

CITY OF LA FERIA, TEXAS

FINANCIAL STATEMENTS

September 30, 2019

City of La Feria, Texas
Table of Contents
September 30, 2019

Page No.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 7

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements
Statement of Net Position 23
Statement of Activities 24

Fund Financial Statements

Governmental Fund Financial Statements

Balance Sheet – Governmental Funds 26
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position 27
Statement of Revenues, Expenditures and Changes in
Fund Balances – Governmental Funds 28
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities 29

Proprietary Funds Financial Statements

Statement of Net Position – Proprietary Funds 30
Statement of Revenues, Expenses and Changes
Net Position - Proprietary Funds 31
Statement of Cash Flows – Proprietary Funds 33

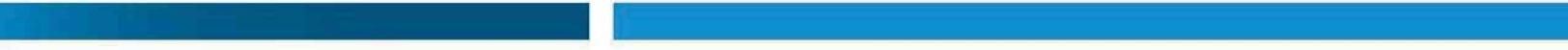
Discretely Presented Component Units Financial Statements

Combining Statement of Net Position 34
Combining Statement of Activities 36

Notes to Financial Statements 39

City of La Feria, Texas
Table of Contents
September 30, 2019

	<u>Page No.</u>
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	79
Notes to Required Supplementary Information	80
Schedule of Changes in Net Pension Liability and Related Ratios for Agent Multiple Employer Pension Plan – Texas Municipal Retirement System	81
Schedule of Contributions for Agent Multiple Employer Pension Plan – Texas Municipal Retirement System	82
Notes to Schedule of Contributions for Agent Multiple Employer Pension Plan – Texas Municipal Retirement System	83
Schedule of Changes in Total OPEB Liability and Related Ratios	84
Notes to Schedule of Changes in Total OPEB Liability and Related Ratios	85
 OTHER SUPPLEMENTARY INFORMATION	
<i>Nonmajor Governmental Funds</i>	
Combining Balance Sheet	88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	90
 COMPLIANCE SECTION	
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	93
Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	97
Schedule of Expenditures of Federal Awards	101
Notes to Schedule of Expenditures of Federal Awards	102
Schedule of Findings and Questioned Costs	103
Corrective Action Plan	108
Summary Schedule of Prior Year Audit Findings	109
Exit Conference	111



REPORT



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of La Feria, Texas (the "City") as of and for the year ended September 30, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension system supplementary information, and other post-employment benefit supplementary information on pages 7-20, and 79-86 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 as listed in the table of contents 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*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2020, 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.

Carr, Riggs & Ingram, L.L.C.

Harlingen, Texas
June 23, 2020

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

As management of the City of La Feria, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of La Feria for the fiscal year ended September 30, 2019.

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 \$19,169,053 (net position). Of this amount, \$2,013,894 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 \$40,415,952 (net position). Unrestricted net position of \$498,240 is the result of the IDC having unrestricted net position of 530,316, and unrestricted net position of \$(32,076) 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 \$1,439,074, an increase of \$517,741 from the prior year.
- At the end of the current fiscal year, the fund balance for the general fund had a deficit balance of \$2,755,960, primarily due to substantial delays in receiving grant reimbursements.
- The City's total debt (excluding component unit debt) decreased by \$739,693 (4.2%) during the current fiscal year.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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 the General Fund, Debt Service Fund, and the Certificates of Obligation Series 2015 Fund, all of which are considered to be 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.

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

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 34 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 and other post employment 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 79 of this report.

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

Other Information

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

Non-major governmental funds combining statements begin on page 87 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 \$19,158,186 at the close of the most recent fiscal year.

	Governmental Activities		Business-type Activities		Total		Component Unit Activities	
	9/30/2019	9/30/2018*	9/30/2019	9/30/2018	9/30/2019	9/30/2018*	9/30/2019	9/30/2018*
Current and other assets	\$ 6,382,851	\$ 6,936,069	\$ 1,629,998	\$ 1,461,353	\$ 8,012,849	\$ 8,397,422	\$ 3,581,838	\$ 3,888,604
Capital assets	27,634,436	28,705,200	1,210,004	1,331,082	28,844,440	30,036,282	46,528,061	46,862,277
Total assets	34,017,287	35,641,269	2,840,002	2,792,435	36,857,289	38,433,704	50,109,899	50,750,881
Deferred outflows of resources	316,817	117,727	13,425	2,748	330,242	120,475	137,152	53,956
Long-term liabilities outstanding	16,635,584	17,326,709	390,921	439,489	17,026,505	17,766,198	5,737,142	6,142,482
Other liabilities	516,945	844,075	450,061	396,927	967,006	1,241,002	4,063,905	4,524,468
Total liabilities	17,152,529	18,170,784	840,982	836,416	17,993,511	19,007,200	9,801,047	10,666,950
Deferred inflows of resources	24,475	119,351	492	5,574	24,967	124,925	30,052	69,862
Net position								
Net investment in capital assets	15,117,371	15,705,512	611,454	618,578	15,728,825	16,324,090	39,597,763	39,698,251
Restricted	1,426,334	1,188,895	-	-	1,426,334	1,188,895	319,949	349,126
Unrestricted	613,395	574,454	1,400,499	1,334,615	2,013,894	1,909,069	498,240	20,648
Total net position	\$ 17,157,100	\$ 17,468,861	\$ 2,011,953	\$ 1,953,193	\$ 19,169,053	\$ 19,422,054	\$ 40,415,952	\$ 40,068,025

*As restated

Eighty-two 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, \$1,426,334 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2,013,894, 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.

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

The discretely presented component units' net position increased \$187,768 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 \$311,761. The key elements of this decrease are primarily related to increased depreciation on long-term assets.

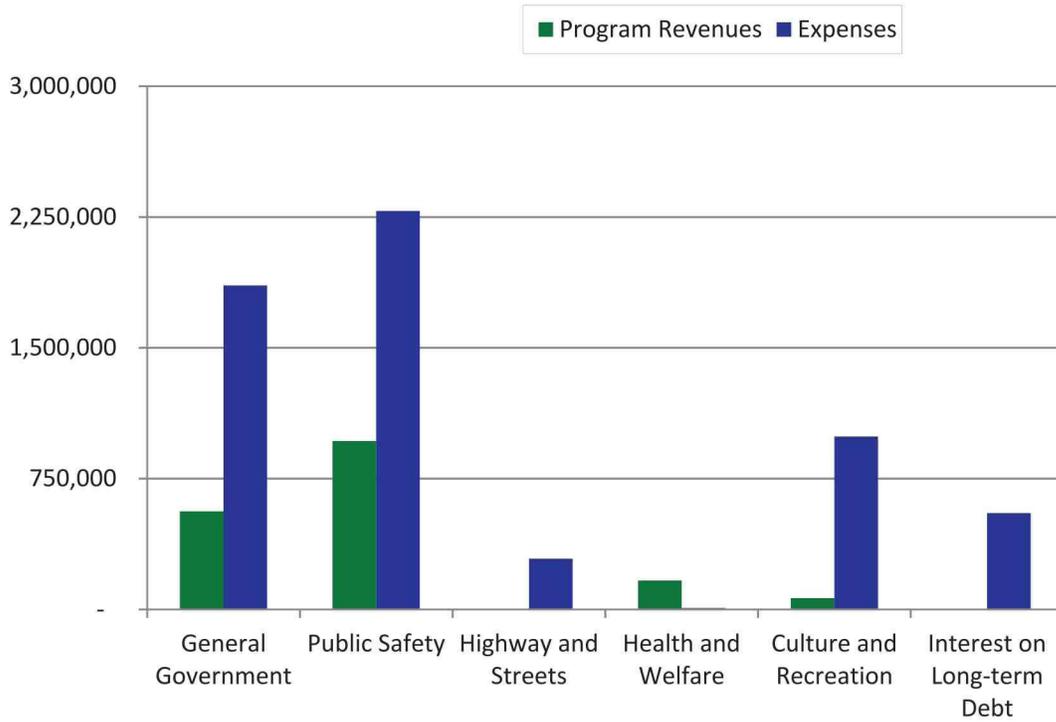
Net investment in capital assets and unrestricted net position remained comparable overall to the prior year; restricted net position increased \$237,439 primarily due to an increase in the property tax collections for debt service.

	Governmental Activities		Business-type Activities		Total		Component Unit Activities	
	09/30/19	09/30/18	09/30/19	09/30/18	09/30/19	09/30/18	09/30/19	09/30/18
Revenues:								
Program revenues								
Charges for services	\$ 965,220	\$ 781,462	\$ 987,969	\$ 980,042	\$ 1,953,189	\$ 1,761,504	\$ 2,423,063	\$ 2,427,456
Operating grants and contributions	296,996	381,139	44,193	44,212	341,189	425,351	-	-
Capital grants and contributions	495,001	241,426	-	-	495,001	241,426	765,303	1,875,809
General revenues								
Property tax	1,683,712	1,635,770	-	-	1,683,712	1,635,770	-	-
Other taxes	1,117,775	1,076,188	364,296	342,566	1,482,071	1,418,754	364,296	342,566
Other	643,576	441,786	6,637	18,587	650,213	460,373	56,158	66,044
Total revenues	5,202,280	4,557,771	1,403,095	1,385,407	6,605,375	5,943,178	3,608,820	4,711,875
Expenses								
General government	1,857,326	1,407,658	-	-	1,857,326	1,407,658	-	-
Public safety	2,284,306	1,370,227	-	-	2,284,306	1,370,227	-	-
Highways/streets	290,624	718,756	-	-	290,624	718,756	-	-
Health and welfare	7,633	270,773	-	-	7,633	270,773	-	-
Culture and recreation	990,598	1,091,632	-	-	990,598	1,091,632	-	-
Interest on long-term debt	551,922	597,136	24,098	23,653	576,020	620,789	-	-
Sanitation	-	-	698,522	645,030	698,522	645,030	-	-
Economic development	-	-	153,347	121,261	153,347	121,261	-	-
Waterworks system	-	-	-	-	-	-	3,024,327	3,072,548
IDC	-	-	-	-	-	-	396,725	401,692
Total program expenses	5,982,409	5,456,182	875,967	789,944	6,858,376	6,246,126	3,421,052	3,474,240
Increase/(decrease) in net assets before transfers								
	(780,129)	(898,411)	527,128	595,463	(253,001)	(302,948)	187,768	1,237,635
Transfers	468,368	124,758	(468,368)	(124,758)	-	-	-	-
Increase (decrease) in net position	(311,761)	(773,653)	58,760	470,705	(253,001)	(302,948)	187,768	1,237,635
Net position - beginning	17,468,861	17,697,691	1,953,193	1,482,488	19,422,054	19,180,179	40,228,184	38,830,390
Prior period adjustment	-	544,823	-	-	-	544,823	-	160,159
Net position - ending	\$ 17,157,100	\$ 17,468,861	\$ 2,011,953	\$ 1,953,193	\$ 19,169,053	\$ 19,422,054	\$ 40,415,952	\$ 40,228,184

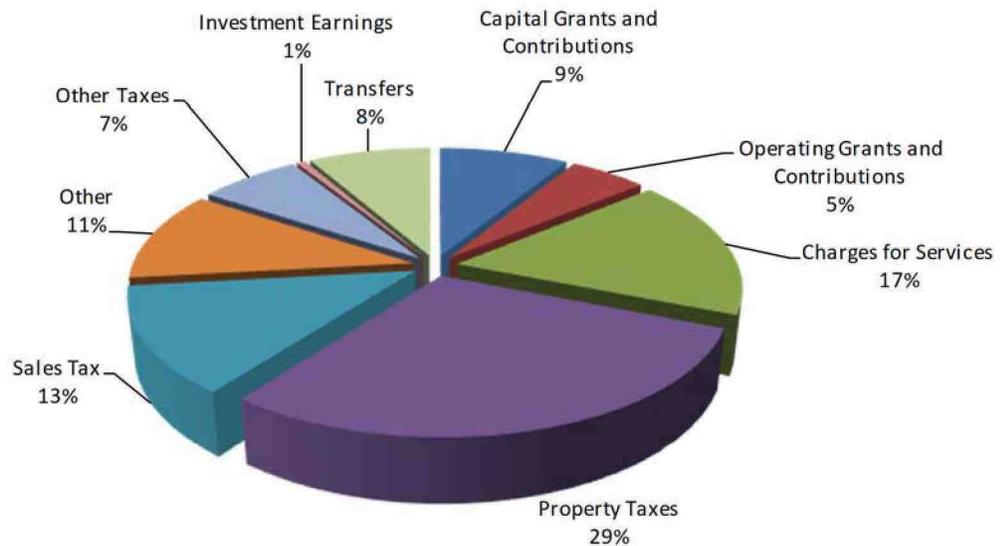
City of La Feria, Texas Management's Discussion and Analysis

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

Expenses and Program Revenues - Governmental Activities



Revenue by Source - Governmental Activities



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

Business-Type Activities

Business-type activities consist of operating expenses of \$875,967, transfers-out totaling \$468,368, and revenues of \$1,403,095 resulting in an increase in net position of \$58,760.

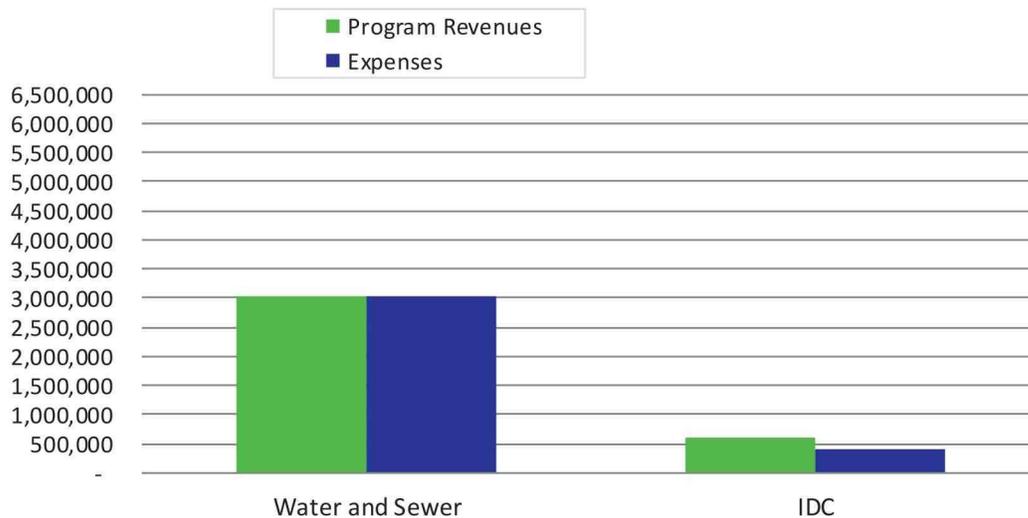
Discretely Presented Component Units

Component unit's activities increased their net position by \$187,768, accounting for approximately 0.47% increase in net position. Key elements of this increase are as follows:

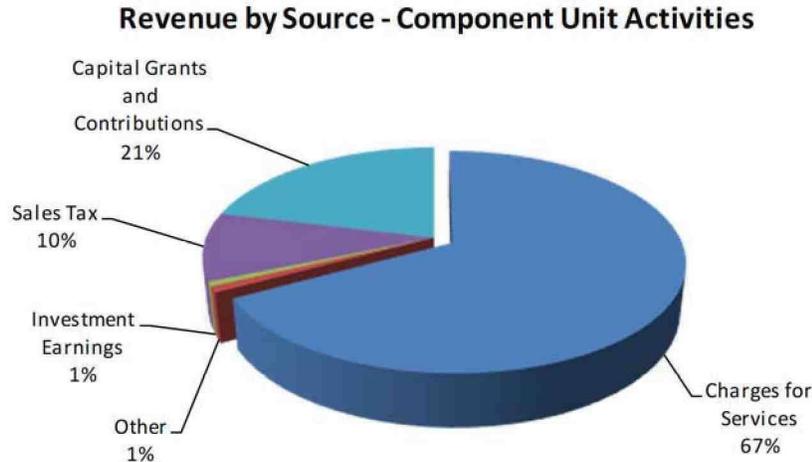
- The Waterworks and Sewer System's net position decreased by \$5,387. The key factor in this increase is due to increased depreciation as the System has capitalized significant new assets in the past year.
- The La Feria Industrial Development Corporation's net position increased by \$193,155 during the current fiscal year and is attributed to increases in sales tax and lease revenues compared to the prior year.

The overall total revenues and expenses for component units is relatively consistent with prior years. An overview of the component units' expenses and program revenues and revenues by source are presented in the following charts:

Expenses and Program Revenues - Discretely Presented Component Unit Activities



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



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, 2019 and 2018.

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

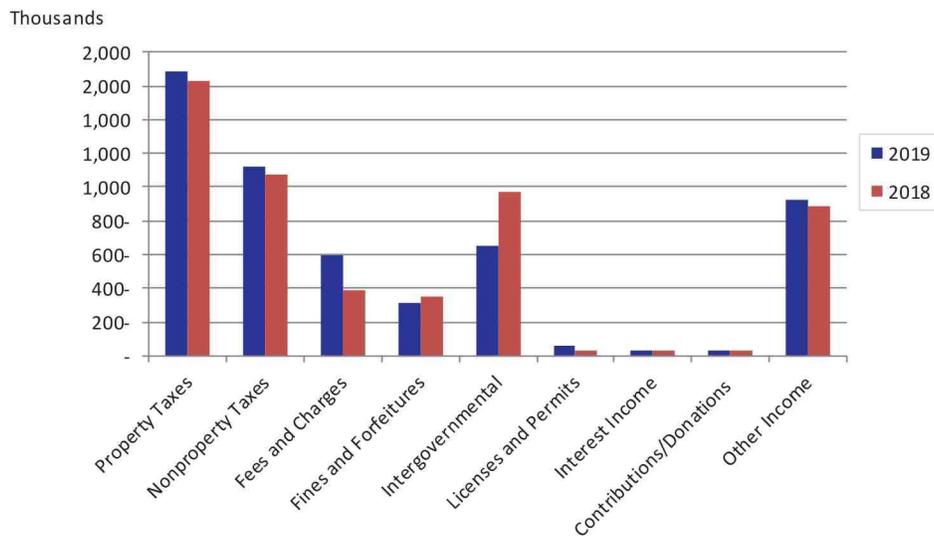
	2019 Amount	Percent of 2019 Total	2018 Amount	Percent of 2018 Total	Increase (Decrease) Over 2018	Percent of Increase (Decrease)
Revenues						
Property taxes	\$1,685,474	31.16%	\$1,629,830	30.25%	\$ 55,644	3.41%
Non-property taxes	1,117,775	20.66%	1,076,188	19.98%	41,587	3.86%
Fees and charges	598,206	11.06%	385,216	7.15%	212,990	55.29%
Fines and forfeitures	312,048	5.77%	352,470	6.54%	(40,422)	-11.47%
Intergovernmental	648,689	11.99%	969,677	18.00%	(320,988)	-33.10%
Licenses and permits	54,966	1.02%	34,102	0.63%	20,864	61.18%
Interest income	33,878	0.63%	27,370	0.51%	6,508	23.78%
Contributions and donations	33,345	0.62%	29,815	0.55%	3,530	11.84%
Miscellaneous income	925,367	17.11%	882,536	16.38%	42,831	4.85%
	<u>\$5,409,748</u>	<u>100.00%</u>	<u>\$5,387,204</u>	<u>100.00%</u>	<u>\$ 22,544</u>	<u>0.42%</u>

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

Revenues from governmental funds increased by \$22,544 or 0.42% compared to the prior year. Key elements of this increase shown above are as follows:

- Intergovernmental revenues decreased by \$320,988 or 33.10% 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 2.93% and 3.86%, respectively; this reflects the increased in business activity in the community.
- Fees and charges increased about 23.51% compared to the prior year due to the enactment of an emergency services fee billed to residents.

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, 2019 and 2018.

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

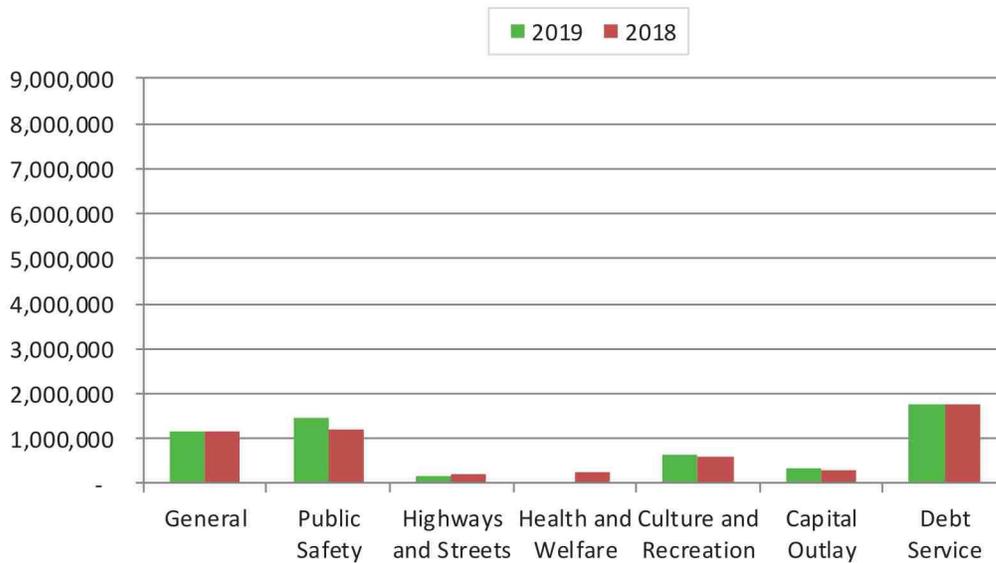
	2019 Amount	Percent of 2019 Total	2018 Amount	Percent of 2018 Total	Increase (Decrease) Over 2018	Percent of Increase (Decrease)
Expenditures						
General	\$ 1,157,462	20.85%	\$ 1,178,143	21.36%	\$ (20,681)	-1.76%
Public safety	1,450,323	26.13%	1,190,025	21.58%	260,298	21.87%
Highways and streets	184,695	3.33%	198,698	3.60%	(14,003)	-7.05%
Health and welfare	4,887	0.09%	263,207	4.77%	(258,320)	-98.14%
Culture and recreation	629,429	11.34%	584,697	10.60%	44,732	7.65%
Capital outlay	345,750	6.23%	321,823	5.83%	23,927	7.43%
Debt service	1,778,329	32.04%	1,778,923	32.25%	(594)	-0.03%
	\$ 5,550,875	100.00%	\$ 5,515,516	100.00%	\$ 35,359	0.64%

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

Governmental funds incurred expenditures of \$5,550,875, approximately 0.64% more expenditures for the City of La Feria, Texas compared to last year. Key elements of this increase are as follows:

- Public Safety expenditures increased by \$260,298 due to additional grant funding used to pay for the increase, plus raises in compensation for the department.
- Health and welfare expenditures decreased by \$258,320 compared to last year due to the HOME grant not existing in the current year, which funded the majority of such costs.

Governmental Expenditures



Governmental Fund Balances

The General Fund's fund balance began as a deficit of \$3,081,680 and increased by \$325,720 in fiscal year 2018-2019. Overall expenditures increased moderately, but these were offset by increased property taxes, sales taxes, and transfers in. Much of the increase in expenditures was due to capital asset additions and increased expenditures in public safety; however those were also offset by proceeds from the capital lease as well as additional law enforcement and fire department grants.

Although the General Fund balance increased, it continues to have a significant deficit balance. The General Fund and other funds expended significant amounts of cash from the Certificates of Obligation Series 2015 Fund (the Bond Fund) in prior years in order to pay for certain capital projects and general operating costs. Most of these were grant funded amounts but have yet to be collected and are therefore not considered available, and are accounted for in the general fund as deferred inflows. This factor significantly contributes to the current deficit in the general fund.

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

The Debt Service Fund's fund balance increased by \$307,488 in fiscal year 2018-2019 due primarily to an increase in the portion of tax allocated to the debt service fund compared to the 2017-2018 fiscal year.

The Certificates of Obligation Series 2015 Fund's fund balance began with \$2,788,412, and increased by \$2, which is the result of investment income. The fund balance primarily consists of amounts due from other funds and component units, which are to be repaid in future years to the fund.

Enterprise Funds – Business-Type Activities, Enterprise.

The City's business-type activities include the collection of waste (garbage and brush and economic development activities). Operating revenue from these activities was consistent with the prior year with a very slight increase of \$7,908 during 2019.

Operating expenses in the business-type activities increased by \$86,023 or 10.89%. This was primarily due to significant additional repairs and supplies compared to prior year.

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

The City's Component Units' activities' revenues decreased by \$1,103,055 compared to the prior year, a 23% decrease. This is primarily due to capital grants and contributions decreasing by \$1,110,506 compared to prior year. These are Water and Sewer System capital projects for which are being funded by the Texas Water Development Board (TWDB) in the form of forgivable loans and are now nearing completion. Other revenues were relatively consistent with the prior year.

Component Units' activities' expenses decreased by a net amount of \$53,188, a 1.53% decrease, and so are considered relatively comparable to the prior year.

General Fund Budgetary Highlights

The original adopted budget had projected a net decrease in fund balance of \$57,525; the final amended budget resulted in a projected net decrease of \$57,525 in fund balance. The final actual change in fund balance was an increase in fund balance of \$325,720. Expenditures did exceed budgeted appropriations, which was primarily due to capital outlay acquired with a capital lease, and the overall change in fund balance was favorable compared to the original budget. Revenues collected were more than budgeted.

Revenues

- Revenues were \$340,348 more than budgeted. The primary driver for this was an increase in sales taxes due to increased economic activity, and an increase in fees and charges as a result of the newly enacted emergency services fee. There were also more fines collected than anticipated.

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

Expenditures

- Expenditures exceeded appropriations in total by \$33,107. This was due primarily to capital outlay exceeding appropriations by \$194,904 as the result of a fire truck acquired with a capital lease.
- Other areas that exceeded appropriations are public safety, which was due to salary increases and significant unexpected repairs to fire trucks and an increase in fire calls. Culture and recreation exceeded appropriations due to unexpected building and vehicle repairs, and park repairs due to flooding. Highways and Streets expenditures slightly exceeded appropriations.

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, 2019, amounts to \$28,844,440 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, 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 \$1,191,842 or approximately 3.97%.

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

- Purchase of Fire Truck
- Significant drainage and water and sewer infrastructure in the Waterworks component unit. The majority of these amounts were moved from construction in progress to depreciable assets in the current year.

	City of La Feria's Capital Assets (Net of depreciation)					
	Governmental Activities		Business-type Activities		Total	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Land	\$ 1,721,963	\$ 1,721,963	\$ 388,558	\$ 388,558	\$ 2,110,521	\$ 2,110,521
Building and systems	23,252,160	13,633,641	499,321	521,348	23,751,481	14,154,989
Improvements and other than buildings	1,427,841	153,303	-	-	1,427,841	153,303
Machinery and equipment	1,232,472	1,222,469	322,125	421,176	1,554,597	1,643,645
Construction in progress	-	11,973,824	-	-	-	11,973,824
	<u>\$ 27,634,436</u>	<u>\$ 28,705,200</u>	<u>\$ 1,210,004</u>	<u>\$ 1,331,082</u>	<u>\$28,844,440</u>	<u>\$ 30,036,282</u>

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

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

Long-Term Debt

At year end, the City had a number of debt issues outstanding. These issues include \$14,434,000 of (limited) revenue certificates of obligation bonds, \$308,140 of tax notes, and \$2,300,000 of water and wastewater revenue bonds. The City's total long-term debt, including component unit debt, had a net decrease of \$1,145,033 during this fiscal year. The key factors in the net decrease was the timely repayment of debt maturities, net of increases in debt due to entering into a capital lease for \$190,500 and increases in the net pension and OPEB liabilities. Additional information on the City's long-term debt begins in Note 4 on page 60 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 have remained at 93%.
- Sales tax increased by 6.7% compared to prior year's decrease of 10.2%. The sales tax revenue is expected to increase by 3.0% 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 2019-20 fiscal year.

Requests for Information

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

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FINANCIAL STATEMENTS

MAJOR FUNDS

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

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

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

BUSINESS-TYPE 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, 2019

	Primary Government			Component Units
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 246,359	\$ 20,256	\$ 266,615	\$ 28,079
Investments	742,243	261,122	1,003,365	429,593
Receivables (net of allowance for uncollectible)	2,016,635	117,928	2,134,563	590,844
Internal balances	(643,367)	643,367	-	-
Due from component units	1,242,222	546,565	1,788,787	-
Inventories	26,544	-	26,544	58,749
Prepaid assets	22,645	-	22,645	-
Restricted assets:				
Cash and cash equivalents	7,656	-	7,656	1,852,605
Investments	-	-	-	365,482
Notes receivable	2,721,914	40,760	2,762,674	256,486
Capital assets (net of accumulated depreciation)				
Land	1,721,963	388,558	2,110,521	2,941,873
Building and system	23,252,160	499,321	23,751,481	6,104,696
Improvements other than buildings	1,427,841	-	1,427,841	-
Machinery and equipment	1,232,472	322,125	1,554,597	2,093,551
Infrastructure	-	-	-	35,154,205
Easements	-	-	-	117,758
Certificate of convenience and necessity	-	-	-	115,978
Total assets	34,017,287	2,840,002	36,857,289	50,109,899
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	310,004	13,086	323,090	133,286
Deferred outflows related to OPEB	6,813	339	7,152	3,866
Total deferred outflows of resources	316,817	13,425	330,242	137,152
LIABILITIES				
Accounts payable and other current liabilities	298,314	21,544	319,858	354,081
Due to primary government	-	-	-	1,788,786
Due to component units	-	163,364	163,364	-
Unearned revenue	218,631	265,153	483,784	1,741,531
Liabilities payable from restricted assets	-	-	-	179,507
Noncurrent liabilities:				
Net pension liability	1,170,150	49,292	1,219,442	522,083
Net OPEB liability	94,795	4,636	99,431	55,966
Due within one year	1,234,143	78,004	1,312,147	582,414
Due in more than one year, net	14,136,496	258,989	14,395,485	4,576,679
Total liabilities	17,152,529	840,982	17,993,511	9,801,047
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	17,869	138	18,007	27,280
Deferred inflows related to total OPEB liability	6,606	354	6,960	2,772
Total deferred inflows of resources	24,475	492	24,967	30,052
NET POSITION				
Net investment in capital assets	15,117,371	611,454	15,728,825	39,597,763
Restricted for:				
Debt service	1,278,672	-	1,278,672	-
Capital projects funds	-	-	-	319,949
Tax increment reinvestment zone	147,662	-	147,662	-
Unrestricted	613,395	1,400,499	2,013,894	498,240
Total net position	\$ 17,157,100	\$ 2,011,953	\$ 19,169,053	\$ 40,415,952

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

City of La Feria, Texas
Statement of Activities

For the year ended September 30, 2019

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 1,857,326	\$ 418,653	\$ -	\$ 143,308
Public safety	2,284,306	380,355	233,503	351,693
Highways and streets	290,624	-	-	-
Health and welfare	7,633	101,694	63,493	-
Culture and recreation	990,598	64,518	-	-
Interest on long term debt	551,922	-	-	-
Total governmental activities	5,982,409	965,220	296,996	495,001
Business - type activities:				
Sanitation services	698,522	968,291	-	-
Economic Development	153,347	19,678	44,193	-
Interest expense	24,098	-	-	-
Total business-type activities	875,967	987,969	44,193	-
Total primary government	6,858,376	1,953,189	341,189	495,001
Component Units:				
Waterworks and Sewer Systems	3,024,327	2,253,637	-	765,303
Industrial Development Corporation	396,725	169,426	-	-
Total component units	\$ 3,421,052	\$ 2,423,063	\$ -	\$ 765,303

General revenues and transfers:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Hotel motel taxes

Unrestricted investment earnings

Gain on sale of asset

Other non operating revenue

Transfers

Total general revenues and transfers

Change in net position

Net position--beginning

Restatement

Net position--ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business - type Activities	Total	Component Units
\$ (1,295,365)	\$ -	\$ (1,295,365)	\$ -
(1,318,755)	-	(1,318,755)	-
(290,624)	-	(290,624)	-
157,554	-	157,554	-
(926,080)	-	(926,080)	-
(551,922)	-	(551,922)	-
(4,225,192)	-	(4,225,192)	-
-	269,769	269,769	-
-	(89,476)	(89,476)	-
-	(24,098)	(24,098)	-
-	156,195	156,195	-
(4,225,192)	156,195	(4,068,997)	-
-	-	-	(5,387)
-	-	-	(227,299)
-	-	-	(232,686)
485,702	-	485,702	-
1,198,010	-	1,198,010	-
728,592	364,296	1,092,888	364,296
374,934	-	374,934	-
14,249	-	14,249	-
33,878	6,637	40,515	23,830
-	-	-	22,328
609,698	-	609,698	10,000
468,368	(468,368)	-	-
3,913,431	(97,435)	3,815,996	420,454
(311,761)	58,760	(253,001)	187,768
16,924,038	1,953,193	18,877,231	40,068,025
544,823	-	544,823	160,159
\$ 17,157,100	\$ 2,011,953	\$ 19,169,053	\$ 40,415,952

City of La Feria, Texas
Balance Sheet
Governmental Funds

September 30, 2019

	General Fund	Debt Service Fund	Certificates of Obligation Series 2015 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 29,868	\$ 90,781	\$ -	\$ 125,710	\$ 246,359
Investments	37	742,206	-	-	742,243
Receivables, (net of allowance for uncollectibles)					
Property taxes	68,816	104,519	-	-	173,335
Nonproperty taxes	55,552	-	-	-	55,552
Service	94,995	-	-	-	94,995
Intergovernmental receivable	1,588,194	-	-	-	1,588,194
Other	-	-	-	104,559	104,559
Due from other funds	128,650	407,929	2,485,252	46,408	3,068,239
Due from component units	940,347	-	301,875	-	1,242,222
Inventories	26,544	-	-	-	26,544
Prepaid items	22,645	-	-	-	22,645
Restricted assets					
Cash and cash equivalents	6,369	-	1,287	-	7,656
Total assets	\$ 2,962,017	\$ 1,345,435	\$ 2,788,414	\$ 276,677	\$ 7,372,543
LIABILITIES					
Accounts payable	\$ 157,247	\$ -	\$ -	\$ 29,868	\$ 187,115
Accrued liabilities	44,436	-	-	-	44,436
Unearned revenue	218,631	-	-	-	218,631
Due to other funds	3,632,738	-	-	78,868	3,711,606
Total liabilities	4,053,052	-	-	108,736	4,161,788
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues					
Property taxes	61,765	91,564	-	-	153,329
Grants	1,530,970	-	-	-	1,530,970
Other	72,190	-	-	15,192	87,382
Total deferred inflows of resources	1,664,925	91,564	-	15,192	1,771,681
FUND BALANCES					
Nonspendable fund balances:					
Inventories	26,544	-	-	-	26,544
Prepaid items	22,645	-	-	-	22,645
Restricted fund balances:					
Retirement of long-term debt	-	1,253,871	-	-	1,253,871
Tax increment reinvestment zone	-	-	-	132,470	132,470
Capital projects	-	-	2,788,414	-	2,788,414
Assigned	-	-	-	21,779	21,779
Unassigned	(2,805,149)	-	-	(1,500)	(2,806,649)
Total fund balance	(2,755,960)	1,253,871	2,788,414	152,749	1,439,074
Total liabilities, deferred inflows of resources and fund balance	\$ 2,962,017	\$ 1,345,435	\$ 2,788,414	\$ 276,677	\$ 7,372,543

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

City of La Feria, Texas

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

September 30, 2019

Fund balance -- total governmental funds \$ 1,439,074

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. 27,634,436

Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are therefore not reported in the funds:

Unavailable revenue - property taxes	153,329
Unavailable revenue - grants	1,530,970
Unavailable revenue - other	87,382

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	(14,742,140)
Note and capital lease payable	(563,338)
Compensated absences	(65,161)

Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds. (66,763)

Certain 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. Including the notes receivable in the statement of net position increases net position. 2,721,914

Recognition of the City's net pension liability required by GASB 68 in the amount of \$(1,170,150), deferred resource inflows related to pensions in the amount of \$(17,869), and deferred resource outflows related to pensions in the amount of \$310,004, result in a decrease in net position. (878,015)

Recognition of the City's net OPEB liability required by GASB 75 in the amount of \$(94,795), deferred resource inflows related to OPEB in the amount of \$(6,606), and deferred resource outflows related to pensions in the amount of \$6,813, result in a decrease in net position. (94,588)

Net position of governmental activities \$ 17,157,100

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

City of La Feria, Texas
**Statement of Revenues, Expenditures and
Changes in Fund Balances –Governmental Funds**

For the year ended September 30, 2019

	General Fund	Debt Service Fund	Certificates of Obligation Series 2015 Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property	\$ 401,410	\$ 1,218,652	\$ -	\$ 65,412	\$ 1,685,474
Sales	728,592	-	-	-	728,592
Franchise	374,934	-	-	-	374,934
Other	1,971	-	-	12,278	14,249
Licenses and permits	54,966	-	-	-	54,966
Intergovernmental	648,689	-	-	-	648,689
Fees and charges	580,792	-	-	17,414	598,206
Fines	312,048	-	-	-	312,048
Interest income	5,099	28,777	2	-	33,878
Contributions and donations	32,745	-	-	600	33,345
Other	266,446	658,921	-	-	925,367
Total revenues	3,407,692	1,906,350	2	95,704	5,409,748
Expenditures					
Current					
General government	1,129,206	26,756	-	1,500	1,157,462
Public safety	1,450,323	-	-	-	1,450,323
Highways and streets	184,695	-	-	-	184,695
Health and welfare	4,887	-	-	-	4,887
Culture and recreation	589,260	-	-	40,169	629,429
Debt service					
Principal retirement	90,660	1,127,285	-	-	1,217,945
Interest and fiscal agent fees	20,133	540,251	-	-	560,384
Capital outlay	345,750	-	-	-	345,750
Total expenditures	3,814,914	1,694,292	-	41,669	5,550,875
Excess (deficiency) of revenues over (under) expenditures	(407,222)	212,058	2	54,035	(141,127)
Other financing sources (uses)					
Transfers in	582,442	95,430	-	40,000	717,872
Transfers (out)	(40,000)	-	-	(209,504)	(249,504)
Capital Lease	190,500	-	-	-	190,500
Total other financing sources (uses)	732,942	95,430	-	(169,504)	658,868
Net change in fund balances	325,720	307,488	2	(115,469)	517,741
Fund balances, beginning	(3,081,680)	946,383	2,788,412	268,218	921,333
Fund balances, ending	\$ (2,755,960)	\$ 1,253,871	\$ 2,788,414	\$ 152,749	\$ 1,439,074

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

City of La Feria, Texas

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

September 30, 2019

Net change in fund balances -- total governmental funds \$ 517,741

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 \$345,750, was exceeded by depreciation expense of (\$1,961,337). (1,615,587)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds but are accounted for as revenue in the statement of activities. 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 (1,762)
Unavailable revenues - grants and other 129,294

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. (7,874)

GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/18 caused the change in the ending net position to increase in the amount of \$117,792. 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 \$(99,624). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(45,580). The result of these changes is to decrease the change in net position by \$27,412. (27,412)

GASB 75 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/18 caused the change in the ending net position to increase in the amount of \$2,345. 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 (\$2,015). The City's reported TMRS OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by (\$7,398). The result of these changes is to decrease the change in net position by (\$7,068). (7,068)

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 1,127,285
Notes payable principal 78,280
Capital lease principal 12,380

Other adjustments to report the governmental activities on the full accrual basis of accounting include accounting for the following:

Note receivable repayment from component unit is accounted for as proceeds in governmental funds but is simply a decrease in the receivable in governmental activities (335,000)
Recognition of current year accrued interest is not recorded in the governmental funds, but in the statement of activities they are recognized as interest expense. 8,462
Debt proceeds (capital leases) provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (190,500)

Change in net position of governmental activities \$ (311,761)

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

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

September 30, 2019

	Enterprise Funds		
	Waste Disposal Fund	Economic Development Corporation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ -	\$ 20,256	\$ 20,256
Investments	-	261,122	261,122
Receivables, net	90,102	50	90,152
Nonproperty taxes	-	27,776	27,776
Notes receivable, current portion	-	1,601	1,601
Due from other funds	119,904	560,321	680,225
Due from component units	546,565	-	546,565
Total current assets	756,571	871,126	1,627,697
Noncurrent assets:			
Notes receivable	-	39,159	39,159
Capital assets			
Land	-	388,558	388,558
Buildings	-	592,648	592,648
Machinery and equipment	1,761,694	-	1,761,694
Less accumulated depreciation	(1,439,569)	(93,327)	(1,532,896)
Total capital assets (net of accumulated depreciation)	322,125	887,879	1,210,004
Total assets	1,078,696	1,798,164	2,876,860
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to net pension liability	13,086	-	13,086
Deferred outflows related to total OPEB liability	339	-	339
Total deferred outflows of resources	13,425	-	13,425
Total assets and deferred outflow of resources	\$ 1,092,121	\$ 1,798,164	\$ 2,890,285
LIABILITIES			
Current liabilities			
Accounts payable	\$ 20,873	\$ 671	\$ 21,544
Unearned revenues	-	-	-
Due to other funds	36,858	-	36,858
Due to component units	163,364	-	163,364
Unearned revenues	-	44,192	44,192
Current portion of long-term debt	30,958	47,046	78,004
Total current liabilities	252,053	91,909	343,962
Noncurrent liabilities			
Unearned revenues	-	220,961	220,961
Due in more than one year	41	258,948	258,989
Net pension liability	49,292	-	49,292
Total OPEB liability	4,636	-	4,636
Total noncurrent liabilities	53,969	479,909	533,878
Total liabilities	306,022	571,818	877,840
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to net pension liability	138	-	138
Deferred inflows related to total OPEB liability	354	-	354
Total deferred inflows of resources	492	-	492
NET POSITION			
Net investment in capital assets	294,722	316,732	611,454
Unrestricted	490,885	909,614	1,400,499
Total net position	785,607	1,226,346	2,011,953
Total liabilities, deferred inflows of resources and net position	\$ 1,092,121	\$ 1,798,164	\$ 2,890,285

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

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

For the Year Ended September 30, 2019

	Enterprise Funds		
	Waste Disposal Fund	Economic Development Corporation	Total
Operating revenues			
Nonproperty taxes	\$ -	\$ 364,296	\$ 364,296
Operating grants and contributions	-	44,193	44,193
Charges for services	968,291	19,678	987,969
Total operating revenues	968,291	428,167	1,396,458
Operating expenses			
Personnel services	116,674	-	116,674
Contractual services	330,180	114,371	444,551
Materials, supplies and repairs	79,687	8,596	88,283
Heat, light and power	38,992	-	38,992
Depreciation	128,362	22,027	150,389
Other	4,627	8,353	12,980
Total operating expenses	698,522	153,347	851,869
Operating income	269,769	274,820	544,589
Nonoperating revenues (expenses)			
Interest income	-	6,637	6,637
Interest expense	(2,000)	(22,098)	(24,098)
Total nonoperating revenues (expenses)	(2,000)	(15,461)	(17,461)
Income before transfers	267,769	259,359	527,128
Transfers in	-	-	-
Transfers out	(342,938)	(125,430)	(468,368)
	(342,938)	(125,430)	(468,368)
Change in net position	(75,169)	133,929	58,760
Net position--beginning	860,776	1,092,417	1,953,193
Total net position, end of year	\$ 785,607	\$ 1,226,346	\$ 2,011,953

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

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

For the Year Ended September 30, 2019

	Enterprise		
	Funds		
	Waste Disposal Fund	Economic Development Corporation	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 971,768	\$ 382,727	\$ 1,354,495
Payments to suppliers	(449,728)	(131,911)	(581,639)
Payments to employees	(111,240)	-	(111,240)
Net cash provided by operations	410,800	250,816	661,616
Cash flows from (to) noncapital financing activities			
Transfer in from other funds and component units	165,602	-	165,602
Transfers out to other funds and component units	(889,503)	(125,430)	(1,014,933)
Net cash used in noncapital financing activities	(723,901)	(125,430)	(849,331)
Cash flows from capital and related financing activities			
Principal paid on long-term debt	(26,361)	(43,400)	(69,761)
Interest paid on capital debt	(2,000)	(22,098)	(24,098)
Net cash used in capital and related financing activities	(28,361)	(65,498)	(93,859)
Cash flows from investing activities			
Payments received from notes receivable	-	2,055	2,055
Interest income received	-	6,637	6,637
Purchase of capital assets	(29,311)	-	(29,311)
Purchase of investments	-	(70,326)	(70,326)
Net cash used in by investing activities	(29,311)	(61,634)	(90,945)
Net (decrease) in cash and cash equivalents	(370,773)	(1,746)	(372,519)
Cash and cash equivalents, beginning of year	370,773	22,002	392,775
Cash and cash equivalents, end of year	\$ -	\$ 20,256	\$ 20,256
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 269,769	\$ 274,820	\$ 544,589
Adjustments to reconcile net income from operations to net cash from operating activities			
Depreciation expense	128,362	22,027	150,389
Non-cash operating grants	-	(44,193)	(44,193)
Effect of increases and decreases in current assets and liabilities			
Decrease (increase) in receivables	3,477	(1,247)	2,230
Increase (decrease) in pension related deferred inflows of resources	(5,436)	-	(5,436)
Increase (decrease) in OPEB related deferred inflows of resources	354		
Increase (decrease) in accounts payable	3,758	(591)	3,167
Increase (decrease) in net pension liability	17,633	-	17,633
Increase (decrease) in total OPEB liability	(36)	-	(36)
Increase (decrease) in compensated absences	3,596	-	3,596
Decrease (increase) in pension related deferred outflows of resources	(10,728)	-	(10,728)
Decrease (increase) in OPEB related deferred outflows of resources	51	-	51
Total adjustments	141,031	(24,004)	117,027
Net cash provided by operations	\$ 410,800	\$ 250,816	\$ 661,616

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

City of La Feria, Texas
Discretely Presented Component Units
Combining Statement of Net Position

September 30, 2019

	Waterworks and Sewer System	La Feria Industrial Development Corporation	Totals
ASSETS			
Cash and cash equivalents	\$ 475	\$ 27,604	\$ 28,079
Investments	-	429,593	429,593
Receivables			
Service	212,731	-	212,731
Other	185,751	1,222	186,973
Intergovernmental	163,364	27,776	191,140
Current portion of note receivable	-	55,372	55,372
Inventories	58,749	-	58,749
Restricted assets:			
Cash and cash equivalents	1,737,413	115,192	1,852,605
Investments	365,482	-	365,482
Total current assets	2,723,965	656,759	3,380,724
NOTES RECEIVABLE	-	201,114	201,114
CAPITAL ASSETS			
Depreciable			
Buildings	4,518,231	2,232,784	6,751,015
Water distribution system	25,027,243	-	25,027,243
Sewer distribution system	21,744,564	-	21,744,564
Furniture, fixture and equipment	3,608,421	24,184	3,632,605
Vehicles	462,316	-	462,316
	55,360,775	2,256,968	57,617,743
Less accumulated depreciation	(13,594,788)	(670,503)	(14,265,291)
	41,765,987	1,586,465	43,352,452
Non depreciable			
Land	357,079	2,584,794	2,941,873
Easements	117,758	-	117,758
Certificate of Convenience and Necessity	115,978	-	115,978
	590,815	2,584,794	3,175,609
Total capital assets (net of accumulated depreciation)	42,356,802	4,171,259	46,528,061
Total assets	45,080,767	5,029,132	50,109,899
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to total OPEB liability	3,866	-	3,866
Deferred outflows related to net pension liability	133,286	-	133,286
Total deferred outflows of resources	137,152	-	137,152
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 45,217,919	\$ 5,029,132	\$ 50,247,051

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

City of La Feria, Texas
Discretely Presented Component Units
Combining Statement of Net Position

September 30, 2019

	Waterworks and Sewer System	La Feria Industrial Development Corporation	Totals
LIABILITIES			
Current liabilities			
Accounts payable	\$ 344,810	\$ 3,490	\$ 348,300
Accrued expenses and other liabilities	5,781	-	5,781
Unearned revenues	1,737,413	4,118	1,741,531
Due to primary government	1,296,414	492,372	1,788,786
Current portion of long term debt	550,000	32,414	582,414
Total current liabilities	3,934,418	532,394	4,466,812
Current liabilities payable from restricted assets			
Meter deposits	179,507	-	179,507
Total current liabilities payable from restricted assets	179,507	-	179,507
Noncurrent liabilities			
Net pension liability	522,083	-	522,083
Total OPEB liability	55,966	-	55,966
Compensated absences	17,581	-	17,581
Notes payable, net of current portion	2,381,973	87,125	2,469,098
Revenue bonds payable	2,090,000	-	2,090,000
Total noncurrent liabilities	5,067,603	87,125	5,154,728
Total liabilities	9,181,528	619,519	9,801,047
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to net pension liability	27,280	-	27,280
Deferred inflows related to total OPEB liability	2,772	-	2,772
Total deferred inflows of resources	30,052	-	30,052
NET POSITION			
Net investment in capital assets	36,038,415	3,559,348	39,597,763
Restricted for capital projects	-	319,949	319,949
Unrestricted	(32,076)	530,316	498,240
Total net position	36,006,339	4,409,613	40,415,952
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 45,217,919	\$ 5,029,132	\$ 50,247,051

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 Activities

For the year ended September 30, 2019

	Program revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Component units</u>				
Waterworks and Sewer System	\$ 3,024,327	\$ 2,253,637	\$ -	\$ 765,303
Industrial Development Corporation	396,725	169,426	-	-
Total component units	\$ 3,421,052	\$ 2,423,063	\$ -	\$ 765,303

General revenues:

Taxes

Sales taxes

Unrestricted investment earnings

Gain on disposal of asset

Other non operating revenue (expense)

Total general revenues

Change in net position

Net position--beginning

Restatement

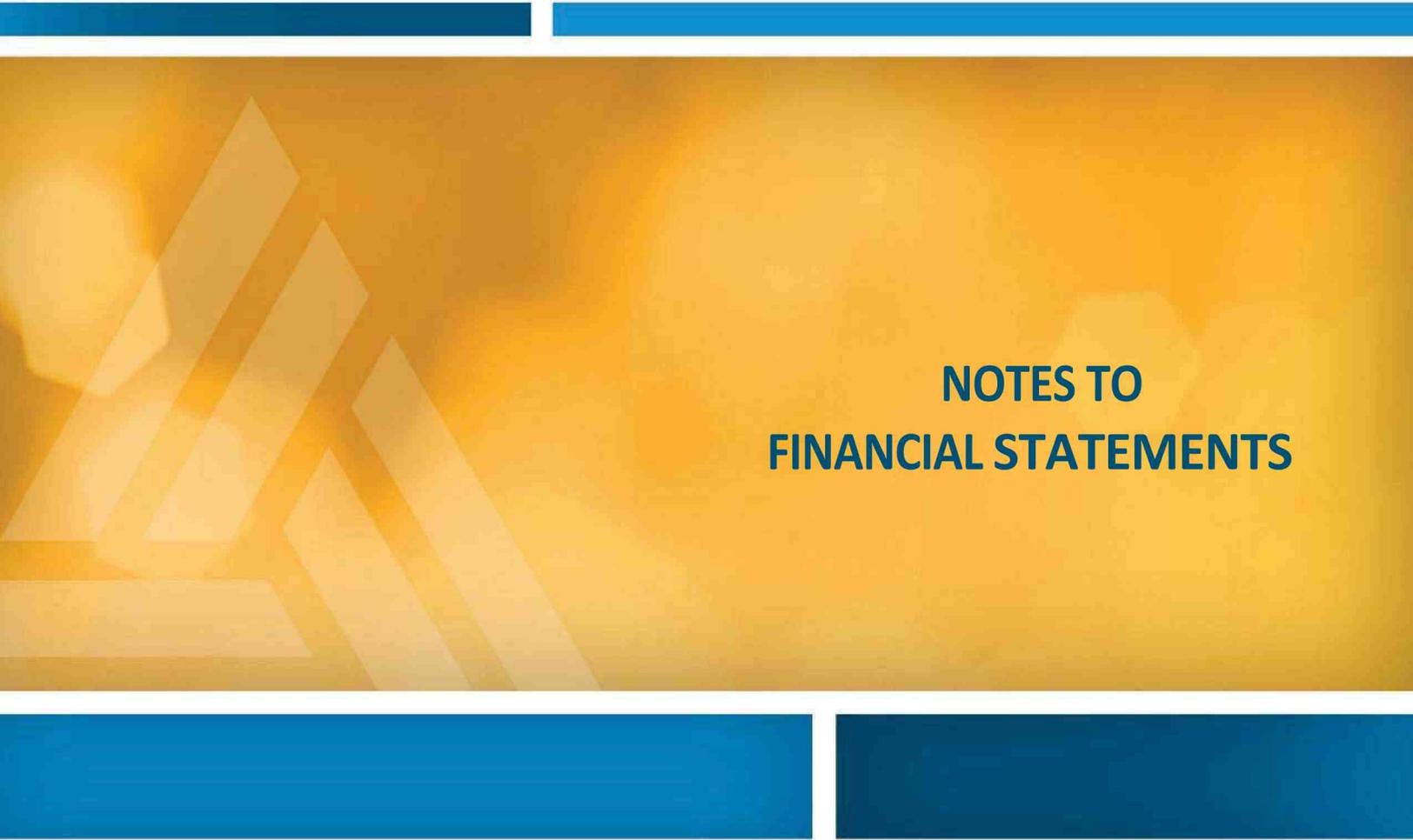
Net Position at beginning of year, as adjusted

Net position--ending

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

Component units			
Net (Expense) revenue change in Net Position			
Waterworks and Sewer System	La Feria Industrial Development Corporation		Totals
\$ (5,387)	\$ -		\$ (5,387)
-	(227,299)		(227,299)
(5,387)	(227,299)		(232,686)
-	364,296		364,296
-	23,830		23,830
-	22,328		22,328
-	10,000		10,000
-	420,454		420,454
(5,387)	193,155		187,768
35,851,567	4,216,458		40,068,025
160,159	-		160,159
36,011,726	4,216,458		40,228,184
\$ 36,006,339	\$ 4,409,613		\$ 40,415,952

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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 is a 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.

City of La Feria, Texas
Notes to Financial Statements

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. Business-type activities 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 accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of La Feria, Texas
Notes to Financial Statements

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 proprietary funds and discretely presented component units are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As discussed earlier, the City has two discretely presented component units. These component units are shown in separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's wastewater and sanitation services functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Principal operating revenues of the EDC and IDC include lease and rental fees. 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.

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.
- 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.

City of La Feria, Texas
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 at the fund level, with the City manager being authorized to transfer budgeted amounts between functional categories within a fund (ex: general government, public safety, highways and streets, and culture and recreation) 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019, the City had assigned fund balance which was for the Promotion of La Feria Fund.

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.

City of La Feria, Texas
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and Investments

Investments for the City are reported at fair value (generally based on quoted market prices) except for the position in the Texas CLASS external investment pool, which meets all of the specified criteria in Section 150: *Investments* to qualify to elect to measure their investments at amortized cost. Accordingly, the fair value of the City's position in the pool is equal to the value of the pooled shares.

At September 30, 2019, the carrying amount of the City's cash deposits, (cash, certificates of deposit and interest-bearing savings accounts) was \$2,154,955. The City's cash deposits during the year ended September 30, 2019 were entirely covered by FDIC insurance or by pledged collateral held in the City's name by a bank other than the pledging bank. In addition, the City held \$1,798,440 in investments in Texas CLASS external investment pools.

Discretely Presented Component Units Cash Deposits

The component units' unrestricted cash totaled \$28,079 at September 30, 2019.

Restricted cash for qualified business loans under the Revolving Loan and Intermediary Lending Programs totaled \$115,192. Restricted amounts for meter deposits and debt service reserve funds were \$365,482 and were held in investments in Texas CLASS external investment pools.

Restricted cash in the amount of \$1,737,413 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.

City of La Feria, Texas
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,300,000 and occurred during the month of March 2019. The combined deposit balances on that day were \$1,159,755.

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.

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

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, 2019, 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For financial reporting purposes the City's governmental activities reported amounts for investment pools of \$1,003,365 as investments on the statement of net position. Discretely presented component units reported \$795,075, of which \$365,482 is restricted, as investments on the Statement of Net Position as of September 30, 2019. There were no unfunded commitments as of September 30, 2019, 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. *Interfund Activities and Transactions*

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" within the fund financial statements. Long-term borrowings between funds are classified as "advances to other funds" or "advances from other funds" in the fund financial statements. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any residual balance outstanding between the governmental and business-type activities at the end of the fiscal year, which are reported in the government-wide financial statements as internal balances.

Interfund transactions are reflected as services provided, reimbursements, or transfers. Services provided, deemed to be at or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when a fund incurs a cost, charges the appropriate benefitting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or business-type funds are funds are netted as part of the reconciliation to the government-wide presentation.

e. *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)

f. Restricted Assets

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

g. 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 acquisition 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. Within the proprietary funds, interest cost, less interest earned on investments acquired with proceeds of related borrowing, is capitalized during the construction of capital projects when material. No interest was capitalized by the City during the fiscal year ended September 30, 2019.

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

h. 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, 2019 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 \$57,287, this year's liability due within a year is \$86,338 including the portions allocated to the component units. This amount is included under non-current liabilities, due within one year.

i. 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.

j. 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)

Deficit Fund Equity

A deficit balance in the general fund balance occurred in the amount of \$2,755,960 for the year ended September 30, 2019. Management is currently formulating a long-term plan to address the deficit and improve the City's financial condition.

k. 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.

l. 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."

m. 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 and other post-employment benefits (OPEB) 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. 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.

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.

o. Other Post-Employment Benefits (OPEB)

The fiduciary net position of the Texas Municipal Retirement System (TMRS) Supplemental Death Benefit has been determined using the flow of economic resources measurement focus and full accrual basis of accounting.

This includes for purposes of measuring the total OPEB liability, deferred outflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities, and additions to/deductions from the applicable OPEB's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. Information regarding the City's total OPEB liability related to the TMRS Supplemental Death Benefit is obtained from TMRS through a report prepared by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

p. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be used, June 23, 2020. See Note 14 for relevant disclosures regarding subsequent events. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

p. Recently Issued and Implemented Accounting Pronouncements

The City has implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The implementation of this statement did not result in any change in the City's financial statements. GASB Statement No. 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to the financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. Additional information on long term debt can be found in Note 4.

City of La Feria, Texas
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Recently Issued and Implemented Accounting Pronouncements (Continued)

The Governmental Accounting Standards Board has issued statements that will become effective in future years and are expected to have an impact on the City. These statements are as follows:

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, 2022.

The City is evaluating the requirements of the above statements and the impact on reporting.

NOTE 2: PRIOR PERIOD RESTATEMENT

During the year ended September 30, 2019, the City implemented a new capital asset module. In the process of implementation, certain errors and incorrect assignment of asset lives were identified, which resulted in a prior period adjustment to correct accumulated depreciation. This resulted in a restatement to increase beginning net position as of October 1, 2018, for the Governmental Activities and Waterworks and Sewer System component Unit in the amounts of \$544,823 and \$160,159, respectively.

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. Receivables

1. Property Tax Receivable

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

	General Fund	Debt Service Fund	Total
Gross property taxes receivable	\$ 93,513	\$ 170,298	\$ 263,811
Less allowance for doubtful accounts	(24,697)	(65,779)	(90,476)
Net property taxes receivable	\$ 68,816	\$ 104,519	\$ 173,335

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

2. Service Receivables

Service receivables consist of uncollected amounts billed to customers for water, sewer and other services. At September 30, 2019, the City reflected service receivables of the following:

Primary Government	
Waste disposal services	\$ 90,102
General fund service receivables	94,995
Total	\$ 185,097
Component Units Activities	
Water services	\$ 127,328
Sewer services	85,403
Total	\$ 212,731

3. Governmental Activities

Receivables for governmental activities at September 30, 2019, consisted of the following:

	General	Debt Service Fund	Nonmajor Funds	Total
Receivables				
Property taxes	\$ 93,513	\$ 170,298	\$ -	\$ 263,811
Other taxes	55,552	-	-	55,552
Accounts	94,995	-	-	94,995
Intergovernmental	1,588,194	-	-	1,588,194
Other	-	-	104,559	104,559
Less allowance for uncollectibles	(24,697)	(65,779)	-	(90,476)
Net total receivables	\$ 1,807,557	\$ 104,519	\$ 104,559	\$ 2,016,635

B. Restricted Assets

Governmental Funds

Cash – seized by police department for future capital improvements	\$ 6,369
Certificate of Obligation Series 2015 Fund	1,287
Total	\$ 7,656

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

Discretely Presented Component Units

Discretely Presented Component Units - Enterprise Funds		
LFIDC Revolving Loan Fund – business loans	\$	115,192
Debt Service Reserve		185,872
Meter deposits		179,610
Texas Water Development Board-grant/loan forgiveness escrow		1,737,413
Total	\$	2,218,087

C. Net Position

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

	Governmental Activities	Business-type Activities	Component Units
<i>Net investment in capital assets consists of the following:</i>			
Long-term assets			
Capital assets, net of accumulated depreciation	\$ 27,634,436	\$ 1,210,004	\$ 46,528,061
Less related liabilities (bonds, unearned revenues*, due to primary government and notes payable)	(15,305,479)	(598,550)	(6,930,298)
Restricted investments (unexpended bond proceeds)	2,788,414	-	-
Net investment in capital assets	15,117,371	611,454	39,597,763
<i>Restricted Net Position consists of the following:</i>			
Debt service	1,278,672	-	-
Tax Increment Reinvestment Zone	147,662	-	-
Capital projects	-	-	319,949
Unrestricted net position	613,395	1,400,499	498,240
Total net position	\$ 17,157,100	\$ 2,011,953	\$ 40,415,952

**Not all unearned revenues are related to capital assets*

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital assets activity for the year ended September 30, 2019 was as follows:

Primary Government

	Beginning Balance October 1, 2018*	Additions	Deletions	Transfers	Ending Balance September 30, 2019
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 1,721,963	\$ -	\$ -	\$ -	\$ 1,721,963
Construction in progress	11,973,824	-	-	(11,973,824)	-
Total capital assets, not being depreciated	13,695,787	-	-	(11,973,824)	1,721,963
Capital assets, being depreciated					
Buildings and systems	16,997,936	8,470	-	10,313,978	27,320,384
Improvements other than buildings	13,454,125	-	-	1,304,195	14,758,320
Machinery and equipment	4,948,981	337,280	-	355,651	5,641,912
Total capital assets, being depreciated	35,401,042	345,750	-	11,973,824	47,720,616
Less accumulated depreciation for					
Buildings and systems	(2,980,437)	(1,087,357)	-	-	(4,067,794)
Improvements other than buildings	(12,722,049)	(608,650)	-	-	(13,330,699)
Machinery and equipment	(4,144,320)	(265,330)	-	-	(4,409,650)
Total accumulated depreciation	(19,846,806)	(1,961,337)	-	-	(21,808,143)
Total capital assets, being depreciated, net	15,554,236	(1,615,587)	-	11,973,824	25,912,473
Governmental activities capital assets, net	\$ 29,250,023	\$ (1,615,587)	\$ -	\$ -	\$ 27,634,436
Business-type Activities					
Capital assets, not being depreciated					
Land	\$ 388,558	\$ -	\$ -	\$ -	\$ 388,558
Total capital assets, not being depreciated	388,558	-	-	-	388,558
Capital assets, being depreciated					
Buildings	592,648	-	-	-	592,648
Machinery and equipment	1,732,383	29,311	-	-	1,761,694
Total capital assets, being depreciated	2,325,031	29,311	-	-	2,354,342
Less accumulated depreciation for					
Buildings	(71,300)	(22,027)	-	-	(93,327)
Machinery and equipment	(1,311,207)	(128,362)	-	-	(1,439,569)
Total accumulated depreciation	(1,382,507)	(150,389)	-	-	(1,532,896)
Total capital assets being depreciated, net	942,524	(121,078)	-	-	821,446
Business-type activities capital assets, net	\$ 1,331,082	\$ (121,078)	\$ -	\$ -	\$ 1,210,004

*As restated, see Note 2 disclosing the prior period adjustment.

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

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

Governmental Activities	
General government	\$ 662,539
Public safety	830,038
Highways and streets	105,716
Health and welfare	2,746
Culture and recreation	360,298
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Total depreciation expenses - governmental activities	\$ 1,961,337
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Business-type activities	
Sanitation	\$ 128,362
Economic Development	22,027
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Total depreciation expenses - business-type activities	\$ 150,389
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Discretely Presented Component Units

	Beginning Balance October 1, 2018*	Additions	Deletions	Transfers	Ending Balance September 30, 2019
Waterworks and Sewer System					
Capital assets, not being depreciated					
Land	\$ 357,079	\$ -	\$ -	\$ -	\$ 357,079
Easement	117,758	-	-	-	117,758
CCN	115,978	-	-	-	115,978
Construction in progress	13,801,952	-	-	(13,801,952)	-
<hr/>					
Total capital assets, not being depreciated	14,392,767	-	-	(13,801,952)	590,815
Capital assets, being depreciated					
Machinery and equipment	4,070,737	-	-	-	4,070,737
Infrastructure	36,788,833	699,253	-	13,801,952	51,290,038
<hr/>					
Total capital assets, being depreciated	40,859,570	699,253	-	13,801,952	55,360,775
Less accumulated depreciation for					
Machinery	(1,786,519)	(190,668)	-	-	(1,977,187)
Infrastructure	(10,684,116)	(933,485)	-	-	(11,617,601)
<hr/>					
Total accumulated depreciation	(12,470,635)	(1,124,153)	-	-	(13,594,788)
<hr/>					
Total capital assets, being depreciated, net	28,388,935	(424,900)	-	13,801,952	41,765,987
<hr/>					
Waterworks and Sewer System activities					
capital assets, net	\$ 42,781,702	\$ (424,900)	\$ -	\$ -	\$ 42,356,802
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* As restated.

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

	Beginning Balance October 1, 2018	Additions	Deletions	Transfers	Ending Balance September 30, 2019
Industrial Development Corporation					
Capital assets, not being depreciated					
Land	\$ 2,682,060	\$ -	\$ (97,266)	\$ -	\$ 2,584,794
Total capital assets, not being depreciated	2,682,060	-	(97,266)	-	2,584,794
Capital assets, being depreciated					
Buildings and improvements	2,146,486	86,298	-	-	2,232,784
Furniture, fixtures and equipment	24,184	-	-	-	24,184
Total capital assets, being depreciated	2,170,670	86,298	-	-	2,256,968
Less accumulated depreciation for					
Buildings and improvements	(587,812)	(58,507)	-	-	(646,319)
Furnitures, fixtures and equipment	(24,184)	-	-	-	(24,184)
Total accumulated depreciation	(611,996)	(58,507)	-	-	(670,503)
Total capital assets, being depreciated, net	1,558,674	27,791	-	-	1,586,465
Industrial Development Corporation activities capital assets, net	\$ 4,240,734	\$ 27,791	\$ (97,266)	\$ -	\$ 4,171,259

Construction Commitments

At September 30, 2019, the City was a party to the following contracts:

Governmental Funds:

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. Construction of the watershed improvements and other public flood components funded with GLO funds is completed but the City is waiting on final approval of the project from GLO for release of final funds.

As part of these improvements, the City worked with the La Feria Irrigation District (LFID) as some of the areas of improvement were property of the LFID. In order to finalize the project and obtain the necessary engineering certifications required by GLO to release the final funds to reimburse the City, the City has entered into an agreement with the LFID to complete these improvements. The agreement stipulates that, beginning with the fiscal year 2019-2020, the City will pay \$100,000 per year for a period of 10 years to the LFID in order to fund the improvements. These amounts will be considered expenditures when paid and do not represent asset additions of the City, although the City will benefit from the infrastructure improvements.

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

Construction Commitments

Waterworks and Sewer System:

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 all projects that were started are now completed. The City is working with the TWDB to complete any remaining items in the 2020 fiscal year or after. Remaining funds available to fund these projects are \$432,124 which are in an escrow fund and reflected as restricted cash and unearned revenue in the City of La Feria Waterworks component unit.

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 all projects which had previously been started are now complete. The City is working with the TWDB to complete any remaining items in the 2020 fiscal year. Remaining funds available to fund these projects are \$1,305,289 which are in an escrow fund and reflected as restricted cash and unearned revenue in the City of La Feria Waterworks component unit.

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

E. Inter-fund Receivables, Payables, and Transfers

The following is a summary of the composition of inter-fund balances at September 30, 2019:

Receivable Fund	Payable Fund				Total
	General Fund	CO Bonds Series 2015 Fund	Non-major Governmental Funds	Business-Type Activities Waste Disposal Fund	
Governmental Funds					
General Fund	\$ 19,256	\$ -	\$ 78,868	\$ 30,526	\$ 128,650
Debt Service	407,929	-	-	-	407,929
C O Bonds - Series 2015 Fund	2,485,252	-	-	-	2,485,252
Non-major Governmental Funds	40,076	-	-	6,332	46,408
Subtotal	2,952,513	-	78,868	36,858	3,068,239
Business Type Activities					
Economic Development Corporation	560,321	-	-	-	560,321
Waste Disposal Fund	119,904	-	-	-	119,904
Subtotal	680,225	-	-	-	680,225
Total interfund balances	\$ 3,632,738	\$ -	\$ 78,868	\$ 36,858	\$ 3,748,464

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

Transfers

Inter-fund transfers for the year ended September 30, 2019, are as follows:

Transfer Out	Transfer In			
	General Fund	Debt Service Fund	Non-major Governmental Funds	Total
Governmental funds				
General Fund	\$ -	\$ -	\$ 40,000	\$ 40,000
Non-major Governmental Funds	209,504	-	-	209,504
Subtotal	209,504	-	40,000	249,504
Business-type activities				
Economic Development Corporation	30,000	95,430	-	125,430
Waste Disposal Fund	342,938	-	-	342,938
Subtotal	372,938	95,430	-	468,368
Total transfers	\$ 582,442	\$ 95,430	\$ 40,000	\$ 717,872

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, 2019 consist of the following:

City of La Feria

Note payable to *D.A. Werlla and A.G. Dising* 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, 2019 was \$203,098.

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, 2019 was \$113,625.

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, 2019 was \$56,116.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

The City entered into a 10 year lease on November 14, 2018, with payments due annually beginning with the first payment due on November 1, 2019, for the acquisition of a fire truck. The fire truck has a ten-year estimated useful life and is valued at \$240,000. The fire truck was placed in service in December of 2018. 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 fire truck being financed, and is payable from general fund revenues. Payments are due annually, with the first two payments of \$15,000 and the remaining payments for \$26,433.26. Final payment is due on November 1, 2028, at which time the title of the lighting equipment passes to the government and becomes property of the government. The balance at September 30, 2019 was \$190,500.

The annual lease requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities
2020	30,849
2021	30,849
2022	42,282
2023	42,282
2024	26,433
Thereafter	132,166
Total minimum lease payments	304,861
Less amount representing interest	(58,245)
Present value of minimum lease payments	\$ 246,616

Enterprise Fund

Note payable to *Government Capital Corporation - Citizen's 1st Bank* dated March 22, 2013, original principal amount of \$173,247, payable in seven annual installments of \$28,360 (including interest) with the first payment due on December 1, 2013 and the final payment due at maturity on December 1, 2019. The note is payable from the Waste Disposal Fund revenues. The balance at September 30, 2019 was \$27,403.

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

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, 2019, the balance outstanding was \$305,994.

NOTE 4: LONG-TERM DEBT (Continued)

Discretely Presented Component Units

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

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

	Original Loan	Rate	Loan Date	Balance at September 2019	Current Term Portion	Long- Term Portion
First Community Bank	303,467	5.50%	January 2013	119,539	32,414	87,125
				\$ 119,539	\$ 32,414	\$ 87,125

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, 2019, the balance of the defeased debt still outstanding was \$4,560,000.

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.

City of La Feria, Texas
Notes to Financial Statements

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:

Year Ending September 30,	Due to Primary Government - GO Refunding Series 2011			Due to Primary Government - CO Series 2011			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2020	\$ 305,000	\$ 73,780	\$ 378,780	\$ 35,000	\$ 23,400	\$ 58,400	\$ 437,180
2021	315,000	63,410	378,410	40,000	22,035	62,035	440,445
2022	325,000	52,700	377,700	40,000	20,475	60,475	438,175
2023	340,000	41,650	381,650	40,000	18,915	58,915	440,565
2024	345,000	30,090	375,090	40,000	17,355	57,355	432,445
2025-2029	491,973	38,250	530,223	240,000	60,840	300,840	831,063
2030-2033	-	-	-	165,000	12,870	177,870	177,870
Total	\$2,121,973	\$ 299,880	\$2,421,853	\$ 600,000	\$ 175,890	\$ 775,890	\$ 3,197,743

Certificates of obligation bonds currently outstanding as of September 30, 2019 are as follows:

Purpose	Interest Rates	Amount
<i>Certificates of obligation bonds</i>		
Governmental activities	3.40 - 4.00%	\$14,742,140

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, 2019 was \$2,300,000. City of La Feria, Texas Utility System Revenue Bonds, Series 2004 in the amount of \$4,450,000 were retired with proceeds from the City of La Feria, Texas GO Refunding Series 2011.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

Revenue bonds currently outstanding consist of the following:

Purpose	Interest Rates	Amount	Current Term Portion
Water/sewer infrastructure			
Waterworks & Sewer System	0.00% - 5.26%	\$ 2,300,000	\$ 210,000

5. Changes in Long-Term Debt

During the year ended September 30, 2019, the following changes occurred:

Changes in long-term debt

	Beginning Balance 10/1/2018	Increase	Decrease	Ending Balance 9/30/2019	Due Within One Year
Governmental Activities					
<i>Certificate of Obligation Bonds</i>					
Texas Tax and Limited Pledge Revenue					
Certificate of Obligation - Series 2004	\$ 215,000	\$ -	\$ 215,000	\$ -	\$ -
Combination Tax and Limited Pledge Revenue					
Certificates of Obligation - Series 2011	4,620,000	-	165,000	4,455,000	300,000
General Obligation Refunding Bonds - Series 2011	4,560,000	-	475,000	4,085,000	490,000
Combination Tax and Limited Pledge Revenue					
Certificates of Obligation - Series 2012A	338,000	-	9,000	329,000	9,000
Combination Tax and Limited Pledge Revenue					
Certificates of Obligation - Series 2015	5,740,000	-	175,000	5,565,000	180,000
Tax Notes Series 2015	180,000	-	45,000	135,000	45,000
Tax Notes Series 2016	216,425	-	43,285	173,140	43,285
	15,869,425	-	1,127,285	14,742,140	1,067,285
Notes payable					
	395,002	-	78,280	316,722	81,595
Net pension liability					
	841,030	329,120	-	1,170,150	-
Total OPEB liability					
	95,469	-	674	94,795	-
Capital lease					
	68,496	190,500	12,380	246,616	20,102
Compensated absences					
	57,287	68,311	60,437	65,161	65,161
Total governmental activities					
	17,326,709	587,931	1,279,056	16,635,584	1,234,143
Business-type Activities					
Notes payable					
	403,158	-	69,761	333,397	74,408
Net pension liability					
	31,659	17,633	-	49,292	-
Total OPEB liability					
	4,672	-	36	4,636	-
Compensated absences					
	-	6,931	3,335	3,596	3,596
Total business type activities					
	439,489	24,564	73,132	390,921	78,004
Discretely Presented Component Units Activities					
Revenue bonds					
	2,495,000	-	195,000	2,300,000	210,000
Notes payable					
	150,275	-	30,736	119,539	32,414
Net pension liability					
	383,985	138,098	-	522,083	-
Total OPEB liability					
	56,249	-	283	55,966	-
Compensated absences					
	-	33,887	16,306	17,581	-
Due to primary government					
	3,056,973	-	335,000	2,721,973	340,000
Total component unit activities					
	6,142,482	171,985	577,325	5,737,142	582,414
Total					
	\$ 23,908,680	\$ 784,480	\$ 1,929,513	\$ 22,763,647	\$ 1,894,561

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.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

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

Year Ending September 30,	Governmental Activities			Component Units Activities			Total Requirements
	Primary Government		Total	Revenue		Total	
	General Obligation Bonds Principal	General Obligation Bonds Interest		Bonds Principal	Bonds Interest		
2020	\$ 1,067,285	\$ 501,538	\$ 1,568,823	\$ 210,000	\$ 85,149	\$ 295,149	\$ 1,863,972
2021	1,103,285	463,383	1,566,668	215,000	77,230	292,230	1,858,898
2022	1,138,285	426,208	1,564,493	225,000	68,978	293,978	1,858,470
2023	1,118,285	387,679	1,505,964	230,000	60,212	290,212	1,796,176
2024	1,111,000	349,101	1,460,101	245,000	51,091	296,091	1,756,192
2025-2029	4,640,000	1,205,345	5,845,345	1,020,000	103,451	1,123,451	6,968,796
2030-2034	3,747,000	477,132	4,224,132	155,000	-	155,000	4,379,132
2035-2039	757,000	39,865	796,865	-	-	-	796,865
2040-2043	60,000	3,150	63,150	-	-	-	63,150
Total	\$ 14,742,140	\$ 3,853,401	\$ 18,595,541	\$ 2,300,000	\$ 446,111	\$ 2,746,111	\$ 21,341,650

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, 2019, 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	\$ 153,329
Grants and other	1,618,352
Total deferred inflows of resources for governmental funds	\$ 1,771,681

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 \$17,869 and \$138, respectively. Component unit deferred inflows related to net pension liability are \$27,280. Deferred outflows related to pensions are \$310,004, \$13,086, and \$133,286 in the governmental activities, business-type activities, and component unit, respectively. Additionally, deferred outflows related to OPEB are \$6,813, \$339, and \$3,866 in the governmental activities, business-type activities, and component unit respectively. Deferred inflows related to OPEB are \$6,606, \$354, and \$2,772 in the governmental activities, business-type activities, and component unit respectively.

NOTE 7: COMMITMENTS AND CONTINGENCIES

1. *Litigation*

At September 30, 2019, 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 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, 2019 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 8: DEFINED BENEFIT PENSION PLAN

Plan Description

The City of La Feria participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with TMRS act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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:

Employees covered by benefit terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	46
<u>Active employees</u>	<u>55</u>
<u>Total members</u>	<u>132</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 10.76% and 11.05% in calendar 2018 and 2019, respectively. The City’s contributions to TMRS for the year ended September 30, 2019 were \$228,478 and were equal to the required contributions.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial assumptions:

The Total Pension Liability in the December 31, 2018 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.

The actuarial assumptions used in the December 31, 2018 valuation were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

City of La Feria, Texas
Notes to Financial Statements

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 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
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.

City of La Feria, Texas
Notes to Financial Statements

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

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

	City Increase (decrease)			Component Unit Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2017	\$ 4,654,811	\$ 3,782,122	\$ 872,689	\$ 2,149,542	\$ 1,765,557	\$ 383,985
Changes for the year						
Service cost	160,722	-	160,722	64,001	-	64,001
Interest	325,630	-	325,630	129,669	-	129,669
Change in benefit terms	-	-	-	-	-	-
Difference between expected/ actual experience	(22,233)	-	(22,233)	(8,853)	-	(8,853)
Changes of assumptions	-	-	-	-	-	-
Contributions - employer	-	144,476	(144,476)	-	57,532	(57,532)
Contributions - employee	-	93,989	(93,989)	-	37,428	(37,428)
Net investment income	-	(118,696)	118,696	-	(47,266)	47,266
Benefit payments, including refunds of employee contributions	(245,378)	(245,378)	-	(97,712)	(97,712)	-
Administrative expenses	-	(2,295)	2,295	-	(914)	914
Other charges	-	(108)	108	-	(61)	61
Net changes	218,741	(128,012)	346,753	87,105	(50,993)	138,098
Balance at December 31, 2018	\$ 4,873,552	\$ 3,654,110	\$ 1,219,442	\$ 2,236,647	\$ 1,714,564	\$ 522,083

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 1,964,903	\$ 1,219,442	\$ 658,118
Component unit's net pension liability	782,445	522,083	262,070
Total net pension liability	\$ 2,747,348	\$ 1,741,525	\$ 920,188

City of La Feria, Texas
Notes to Financial Statements

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, 2019, the City and component unit recognized a combined pension expense in the amount of \$269,157. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ 1,809	\$ 18,007	\$ 746	\$ 27,280
Changes in actuarial assumptions	-	-	-	-
Differences between projected and actual investment earnings (net of current year amortization)	198,432	-	81,861	-
Contributions subsequent to the measurement date	122,849	-	50,679	-
Total	\$ 323,090	\$ 18,007	\$ 133,286	\$ 27,280

The \$122,849 and \$50,679 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	City	Component Unit
Year ending September 30,		
2020	\$ 60,422	\$ 18,344
2021	14,981	4,548
2022	23,920	7,262
2023	77,303	25,173
2024	-	-
Thereafter	-	-

NOTE 9: OTHER POST EMPLOYMENT BENEFITS

A. TMRS Supplemental Death Benefit

The City also participates in a single-employer, defined benefit group-term life insurance known as the Supplemental Death Benefits Fund (SDBF) administered by the Texas Municipal Retirement System (TMRS). This is a voluntary program in which 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. 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). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Employees covered by benefit terms

At the December 31, 2018 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	7
<u>Active employees</u>	<u>55</u>
<u>Total members</u>	<u>87</u>

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.

Employees for the City of La Feria were required to contribute 0.06% of their annual gross earnings during the fiscal year. The contribution rates for the City of La Feria were 0.22% and 0.22% in calendar year 2018 and 2019, respectively. The City’s contributions to the SDBF for the year ended September 30, 2019 were \$4,578, and were equal to the required contributions.

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

City of La Feria, Texas
Notes to Financial Statements

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (Continued)

Valuation date:	12/31/2018
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Discount rate*	3.71%
Retirees' share of benefit-related costs	\$-0-
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates- service retirees	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.
Mortality rates- disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*the discount rate was based on the Fidelity Index's "20-year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period of December 31, 2010 to December 31, 2014.

Total OPEB Liability

The City's Total OPEB Liability was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date. The following presents a summary of the changes in Total OPEB liability:

	City Increase (decrease)	Component Unit Increase (decrease)	Total
	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability
Balance at December 31, 2017	\$ 100,141	\$ 56,249	\$ 156,390
Changes for the year			
Service cost	4,968	1,978	6,946
Interest	3,769	1,502	5,271
Change in benefit terms	-	-	-
Difference between expected/ actual experience	(955)	(380)	(1,335)
Changes of assumptions	(7,552)	(3,008)	(10,560)
Contributions - employer	-	-	-
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contributions	(940)	(375)	(1,315)
Administrative expenses	-	-	-
Other charges	-	-	-
Net changes	(710)	(283)	(993)
Balance at December 31, 2018	\$ 99,431	\$ 55,966	\$ 155,397

City of La Feria, Texas
Notes to Financial Statements

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (Continued)

Total OPEB liability amounts are allocated between the City and its component unit in the statement of net position by \$99,431 and \$55,966, respectively.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City and its component unit, calculated using the discount rate of 3.71%, as well as what the total OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate.

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
City's total OPEB liability	\$ 131,540	\$ 99,431	\$ 95,076
Component unit's total OPEB liability	52,381	55,966	37,860
Total OPEB liability	\$ 183,921	\$ 155,397	\$ 132,936

OPEB Expense and Deferred Outflows of Resources Related to OPEBs

For the year ended September 30, 2019 the City recognized combined OPEB expense in the amount of \$12,213. At September 30, 2019 the City reported deferred outflows of resources related to OPEB from the following sources:

	Primary Government		Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ 781	\$ -	\$ 311
Changes in actuarial assumptions	4,791	6,179	2,772	2,461
Differences between projected and actual investment earnings (net of current year amortization)	-	-	-	-
Contributions subsequent to the measurement date	2,361	-	1,094	-
Total	\$ 7,152	\$ 6,960	\$ 3,866	\$ 2,772

Deferred outflows of resources related to the total OPEB liability related to the supplemental death benefit are allocated between the City and component unit in the statement of net position.

The \$2,361 and \$1,094 which are reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019.

City of La Feria, Texas
Notes to Financial Statements

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (Continued)

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending September 30,	City	Component Unit
2019	\$ (2)	\$ (1)
2020	(2)	(1)
2021	(2)	(1)
2022	(692)	(389)
2023	(692)	(388)
Thereafter	-	-

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, 2019, the TIRZ fund balance was at \$132,470.

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, 2019. 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 \$1,296,414 and \$492,372 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 \$1,788,786.

Payments from Component Units - Included in other Intergovernmental revenues are payments of \$127,046 and \$149,997 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, 2019, the City has a deficit in the general fund. The deficit at September 30, 2018 was \$(3,081,680), but the City was able to decrease the deficit at September 30, 2019 to \$(2,755,960). The decline is primarily a result of significant investments in drainage infrastructure in and around the City, as well as other capital projects 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 \$1,530,970. 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.

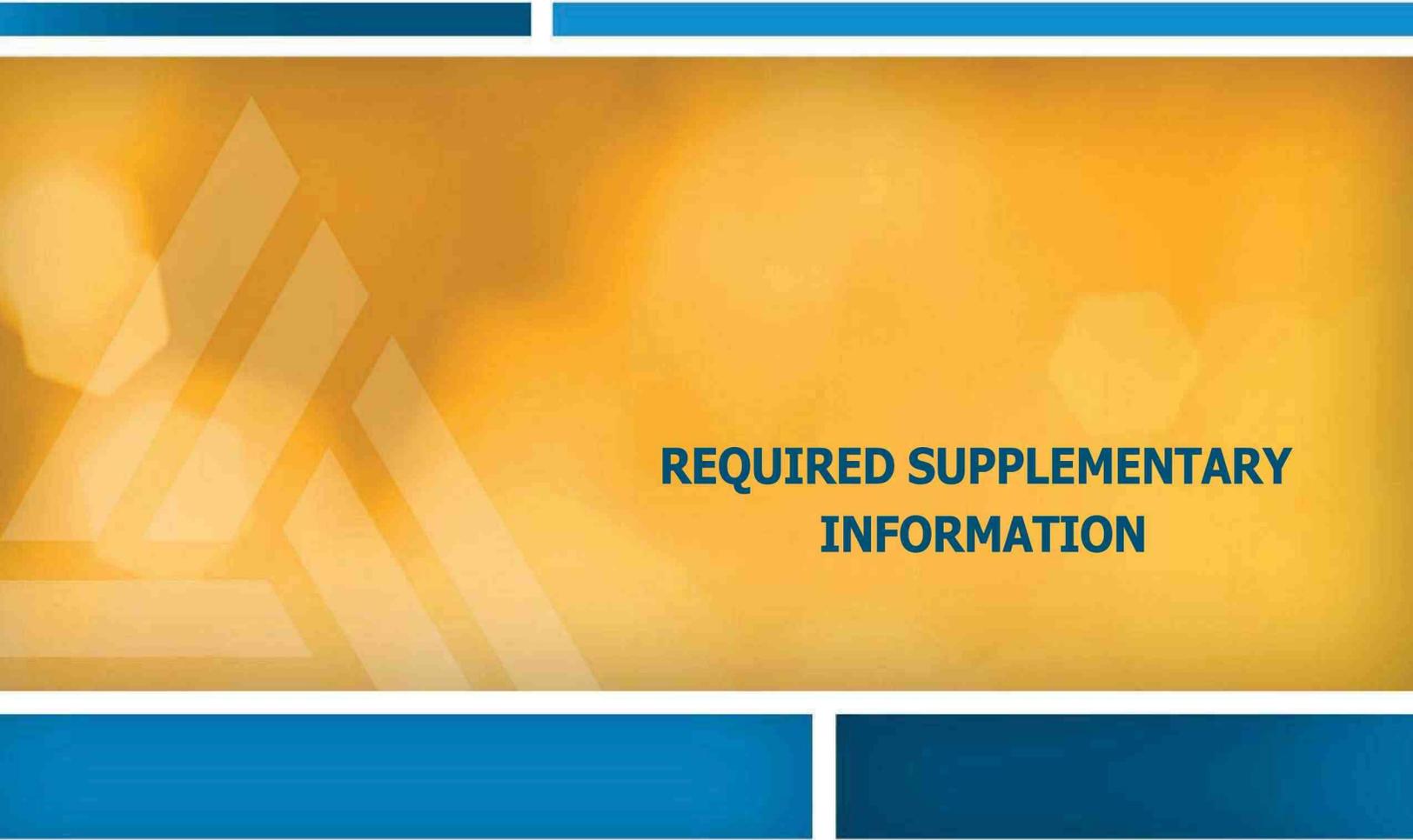
As a result of the circumstances previously described, cash from the Certificates of Obligation Series 2015 was used to fund ongoing operations of the general fund and to cover cash flow shortages caused by delays in grant reimbursements. The City has an obligation to replenish those funds, which had a balance of \$2,787,127 at September 30, 2019. 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: SUBSEQUENT EVENTS

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the City. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.



**REQUIRED SUPPLEMENTARY
INFORMATION**

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, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes:				
Property	\$ 412,651	\$ 412,651	\$ 401,410	\$ (11,241)
Sales	678,713	678,713	728,592	49,879
Mix Beverage	1,500	1,500	1,971	471
Franchise	370,000	370,000	374,934	4,934
Licenses and permits	34,800	34,800	54,966	20,166
Intergovernmental	574,921	574,921	648,689	73,768
Fees and charges	464,954	464,954	580,792	115,838
Fines	258,000	258,000	312,048	54,048
Interest income	3,500	3,500	5,099	1,599
Contributions and donations	23,650	23,650	32,745	9,095
Other	244,655	244,655	266,446	21,791
Total revenues	3,067,344	3,067,344	3,407,692	340,348
EXPENDITURES				
Current:				
General government:				
General government:	1,416,347	1,416,347	1,129,206	287,141
Public safety	1,343,825	1,343,825	1,450,323	(106,498)
Highways and streets	182,348	182,348	184,695	(2,347)
Health and welfare	6,390	6,390	4,887	1,503
Culture and recreation	544,860	544,860	589,260	(44,400)
Debt service:				
Prinicpal	117,058	117,058	90,660	26,398
Interest	20,133	20,133	20,133	-
Capital outlay	150,846	150,846	345,750	(194,904)
Total expenditures	3,781,807	3,781,807	3,814,914	(33,107)
Excess (deficiency) of revenues over (under) expenditures	(714,463)	(714,463)	(407,222)	307,241
OTHER FINANCING SOURCES (USES)				
Transfers in	616,938	616,938	582,442	(34,496)
Transfers (out)	(40,000)	(40,000)	(40,000)	-
Capital Lease - Other financing sources	-	-	190,500	190,500
Total other financing sources and uses	576,938	576,938	732,942	156,004
Net change in fund balance	(137,525)	(137,525)	325,720	463,245
Fund balance - beginning	(3,081,680)	(3,081,680)	(3,081,680)	-
Fund balance - ending	\$ (3,219,205)	\$ (3,219,205)	\$ (2,755,960)	\$ 463,245

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. The City exceeded the budget appropriation by \$33,107, due to overspending in the public safety, highways and streets, culture and recreation, capital outlay areas. The cause of the over expenditure is primarily due to a purchase of a fire truck, of which the majority of the amount was financed by the proceeds of the capital lease. No budget amendment was made to account for the additional expenditures or the proceeds of the capital lease. In total, the budgeted change in fund balance exceeded the budgeted change in fund balance, and the proceeds of the capital lease also offset the amount of excess expenditures over appropriations.

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

	2019	2018	2017	2016	2015
Total Pension Liability					
Service cost	\$ 224,723	\$ 219,389	\$ 219,149	\$ 236,999	\$ 208,767
Interest (on the total pension liability)	455,299	441,558	424,054	410,898	380,234
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	(31,086)	(50,318)	10,628	(46,049)	(16,944)
Changes of assumptions	-	-	-	61,615	-
Benefit payments, including refunds of employee contributions	(343,090)	(476,350)	(312,921)	(171,531)	(124,740)
Net change in total pension liability	305,846	134,279	340,910	491,932	447,317
Total pension liability - beginning	6,804,353	6,670,074	6,329,164	5,837,232	5,389,914
Total pension liability - ending (a)	\$ 7,110,199	\$ 6,804,353	\$ 6,670,074	\$ 6,329,164	\$ 5,837,231
Plan Fiduciary Net Position					
Contributions - employer	202,008	\$ 183,954	\$ 190,998	\$ 209,142	\$ 200,979
Contributions - employee	131,417	131,935	136,846	150,000	141,391
Net investment income	(165,962)	694,800	316,601	6,638	231,877
Benefit payments, including refunds of employee contributions	(343,090)	(476,350)	(312,921)	(171,531)	(124,740)
Administrative expense	(3,212)	(3,604)	(3,579)	(4,044)	(2,420)
Other	(168)	(183)	(193)	(200)	(199)
Net change in plan fiduciary net position	(179,007)	530,552	327,752	190,005	446,888
Plan fiduciary net position - beginning	5,547,681	5,017,127	4,689,375	4,499,370	4,052,482
Plan fiduciary net position - ending (b)	\$ 5,368,674	\$ 5,547,679	\$ 5,017,127	\$ 4,689,375	\$ 4,499,370
Net pension liability - ending (a) - (b)	\$ 1,741,525	\$ 1,256,674	\$ 1,652,947	\$ 1,639,790	\$ 1,337,862
Plan fiduciary net position as a percentage of total pension liability	75.51%	81.53%	75.22%	74.09%	77.08%
Covered employee payroll	\$ 1,877,389	\$ 1,884,782	\$ 1,954,942	\$ 2,142,851	\$ 2,019,877
Net pension liability as a percentage of covered employee payroll	92.76%	66.67%	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**

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 228,478	\$ 192,956	\$ 183,998	\$ 202,962	\$ 206,371
Contributions in relation to actuarially determined contribution	(228,478)	(192,956)	(183,998)	(202,962)	(206,371)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,081,078	\$ 1,839,977	\$ 1,884,782	\$ 2,078,015	\$ 2,103,613
Contributions as a percentage of covered payroll	10.98%	10.49%	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	27 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
Schedule of Changes in Total OPEB Liability and Related Ratios
Texas Municipal Retirement System

	2019	2018
Total OPEB Liability		
Service cost	\$ 6,946	\$ 6,031
Interest (on the total OPEB liability)	5,270	5,174
Changes of benefit terms	-	-
Difference between expected and actual experience	(1,335)	-
Change of assumptions	(10,560)	11,882
Benefit payments, including refunds of employee contributions	(1,314)	(1,131)
Net Change in Total OPEB Liability	(993)	21,956
Total OPEB Liability - Beginning	156,390	134,434
Total OPEB Liability - Ending (a)	\$ 155,397	\$ 156,390
Covered Employee Payroll	\$ 1,877,389	\$ 1,884,782
Total OPEB Liability as a Percentage of Covered Employee Payroll	8.28%	8.30%

Notes to schedule: The schedule above reflects the changes in the total OPEB liability for the current year. GASB 75 requires 10 fiscal years of data to be provided in this schedule. Additional years will be presented as the information becomes available.

No assets are accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75 to pay related benefits

City of La Feria, Texas

Notes to Schedule of Changes in OPEB Liability and Related Ratios
Texas Municipal Retirement System

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

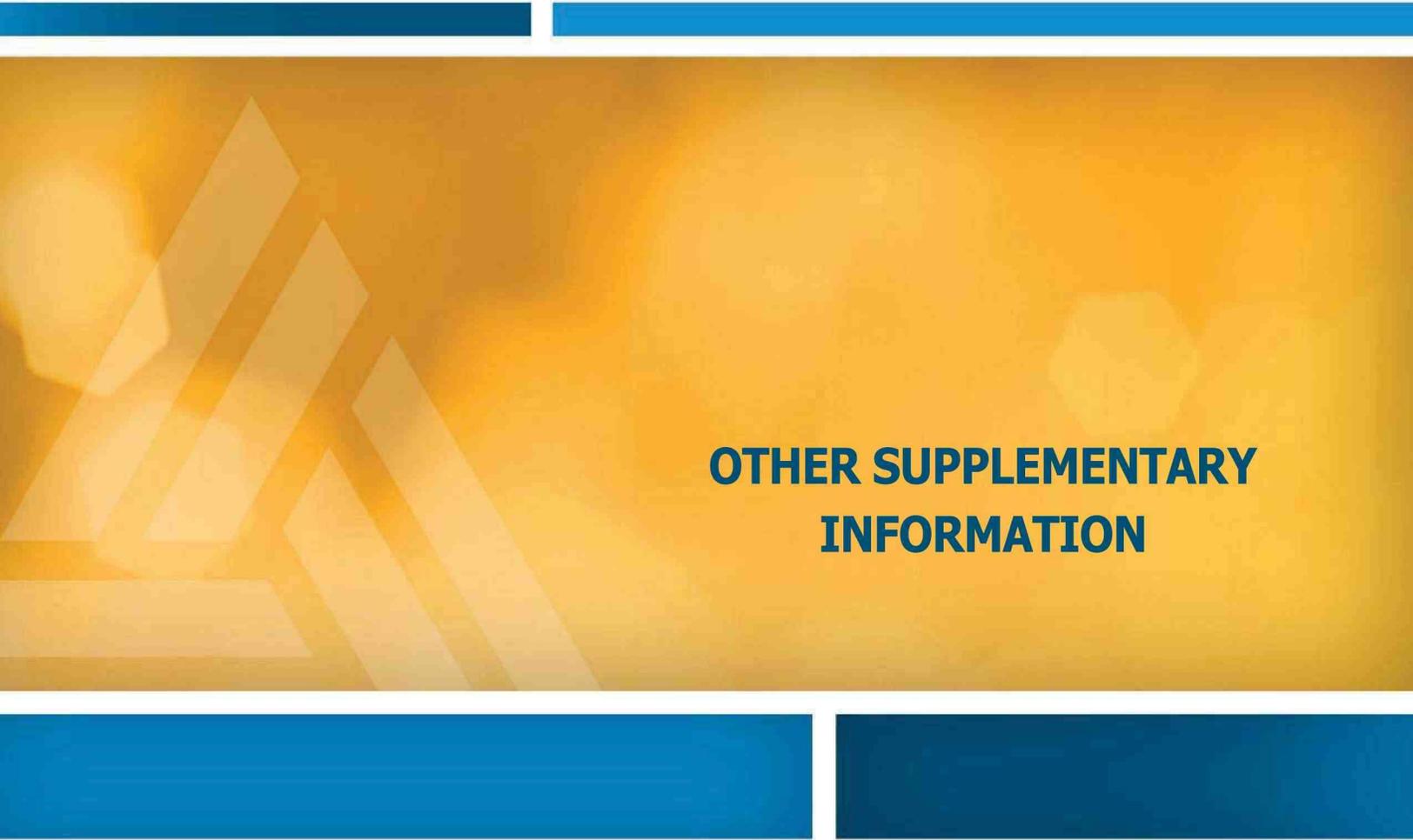
Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	17 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% 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 75 requires 10 fiscal years of data to be provided in this schedule. However, until a full 10-year trend is compiled, this schedule provides the information of those years for which information is available.

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**OTHER SUPPLEMENTARY
INFORMATION**

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

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

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

Special revenue fund: The 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.

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

September 30, 2019

	Special Revenue Funds			
	Tax Increment Reinvestment Zone Fund	Texas Capital Fund	Home Grant Fund	Community Development Block Grant Fund
ASSETS				
Cash and cash equivalents	\$ 92,394	\$ 17,769	\$ -	\$ 100
Receivables				
Other	15,192	89,367	-	-
Due from other funds	40,076	-	-	-
Total assets	147,662	107,136	-	100
LIABILITIES				
Accounts payable	-	29,868	-	-
Due to other funds	-	78,768	-	100
Total liabilities	-	108,636	-	100
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues - other	15,192	-	-	-
Total deferred inflows of resources	15,192	-	-	-
FUND BALANCES (DEFICIT)				
Restricted fund balances:				
Tax increment reinvestment zone	132,470	-	-	-
Assigned	-	-	-	-
Unassigned	-	(1,500)	-	-
Total fund balances (deficit)	132,470	(1,500)	-	-
Total liabilities, deferred inflows of resources and fund balance	\$ 147,662	\$ 107,136	\$ -	\$ 100

Special Revenue Funds - Continued

Promotion of La Feria Fund	Total	Total Nonmajor Governmental Funds
\$ 15,447	\$ 125,710	\$ 125,710
-	104,559	104,559
6,332	46,408	46,408
21,779	276,677	276,677
-	29,868	29,868
-	78,868	78,868
-	108,736	108,736
-	15,192	15,192
-	15,192	15,192
-	132,470	132,470
21,779	21,779	21,779
-	(1,500)	(1,500)
21,779	152,749	152,749
\$ 21,779	\$ 276,677	\$ 276,677

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

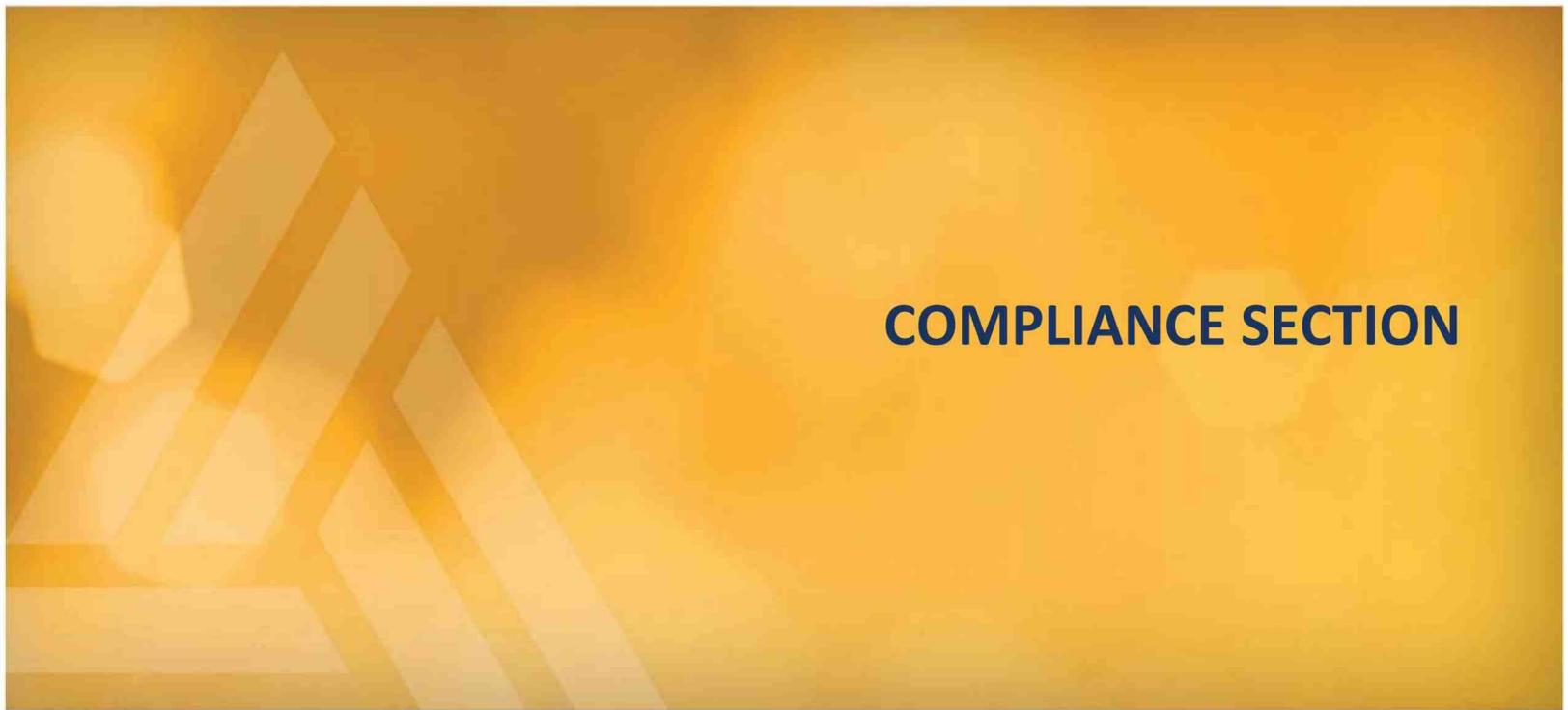
For the year ended September 30, 2019

	Special Revenue Funds			
	Tax Increment Reinvestment Zone Fund	Texas Capital Fund	Home Grant Fund	Community Development Block Grant Fund
Revenues				
Property taxes	\$ 65,412	\$ -	\$ -	\$ -
Hotel / motel tax	-	-	-	-
Fees and charges	-	-	-	-
Contributions and donations	-	-	-	-
Total revenues	65,412	-	-	-
Expenditures				
Current				
General government	1,500	-	-	-
Culture and recreation	-	-	-	-
Total expenditures	1,500	-	-	-
Excess (deficiency) of revenues over (under) expenditures	63,912	-	-	-
Other financing sources (uses)				
Transfers in	40,000	-	-	-
Transfers out	(206,743)	-	(2,761)	-
Total other financing sources (uses)	(166,743)	-	(2,761)	-
Net change in fund balances	(102,831)	-	(2,761)	-
Fund balance, beginning	235,301	(1,500)	2,761	-
Fund balance, ending	\$ 132,470	\$ (1,500)	\$ -	\$ -

Special Revenue Funds - Continued

Promotion of La Feria Fund	Total	Total Nonmajor Governmental Funds
\$ -	\$ 65,412	\$ 65,412
12,278	12,278	12,278
17,414	17,414	17,414
600	600	600
30,292	95,704	95,704
-	1,500	1,500
40,169	40,169	40,169
40,169	41,669	41,669
(9,877)	54,035	54,035
-	40,000	40,000
-	(209,504)	(209,504)
-	(169,504)	(169,504)
(9,877)	(115,469)	(115,469)
31,656	268,218	268,218
\$ 21,779	\$ 152,749	\$ 152,749

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COMPLIANCE SECTION



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of La Feria as of and for the year ended September 30, 2019, 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 June 23, 2020.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of La Feria Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003.

City of La Feria, Texas's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Case, Riggs & Ingram, L.L.C.

Harlingen, Texas
June 23, 2020

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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 the 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 the City of La Feria Texas's, major federal programs for the year ended September 30, 2019. 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 the 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the City of La Feria Texas's compliance.

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Opinion on Each Major Federal Program

In our opinion, the City of La Feria Texas's, 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, 2019.

Report on Internal Control over Compliance

Management of the 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 the 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 the 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Carr, Riggs & Ingram, L.L.C.

Harlingen, Texas
June 23, 2020

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

For the Year Ended September 30, 2019

Federal Grantor/ Pass/Through Grantor Program Title	(01)	(02) Federal CFDA Number	(A2) Pass-through Entity Identifying Number	(03) Awarded to Subrecipients	(04) Expenditures
FEDERAL					
U. S. Department of Housing and Urban Development					
Passed through the Texas Department of Agriculture Community Development Block Grants/State's Program		14.228	7217241	-	259,324
Total U.S. Department of Housing and Urban Development				-	259,324
U.S. Department of Homeland Security					
Passed through the Texas Department of Public Safety & Cameron County Homeland Security Grant Program		97.067	3186704	-	39,601
Passed through the Texas Department of Public Safety & Cameron County Staffing for Adequate Fire and Emergency Response (SAFER)		97.083	EMW-2017-FH-00264	-	81,769
Total U.S. Department of Homeland Security				-	121,370
U.S. Environmental Protection Agency					
Passed through the Texas Water Development Board <i>CWSRF Cluster</i>					
Capitalization Grants for Clean Water State Revolving Funds		66.458	G110014	-	189,890
<i>Total CWSRF Cluster</i>				-	189,890
Passed through the Texas Water Development Board <i>DWSRF Cluster</i>					
Capitalization Grants for Drinking Water State Revolving Funds		66.468	G110026	-	316,089
<i>Total DWSRF Cluster</i>				-	316,089
Total passed through the Texas Water Development Board				-	505,979
Total U.S. Environmental Protection Agency				-	505,979
Total Federal Awards Expended				\$ -	\$ 886,673

See accompanying notes on accounting policies of Schedule of Expenditures of Federal Awards

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

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, 2019.

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, 2019, 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. \$7,076,051 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. \$6,735,576 of these proceeds have been expended to date. Expenditures for the current period are reported on the Schedule of Expenditures of Federal Awards.

Included in expenditures reported for CFDA 66.468 are \$117,575 of allowable costs which were expended in fiscal years prior to the year ended September 30, 2019, but were approved for inclusion in this award by the TWDB in the current year.

NOTE 4 – NONCASH AWARDS

The City did not receive any noncash awards during the year ended September 30, 2019.

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? yes X no

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

Noncompliance material to financial statements
noted? X yes no

Federal Awards

Internal control over major programs:

* Material weakness(es) identified? yes X no

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program
66.468	DWSRF Cluster

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**

<u>PROGRAM</u>	<u>DESCRIPTION</u>
2019-001	City Accounting
Criteria:	The City accounting and financial reporting process should involve systematic procedures 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, various adjusting entries were required in order to properly state account balances and reconcile the ledger balances with subsidiary support or other evidence.
Context:	Significant adjustments involved pool cash and interfund balances, interfund transfers, fund balances and deferred inflows. Other minor adjustments and reclassifications were also made in a variety of areas.
Cause:	Management has significantly revised numerous accounting procedures and re-assigned duties within the department, which has improved the closing process compared to prior years. However, certain tasks necessary to properly state all account balances may have not been clearly defined in written procedures or expectations.
Effect:	The City's accounting records required adjustments in order to be correctly stated at year end. Financial information for certain account balances was not properly adjusted until after the audit was completed.
Recommendation:	The City should consider developing written accounting policies and procedures specific to annual and periodic closing procedures. These may involve pre-defined task lists and/or checklists and verifications that all accounts in the trial balance have been adequately reviewed and adjusted. If feasible, this process should occur regularly throughout the year in order to alleviate administrative burden at year end.
Views of Responsible Officials:	See corrective action plan section.

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**

2019-002	Compliance with Bond Covenants
Criteria:	The City Water & Sewer System has issued various revenue bonds, which are also governed by various regulations of the Texas Water Development Board and have certain covenants which require the establishment of a bond debt service reserve fund.
Condition Found:	The utility system revenue bond reserve fund had been established and maintained with proper balances, until the funds were drawn out during the 2016 fiscal year in order to pay the debt service of the revenue bonds. The City has been depositing an amount every month based on agreed upon arrangement with the TWDB. However, as of September 30, 2019, 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 City was not able to fully replenish the reserve fund in 2019.
Cause:	The City's financial condition has not significantly improved and continues to face various challenges. The lack of available resources resulted in the Water and Sewer System being unable to fully 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 continue to fund the reserve fund in accordance with the arrangement established with the TWDB, or else fully fund the reserve as soon as possible.
Views of Responsible Officials:	See corrective action plan section.

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**

2019-003	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 and are to be used only for those purposes.
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 issuance of the 2015 Certificates of Obligation, with the intention of repaying it. As of the fiscal year ended September 30, 2019, the amount has still not been replenished. The General Fund continues to have a significant deficit in the fund balance which is preventing the City from being able to significantly replenish the bond fund.
Context:	The City's General Fund financial condition improved from current year results, but the deficit is still very substantial. Much of the fund balance is tied up in deferred inflows for long term grant projects.
Cause:	A variety of factors, including deficit fund balances in the City General Fund, longer than normal time periods elapsing for the City to receive reimbursement on substantial expenditures for projects funded by grants, as well as cost overruns on those same projects, contributed to the declining financial condition of the City.
Effect:	Until the amounts are replenished or the projects for which the restricted funds were issued are otherwise funded, the City is out of compliance with the bond ordinance since funds were not used for the purposes for which they were originally issued.
Recommendation:	We recommend the City implement a formal written action plan designed to improve the City's financial condition and replenish the funding to the Bond Fund. Future year budgets need to be monitored closely and planned for with these circumstances in mind. The City may also consider consulting with legal counsel or bond counsel on ramifications of failing to comply with the restrictions of the bond ordinance.
Views of Responsible Officials:	See corrective action plan section.

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

Section III – Federal Award Findings and Questioned Costs

None noted that were required to be reported

CITY OF LA FERIA



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

PROGRAM DESCRIPTION

Findings - Financial Statements

Schedule Reference Number: (2019-001)
City Accounting

Corrective Action Plan:

CORRECTIVE ACTION PLAN

The Finance Department is preparing an end of year checklist, to include all funds, which will help identify accounts that need reviewing, prior to closing of its fiscal year. Finance Department will also review its current cash and procurement policies, adjust as necessary, to ensure that all accounting transactions continue to comply with state and federal regulations.

Schedule Reference Number: (2019-002)
Compliance with Bond Covenants

Corrective Action Plan:

The City has an agreement with the Texas Water Development Board (TWDB) to deposit \$8,650 every month into a holding account until the reserve is met. The City has and continues to deposit the required amounts and report to TWDB regularly in accordance with this agreement.

Schedule Reference Number: (2019-003)
Use of Restricted Funds, City Financial Condition

Corrective Action Plan:

The City understands that certain projects related to the Series 2015 are still needed; therefore, it has begun the process of exploring all funding opportunities, in order to determine if a viable option is available and feasible. The Finance Department will continue monitoring future budgets in hopes that expenses will not exceed revenues. Potential future savings, at a minimum, are considered as possible repayment to the appropriate fund(s), in order to reduce the amount owed by the general fund.

Contact Person:

Frank Rios, Finance Director

Implementation Time Frame:

Ongoing during the current fiscal year

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CITY OF LA FERIA



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

DESCRIPTION

STATUS OF PRIOR YEAR FINDINGS

Schedule Reference Number:
(2018-001)

City Accounting

Corrective Action Plan:

Significant progress has been made in improving the City accounting process. A new accountant was hired on October 18, 2018 and is assisting the Finance Department with grants, loans, and other duties assigned to by the Finance Director. While this is still reported as current year finding 2019-001, the finding is considered less severe and is classified as a "significant deficiency" rather than a "material weakness."

Schedule Reference Number:
(2018-002)

Compliance with Bond Covenants

Corrective Action Plan:

The City reached an agreement with the Texas Water Development Board (TWDB) to deposit \$8,650 per month into a reserve fund until the reserve is fully replenished. For the fiscal year ended September 30, 2019, the City has complied with this arrangement and is making progress toward fully replenishing this reserve fund as required by the TWDB. However the amount required by the covenants is not yet met, so this is still considered a current year finding 2019-002.

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CITY OF LA FERIA



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

DESCRIPTION

STATUS OF PRIOR YEAR FINDINGS

Schedule Reference Number:
(2018-003)

Use of Restricted Funds, City Financial Condition

Corrective Action Plan:

See current year finding 2019-003. The City has replenished amounts previously advanced from the TIRZ fund to the General Fund but has yet to make significant progress to replenishing the bond fund.

Schedule Reference Number:
(2018-004)

Bidding and Procurement

Corrective Action Plan:

The City continues to comply with bidding and procurement requirements in accordance with the Texas Government Code Sec. 2155.063. No further corrective action is necessary at this time.

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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.