Discretely Presented Component Units Combining Statement of Activities

For the year ende	d September 30, 2017
-------------------	----------------------

					Program revenues			
	Expenses		Operati Charges for Grants a Expenses Services Contribut		ts and	Capital Grant and Contribution		
Component units								
Waterworks and Sewer System Industrial Development Corporation	\$	3,000,354 419,490	\$	2,451,754 160,460	\$	-	\$	2,588,919
Total component units	\$	3,419,844	\$	2,612,214	\$	-	\$	2,588,919

General revenues:

Taxes

Sales taxes

Unrestricted investment earnings

Loss on disposal of asset

Other non operating revenue (expense)

Total general revenues

Change in net position

Net position--beginning

Net position--ending

	Component units					
Net (	Net (Expense) revenue change in Net Position					
			La Feria			
W	/aterworks		Industrial			
á	and Sewer		Development			
	System		Corporation		Totals	
\$	2,040,319	\$	-	\$	2,040,319	
	-		(259,030)		(259,030)	
	2,040,319	(259,030)		1,781,289		
	-		308,526 30		308,526	
	864		11,831		12,695	
	-		(1,440)		(1,440)	
	-		7,758 7,		7,758	
	864		326,675 327,		327,539	
	2,041,183		67,645 2,108,8		2,108,828	
	32,925,008		3,843,789		36,768,797	
\$	34,966,191	\$	3,911,434	\$	38,877,625	

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# 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's Economic Development Corporation blended component unit. 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.

**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 appoints the Board, has imposition of will, 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 appoints the Board, has imposition of will, 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, 2017, the City had assigned fund balance which was for the HOME grant purposes.

#### 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, 2017, the carrying amount of the City's deposits, (cash, certificates of deposit and interest-bearing savings accounts) was \$451,263. The City's cash deposits during the year ended September 30, 2017 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 month of November 2016. The collateral deficit in November of 2016 was \$76,926.

Discretely Presented Component Units Cash Deposits

The component units' unrestricted cash totaled \$107,905 at September 30, 2017.

Restricted cash for qualified business loans under the Revolving Loan and Intermediary Lending Programs totaled \$228,369. Restricted cash for meter deposits and debt service was \$-0-.

Restricted cash in the amount of \$4,921,386 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 \$2,744,157and occurred during the month of December 2016. The combined deposit balances on that day were \$2,593,083.

The City's cash deposits were 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, except for the collateral deficit described above which occurred in November 2016.

\*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.

#### 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. As of September 30, 2017, the investments in the Texas CLASS external investment pool was rated AAAm by Moody's Investor Service and Standards and Poor's.

#### 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 City's portfolio only consisted of amounts in the public funds investment pools, discussed below.

#### **Public Funds Investment Pools**

Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), is an investment pool (local government investment pool) for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. Texas CLASS reports its financial statements in accordance with Financial Accounting Standard Boards (FASB) and follows ASC 820 "Fair Value Measurement and Disclosure Requirements" in reporting its investments. For pricing and redeeming shares, Texas CLASS maintains a stable net asset value (NAV) of \$1 per share using the fair value method.

For financial reporting purposes the City reported amounts for investment pools of \$73,646 and \$75,472, included in cash and cash equivalents on the Statement of Net Position as of September 30, 2017. There were no unfunded commitments as of September 30, 2017, and amounts reported in the investment pool had a daily redemption frequency and do not require prior notice for redemption

#### 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:

Assets	Years
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:

Length of Service	Vacation Allowed
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, 2017 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 \$39,647, this year's liability due within a year is \$41,462. 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."

#### 1. 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. New Accounting Standards Adopted

GASB Statement No. 77, Tax Abatement Disclosures, applies to financial reports of all state and local governmental entities and addresses the reduction of tax revenues resulting from an agreement between a government and an individual in which the government forgoes tax revenues and the individual promises to take specific action as a result of the agreement that contributes to the economic development to benefit the government or citizens of the government. This relates to agreements entered into by the reporting government or agreements entered into by other governments that reduce the reporting government's tax revenues. In fiscal year 2017, the City did not have tax abatement agreements that require disclosures in the financial statements.

#### o. Recently Issued Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. GASB Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. GASB Statement No. 75 also identified the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition GASB Statement No. 75 addresses the recognition and disclosure requirements for employers with liabilities to a defined benefit other postemployment benefits plan and for employers whose employees are provided with defined contribution other postemployment benefits. Management is evaluating the effects that the full implementation of GASB Statement No. 75 will have on its financial statements for the year ended September 30, 2018.

In May 2017, the GASB issued GASB Statement No. 85, Certain Debt Extinguishment Issues, effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than proceeds of refunding debt- are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In June 2017, the GASB issued GASB Statement No. 87, Leases, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

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.

#### NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

#### **Deficit Fund Equity**

A deficit balance in the general fund balance occurred in the amount of \$2,779,287 for the year ended September 30, 2017. Management is currently formulating a long-term plan to address the deficit and improve the City's financial condition.

#### **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.

	Debt					
	General		Service			
		Fund		Fund		Total
Gross property taxes receivable	\$	99,051	\$	166,019	\$	265,070
Less allowance for doubtful accounts		(49,294)		(48,406)		(97,700)
Net property taxes receivable	\$	49,757	\$	117,613	\$	167,370

#### 2. Service Receivables

Service receivables consist of uncollected amounts billed to customers for water, sewer and other services. At September 30, 2017, the City reflected service receivables of the following:

Primary Government	
Waste disposal services	\$ 111,209
Service receivables	111,710
	\$ 222,919
Component Units Activities	
Water services	\$ 153,282
Sewer services	119,514
	\$ 272,796

#### **NOTE 3: DETAILED NOTES ON ALL FUNDS**

#### 3. Governmental Activities

Receivables for governmental activities at September 30, 2017, consisted of the following:

			Debt Service Nonmajor			
	G	ieneral		Fund	Funds	Total
Receivables						
Property taxes	\$	99,051	\$	166,019	\$ -	\$ 265,070
Other taxes		48,841		-	-	48,841
Accounts		111,710		-	-	111,710
Intergovernmental	1	,884,959		-	-	1,884,959
Other		-		-	113,226	113,226
Less allowance for uncollectibles		(49,294)		(48,406)	-	(97,700)
Net total receivables	\$ 2	,095,267	\$	117,613	\$ 113,226	\$ 2,326,106

#### **B.** Restricted Assets

#### **Governmental Funds**

Cash – seized by police department for future capital improvements	\$ 6,369
Certificate of Obligation Series 2015 Fund	2,286
	\$ 8,655

## **Discretely Presented Component Units**

#### **Enterprise Funds**

LFIDC Revolving Loan Fund – business loans	\$ 228,369
Texas Water Development Board-grant/loan forgiveness escrow	4,921,386
	\$ 5,149,755

## **NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

#### 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	\$ 29,981,994
	(
Less related liabilities (bonds and notes payable)	(17,510,801)
Restricted investments (unexpended bond proceeds)	2,815,955
Net investment in capital assets	15,287,148
Restricted Net Position consists of the following:	
Debt service	715,486
Tax Increment Reinvestment Zone	159,698
Unrestricted net position	1,615,529
Total net position	\$ 17,777,861

## **NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

## **D. Capital Assets**

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

## **Primary Government**

	_	inning Balance				Ending Balance
Governmental Activities	Oct	tober 1, 2016	Additions	Deletions	Transfers	September 30, 20
Capital assets, not being depreciated						
Land	\$	1,839,299	\$ 10,119	\$ -	\$ -	\$ 1,849,41
Construction in progress		18,918,847	888,075	_	(7,972,096)	11,834,82
Total capital assets, not being depreciated		20,758,146	898,194	-	(7,972,096)	13,684,24
Capital assets, being depreciated						
Buildings and systems		8,967,947	-	-	7,972,096	16,940,04
Improvements other than buildings		13,278,227	34,527	-	-	13,312,75
Machinery and equipment		4,859,789	40,200	-	-	4,899,98
Total capital assets, being depreciated		27,105,963	74,727	-	7,972,096	35,152,78
Less accumulated depreciation for						
Buildings and systems		(2,327,239)	(545,537)	-	-	(2,872,77
Improvements other than buildings		(11,717,354)	(819,277)	-	-	(12,536,63
Machinery and equipment		(3,129,863)	(315,766)	-	-	(3,445,62
Total accumulated depreciation		(17,174,456)	(1,680,580)	-	-	(18,855,03
Total capital assets, being depreciated, net		9,931,507	(1,605,853)	-	7,972,096	16,297,75
Governmental activities capital assets, net	\$	30,689,653	\$ (707,659)	\$ -	\$ -	\$ 29,981,99
Business-type Activities						
Capital assets, not being depreciated						
Capital assets, not being depreciated						
Land	\$	388,558	\$ -	\$ -	\$ -	\$ 388,55
	\$	388,558 388,558	\$ -	\$ -	\$ -	\$ 388,55
Land	\$		\$ -	\$ -	\$ -	+
Total capital assets, not being depreciated	\$		\$ -	\$ -	\$ -	+
Land  Total capital assets, not being depreciated  Capital assets, being depreciated	\$	388,558	\$ - - 27,255	\$ -	\$ -	388,55
Land  Total capital assets, not being depreciated  Capital assets, being depreciated  Buildings  Machinery and equipment	\$	388,558 592,648	-	\$ - - - -	\$ - - - -	388,55 592,64
Land  Total capital assets, not being depreciated  Capital assets, being depreciated  Buildings	\$	388,558 592,648 1,705,128	- - 27,255	\$ - - - -	\$ - - -	388,55 592,64 1,732,38
Land  Total capital assets, not being depreciated  Capital assets, being depreciated  Buildings  Machinery and equipment  Total capital assets, being depreciated	\$	388,558 592,648 1,705,128	- - 27,255	\$ - - -	\$ - - - -	388,55 592,64 1,732,38
Land  Total capital assets, not being depreciated  Capital assets, being depreciated  Buildings  Machinery and equipment  Total capital assets, being depreciated  Less accumulated depreciation for	\$	388,558 592,648 1,705,128 2,297,776	- 27,255 27,255	\$ - - - -	\$ - - - -	388,55 592,64 1,732,38 2,325,03
Land  Total capital assets, not being depreciated  Capital assets, being depreciated  Buildings  Machinery and equipment  Total capital assets, being depreciated  Less accumulated depreciation for  Buildings	\$	388,558 592,648 1,705,128 2,297,776 (27,400)	- 27,255 27,255 (21,950)	\$ - - - - -	\$ - - - - -	388,55 592,64 1,732,38 2,325,03 (49,35
Land  Total capital assets, not being depreciated  Capital assets, being depreciated  Buildings  Machinery and equipment  Total capital assets, being depreciated  Less accumulated depreciation for  Buildings  Machinery and equipment	\$	388,558 592,648 1,705,128 2,297,776 (27,400) (1,049,773)	27,255 27,255 27,255 (21,950) (129,662)	\$ - - - - -	\$ - - - - -	388,55 592,64 1,732,38 2,325,03 (49,35 (1,179,43

### **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	\$ 254,942
Public safety	207,719
Highways and streets	612,234
Health and welfare	8,906
Culture and recreation	596,779
Total depreciation expenses - governmental activities	\$ 1,680,580
Business-type activities	
Sanitation	\$ 129,662
Economic Development	21,950
Total depreciation expenses - business-type activities	\$ 151,612

#### **Discretely Presented Component Units**

	_	inning Balance tober 1, 2016	Additions	Deletions	Transfers	Se	Ending Balance eptember 30, 2017
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		9,817,226	2,809,353	-		-	12,626,579
Total capital assets, not being depreciated		10,406,541	2,809,353	-		-	13,215,894
Capital assets, being depreciated							
Machinery and equipment		4,065,610	-	-		-	4,065,610
Infrastructure		35,903,456	156,178	-		-	36,059,634
Total capital assets, being depreciated		39,969,066	156,178	-		-	40,125,244
Less accumulated depreciation for							
Machinery		(1,383,939)	(191,148)	-		-	(1,575,087)
Infrastructure		(9,144,745)	(843,446)	-		-	(9,988,191)
Total accumulated depreciation		(10,528,684)	(1,034,594)	-		-	(11,563,278)
Total capital assets, being depreciated, net		29,440,382	(878,416)	_		-	28,561,966
Waterworks and Sewer System activities							
capital assets, net	\$	39,846,923	\$ 1,930,937	\$ -	\$	- \$	41,777,860

#### **NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

	_	nning Balance ober 1, 2016	Additions	Deletions	Transfers	Ending Balance September 30, 2017		
Industrial Development Corporation								
Capital assets, not being depreciated Land	\$	2,573,937	\$ -	\$ (52,440) \$		- \$	2,521,497	
Total conital access not being denunciated		2 572 027		(52.440)			2.521.407	
Total capital assets, not being depreciated		2,573,937	-	(52,440)		-	2,521,497	
Capital assets, being depreciated								
Buildings and improvements		2,138,587	7,899	-		-	2,146,486	
Furniture, fixtures and equipment		24,184	-	-		-	24,184	
Total capital assets, being depreciated		2,162,771	7,899	-		-	2,170,670	
Less accumulated depreciation for								
Buildings and improvements		(469,868)	(60,532)	-		-	(530,400)	
Furnitures, fixtures and equipment		(24,184)	-	-		-	(24,184)	
Total accumulated depreciation		(494,052)	(60,532)	-		-	(554,584)	
Total capital assets, being depreciated, net		1,668,719	(52,633)	-		-	1,616,086	
Industrial Devalorment Corresponding activities								
Industrial Development Corporation activities	<u>د</u>	4 242 656	ć (F2 C22)	ć (F2.440) ć		<b>خ</b>	4 427 502	
capital assets, net	\$	4,242,656	\$ (52,633)	\$ (52,440) \$		- Ş	4,137,583	

#### **Construction Commitments**

At September 30, 2017, the City was a party to the following contracts:

#### **Governmental Funds:**

	Estimated				Estimated
	Projected	Expended to	Completed to	Construction	Amount
Projects	Costs	Date	Date	in Progress	Remaining
Drainage Improvements	\$19,302,679	\$11,819,021	=	\$11,819,021	\$7,483,658

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 has been completed. Construction of the watershed improvements and other public flood components funded with GLO funds is nearly completed and should be fully complete by December 2018.

#### **NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

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 completed as of September 30, 2017.

#### **Construction Commitments**

#### **Waterworks and Sewer System:**

	Estimated				Estimated
	Projected	Expended	to Completed to	Construction	Amount
Projects	Costs	Date	Date	in Progress	Remaining
CIP Sewer Improvements	\$ 8,381,340	\$ 6,141,3	379 \$ -	\$ 6,141,379	\$2,239,961
CIP Water Improvements	7,167,700	6,485,2	200 -	6,485,200	682,500
	\$ 15,549,040	\$ 12,626,5	579 \$ -	\$ 12,626,579	\$2,922,461

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 2018.

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 2018.

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, 2017 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.

## **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, 2017:

	Payable Fund						
	Non-major						
		General Governmental					
Receivable Fund		Fund		Funds		Total	
<b>Governmental Funds</b>							
General Fund	\$	-	\$	78,868	\$	78,868	
Debt Service		407,928		-		407,928	
C O Bonds - Series 2015 Fund		2,597,263		-		2,597,263	
Non-major Governmental Funds		159,698		-		159,698	
		3,164,889		78,868		3,243,757	
<b>Business Type Activities</b>							
<b>Economic Development Corporation</b>		563,662		-		563,662	
		563,662		-		563,662	
Total interfund balances	\$	3,728,551	\$	78,868	\$ :	3,807,419	

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund 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, 2017, are as follows:

				Т	ransfer In				
							Business-Type		
			Debt	1	lon-major	Activities			
	General		Service	Go	vernmental	Ec	onomic Development		
Transfer Out	Fund		Fund		Funds		Corporation		Total
Governmental funds									
General Fund	\$	- \$	466,570	\$	24,400	\$	3,341	\$	494,311
Non-major Governmental Funds	1,58	9	-		-		-		1,589
Subtotal	1,58	9	466,570		24,400		3,341		495,900
Business-type activities									
Waste Disposal Fund	493,37	1	-		-		-		493,374
Economic Development Corporation	30,00	)	96,854		-		-		126,854
	523,37	1	96,854		-		-		620,228
	\$ 524,96	3 \$	563,424	\$	24,400	\$	3,341	\$1	1,116,128

#### **NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)**

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, 2017 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, 2023 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, 2017 was \$247,926.

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, 2017 was \$220,885.

#### 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, 2017 was \$80,280.

#### **NOTE 4: LONG-TERM DEBT (Continued)**

The annual lease requirements to maturity are as follows:

Year Ending	Gov	ernmental
September 30,	А	ctivities
2018	\$	15,849
2019		15,849
2020		15,849
2021		15,849
2022		15,849
2023		15,849
Total minimum lease payments		95,094
Less amount representing interest		(14,814)
Present value of minimum lease payments	\$	80,280

#### **Enterprise Fund**

Note payable to *Government Capital Corporation - Citizen's* 1<sup>st</sup> 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, 2017 was \$78,337.

#### 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, 2017, the balance on the note payable was \$46,000 and was considered fully due. Subsequent to year end, the City fulfilled its obligation.

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, 2017, the balance outstanding was \$387,901. The current portion due is \$42,156.

#### **NOTE 4: LONG-TERM DEBT (Continued)**

#### **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.

								(	Current	Long-
	Original			В	Balance at Sept	em	nber 30,		Term	Term
	Loan	Rate	Loan Date		2017		2016	F	Portion	Portion
Public Works Warehouse & Land	\$340,000	6.50%	July 2007 & 2008	\$	32,296	\$	70,140	\$	32,296	\$ -
First Community Bank	303,467	5.50%	January 2013		179,076		210,838		26,570	152,506
				\$	211,372	\$	280,978	\$	58,866	\$ 152,506

#### 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.

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).

#### **NOTE 4: LONG-TERM DEBT (Continued)**

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, 2017, 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 vactor 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.

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.

#### **NOTE 4: LONG-TERM DEBT (Continued)**

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

	Due to P	rimary Gove	rnment -	D	Due to Primary Governmen			nent -		
	GO Re	funding Serie	s 2011		CO Series 2011					
Year Ending										Total
September 30,	Principal	Interest	Total	Princ	cipal	Interest		Total	Red	quirements
2018	\$ 290,000	\$ 93,840	\$ 383,840	\$ 3!	5,000 \$	26,130	\$	61,130	\$	444,970
2019	300,000	83,980	383,980	3!	5,000	24,765		59,765		443,745
2020	305,000	73,780	378,780	3!	5,000	23,400		58,400		437,180
2021	315,000	63,410	378,410	40	0,000	22,035		62,035		440,445
2022	325,000	52,700	377,700	40	0,000	20,475		60,475		438,175
2023-2027	1,176,973	109,900	1,286,873	220	0,000	78,390		298,390		1,585,263
2028-2032	-	-	-	26	5,000	31,590		296,590		296,590
					•			•		
	\$2,711,973	\$ 477,610	\$3,189,583	\$ 670	0,000 \$	226,785	\$	896,785	\$	4,086,368

Certificates of obligation bonds currently outstanding as of September 30, 2017 are as follows:

Purpose	Interest Rates	Amount
Certificates of obligation bonds		_
Governmental activities	3.40 - 4.00%	\$16,961,710

#### 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, 2017 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.

#### **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%	\$ 2,685,000

#### 5. Changes in Long-Term Debt

During the year ended September 30, 2017, the following changes occurred:

Changes in long-term debt	Beginning				Ending	
	Balance				Balance	Due Within
	10/1/2016 Increase Decrease		9/30/2017	One Year		
Governmental Activities						
Certificate of Obligation Bonds						
Texas Tax and Limited Pledge Revenue						
Certificate of Obligation - Series 2004	\$ 690,000	\$	-	\$ 235,000	\$ 455,000	\$ 240,000
Combination Tax and Limited Pledge Revenue						
Certificates of Obligation - Series 2011	4,825,000		-	80,000	4,745,000	125,000
General Obligation Refunding Bonds - Series 2011	5,495,000		-	475,000	5,020,000	460,000
Combination Tax and Limited Pledge Revenue						
Certificates of Obligation - Series 2012A	355,000		-	8,000	347,000	9,000
Combination Tax and Limited Pledge Revenue						
Certificates of Obligation - Series 2015	6,075,000		-	165,000	5,910,000	170,000
Tax Notes Series 2015	270,000		-	45,000	225,000	45,000
Tax Notes Series 2016	303,000		-	43,290	259,710	43,285
	18,013,000		-	1,051,290	16,961,710	1,092,285
Notes payable	537,329		-	68,518	468,811	300,783
Net pension liability	1,074,399		8,538	-	1,082,937	-
Capital lease	91,495		-	11,215	80,280	11,784
Compensated absences	39,647		28,426	26,611	41,462	41,462
Total governmental activities	19,755,870		36,964	1,157,634	18,635,200	1,446,314
Business-type Activities						
Notes payable	576,802		-	64,564	512,238	113,625
Net pension liability	43,084		414	-	43,498	-
	619,886		414	64,564	555,736	113,625
Discretely Presented Component Units Activities						
Revenue bonds	2,870,000		-	185,000	2,685,000	190,000
Notes payable	280,979		-	69,607	211,372	58,866
Net pension liability	522,307		4,205	-	526,512	-
Due to primary government	3,691,973		_	310,000	3,381,973	325,000
	7,365,259		4,205	564,607	6,804,857	573,866
	\$ 27,741,015	\$	41,583	\$1,786,805	\$ 25,995,793	\$ 2,133,805

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 or the economic development corporation.

#### **NOTE 4: LONG-TERM DEBT (Continued)**

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

	Gove	ernmental Acti	vities							
	Priı	Primary Government			Component Units Activities					_
	General	General								
	Obligation	Obligation		Revenue Revenue						
Year Ending	Bonds	Bonds		Bonds Bonds			Total			
September 30,	Principal	Interest	Total		Principal		Interest		Total	Requirements
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	1,138,285	423,158	1,561,443		225,000		68,978		293,978	1,855,421
2023-2027	5,234,285	1,543,548	6,777,833		1,200,000		203,971		1,403,971	8,181,804
2028-2032	4,071,000	710,156	4,781,156		450,000		10,783		460,783	5,241,939
2033-2037	2,031,000	119,414	2,150,414		-		-		-	2,150,414
2038-2042	97,000	8,663	105,663		-		-		-	105,663
	\$16,961,710	\$ 4,877,114	\$21,838,824		\$ 2,685,000	\$	637,458	\$	3,322,458	\$ 25,161,282

#### **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, 2017, 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	\$ 149,151
Grants and other	1,826,495
Total deferred inflows of resources for governmental funds	\$1,975,646

#### 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 \$14,375 and \$437, respectively. Component unit deferred inflows related to net pension liability are \$8,012. Deferred outflows related to pensions are \$242,129, \$8,835, and \$127,250 in the governmental activities, business-type activities, and component unit, respectively.

#### **NOTE 7: COMMITMENTS AND CONTINGENCIES**

#### 1. Litigation

At September 30, 2017, 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.

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN**

#### **Plan Description**

The City of La Feria participates as one of 872 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 <a href="https://www.tmrs.com">www.tmrs.com</a>.

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

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**

#### **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 2015</u>	<u>Plan Year 2016</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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	25
Inactive employees entitled to but not yet receiving benefits	44
Active employees	<u>52</u>
	<u>121</u>

#### **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 9.77% and 9.76% in calendar 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$188,240 and were equal to the required contributions.

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**

#### **Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 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.

Actuarial assumptions used in the December 31, 2016, 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. 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).

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

		Long-term
		Expected Real
		Rate of Return
Asset Class	Target Allocation	(Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

#### **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.

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)**

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

				City			Component Unit				
		In	creas	se (decrease)			Ir	ncrea	ase (decrease)		
					Net Pension	Т	otal Pension	Р	lan Fiduciary	Ne	t Pension
	To	tal Pension	Pla	n Fiduciary	Liability		Liability	١	Net Position	L	iability
	L	iability (a)	Net	Position (b)	(a) - (b)		(a)		(b)	(	(a) - (b)
Balance at December 31, 2015	\$	4,336,877	\$	3,219,394	\$ 1,117,483	\$	1,992,288	\$	1,469,981	\$	522,307
Changes for the year											
Service cost		149,109		-	149,109		70,039		-		70,039
Interest		288,526		-	288,526		135,528		-		135,528
Change in benefit terms		-		-	-		-		-		-
Difference between expected/											
actual experience		7,231		-	7,231		3,397		-		3,397
Changes of assumptions		-		-	-		-		-		-
Contributions - employer		-		129,955	(129,955)		-		61,043		(61,043)
Contributions - employee		-		93,110	(93,110)		-		43,736		(43,736)
Net investment income		-		215,415	(215,415)		-		101,186		(101,186)
Benefit payments, including refunds											
of employee contributions		(212,911)		(212,911)	-		(100,010)		(100,010)		-
Administrative expenses		-		(2,435)	2,435		-		(1,144)		1,144
Other charges		-		(131)	131		-		(62)		62
Net changes		231,955		223,003	8,952		108,954		104,749		4,205
Balance at December 31, 2016	\$	4,568,832	\$	3,442,397	\$ 1,126,435	\$	2,101,242	\$	1,574,730	\$	526,512

#### 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				1% Increase in			
	Discount Rate D		Discount Rate		D	iscount Rate		
	(5.75%)			(6.75%)		(7.75%)		
City's net pension liability	\$	1,786,849	\$	1,126,435	\$	585,639		
Component unit's net pension liability		839,326		526,512		275,088		
Total net pension liability	\$	2,626,175	\$	1,652,947	\$	860,727		

#### **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, 2017, the City and component unit recognized a combined pension expense in the amount of \$258,869. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Primary Go	vernm	ent		Compone	nt Unit
		Deferred	D	eferred	D	eferred	Deferred
	Οι	tflows of	In	flows of	Ou	tflows of	Inflows of
	R	esources	Re	esources	Re	esources	Resources
Differences between expected and actual economic experience (net of current year							
amortization)	\$	5,267	\$	14,775	\$	2,670	\$ 7,993
Changes in actuarial assumptions		17,786		-		9,019	-
Differences between projected and actual investment		126 400		27		CO 244	10
earnings (net of current year amortization)		136,498		37		69,211	19
Contributions subsequent to the measurement date		91,413		-		46,350	
Total	\$	250,964	\$	14,812	\$	127,250	\$ 8,012

The \$91,413 and \$46,350 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

		Component
	City	Unit
Year ending September 30,		
2018	50,786	25,575
2019	51,262	25,815
2020	42,699	21,503
2021	(8)	(4)
2022	-	-
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 2017, 2016, and 2015 were \$4,241, \$5,047 and \$5,148, respectively, which equaled the required contributions each year.

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

	Annual	Actual	
Plan/	Required	Contribution	Percentage
Calendar	Contribution	Made	of ARC
Year	(Rate)	(Rate)	Contributed
2015	0.07%	0.07%	100.0%
2016	0.07%	0.07%	100.0%
2017	0.07%	0.07%	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, 2017, the TIRZ fund balance was at \$159,698, of which \$159,698 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 two discretely presented component units all of which have fiscal years ended September 30, 2017. 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 \$1,074,849 and \$720,930 from the Waterworks and Sewer System and La Feria IDC for unreimbursed advances. A portion of the current receivable from the Waterworks and Sewer System of \$325,000 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 \$1,795,779.

#### **NOTE 12: RELATED ORGANIZATION TRANSACTIONS (Continued)**

Payments from Component Units - Included in other Intergovernmental revenues are payments of \$156,570 and \$162,184 from the Waterworks and Sewer System and La Feria IDC, respectively, for administrative fees to the City and for their share of debt service related to General Obligation Refunding Bonds, Series 2011 and City of La Feria Certificates of Obligation, Series 2011.

#### **NOTE 13: COMMITMENTS AND CONTINGENCIES**

At September 30, 2017, the City has a deficit in the general fund. The deficit at September 30, 2016 was \$(1,876,087), and the General Fund experienced a further decline in 2017, bringing the deficit as of September 30, 2017 to \$(2,779,287). The decline is primarily a result of significant investments in drainage infrastructure in and around the City, as well as other capital projects such as the construction of the City Domes and Tech and Success Center, which were also funded by grants. However, the reimbursement of the expenditures for those improvements have been substantially delayed. All of the deferred reimbursements from grants that are currently anticipated to be collected are reflected in the General Fund as "deferred inflows of resources – unavailable revenue" which means the amounts are not considered available for spending, and therefore are not reflected in the fund balance. These deferred inflows total \$1,734,774. In addition, some of the aforementioned projects were not fully funded by the grants, which contributed to further use of general fund resources and the depletion of available resources.

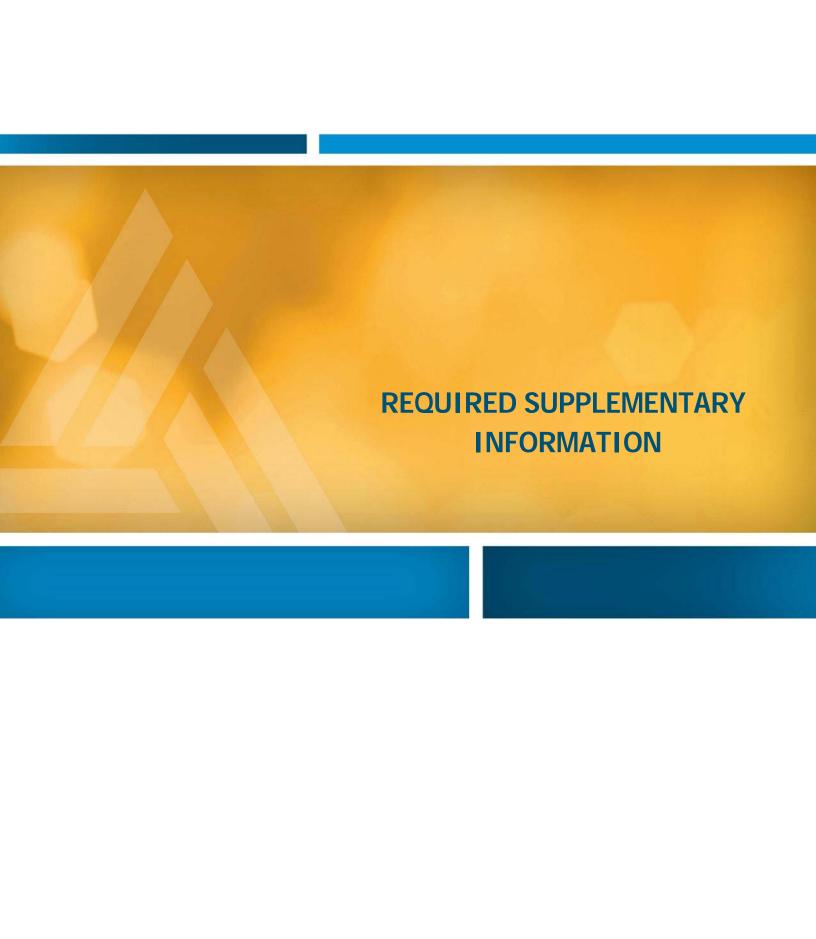
As a result of the circumstances previously described, cash from the Certificates of Obligation Series 2015 and Tax Increment Reinvestment Zone (TIRZ) were used to fund ongoing operations of the general fund and to cover cash flow shortages caused by delays in grant reimbursements. The City has an obligation to replenish those funds, which had a balance of \$3,728,551 at September 30, 2017. Until repayment occurs, the City will not be able to adequately fund the projects in those restricted funds, which had been previously planned for with those restricted funds.

In order to meet the General Fund's obligations, the City is currently pursuing actions to collect the outstanding grant funds, which includes coordinating finalization of many of the grant funded projects. In addition, the City plans to budget for a more conservative spending pattern and is exploring other means of raising additional revenues.

The financial statements do not include any adjustments that might result from the outcome of these commitments and contingencies.

#### **NOTE 14: PRIOR PERIOD ADJUSTMENT**

During the year ended September 30, 2017, the City determined that the Economic Development Corporation (EDC) is to be presented as a blended component unit rather than a discretely presented component unit. As a result, the beginning net position of the EDC of \$813,162 is reflected as a prior period adjustment of the business type activities net position in the Government wide statement of activities, and has been removed from the beginning net position of the discretely presented component units.



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, 2017

	Budgeted	d Amounts	Actual	Variance with Final Budget - Positive/
	Original	Final	Amounts	(Negative)
REVENUES	- 0 -			( -07
Taxes:				
Property	\$ 434,818	\$ 434,818	\$ 369,650	\$ (65,168)
Sales	625,686	625,686	618,216	(7,470)
Franchise	347,898	347,898	379,538	31,640
Licenses and permits	35,300	35,300	35,413	113
Intergovernmental	3,115,083	3,115,083	1,026,947	(2,088,136)
Fees and charges	344,601	341,835	394,946	53,111
Fines	195,000	195,000	247,900	52,900
Interest income	24	24	653	629
Contributions and donations	27,100	27,100	16,572	(10,528)
Other	742,275	742,275	671,553	(70,722)
Total revenues	5,867,785	5,865,019	3,761,388	(2,103,631)
EXPENDITURES				
Current:				
General government:				
General government:	2,911,680	2,903,535	1,891,269	1,012,266
Public safety	1,167,665	1,176,719	1,168,251	8,468
Highways and streets	292,232	289,872	192,779	97,093
Health and welfare	60,703	61,780	52,669	9,111
Culture and recreation	676,302	670,850	611,657	59,193
Debt service:				
Prinicpal	79,970	79,970	79,733	237
Capital outlay	526,276	526,276	698,882	(172,606)
Total expenditures	5,714,828	5,709,002	4,695,240	1,013,762
Excess (deficiency) of revenues				
over (under) expenditures	152,957	156,017	(933,852)	(1,089,869)
OTHER FINANCING SOURCES (USES)				
Transfers in	498,196	502,078	524,963	22,885
Transfers (out)	(611,187)	(611,187)	(494,311)	116,876
Total other financing sources and uses	(112,991)	(109,109)	30,652	139,761
Net change in fund balance	39,966	46,908	(903,200)	(950,108)
Fund balance - beginning	(1,876,087)	(1,876,087)	(1,876,087)	-
Fund balance - ending	\$ (1,836,121)	\$ (1,829,179)	\$ (2,779,287)	\$ (950,108)

## City of La Feria, Texas Notes to Required Supplementary Information

#### 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.

#### 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

	2017	2016	2015
Total Pension Liability			_
Service cost	\$ 219,148	\$ 236,999	\$ 208,767
Interest (on the total pension liability)	424,054	410,899	380,234
Changes of benefit terms	-	-	-
Difference between expected and actual experience	10,628	(46,049)	(16,944)
Changes of assumptions	-	61,616	-
Benefit payments, including refunds of employee contributions	(312,921)	(171,531)	(124,740)
Net change in total pension liability	340,909	491,934	447,317
Total pension liability - beginning	6,329,165	5,837,231	5,389,914
Total pension liability - ending (a)	\$6,670,074	\$ 6,329,165	\$ 5,837,231
Plan Fiduciary Net Position			
Contributions - employer	\$ 190,998	\$ 209,142	\$ 200,979
Contributions - employee	136,846	150,000	141,391
Net investment income	316,601	6,638	231,877
Benefit payments, including refunds of employee contributions	(312,921)	(171,531)	(124,740)
Administrative expense	(3,579)	(4,044)	(2,420)
Other	(193)	(200)	(199)
Net change in plan fiduciary net position	327,752	190,005	446,888
Plan fiduciary net position - beginning	4,689,375	4,499,370	4,052,482
Plan fiduciary net position - ending (b)	\$5,017,127	\$ 4,689,375	\$ 4,499,370
Net pension liability - ending (a) - (b)	\$1,652,947	\$ 1,639,790	\$ 1,337,862
Plan fiduciary net position as a percentage of total pension liability	75.22%	74.09%	77.08%
Covered employee payroll	\$1,954,942	\$ 2,142,851	\$ 2,019,877
Net pension liability as a percentage of covered employee payroll	84.55%	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

	2017	2016	2015
Actuarially determined contribution	\$ 183,998	\$ 202,962	\$ 206,371
Contributions in relation to actuarially determined contribution	(183,998)	(202,962)	(206,371)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employee payroll	\$1,884,755	\$ 2,078,015	\$ 2,103,613
Contributions as a percentage of covered employee payroll	9.76%	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.

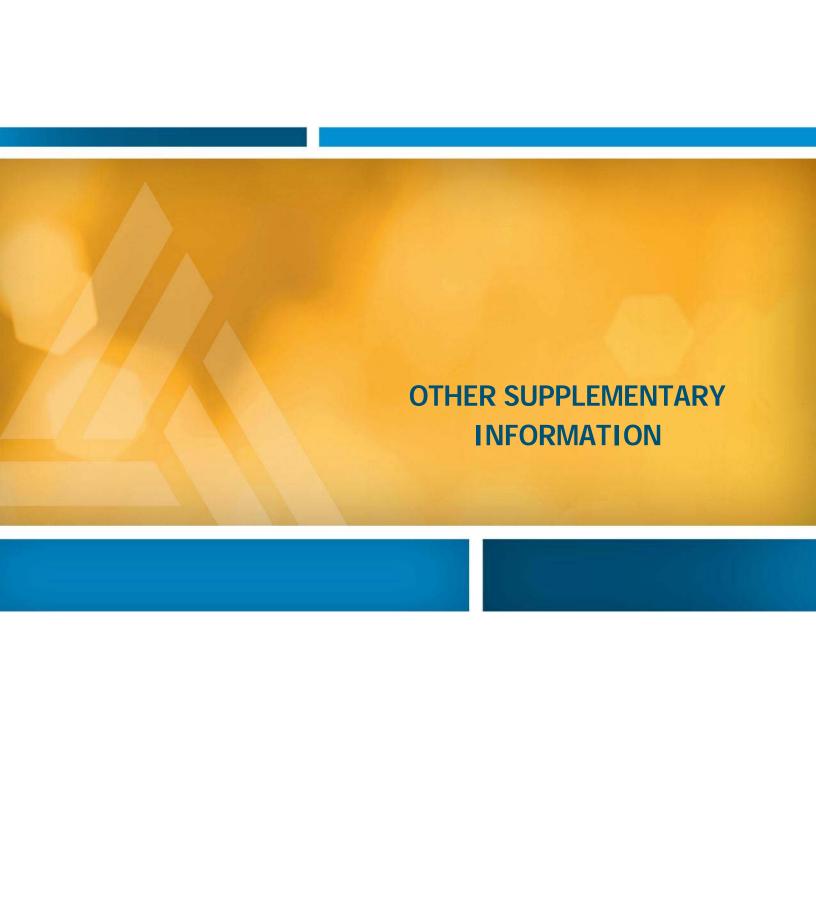
Mortality RP2000 Combined Mortality Table with Blue Collar

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.



## 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 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 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, 2017

			c	nocial Boye		Funds		
		Tax	5	pecial Reve	nue	rulius	C ~ ~	ımunity
	In	rax crement		Texas		Home		
		nvestment			Home Grant		Developme Block Grar	
	_	ne Fund		Capital Fund		Fund		und
ASSETS	20	nie i unu		Tullu		Tunu	'	unu
Cash and cash equivalents	\$	_	\$	12,219	\$	611	\$	100
Receivables	Ŷ		Y	12,213	Ψ	011	Y	100
Other		19,486		93,740		_		_
Due from other funds		159,698		-		_		_
Due from other funds		133,030						
Total assets	\$	179,184	\$	105,959	\$	611	\$	100
LIABILITIES								
Accounts payable	\$	-	\$	28,691	\$	-	\$	-
Due to other funds		-		78,768		-		100
Deferred revenues				-		-		
Total liabilities		-		107,459		-		100
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenues - other		19,486		-		-		-
Total deferred inflows of resources		19,486		-		-		-
FUND BALANCES (DEFICIT)								
Restricted fund balances:						-		
Tax increment reinvestment zone		159,698		-		-		-
Assigned		-		-		611		-
Unassigned		-		(1,500)		-		-
Total fund balances		159,698		(1,500)		611		-
TOTAL HABILITIES, DEFENDED INFLOWS OF								
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$	179,184	\$	105,959	\$	611	\$	100
NESCONCES AND FORD DALANCES	Ą	110,104	٧	100,000	٧	011	٧	100

Spe	Special Revenue Funds - Continued				Capital Pro	jects	Funds				
				Certificates of				Total			
Pr	omotion			Ob	ligation				Nonmajor		
of	La Feria			Ser	ies 2011				Governmental		
	Fund		Total	Fund Total				Funds			
\$	29,728	\$	42,658	\$	-	\$		-	\$	42,658	
	_		113,226		_			_		113,226	
	_		159,698		_			_		159,698	
\$	29,728	\$	315,582	\$	_	\$		_	\$	315,582	
		•		•							
\$	_	\$	28,691	\$	_	\$		_	\$	28,691	
·	_	•	78,868	•	_	•		_	•	78,868	
			-					-		-	
	-		107,559		-			-		107,559	
	-		19,486		-			-		19,486	
	-		19,486		-			-		19,486	
			,							<b>,</b>	
	_		159,698		-			-		159,698	
	29,728		30,339		-			-		30,339	
	_		(1,500)		-			-		(1,500)	
	29,728		188,537		-			-		188,537	
\$	29,728	\$	315,582	\$	_	\$	_		\$	315,582	
	_5,, _0	7	0.10,002	Υ		Υ			٧	0 -0,00-	

# City of La Feria, Texas Non-Major Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balance

For the year ended September 30, 2017

				Special Re	venu	e Funds			
	Tax Increment Reinvestment		Texas Capital					Community	
					Home Grant		Development		
							Block Grant		
	Zo	one Fund		Fund		Fund		Fund	
Revenues									
Property taxes	\$	35,460	\$	-	\$	-	\$	-	
Hotel / Motel tax		-				-		-	
Intergovernmental		-		-		295,573		-	
Fees and charges		-		=		-		-	
Total revenues		35,460		-		295,573		-	
Expenditures									
Current									
Health and welfare		-		-		299,562		-	
Culture and recreation		-		-		-		-	
Total expenditures		-		-		299,562		-	
Excess (deficiency) of revenues									
over (under) expenditures		35,460		-		(3,989)		-	
Other financing sources (uses)									
Transfers in		-		-		4,500		-	
Transfers out		-		-		-		-	
Total other financing sources (uses)		-		-		4,500		-	
Net change in fund balances		35,460		-		511		-	
Fund balances, beginning		124,238		(1,500)		100		-	
Fund balance, ending	\$	159,698	\$	(1,500)	\$	611	\$	-	

Special Revenue Funds - Continued					Capital Proje					
				Certi	ficates of		Total			
Promotion			Ob	Obligation				Nonmajor		
of La Feria		Series 2011					ernmental			
	Fund		Total		Fund		Total		Funds	
\$	-	\$	35,460	\$	-	\$	-	\$	35,460	
	20,435		20,435		-		-		20,435	
	-		295,573		-		-		295,573	
	25,078		25,078		-		-		25,078	
	45,513		376,546		-		-		376,546	
	-		299,562		-		-		299,562	
	35,685		35,685		-		-		35,685	
	35,685		335,247		-		-		335,247	
	9,828		41,299		-		-		41,299	
	19,900		24,400		-		-		24,400	
	-		-		(1,589)		(1,589)		(1,589)	
	19,900		24,400		(1,589)		(1,589)		22,811	
	29,728		65,699		(1,589)		(1,589)		64,110	
	-		122,838		1,589		1,589		124,427	
\$	29,728	\$	188,537	\$	-	\$	-	\$	188,537	





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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, 2017, 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 20, 2018.

#### **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 2017-001, 2017-002, and 2017-004, that we consider to be material weaknesses.

#### **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 2017-002, 2017-003, 2017-004, and 2017-005.

#### City of La Feria, Texas's Response to Findings

Can, Rigge & Ingram, L.L.C.

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.

Harlingen, Texas

August 20, 2018



Carr, Riggs & Ingram, LLC 402 East Tyler Avenue Harlingen, TX 78550-9122

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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, 2017. 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.

#### 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, 2017.

#### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-006. 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 item 2017-006, that we consider to be a significant deficiency.

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.

Harlingen, Texas

Can, Rigge & Ingram, L.L.C.

August 20, 2018

## 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?	<u>X</u> yes	no
* Significant deficiencies identified that are not considered to be material weakness(es)?	yes	<u>X</u> no
Noncompliance material to financial statements noted?	X yes	none reported
Federal Awards		
Internal control over major programs:		
Material weakness(es) identified?	yes	<u>X</u> no
* Significant deficiencies identified that are not considered to be material weakness(es)?	_Xyes	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)?	_Xyes	no
Identification of major programs:		
CFDA Number(s)	Name of Federa	al Program or Cluster
14.239 66.458	HOME Investme CWSRF Cluster	ent Partnership Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	yes	X 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
2017-001	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, materia 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.
Cause:	The City's lack of detailed written financial accounting procedures and closing processes, combined with the significant turnover which occurred during 2017 made the closing process significantly more difficult. Tasks necessary to properly state all account balances have not been clearly defined. Capital asset supporting schedules were not complete and updated until more than eight months after year end.

## 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				
2017-001	City Accounting (Continued)				
Effect:	The inability to maintain a set of accurate and 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 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 and to alleviate administrative burden at year end. 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.				
Views of Responsible Officials:	See corrective action plan section.				
2017-002	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.				

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

**DESCRIPTION** 

**PROGRAM** 

2017-002	Controls over Federal Grant Awards Preparation of the Schedule of Expenditures of Federal Awards, and Financial Statements (Continued)
Condition Found:	The schedule of expenditures of federal awards (SEFA) initially prepared by City Management did not accurately reflect the expenditures of federal awards of the City during the fiscal year ended September 30, 2017. In addition, material weaknesses 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:	Grants had not been 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. For the financial statements as a whole, a high volume of required audit adjustments were 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.
Cause:	The combination high volume of required audit adjustments, and lack of reconciliation of grant expenditures, claims, and reimbursements, 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 the City has not developed detail written procedures to guide the financial closing process.

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

**DESCRIPTION** 

**PROGRAM** 

2017-002	Controls over Federal Grant Awards Preparation of the Schedule of Expenditures of Federal Awards, and Financial Statements (Continued)			
Effect:	Lack of formal written procedures for financial closing increases the overall risk of misstatement. Not properly reconciling grant activity increases risks of error in the schedule of expenditures of federal awards and risk of noncompliance. For fiscal year 2017, 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.			
Views of Responsible Officials:	See corrective action plan section.			
2017-003	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.			

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

**DESCRIPTION** 

**PROGRAM** 

2017-003	Compliance with Bond Covenants (Continued)			
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. In 2017, the required funds have yet to be placed back in the reserve fund. As a result, the ending balance of the reserve fund is not adequate to comply with the bond covenants.			
Context:	Due to continued shortfalls in cash and available resources at the City, the fund was not replenished in 2017.			
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 being unable to fund the reserve.			
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.			
Views of Responsible Officials:	See corrective action plan section.			
2017-004	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.

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

**DESCRIPTION** 

**PROGRAM** 

2017-004	Use of Restricted Funds, City Financial Condition (Continued)		
Condition Found:	In prior fiscal years, the General Fund, Component Units, and certain other funds of the City utilized the restricted resources obtained from the collection of TIRZ revenue and the issuance of the 2015 Certificates of Obligation, with the intention of repaying it. During 2017, a small portion of the amount due was repaid to the Certificates of Obligation Fund, but the amount has still not been replenished in full. In addition, the City continued to utilize the revenue from the TIRZ in the General Fund, resulting in an amount due to the TIRZ fund and the TIRZ fund not having actual cash resources allocated to it.		
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. The City has plans and actions to remedy this situation, but those plans have not been formally drawn up in a written plan.		
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 a formal written action plan designed to improve the City's financial condition and replenish the funding to the Bond Fund and the TIRZ fund.		
Views of Responsible Officials:	See corrective action plan section.		

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

Water and Sewer Utility Customer Denosits

Reference Number 2017-005

	Traile: and better battery dustomer beposits
Criteria:	The La Feria Waterworks and Utility System collects customer deposits from customers as a requirement of setting up a customer account for service. Those deposits are to be held in an interest bearing deposit account sufficient to cover all customer deposits and earn interest for all deposits, as required by TCEQ Chapter 291 Utility Regulations, Subchapter E.
Condition Found:	At September 30, 2017, the City had closed the interest bearing deposit account that held all of the customer deposits on account in order to move the funds to a different deposit account and had temporarily placed the deposit funds in the City's general operating cash fund. As a result, at September 30, 2017, the City did not have the meter deposits placed in an interest bearing account, and the carrying amount of the City's cash at September 30, 2017 was also insufficient to cover the outstanding balance of customer deposits as of September 30, 2017.
Context:	Subsequent to September 30, 2017, the City placed the required funds in a separate interest bearing fund. However, at September 30, 2017 the funds had not yet been placed in the new account, and were not placed there until more than two months after fiscal year end.
Cause:	The City did not properly plan the transfer of funds from one deposit account to another, resulting in the funds being placed in the general operating cash as of the end of the fiscal year. In addition, the City's operating cash may have been in a deficit position at September 30, 2017, had the transfer of the customer utility deposits not been made.
Effect:	The City was not accruing interest on deposit accounts as required, and the City's cash balance was insufficient to cover the balance of customer deposits at September 30, 2017.
Recommendation:	The City should maintain customer deposits in a separate interest bearing fund at all times and not withdraw from those funds except for those allowable purposes for which customer deposits may be used. Cash flows should be properly timed and managed such that the City does not have a need for using such restricted funds.
Views of Responsible Officials:	See corrective action plan section.

### Section III – Federal Award Findings and Questioned Costs

Reference Number 2017-006 **Cash Management** 

CFDA 14.239 Home Investment Partnership Program Grant, **Grant Number 2015-0009** Award Year 2015

Federal Agency: US Department of Housing and Urban Development Passed through the Texas Department of Housing and Community Affairs

The City is required by 2 CFR 200.305 (a) to minimize the time Criteria: elapsing between when the City receives federal funds and when the payment is made to a contractor or vendor for the related expenditure. 2 CFR 200.302 (b) (6) requires the City to have written policies pertaining to that cash management requirement and to have implemented controls to provide assurance that the City complies with that policy.

> The City failed to properly implement a written policy governing cash management or to properly implement controls to minimize the time elapsing from when the City is paid and when the vendors are paid. The City paid vendors up to 30 days after the City had received federal funds for the related expenditure.

In two instances out of five tested, the City did not minimize the time elapsing from when the City received payment when the vendor was paid. In one instance the vendor was paid 32 days after the City had been paid, and another instance where the vendor was

paid 20 days after the City had been paid.

**Questioned Costs:** None noted

**Condition:** 

Context:

Cause: The error was caused by a lack of the required written policies and

> procedures pertaining to cash management of federal awards, and a lack of communication to the accounts payable department to immediately release payment for the invoices related to the

amounts involved.

Effect: The City is not in compliance with either of the requirements of 2

> CFR 200.302 (b) (6) or 2 CFR 200.305 (a). The lack of a written policy and weak controls over the cash management requirement

increase the risk of noncompliance with this requirement.

Recommendation: The City should implement the written policies required under the

Uniform Guidance 2 CFR 200.302 (b) (6), and control practices to

provide assurance that the City will comply with that policy.

**Views of Responsible Officials:** See corrective action plan section.

**Corrective Action Plan** 

## **PROGRAM DESCRIPTION**

### **CORRECTIVE ACTION PLAN**

**Findings - Financial Statements** 

Schedule Reference Number: (2017-001)

**City Accounting** 

**Corrective Action Plan:** 

The City Finance Director is going to recommend to the City Commission that the City hire an additional accountant to assist with the record keeping of all four entities (the City, EDC, IDC, and Waterworks and Sewer System). In addition, the City is going to request an increase in the administrative fees from the EDC and IDC so that the City General Fund does not carry the additional cost of the new employee alone.

Schedule Reference Number: (2017-002) Controls over Federal Grant Awards, Preparation of Expenditures of Federal Awards and Financial Statements

**Corrective Action Plan:** 

The City will review its current financial written policies and adjust as necessary, to include proper grant monitoring, checklists and fiscal year closeout procedures.

Schedule Reference Number: (2017-003)
Compliance with Bond Covenants

**Corrective Action Plan:** 

The City is currently working with the Texas Water Development Board (TWDB) and has agreed to put a certain amount aside every month into a TexasClass holding account until the reserve is met. The City is also emailing monthly reports from TexasClass to TWDB for their review.

Schedule Reference Number: (2017-004)
Use of Restricted Funds, City Financial Condition

**Corrective Action Plan:** 

The City will look to make quarterly deposits into the TIRZ fund until the entire amount is replenished, as available funds allow.

**Corrective Action Plan** 

# **PROGRAM DESCRIPTION**

# **CORRECTIVE ACTION PLAN**

Schedule Reference Number: (2017-005)

**Utility Meter Deposits** 

**Corrective Action Plan:** The City corrected this matter subsequent to September 30,

2017. Customer water meter deposits are now properly

segregated in a TexasClass account.

**Findings – Federal Awards** 

Schedule Reference Number: (2017-006)

**Cash Management** 

Corrective Action Plan: The City will construct a written policy outlining its cash

management procedures in accordance with the Uniform

Guidance.

\_\_\_\_\_

Contact Person: Frank Rios, Finance Director

Implementation Time Frame: Ongoing

# PROGRAM CORRECTIVE ACTION PLAN

Schedule Reference Number: (2016-001)

City Accounting

**Corrective Action Plan:** 

The finding is not resolved. Further corrective action is

necessary. See current year finding 2017-001.

Schedule Reference Number: (2016-002)

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

Corrective Action Plan: The finding is not resolved. See current year finding 2017-

002. Corrective action is necessary.

**Schedule Reference Number:** 

(2016-003)

**Bidding and Procurement** 

**Corrective Action Plan:** No further corrective action is considered necessary.

**Schedule Reference Number:** 

(2016-004)

Compliance with and Monitoring of Adopted Budget and Deficit Fund Balance

**Corrective Action Plan:** No expenditures over appropriations were noted for 2017.

No further corrective action is currently deemed necessary.

**Schedule Reference Number:** 

(2016-005)

**Compliance with Bond Covenants** 

**Corrective Action Plan:** Further corrective action is necessary. See current year

finding 2017-003.

### **PROGRAM**

## CORRECTIVE ACTION PLAN

Schedule Reference Number: (2016-006)

**Use of Restricted Funds, City Financial Condition** 

Corrective Action Plan: The City is still working to restore the restricted funds. See

current year finding 2017-004.

Schedule Reference Number: (2016-007 through 2016-011)

**Corrective Action Plan:** Findings have been resolved, no further corrective action is

currently deemed necessary.

# City of La Feria, Texas Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2017	(00)	(4.2)	(00)	(0.1)
(01) Federal Grantor/	(02) Federal	(A2) Pass-through	(03) Awarded	(04)
Pass/Through Grantor	CFDA	Entity Identifying	to	
Program Title	Number	Number		Expenditures
FEDERAL	Number	Number	Subrecipients	expenditures
U. S. Department of Housing and Urban Development				
o. 3. Department of Housing and Orban Development				
Passed through the General Land Office				
Community Development Block Grants/State's Program	14.228	DRS210089	\$ -	\$ 821,215
Passed through the Texas Department of Agriculture				
Community Development Block Grants/State's Program	14.228	7215279	-	163,466
Passed through the Texas Department of Agriculture				
Community Development Block Grants/State's Program	14.228	7214114	-	55,000
Passed through the Texas Department of Housing				
and Community Affairs				
Home Investment Partnerships Program	14.239	1002365		295,573
Total U.S. Department of Housing and Urban Development			-	1,335,254
U.S. Department of Homeland Security				
Passed through the Texas Department of Public Safety				
Hazard Mitigation Grant (HMGP)	97.039	DR 1931-001	-	146,311
Passed through the Texas Department of Public Safety				
Hazard Mitigation Grant (HMGP)	97.039	DR 1791-354	-	192,613
Passed through the Texas Department of Public Safety				
Hazard Mitigation Grant (HMGP)	97.039	DR 1791-355	-	229,229
Passed through the Texas Department of Public Safety & Cameron County				
Homeland Security Grant Program	97.067	-	-	15,572
Total U.S. Department of Homeland Security			-	583,725
U.S. Environmental Protection Agency				
Passed through the Texas Water Development Board				
CWSRF Cluster				
Capitalization Grants for Clean Water State Revolving Funds	66.458	G110014	-	2,405,528
Total CWSRF Cluster			-	2,405,528
Passed through the Texas Water Development Board  DWSRF Cluster				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	G110026	_	19,926
Total DWSRF Cluster			-	19,926
Total passed through the Texas Water Development Board			-	2,425,454
Total U.S. Environmental Protection Agency				2,425,454
Total Federal Awards Expended			\$ -	\$ 4,344,433
Total I Cacial Awalus Expellucu			- ب	+,544,433

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

#### **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, 2017.

## **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, 2017, 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. \$6,171,579 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, 2017.

# City of La Feria, Texas Exit Conference

**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.