



CITY OF LA FERIA, TEXAS

FINANCIAL STATEMENTS

September 30, 2020



City of La Feria, Texas
Table of Contents
September 30, 2020

Page No.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1
-------------------------------------	----------

MANAGEMENT'S DISCUSSION AND ANALYSIS	7
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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
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City of La Feria, Texas
Table of Contents
September 30, 2020

	<u>Page No.</u>
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	81
Notes to Required Supplementary Information	82
Schedule of Changes in Net Pension Liability and Related Ratios for Agent Multiple Employer Pension Plan – Texas Municipal Retirement System	83
Schedule of Contributions for Agent Multiple Employer Pension Plan – Texas Municipal Retirement System	84
Notes to Schedule of Contributions for Agent Multiple Employer Pension Plan – Texas Municipal Retirement System	85
Schedule of Changes in Total OPEB Liability and Related Ratios	86
Notes to Schedule of Changes in Total OPEB Liability and Related Ratios	87
 OTHER SUPPLEMENTARY INFORMATION	
<i>Nonmajor Governmental Funds</i>	
Combining Balance Sheet	90
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	92
 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>	95
Schedule of Findings and Responses	99
Corrective Action Plan	103
Summary Schedule of Prior Year Audit Findings	104
Exit Conference	106



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, 2020, and the related notes to the financial statements, which collectively comprise the City of La Feria, Texas' 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 auditor's 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, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The previously issued financial statements have been restated to account for the correction of a misstatement related to a prior period. As further discussed in note 2, the City's financial statements were restated and the effect of the adjustments was a decrease to beginning net position. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, 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.

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' basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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The other supplementary information is the responsibility of management and was 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 is 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 22, 2021, on our consideration of the City of La Feria, Texas' 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' 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 the City of La Feria, Texas' internal control over financial reporting and compliance.

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

Harlingen, Texas
June 22, 2021

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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, 2020.

Financial Highlights

- The assets and deferred outflows of the City's primary government exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$18,239,376 (net position). Of this amount, \$258,122 is unrestricted net position.
- The assets of the City's discretely presented component units exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$38,970,383 (net position). Unrestricted net position of \$601,551 is the result of the IDC having unrestricted net position of \$642,540, and unrestricted net deficit of \$(40,989) 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 \$1,781,660, an increase of \$342,586 from the prior year.
- At the end of the current fiscal year, the fund balance for the general fund had a deficit balance of \$2,767,522, primarily due to substantial delays in receiving grant reimbursements.
- The City's total debt (excluding component unit debt) decreased by \$1,305,973 (7.7%) 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 four non-major governmental funds. Information for 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.

Data from the non-major governmental funds are combined into a single, aggregated presentation.

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

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 and 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 La Feria Industrial Development Corporation and the La Feria Waterworks and Sewer System.

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 \$18,239,376 at the close of the most recent fiscal year.

	Governmental Activities		Business-type Activities		Total		Component Unit Activities	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Current and other assets	\$ 3,844,541	\$ 3,660,937	\$ 1,676,149	\$ 1,629,998	\$ 5,520,690	\$ 5,290,935	\$ 3,136,327	\$ 3,581,838
Non current assets	2,381,914	2,721,914	39,160	-	2,421,074	2,721,914	\$ 331,102	
Capital assets	26,646,928	27,634,436	1,098,422	1,210,004	\$ 27,745,350	28,844,440	44,564,432	46,528,061
Total assets	32,873,383	34,017,287	2,813,731	2,840,002	35,687,114	36,857,289	48,031,861	50,109,899
Deferred outflows of resources	200,802	316,817	12,231	13,425	213,033	330,242	89,699	137,152
Long-term liabilities outstanding	15,630,514	16,635,584	90,019	390,921	15,720,533	17,026,505	5,208,317	5,737,142
Other liabilities	495,997	516,945	391,036	450,061	887,033	967,006	3,866,772	4,063,905
Total liabilities	16,126,511	17,152,529	481,055	840,982	16,607,566	17,993,511	9,075,089	9,801,047
Deferred inflows of resources	170,331	24,475	10,374	492	180,705	24,967	76,088	30,052
Net position								
Net investment in capital assets	15,298,846	15,117,371	873,737	611,454	16,172,583	15,728,825	38,210,004	39,597,763
Restricted	1,808,671	1,426,334	-	-	1,808,671	1,426,334	158,828	319,949
Unrestricted	(1,202,674)	613,395	1,460,796	1,400,499	258,122	2,013,894	601,551	498,240
Total net position	\$ 15,904,843	\$ 17,157,100	\$ 2,334,533	\$ 2,011,953	\$ 18,239,376	\$ 19,169,053	\$ 38,970,383	\$ 40,415,952

Eighty-nine 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, \$1,808,671 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$258,122, may be used to meet the government's ongoing obligations to citizens and creditors.

The unrestricted net position for governmental activities decreased by \$(1,816,069) during the current fiscal year due to the City recognizing an allowance on certain receivables from grant agencies, which the City is negotiating for final collection. In addition, the City had an increase in deferred inflows related to their net pension and OPEB liability which caused a decrease in net position.

City of La Feria, Texas

Management's Discussion and Analysis

The discretely presented component units' net position decreased by \$(1,097,719) during the current fiscal year which can be attributed to a reduction in capital project activities and related grant receipts in the current year.

Governmental Activities

Governmental activities decreased the City's net position by \$(1,252,257). The key elements of this decrease is primarily attributed to the City having created an allowance in the amount of \$(569,206) for some grant receivables that were recorded in prior years but had yet to be collected by the City as of the current fiscal year.

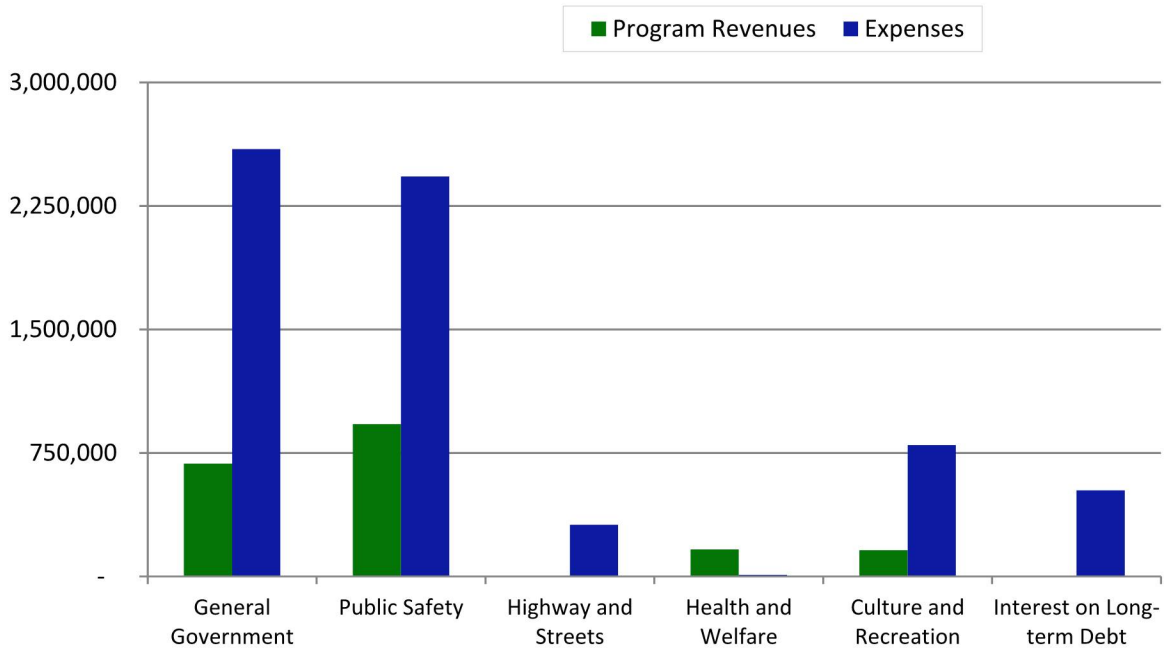
Net investment in capital assets remained comparable overall to the prior year; restricted net position increased \$382,337 primarily due to an increase in the property tax collections for debt service and unrestricted net position decreased by \$(1,816,069) is primarily due to creation of an allowance for grant receivables and also due to an increase in deferred inflows related to the City's net pension and OPEB liability as previously stated.

	Governmental Activities		Business-type Activities		Total		Component Unit Activities	
	09/30/20	09/30/19	09/30/20	09/30/19	09/30/20	09/30/19	09/30/20	09/30/19
Revenues:								
Program revenues								
Charges for services	\$ 1,064,457	\$ 965,220	\$ 1,001,107	\$ 987,969	\$ 2,065,564	\$ 1,953,189	\$ 2,408,942	\$ 2,423,063
Operating grants and contributions	689,627	296,996	44,195	44,193	733,822	341,189	-	-
Capital grants and contributions	178,447	495,001	-	-	178,447	495,001	92,378	765,303
General revenues								
Property tax	1,717,263	1,683,712	-	-	1,717,263	1,683,712	-	-
Other taxes	1,125,732	1,117,775	373,815	364,296	1,499,547	1,482,071	373,815	364,296
Other	488,242	643,576	4,280	6,637	492,522	650,213	23,217	56,158
Total revenues	5,263,768	5,202,280	1,423,397	1,403,095	6,687,165	6,605,375	2,898,352	3,608,820
Expenses								
General government	2,595,170	1,857,326	-	-	2,595,170	1,857,326	-	-
Public safety	2,428,992	2,284,306	-	-	2,428,992	2,284,306	-	-
Highways/streets	313,659	290,624	-	-	313,659	290,624	-	-
Health and welfare	9,713	7,633	-	-	9,713	7,633	-	-
Culture and recreation	797,897	990,598	-	-	797,897	990,598	-	-
Interest on long-term debt	522,008	551,922	19,356	24,098	541,364	576,020	-	-
Sanitation	-	-	748,093	698,522	748,093	698,522	-	-
Economic development	-	-	181,954	153,347	181,954	153,347	-	-
Waterworks system	-	-	-	-	-	-	3,620,201	3,024,327
IDC	-	-	-	-	-	-	375,870	396,725
Total program expenses	6,667,439	5,982,409	949,403	875,967	7,616,842	6,858,376	3,996,071	3,421,052
Increase/(decrease) in net assets before transfers								
	(1,403,671)	(780,129)	473,994	527,128	(929,677)	(253,001)	(1,097,719)	187,768
Transfers	151,414	468,368	(151,414)	(468,368)	-	-	-	-
Increase (decrease) in net position	(1,252,257)	(311,761)	322,580	58,760	(929,677)	(253,001)	(1,097,719)	187,768
Net position - beginning	17,157,100	17,468,861	2,011,953	1,953,193	19,169,053	19,422,054	40,068,102	40,228,184
Prior period adjustment	-	-	-	-	-	-	-	(347,850)
Net position - ending	\$ 15,904,843	\$ 17,157,100	\$ 2,334,533	\$ 2,011,953	\$ 18,239,376	\$ 19,169,053	\$ 38,970,383	\$ 40,068,102

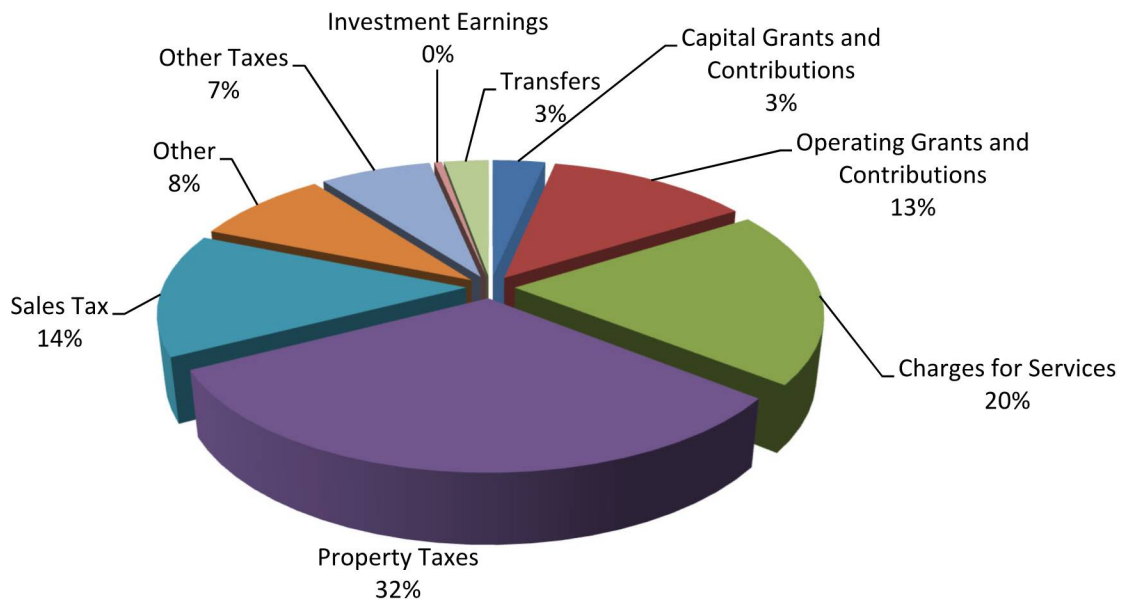
City of La Feria, Texas Management's Discussion and Analysis

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

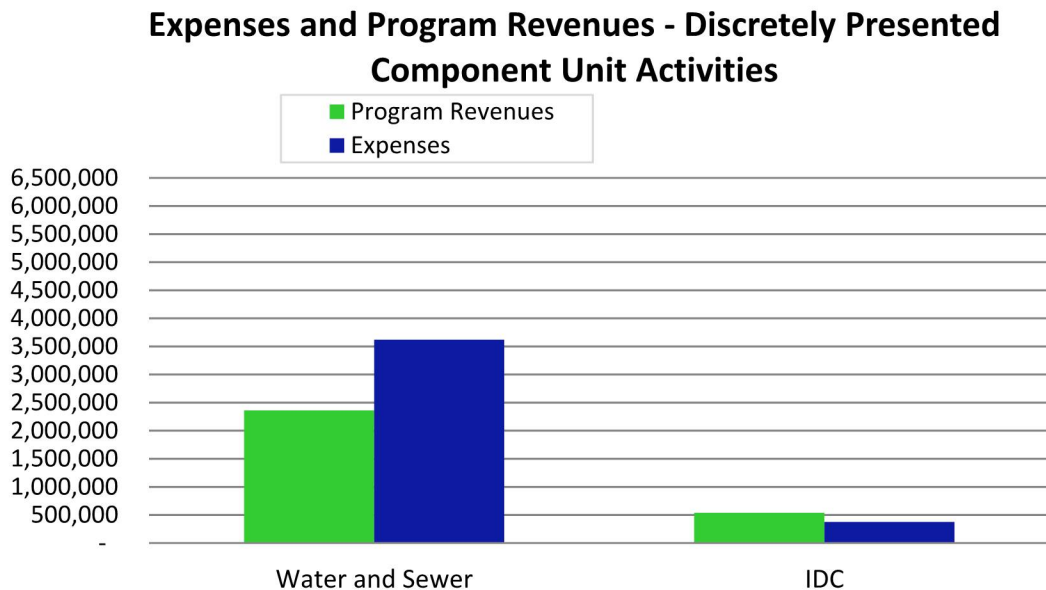
Business-type activities consist of operating expenses of \$949,403, transfers-out totaling \$151,414, and revenues of \$1,423,397 resulting in an increase in net position of \$322,580.

Discretely Presented Component Units

Component unit's activities decreased their net position by \$(1,097,719), accounting for approximately 2.74% decrease in net position. Key elements of this decrease are as follows:

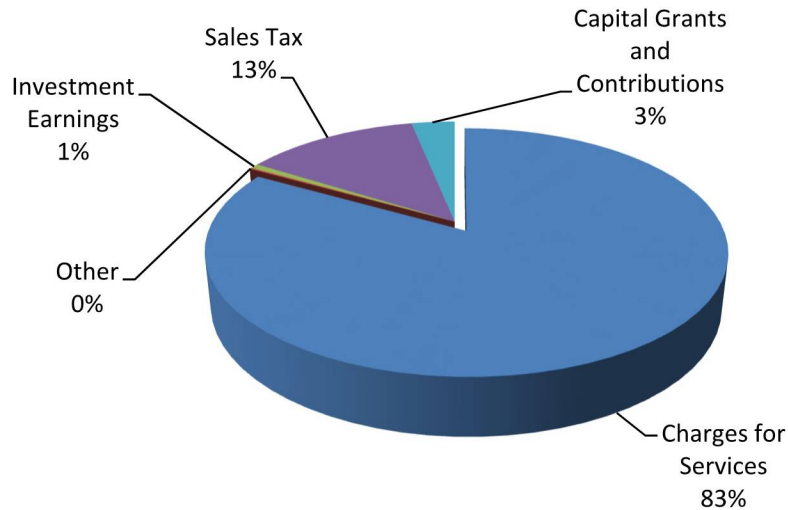
- The Waterworks and Sewer System's net position decreased by \$(1,259,097). The key factor in this decrease is mainly attributed to the decrease in capital grants and contribution revenue that is associated with the decrease in capital activity of the Texas Water Development Board loan forgiveness projects.
- The La Feria Industrial Development Corporation's net position increased by \$161,378 during the current fiscal year and is attributed sales tax and lease revenues.

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:



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

Revenue by Source - Component Unit Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, an unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following schedule presents a summary of general fund, special revenue funds, debt service fund, and capital projects fund revenues for the years ended September 30, 2020 and 2019.

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

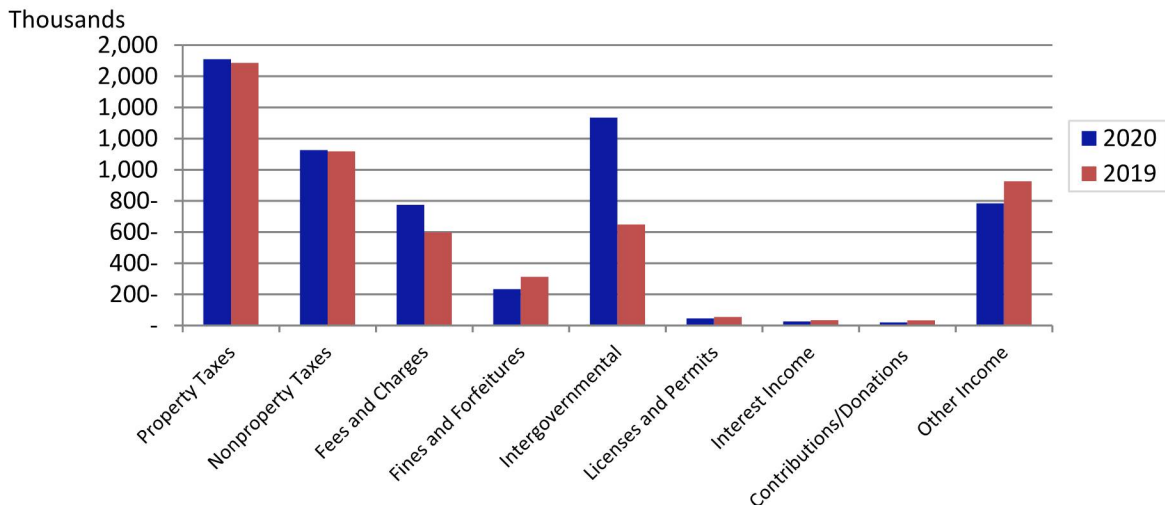
	2020 Amount	Percent of 2020 Total	2019 Amount	Percent of 2019 Total	Increase (Decrease) Over 2019	Percent of Increase (Decrease)
Revenues						
Property taxes	\$1,709,028	28.24%	\$1,685,474	31.16%	\$ 23,554	1.40%
Non-property taxes	1,125,732	18.60%	1,117,775	20.66%	7,957	0.71%
Fees and charges	774,609	12.80%	598,206	11.06%	176,403	29.49%
Fines and forfeitures	233,283	3.85%	312,048	5.77%	(78,765)	-25.24%
Intergovernmental	1,334,074	22.05%	648,689	11.99%	685,385	105.66%
Licenses and permits	45,565	0.75%	54,966	1.02%	(9,401)	-17.10%
Interest income	26,177	0.43%	33,878	0.63%	(7,701)	-22.73%
Contributions and donations	19,495	0.32%	33,345	0.62%	(13,850)	-41.54%
Miscellaneous income	783,539	12.95%	925,367	17.11%	(141,828)	-15.33%
	\$6,051,502	100.00%	\$5,409,748	100.00%	\$ 641,754	11.86%

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

Revenues from governmental funds increased by \$641,754 or 11.86% compared to the prior year. Key elements of this increase shown above are as follows:

- Intergovernmental revenues increased by \$685,385 or 105.66% compared to last year. The intergovernmental revenues consisted mostly of COVID-19 relief funds received through TDEM, a grant from the Legacy Foundation for the purchase of a new fire truck, and a new grant received from the Texas Parks and Wildlife to fund improvements to the City's parks in the amount of \$1,000,000. The City began the engineering stage of the park project during the year and recognized \$127,500 as revenue for the current fiscal year. The remaining \$872,500 is recorded as unearned revenue on the City's financials and will be recognized as the project is completed in future fiscal years.
- Revenue from property and non-property taxes increased by 1.40% and .71%, respectively; this reflects the increased in business activity in the community.
- Fees and charges increased about 29.49% compared to the prior year due to the new emergency services fee billed to residents in addition to an increase in fire calls from the City's service contract with Cameron County Emergency Services

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, 2020 and 2019.

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

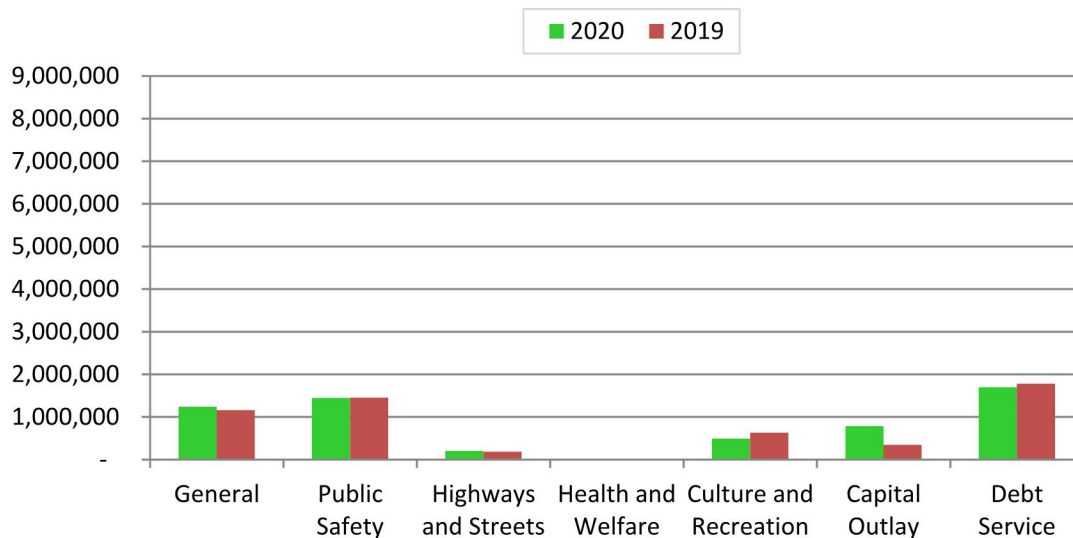
	2020 Amount	Percent of 2020 Total	2019 Amount	Percent of 2019 Total	Increase (Decrease) Over 2019	Percent of Increase (Decrease)
Expenditures						
General	\$ 1,237,442	21.12%	\$ 1,157,462	20.85%	\$ 79,980	6.91%
Public safety	1,444,670	24.65%	1,450,323	26.13%	(5,653)	-0.39%
Highways and streets	200,387	3.42%	184,695	3.33%	15,692	8.50%
Health and welfare	6,349	0.11%	4,887	0.09%	1,462	29.92%
Culture and recreation	490,976	8.38%	629,429	11.34%	(138,453)	-22.00%
Capital outlay	783,109	13.36%	345,750	6.23%	437,359	126.50%
Debt service	1,697,397	28.96%	1,778,329	32.04%	(80,932)	-4.55%
	\$ 5,860,330	100.00%	\$ 5,550,875	100.00%	\$ 309,455	5.57%

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

Governmental funds incurred expenditures of \$5,860,330, approximately 5.57% more expenditures for the City of La Feria, Texas compared to last year. Key elements of this increase are as follows:

- Capital Outlay expenditures increased by \$437,359 due to the purchase of a new fire truck in the current year along with two new vehicles for the City's police department.
- General expenditures increased by \$79,980 due to the City having increased its match for employees' contributions to TMRS, in addition to a one-time pay raise of 2% approved by the City commission in September 2019.
- Culture and recreation decreased by \$(138,453) compared to last year due to the effects of the COVID-19 pandemic which caused sport league events and the City's swimming pool to close down for part of the year.

Governmental Expenditures



Governmental Fund Balances

The General Fund's fund balance began as a deficit of \$(2,755,960) and was increased by \$11,562 in fiscal year 2019-2020. Overall expenditures increased moderately, but these were offset by an increase in intergovernmental revenues along with an increase in the City's fees and charges. Much of the increase in expenditures was due to capital asset additions and increased expenditures in general government.

The General Fund 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 \$290,776 in fiscal year 2019-2020 due primarily to an increase in property values in the current year.

The Certificates of Obligation Series 2015 Fund's fund balance remained at \$2,788,414. 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 via the City's Economic Development Corporation (EDC). Operating revenue from these activities was consistent with the prior year with a very slight increase of \$9,344 in the waste disposal fund and \$13,315 in the EDC during 2020.

Operating expenses in the business-type activities increased by \$49,571 or 7.10% for the waste disposal fund and \$28,607 or 18.66% for the EDC. This was primarily due to additional personnel services needed to deal with flooding that occurred in July 2020 for Hurricane Hanna.

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

The City's Component Units' activities' revenues decreased by \$710,468 compared to the prior year, a 19.67% decrease. This is primarily due to capital grants and contributions decreasing by \$672,925 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 increased by a net amount of \$575,019, a 16.81%. This is primarily due to an increase in depreciation expense for the current year as the System placed a significant amount of assets into service in the prior year and this year was the first full fiscal year of depreciation on these assets.

General Fund Budgetary Highlights

The original adopted budget had projected a no net change in fund balance and no budget amendments were made throughout the year, resulting in the final amended budget being equal to the adopted budget. The final actual change in fund balance was a decrease in fund balance of \$(11,562). Expenditures did exceed budgeted appropriations, which was primarily due to capital outlay for a fire truck and two police vehicles, and the overall change in fund balance was unfavorable compared to the original budget. Revenues collected were more than budgeted.

Revenues

- Revenues were \$816,630 more than budgeted. The primary driver for this was an increase in intergovernmental revenues mostly from COVID-19 relief funds, a grant from the Legacy Foundation for the purchase of a new fire truck, and a new grant received from the Texas Parks and Wildlife to fund improvements to the City's parks. In addition, the City saw an increase in fees and charges as a result of the newly enacted emergency services fee.

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

Expenditures

- Expenditures exceeded appropriations in total by \$143,074. This was due primarily to capital outlay exceeding appropriations by \$306,109 as the result of a fire truck acquired with a grant received from the Legacy Foundation and the purchase of two police vehicles.
- Other areas that exceeded appropriations are general government, which was due to salary increases and an increase in other administrative expenditures as a result of the COVID-19 pandemic. Capital outlay exceeded appropriations due to the purchase of a new fire truck and two police vehicles. Debt service interest 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, 2020, amounts to \$27,745,350 (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 \$1,099,090 or approximately 3.81%.

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

- Purchase of Fire Truck
- Purchase of two police vehicles

	City of La Feria's Capital Assets (Net of depreciation)					
	Governmental Activities		Business-type Activities		Total	
	9/30/2020	9/30/2019	9/30/2020	9/30/2019	9/30/2020	9/30/2019
Land	\$ 1,721,963	\$ 1,721,963	\$ 388,558	\$ 388,558	\$ 2,110,521	\$ 2,110,521
Building and systems	22,155,353	23,252,160	477,294	499,321	22,632,647	23,751,481
Improvements and other than buildings	1,024,618	1,427,841	-	-	1,024,618	1,427,841
Machinery and equipment	1,614,194	1,232,472	232,570	322,125	1,846,764	1,554,597
Construction in progress	130,800	-	-	-	130,800	-
	<u>\$ 26,646,928</u>	<u>\$ 27,634,436</u>	<u>\$ 1,098,422</u>	<u>\$ 1,210,004</u>	<u>\$ 27,745,350</u>	<u>\$ 28,844,440</u>

Additional information on the City's capital assets can be found in Note 3 beginning on page 56 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 \$13,455,000 of (limited) revenue certificates of obligation bonds, \$219,855 of tax notes, and \$2,090,000 of water and wastewater revenue bonds. The City's total long-term debt, including component unit debt, had a net decrease of \$1,834,806 during this fiscal year. The key factors in the net decrease was the timely repayment of debt maturities and increases in the net pension and OPEB liabilities. Additional information on the City's long-term debt begins in Note 4 on page 61 of this report.

Economic Factors and Next Year's Budgets and Rates

- The occupancy rate of the government's central business district is estimated to have remained at 93%.
- Sales tax increased by 4.7% compared to prior year's increase of 6.7%. 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 2020-21 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, 2020

	Primary Government			Component Units
	Governmental Activities	Business - type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 634,383	\$ 305,706	\$ 940,089	\$ 2,607
Investments	1,258,524	20,197	1,278,721	387,173
Receivables (net of allowance for uncollectible)	1,337,235	119,705	1,456,940	508,993
Internal balances	(643,366)	643,366	-	-
Due from component units	1,209,339	585,991	1,795,330	-
Inventories	18,125	1,184	19,309	42,375
Prepaid assets	22,645	-	22,645	-
Restricted assets:				
Cash and cash equivalents	7,656	-	7,656	1,729,804
Investments	-	-	-	465,375
Notes receivable	2,381,914	39,160	2,421,074	331,102
Capital assets (net of accumulated depreciation)				
Land	1,721,963	388,558	2,110,521	2,839,930
Building and system	22,155,353	477,294	22,632,647	5,589,861
Improvements other than buildings	1,024,618	-	1,024,618	-
Machinery and equipment	1,614,194	232,570	1,846,764	1,916,916
Infrastructure	-	-	-	33,880,111
Easements	-	-	-	117,758
Certificate of convenience and necessity	-	-	-	115,978
Construction in progress	130,800	-	130,800	103,878
Total assets	32,873,383	2,813,731	35,687,114	48,031,861
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	177,955	10,839	188,794	79,493
Deferred outflows related to OPEB	22,847	1,392	24,239	10,206
Total deferred outflows of resources	200,802	12,231	213,033	89,699
LIABILITIES				
Accounts payable and other				
current liabilities	271,962	6,711	278,673	222,471
Due to primary government	-	-	-	1,795,330
Due to component units	18,265	163,364	181,629	-
Unearned revenue	1,078,270	220,961	1,299,231	1,664,550
Liabilities payable from restricted assets	-	-	-	184,421
Noncurrent liabilities:				
Net pension liability	1,287,662	78,428	1,366,090	575,206
Net OPEB liability	129,158	7,867	137,025	57,696
Due within one year	1,286,450	-	1,286,450	604,670
Due in more than one year, net	12,927,244	3,724	12,930,968	3,970,745
Total liabilities	16,999,011	481,055	17,480,066	9,075,089
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to net pension liability	163,681	9,969	173,650	73,117
Deferred inflows related to total OPEB liability	6,650	405	7,055	2,971
Total deferred inflows of resources	170,331	10,374	180,705	76,088
NET POSITION				
Net investment in capital assets	15,298,846	873,737	16,172,583	38,210,004
Restricted for:				
Debt service	1,583,569	-	1,583,569	-
Capital projects funds	-	-	-	158,828
Tax increment reinvestment zone	225,102	-	225,102	-
Unrestricted	(1,202,674)	1,460,796	258,122	601,551
Total net position	\$ 15,904,843	\$ 2,334,533	\$ 18,239,376	\$ 38,970,383

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, 2020

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 2,595,170	\$ 307,078	\$ 377,925	\$ -
Public safety	2,428,992	621,306	252,863	50,947
Highways and streets	313,659	-	-	-
Health and welfare	9,713	104,803	58,839	-
Culture and recreation	797,897	31,270	-	127,500
Interest on long term debt	522,008	-	-	-
Total governmental activities	6,667,439	1,064,457	689,627	178,447
Business - type activities:				
Sanitation services	748,093	977,635	-	-
Economic Development	181,954	23,472	44,195	-
Interest expense	19,356	-	-	-
Total business-type activities	949,403	1,001,107	44,195	-
Total primary government	7,616,842	2,065,564	733,822	178,447
Component Units:				
Waterworks and Sewer Systems	3,620,201	2,268,726	-	92,378
Industrial Development Corporation	375,870	140,216	-	-
Total component units	\$ 3,996,071	\$ 2,408,942	\$ -	\$ 92,378

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
\$ (1,910,167)	\$ -	\$ (1,910,167)	\$ -
(1,503,876)	-	(1,503,876)	-
(313,659)	-	(313,659)	-
153,929	-	153,929	-
(639,127)	-	(639,127)	-
(522,008)	-	(522,008)	-
(4,734,908)	-	(4,734,908)	-
-	229,542	229,542	-
-	(114,287)	(114,287)	-
-	(19,356)	(19,356)	-
-	95,899	95,899	-
(4,734,908)	95,899	(4,639,009)	-
-	-	-	(1,259,097)
-	-	-	(235,654)
-	-	-	(1,494,751)
473,108	-	473,108	-
1,244,155	-	1,244,155	-
747,631	373,815	1,121,446	373,815
362,320	-	362,320	-
15,781	-	15,781	-
26,177	4,280	30,457	17,740
-	-	-	21
462,065	-	462,065	5,456
151,414	(151,414)	-	-
3,482,651	226,681	3,709,332	397,032
(1,252,257)	322,580	(929,677)	(1,097,719)
17,157,100	2,011,953	19,169,053	40,415,952
-	-	-	(347,850)
\$ 15,904,843	\$ 2,334,533	\$ 18,239,376	\$ 38,970,383

City of La Feria, Texas
Balance Sheet
Governmental Funds

September 30, 2020

	General Fund	Debt Service Fund	Certificates of Obligation Series 2015 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 497,661	\$ 4,176	\$ -	\$ 132,546	\$ 634,383
Investments	118,054	1,140,470	-	-	1,258,524
Receivables, (net of allowance for uncollectibles)					
Property taxes	66,499	109,603	-	-	176,102
Nonproperty taxes	63,225	-	-	-	63,225
Service	187,924	-	-	-	187,924
Intergovernmental receivable	791,732	-	-	-	791,732
Other	-	-	-	118,252	118,252
Due from other funds	143,069	407,929	2,485,252	107,258	3,143,508
Due from component units	907,464	-	301,875	-	1,209,339
Inventories	18,125	-	-	-	18,125
Prepaid items	22,645	-	-	-	22,645
Restricted assets					
Cash and cash equivalents	6,369	-	1,287	-	7,656
Total assets	\$ 2,822,767	\$ 1,662,178	\$ 2,788,414	\$ 358,056	\$ 7,631,415
LIABILITIES					
Accounts payable	\$ 128,015	\$ -	\$ -	\$ 31,286	\$ 159,301
Accrued liabilities	52,317	-	-	-	52,317
Unearned revenue	1,078,270	-	-	-	1,078,270
Due to other funds	3,708,006	-	-	78,868	3,786,874
Due to component units	-	18,265	-	-	18,265
Total liabilities	4,966,608	18,265	-	110,154	5,095,027
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues					
Property taxes	62,298	99,266	-	-	161,564
Grants	495,764	-	-	-	495,764
Other	65,619	-	-	31,781	97,400
Total deferred inflows of resources	623,681	99,266	-	31,781	754,728
FUND BALANCES					
Nonspendable fund balances:					
Inventories	18,125	-	-	-	18,125
Prepaid items	22,645	-	-	-	22,645
Restricted fund balances:					
Retirement of long-term debt	-	1,544,647	-	-	1,544,647
Tax increment reinvestment zone	-	-	-	193,321	193,321
Capital projects	-	-	2,788,414	-	2,788,414
Assigned	-	-	-	24,300	24,300
Unassigned	(2,808,292)	-	-	(1,500)	(2,809,792)
Total fund balance (deficit)	(2,767,522)	1,544,647	2,788,414	216,121	1,781,660
Total liabilities, deferred inflows of resources and fund balance	\$ 2,822,767	\$ 1,662,178	\$ 2,788,414	\$ 358,056	\$ 7,631,415

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, 2020

Fund balance -- total governmental funds	\$ 1,781,660
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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.	26,646,928
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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	161,564
Unavailable revenue - grants	495,764
Unavailable revenue - other	97,400

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	(13,674,855)
Note and capital lease payable	(461,640)
Compensated absences	(77,199)

Liabilities for accrued interest on long-term debt are not due in the current period and therefore are not reported in the funds.	(60,344)
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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.	2,381,914
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Recognition of the City's net pension liability required by GASB 68 in the amount of \$(1,287,662), deferred resource inflows related to pensions in the amount of \$(163,681), and deferred resource outflows related to pensions in the amount of \$177,955, result in a decrease in net position.	(1,273,388)
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Recognition of the City's net OPEB liability required by GASB 75 in the amount of \$(129,158), deferred resource inflows related to OPEB in the amount of \$(6,650), and deferred resource outflows related to pensions in the amount of \$22,847, result in a decrease in net position.	(112,961)
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Net position of governmental activities	\$ 15,904,843
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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, 2020

	General Fund	Debt Service Fund	Certificates of Obligation Series 2015 Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property	\$ 411,724	\$ 1,236,453	\$ -	\$ 60,851	\$ 1,709,028
Sales	747,631	-	-	-	747,631
Franchise	362,320	-	-	-	362,320
Other	3,594	-	-	12,187	15,781
Licenses and permits	45,565	-	-	-	45,565
Intergovernmental	1,334,074	-	-	-	1,334,074
Fees and charges	755,339	-	-	19,270	774,609
Fines	233,283	-	-	-	233,283
Interest income	9,913	16,264	-	-	26,177
Contributions and donations	18,910	-	-	585	19,495
Other	248,728	534,866	-	(55)	783,539
Total revenues	4,171,081	1,787,583	-	92,838	6,051,502
Expenditures					
Current					
General government	1,213,698	23,744	-	-	1,237,442
Public safety	1,444,670	-	-	-	1,444,670
Highways and streets	200,387	-	-	-	200,387
Health and welfare	6,349	-	-	-	6,349
Culture and recreation	461,510	-	-	29,466	490,976
Debt service					
Principal retirement	101,685	1,067,285	-	-	1,168,970
Interest and fiscal agent fees	24,735	503,692	-	-	528,427
Capital outlay	783,109	-	-	-	783,109
Total expenditures	4,236,143	1,594,721	-	29,466	5,860,330
Excess (deficiency) of revenues over (under) expenditures	(65,062)	192,862	-	63,372	191,172
Other financing sources (uses)					
Transfers in	53,500	97,914	-	-	151,414
Total other financing sources (uses)	53,500	97,914	-	-	151,414
Net change in fund balances	(11,562)	290,776	-	63,372	342,586
Fund balances, beginning	(2,755,960)	1,253,871	2,788,414	152,749	1,439,074
Fund balances, ending	\$ (2,767,522)	\$ 1,544,647	\$ 2,788,414	\$ 216,121	\$ 1,781,660

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, 2020

Net change in fund balances -- total governmental funds	\$ 342,586
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 \$783,109, was exceeded by depreciation expense of (\$1,770,617).	
	(987,508)
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	8,235
Unavailable revenues - grants and other	(1,025,188)
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.	
	(12,038)
GASB 68 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/19 caused the change in the ending net position to increase in the amount of \$165,374. 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 \$(115,101). The City's reported TMRS net pension expense had to be recorded. The net pension expense decreased the change in net position by \$(445,646). The result of these changes is to decrease the change in net position by \$(395,373).	
	(395,373)
GASB 75 requires that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/19 caused the change in the ending net position to increase in the amount of \$2,482. 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 \$(2,292). The City's reported TMRS OPEB expense had to be recorded. The net OPEB expense decreased the change in net position by (\$18,563). The result of these changes is to decrease the change in net position by (\$18,373)	
	(18,373)
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	1,067,285
Notes payable principal	81,595
Capital lease principal	20,103
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	(340,000)
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.	6,419
Change in net position of governmental activities	\$ (1,252,257)

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, 2020

	Enterprise Funds		
	Waste Disposal Fund	Economic Development Corporation	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 281,541	\$ 24,165	\$ 305,706
Investments	-	20,197	20,197
Receivables, net	88,043	50	88,093
Inventory	1,184	-	1,184
Nonproperty taxes	-	31,612	31,612
Notes receivable, current portion	-	1,917	1,917
Due from other funds	119,904	560,320	680,224
Due from component units	585,991	-	585,991
Total current assets	1,076,663	638,261	1,714,924
Noncurrent assets:			
Notes receivable	-	37,243	37,243
Capital assets			
Land	-	388,558	388,558
Buildings	-	592,648	592,648
Machinery and equipment	1,795,513	-	1,795,513
Less accumulated depreciation	(1,562,943)	(115,354)	(1,678,297)
Total capital assets (net of accumulated depreciation)	232,570	865,852	1,098,422
Total assets	1,309,233	1,541,356	2,850,589
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to net pension liability	10,839	-	10,839
Deferred outflows related to total OPEB liability	1,392	-	1,392
Total deferred outflows of resources	12,231	-	12,231
Total assets and deferred outflow of resources	\$ 1,321,464	\$ 1,541,356	\$ 2,862,820
LIABILITIES			
Current liabilities			
Accounts payable	\$ 6,671	40	\$ 6,711
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	-	-	-
Total current liabilities	206,893	44,232	251,125
Noncurrent liabilities			
Unearned revenues	-	176,769	176,769
Due in more than one year	3,724	-	3,724
Net pension liability	78,428	-	78,428
Total OPEB liability	7,867	-	7,867
Total noncurrent liabilities	90,019	176,769	266,788
Total liabilities	296,912	221,001	517,913
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to net pension liability	9,969	-	9,969
Deferred inflows related to total OPEB liability	405	-	405
Total deferred inflows of resources	10,374	-	10,374
NET POSITION			
Net investment in capital assets	228,846	644,891	873,737
Unrestricted	785,332	675,464	1,460,796
Total net position	1,014,178	1,320,355	2,334,533
Total liabilities, deferred inflows of resources and net position	\$ 1,321,464	\$ 1,541,356	\$ 2,862,820

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, 2020

	Enterprise Funds		
	Waste Disposal Fund	Economic Development Corporation	Total
Operating revenues			
Nonproperty taxes	\$ -	\$ 373,815	\$ 373,815
Operating grants and contributions	-	44,195	44,195
Charges for services	977,635	23,472	1,001,107
Total operating revenues	977,635	441,482	1,419,117
Operating expenses			
Personnel services	166,571	-	166,571
Contractual services	362,417	143,903	506,320
Materials, supplies and repairs	51,666	2,769	54,435
Heat, light and power	33,242	-	33,242
Depreciation	123,374	22,027	145,401
Other	10,823	13,255	24,078
Total operating expenses	748,093	181,954	930,047
Operating income	229,542	259,528	489,070
Nonoperating revenues (expenses)			
Interest income	-	4,280	4,280
Interest expense	(971)	(18,385)	(19,356)
Total nonoperating revenues (expenses)	(971)	(14,105)	(15,076)
Income before transfers	228,571	245,423	473,994
Transfers out	-	(151,414)	(151,414)
	-	(151,414)	(151,414)
Change in net position	228,571	94,009	322,580
Net position--beginning	785,607	1,226,346	2,011,953
Total net position, end of year	\$ 1,014,178	\$ 1,320,355	\$ 2,334,533

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, 2020

	Enterprise		
	Funds		
	Waste Disposal Fund	Economic Development Corporation	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 979,694	\$ 393,451	\$ 1,373,145
Payments to suppliers	(473,534)	(160,555)	(634,089)
Payments to employees	(123,000)	-	(123,000)
Net cash provided by operations	383,160	232,896	616,056
Cash flows from (to) noncapital financing activities			
Transfers out to other funds and component units	(39,426)	(151,414)	(190,840)
Net cash used in noncapital financing activities	(39,426)	(151,414)	(190,840)
Cash flows from capital and related financing activities			
Principal paid on long-term debt	(27,403)	(305,993)	(333,396)
Interest paid on capital debt	(971)	(18,385)	(19,356)
Net cash used in capital and related financing activities	(28,374)	(324,378)	(352,752)
Cash flows from investing activities			
Payments received from notes receivable	-	1,600	1,600
Interest income received	-	4,280	4,280
Purchase of capital assets	(33,819)	-	(33,819)
Sale of investments	-	240,925	240,925
Net cash used in by investing activities	(33,819)	246,805	212,986
Net increase in cash and cash equivalents	281,541	3,909	285,450
Cash and cash equivalents, beginning of year	-	20,256	20,256
Cash and cash equivalents, end of year	\$ 281,541	\$ 24,165	\$ 305,706
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 229,542	\$ 259,528	\$ 489,070
Adjustments to reconcile net income from operations to net cash from operating activities			
Depreciation expense	123,374	22,027	145,401
Non-cash operating grants	-	(44,192)	(44,192)
Effect of increases and decreases in current assets and liabilities			
Decrease (increase) in receivables	2,059	(3,836)	(1,777)
Decrease (increase) in inventory	(1,184)		
Increase (decrease) in pension related deferred inflows of resources	9,831	-	9,831
Increase (decrease) in OPEB related deferred inflows of resources	51		
Increase (decrease) in accounts payable	(14,202)	(631)	(14,833)
Increase (decrease) in net pension liability	29,136	-	29,136
Increase (decrease) in total OPEB liability	3,231	-	3,231
Increase (decrease) in compensated absences	128	-	128
Decrease (increase) in pension related deferred outflows of resources	2,247	-	2,247
Decrease (increase) in OPEB related deferred outflows of resources	(1,053)	-	(1,053)
Total adjustments	153,618	(26,632)	126,986
Net cash provided by operations	\$ 383,160	\$ 232,896	\$ 616,056

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, 2020

	Waterworks and Sewer System	La Feria Industrial Development Corporation	Totals
ASSETS			
Cash and cash equivalents	\$ 475	\$ 2,132	\$ 2,607
Investments	-	387,173	387,173
Receivables			
Service	205,824	-	205,824
Other	87,880	2,048	89,928
Intergovernmental	181,629	31,612	213,241
Current portion of note receivable	-	89,544	89,544
Inventories	42,375	-	42,375
Restricted assets:			
Cash and cash equivalents	1,658,896	70,908	1,729,804
Investments	465,375	-	465,375
Total current assets	2,642,454	583,417	3,225,871
NOTES RECEIVABLE	-	241,558	241,558
CAPITAL ASSETS			
Depreciable			
Buildings	4,518,231	1,404,943	5,923,174
Water distribution system	25,027,243	-	25,027,243
Sewer distribution system	21,744,564	-	21,744,564
Furniture, fixture and equipment	3,618,715	24,184	3,642,899
Vehicles	462,316	-	462,316
	55,371,069	1,429,127	56,800,196
Less accumulated depreciation	(15,055,812)	(357,496)	(15,413,308)
	40,315,257	1,071,631	41,386,888
Non depreciable			
Land	357,079	2,482,851	2,839,930
Easements	117,758	-	117,758
Certificate of Convenience and Necessity	115,978	-	115,978
Construction in Progress	103,878	-	103,878
	694,693	2,482,851	3,177,544
Total capital assets (net of accumulated depreciation)	41,009,950	3,554,482	44,564,432
Total assets	43,652,404	4,379,457	48,031,861
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to net pension liability	10,206	-	10,206
Deferred outflows related to net OPEB liability	79,493	-	79,493
Total deferred outflows of resources	89,699	-	89,699
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 43,742,103	\$ 4,379,457	\$ 48,121,560

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, 2020

	Waterworks and Sewer System	La Feria Industrial Development Corporation	Totals
LIABILITIES			
Current liabilities			
Accounts payable	\$ 197,039	\$ 17,953	\$ 214,992
Accrued expenses and other liabilities	7,479	-	7,479
Unearned revenues	1,658,896	5,654	1,664,550
Due to primary government	1,749,746	45,584	1,795,330
Current portion of long term debt	570,000	34,670	604,670
Total current liabilities	4,183,160	103,861	4,287,021
Current liabilities payable from restricted assets			
Meter deposits	184,421	-	184,421
Total current liabilities payable from restricted assets	184,421	-	184,421
Noncurrent liabilities			
Net pension liability	575,206	-	575,206
Total OPEB liability	57,696	-	57,696
Compensated absences	16,317	-	16,317
Notes payable, net of current portion	2,026,973	52,455	2,079,428
Revenue bonds payable	1,875,000	-	1,875,000
Total noncurrent liabilities	4,551,192	52,455	4,603,647
Total liabilities	8,918,773	156,316	9,075,089
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to net pension liability	73,117	-	73,117
Deferred inflows related to total OPEB liability	2,971	-	2,971
Total deferred inflows of resources	76,088	-	76,088
NET POSITION			
Net investment in capital assets	34,788,231	3,421,773	38,210,004
Restricted for capital projects	-	158,828	158,828
Unrestricted	(40,989)	642,540	601,551
Total net position	34,747,242	4,223,141	38,970,383
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 43,742,103	\$ 4,379,457	\$ 48,121,560

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, 2020

		Program revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<u>Component units</u>				
Waterworks and Sewer System	\$ 3,620,201	\$ 2,268,726	\$ -	\$ 92,378
Industrial Development Corporation	375,870	140,216	-	-
Total component units	\$ 3,996,071	\$ 2,408,942	\$ -	\$ 92,378

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		
	La Feria	
Waterworks and Sewer System	Industrial Development Corporation	Totals
\$ (1,259,097)	\$ -	\$ (1,259,097)
-	(235,654)	(235,654)
(1,259,097)	(235,654)	(1,494,751)
-	373,815	373,815
-	17,740	17,740
-	21	21
-	5,456	5,456
-	397,032	397,032
(1,259,097)	161,378	(1,097,719)
36,006,339	4,409,613	40,415,952
-	(347,850)	(347,850)
36,006,339	4,061,763	40,068,102
\$ 34,747,242	\$ 4,223,141	\$ 38,970,383

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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 activities) 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.

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 a 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 General, Special Revenue, and Debt Service 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.

Excess of expenditures over appropriations

At September 30, 2020, expenditures exceeded appropriations in four departments in the General Fund. These amounts were attributed to underestimation of actual expenditures and unforeseen cost in the overtime, supplies and purchase of two police vehicles and a fire truck. The departments and the excess expenditures over appropriations are as follows:

General Government	\$ 53,320
Highways and streets	15,537
Interest	5,076
Capital Outlay	195,109

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Assigned:** Resources that are constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed.
- **Unassigned:** Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Within all other governmental funds, the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed.

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

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

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

As of and during the year ended September 30, 2020, 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.

City of La Feria, Texas

Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Custodial Credit Risk

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

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, 2020, the carrying amount of the City and its component unit's cash deposits, (cash, certificates of deposit and interest-bearing savings accounts) was \$2,680,156. The City's cash deposits during the year ended September 30, 2020 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 and its component units held \$2,131,269 in investments in Texas CLASS external investment pools.

Restricted cash in the amount of \$1,287 represents bond proceeds from the City's Certificates of Obligation Series 2015 Fund. The proceeds of the Certificates are restricted for constructing various capital improvements in and around the City.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Units Cash Deposits

The component units' unrestricted cash totaled \$2,607 at September 30, 2020.

Restricted cash for qualified business loans under the Revolving Loan and Intermediary Lending Programs totaled \$70,908. Restricted amounts for meter deposits and debt service reserve funds were \$465,375 and were held in investments in Texas CLASS external investment pools.

Restricted cash in the amount of \$1,658,896 represents loan forgiveness funds held in escrow which were provided by the Texas Water Development Board through the Disadvantaged Community Programs. The escrow accounts are on deposit at Bank of Texas and are not considered as a banking deposit for the City under the terms of the escrow agreements and loan forgiveness grants. The funds are restricted for approved system improvements and are disbursed to the City with the approval from the TWDB as funds are earned.

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

a. Name of Bank: Texas National Bank.

b. Amount of bond and/or market value of securities pledged as of the date of the highest *combined balance on deposit were \$3,097,120 and occurred during the month of November 2019. The combined deposit balances on that day were \$2,125,232.

The City's cash deposits were properly secured at all times by FDIC insurance or by pledged collateral held in the City's name by a bank other than the pledging bank in accordance with Texas Law, except for the months of December 2019 and January 2020. The collateral deficit in December 2019 and January 2020 was \$177,426 and \$183,298, respectively.

*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, 2020, the investments in the Texas CLASS external investment pool was rated AAAM by Moody's Investor Service and Standards and Poor's.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

The Investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act. The City's portfolio only consisted of amounts in the public funds investment pools, discussed below.

Public Funds Investment Pools

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

For financial reporting purposes the City's governmental activities reported amounts for investment pools of \$1,278,721 as investments on the statement of net position. Discretely presented component units reported \$852,548, of which \$465,375 is restricted, as investments on the Statement of Net Position as of September 30, 2020. There were no unfunded commitments as of September 30, 2020, 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.

Unbilled receivables – An amount for unbilled revenue is recorded in the Wastewater System and Waste Disposal funds for services rendered, but not yet billed as of the end of the fiscal year. The receivable is derived from the cycle billings generated subsequent to fiscal year end and prorated for usage in September.

Unearned revenue – Unearned revenue recorded on the governmental fund balance sheet represents amounts received before eligibility requirements are met.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

f. *Restricted Assets*

Certain assets of the City are classified as restricted assets on the statement of net position because their use is limited by law through constitutional provisions or enabling legislation; or by restrictions imposed externally by creditors, grantors, contributors or laws or regulations of other governments. Special restricted asset accounts have been established to account for the sources and uses of these limited use assets as follows:

Customer deposit accounts – Deposited in non-interest bearing accounts and refunded upon termination of service with the City and satisfaction of all obligations due.

Bond and capital activities – Includes certain proceeds from issuance of revenue bonds, as well as certain resources set aside for the repayment of bonds or future capital activities.

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, 2020.

City of La Feria, Texas
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2020 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 \$86,338, this year's liability due within a year is \$97,232 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. *Categories and Classification of Fund Equity*

Net position flow assumption – Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies – 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 City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, specifies the following classifications:

Nonspendable fund balance – Nonspendable fund balances are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – Restricted fund balances are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed 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 governing council 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.

Assigned fund balance – 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 governing council (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance 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.

Unassigned fund balance – Unassigned fund balance is the residual classification for the General Fund.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deficit Fund Equity

A deficit balance in the general fund balance occurred in the amount of \$2,767,522 for the year ended September 30, 2020. Management is currently formulating a long-term plan to address the deficit and improve the City's financial condition.

k. Revenues and Expenditures/Expenses

Program revenues – Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property taxes – Property taxes attach as an enforceable lien on real property and are levied as of January 1st. Property taxes are levied as of October 1. The county appraisal district certifies the tax roll by July 25th. This tax roll is used by the City to adopt a tax rate by September 1st or soon thereafter. The tax bills are mailed on October 1 or soon thereafter and are due and payable upon receipt. The billings become delinquent as of February 1 of the following calendar year and penalties and interest may be assessed by the City.

Proprietary funds operating and nonoperating revenues and expenses – Proprietary funds distinguish operating revenues and expenses from nonoperating 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 recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded as reservations of budget, is employed as an extension of the statutory required budgetary process. At year-end, outstanding encumbrances represent material purchase commitments for goods and services which were ordered, budgeted, and appropriated, but had not been received or completed at date. Although encumbrances lapse at year-end, it is the intention to substantially honor these encumbrances under authority provided in the subsequent year's budget. There were no significant encumbrances at year-end.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. *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."

n. *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.

o. *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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. 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*.

q. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be used, June 22, 2021 and determined there were no events that occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

r. Recently Issued and Implemented Accounting Pronouncements

In fiscal year 2020, the City implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement was to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The Statement extended the effective dates of certain accounting and financial reporting provisions in statements that were first effective for reporting periods beginning after June 15, 2018.

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It 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 this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. Recently Issued and Implemented Accounting Pronouncements (Continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

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, 2020, in the process of reconciling lease income for the La Feria Industrial Development Corporation, the City identified a lease held by the LFIDC that was incorrectly recorded as an operating lease in the prior year rather than a financing lease. This resulted in a restatement to decrease beginning net position as of October 1, 2019 for the LFIDC component unit in the amount of \$347,850.

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS

A. Receivables

1. Property Tax Receivable

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

	General Fund	Debt Service Fund	Total
Gross property taxes receivable	\$ 94,901	\$ 184,077	\$ 278,978
Less allowance for doubtful accounts	(28,402)	(74,474)	(102,876)
Net property taxes receivable	\$ 66,499	\$ 109,603	\$ 176,102

2. Service Receivables

Service receivables consist of uncollected amounts billed to customers for water, sewer and other services. At September 30, 2020, the City reflected service receivables of the following:

Primary Government	
Waste disposal services	\$ 88,043
General fund service receivables	187,924
Total	\$ 275,967

Component Units Activities	
Water services	\$ 122,410
Sewer services	83,414
Total	\$ 205,824

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

3. Governmental Activities

Receivables for governmental activities at September 30, 2020, consisted of the following:

	General	Debt Service Fund	Nonmajor Funds	Total
Receivables				
Property taxes	\$ 94,901	\$ 184,077	\$ -	\$ 278,978
Other taxes	63,225	-	-	63,225
Accounts	187,924	-	-	187,924
Intergovernmental	1,360,938	-	-	1,360,938
Other	-	-	118,252	118,252
Less allowance for uncollectibles	(597,608)	(74,474)	-	(672,082)
Net total receivables	\$ 1,109,380	\$ 109,603	\$ 118,252	\$ 1,337,235

4. Component Units

In an effort to stimulate economic growth in the business community, the La Feria Industrial Development Corporation (LFIDC) offers loans to various businesses. One of these programs is the Revolving Loan Fund Program funded by USDA. The Revolving Loan Program was established to assist small businesses to access low interest loans to help with the expansion of a current business or to start a new business in the City of La Feria. The following is a summary of notes receivable payable to the IDC at September 30, 2020:

Revolving loan program	
Aaron's Brakes	\$ 43,325
Valley Liftman	38,265
STCHD Bearfield	35,421
Sale of Depot Subdivision	23,948
RLF #1 to STEM	61,194
Other receivables	
Noble Texas Builders	128,949
Total	\$ 331,102

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	\$ 70,908
Debt Service Reserve	283,585
Meter deposits	181,790
Texas Water Development Board-grant/loan forgiveness escrow	1,658,896
Total	\$ 2,195,179

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	\$ 26,646,928	\$ 1,098,422	\$ 44,564,432
Less related liabilities (bonds, unearned revenues*, due to primary government and notes payable)	(14,136,496)	(224,685)	(6,354,428)
Restricted investments (unexpended bond proceeds)	2,788,414	-	-
Net investment in capital assets	15,298,846	873,737	38,210,004
<i>Restricted Net Position consists of the following:</i>			
Debt service	1,583,569	-	-
Tax Increment Reinvestment Zone	225,102	-	-
Capital projects	-	-	158,828
Unrestricted net position	(1,202,674)	1,460,796	601,551
Total net position	\$ 15,904,843	\$ 2,334,533	\$ 38,970,383

**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, 2020 was as follows:

Primary Government

	Beginning Balance October 1, 2019	Additions	Deletions	Transfers	Ending Balance September 30, 2020
Governmental Activities					
Capital assets, not being depreciated					
Land	\$ 1,721,963	\$ -	\$ -	\$ -	\$ 1,721,963
Construction in progress		130,800	-		130,800
Total capital assets, not being depreciated	1,721,963	130,800	-	-	1,852,763
Capital assets, being depreciated					
Buildings and systems	27,320,384				27,320,384
Improvements other than buildings	14,758,320				14,758,320
Machinery and equipment	5,641,912	652,309			6,294,221
Total capital assets, being depreciated	47,720,616	652,309	-	-	48,372,925
Less accumulated depreciation for					
Buildings and systems	(4,067,794)	(1,096,807)	-	-	(5,164,601)
Improvements other than buildings	(13,330,699)	(403,223)	-	-	(13,733,922)
Machinery and equipment	(4,409,650)	(270,587)	-	-	(4,680,237)
Total accumulated depreciation	(21,808,143)	(1,770,617)	-	-	(23,578,760)
Total capital assets, being depreciated, net	25,912,473	(1,118,308)	-	-	24,794,165
Governmental activities capital assets, net	\$ 27,634,436	\$ (987,508)	\$ -	\$ -	\$ 26,646,928
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	1,761,694	33,820	-	-	1,795,514
Total capital assets, being depreciated	2,354,342	33,820	-	-	2,388,162
Less accumulated depreciation for					
Buildings	(93,327)	(22,027)	-	-	(115,354)
Machinery and equipment	(1,439,569)	(123,375)	-	-	(1,562,944)
Total accumulated depreciation	(1,532,896)	(145,402)	-	-	(1,678,298)
Total capital assets being depreciated, net	821,446	(111,582)	-	-	709,864
Business-type activities capital assets, net	\$ 1,210,004	\$ (111,582)	\$ -	\$ -	\$ 1,098,422

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	\$	648,222
Public safety		756,762
Highways and streets		104,998
Health and welfare		3,364
Culture and recreation		257,271
<hr/>		
Total depreciation expenses - governmental activities	\$	1,770,617
<hr/>		
Business-type activities		
Sanitation	\$	123,375
Economic Development		22,027
<hr/>		
Total depreciation expenses - business-type activities	\$	145,402
<hr/>		

Discretely Presented Component Units

	Beginning Balance October 1, 2019	Additions	Deletions	Transfers	Ending Balance September 30, 2020
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	-	103,878	-	-	103,878
<hr/>					
Total capital assets, not being depreciated	590,815	103,878	-	-	694,693
Capital assets, being depreciated					
Machinery and equipment	4,070,737	10,294	-	-	4,081,031
Infrastructure	51,290,038	-	-	-	51,290,038
<hr/>					
Total capital assets, being depreciated	55,360,775	10,294	-	-	55,371,069
Less accumulated depreciation for					
Machinery	(1,977,187)	(186,930)	-	-	(2,164,117)
Infrastructure	(11,617,601)	(1,274,094)	-	-	(12,891,695)
<hr/>					
Total accumulated depreciation	(13,594,788)	(1,461,024)	-	-	(15,055,812)
<hr/>					
Total capital assets, being depreciated, net	41,765,987	(1,450,730)	-	-	40,315,257
<hr/>					
Waterworks and Sewer System activities					
capital assets, net	\$ 42,356,802	\$ (1,346,852)	\$ -	\$ -	\$ 41,009,950
<hr/>					

City of La Feria, Texas
Notes to Financial Statements

NOTE 3: DETAILED NOTES ON ALL FUNDS (Continued)

	Beginning Balance October 1, 2019	Additions	Deletions	Transfers	Ending Balance September 30, 2020
Industrial Development Corporation					
Capital assets, not being depreciated					
Land	\$ 2,584,794	\$ -	\$ (101,943)	\$ -	\$ 2,482,851
Total capital assets, not being depreciated	2,584,794	-	(101,943)	-	2,482,851
Capital assets, being depreciated					
Buildings and improvements	2,232,784	36,940	(864,782)	-	1,404,942
Furniture, fixtures and equipment	24,184	-	-	-	24,184
Total capital assets, being depreciated	2,256,968	36,940	(864,782)	-	1,429,126
Less accumulated depreciation for					
Buildings and improvements	(646,319)	(34,506)	347,514	-	(333,311)
Furnitures, fixtures and equipment	(24,184)	-	-	-	(24,184)
Total accumulated depreciation	(670,503)	(34,506)	347,514	-	(357,495)
Total capital assets, being depreciated, net	1,586,465	2,434	(517,268)	-	1,071,631
Industrial Development Corporation activities capital assets, net	\$ 4,171,259	\$ 2,434	\$ (619,211)	\$ -	\$ 3,554,482

Construction Commitments

At September 30, 2020, 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 \$387,051 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 \$1,271,845 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, 2020:

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	\$ 33,675	\$ -	\$ 78,868	\$ 30,526	\$ 143,069
Debt Service	407,929	-	-	-	407,929
C O Bonds - Series 2015 Fund	2,485,252	-	-	-	2,485,252
Non-major Governmental Funds	100,926	-	-	6,332	107,258
Subtotal	3,027,782	-	78,868	36,858	3,143,508
Business Type Activities					
Economic Development Corporation	560,320	-	-	-	560,320
Waste Disposal Fund	119,904	-	-	-	119,904
Subtotal	680,224	-	-	-	680,224
Total interfund balances	\$ 3,708,006	\$ -	\$ 78,868	\$ 36,858	\$ 3,823,732

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, 2020, are as follows:

Transfer out	Transfer In			
Business-type activities				
Economic Development Corporation	53,500	97,914	-	151,414
Subtotal	53,500	97,914	-	151,414
Total transfers	\$ 53,500	\$ 97,914	\$ -	\$ 151,414

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.

NOTE 4: LONG-TERM DEBT

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

Long-term notes payable at September 30, 2020 consist of the following:

City of La Feria

Note payable to *D.A. Werlla and A.G. Diesing* dated January 13, 2013, original principal amount of \$320,000, payable in fifty-nine monthly installments of \$2,700 (including interest) and a final payment due at maturity on January 18, 2023 in the amount of any unpaid principal and accrued unpaid interest. The note is secured by land being financed, a 24.041 acre tract of land purchased for the City's future economic development project and payable from general fund revenues. The balance at September 30, 2020 was \$177,497.

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, 2020 was \$57,631.

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, 2020 was \$43,108.

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 fire truck passes to the government and becomes property of the government. The balance at September 30, 2020 was \$183,405.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

The annual lease requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities
2021	30,849
2022	42,282
2023	42,282
2024	26,433
2025	26,433
Thereafter	105,733
Total minimum lease payments	274,012
Less amount representing interest	(47,499)
Present value of minimum lease payments	\$ 226,513

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. This note matured during the current fiscal year and as of September 30, 2020 it is no longer outstanding.

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%. This note matured during the current fiscal year and as of September 30, 2020 it is no longer outstanding.

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 30, 2020	Current Term Portion	Long- Term Portion
First Community Bank	303,467	5.50%	January 2013	87,125	34,670	52,455
				\$ 87,125	\$ 34,670	\$ 52,455

NOTE 4: LONG-TERM DEBT (Continued)

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).

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, 2020, the balance of the defeased debt still outstanding was \$4,560,000.

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

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.

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	
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	150,000	18,360	168,360	45,000	15,795	60,795	229,155
2026-2030	341,973	19,890	361,863	250,000	51,480	301,480	663,343
2031-2035	-	-	-	110,000	6,435	116,435	116,435
Total	\$ 1,816,973	\$ 226,100	\$ 2,043,073	\$ 565,000	\$ 152,490	\$ 717,490	\$ 2,760,563

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

Certificates of obligation bonds currently outstanding as of September 30, 2020 are as follows:

Purpose	Interest Rates	Amount
<i>Certificates of obligation bonds</i>		
Governmental activities	3.40 - 4.00%	\$ 13,674,855

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, 2020 was \$2,090,000. 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.

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%	\$ 2,090,000	\$ 215,000

City of La Feria, Texas
Notes to Financial Statements

NOTE 4: LONG-TERM DEBT (Continued)

5. Changes in Long-Term Debt

During the year ended September 30, 2020, the following changes occurred:

<i>Changes in long-term debt</i>	Beginning Balance 10/1/2019	Increase	Decrease	Ending Balance 9/30/2020	Due Within One Year
Governmental Activities					
<i>Certificate of Obligation Bonds</i>					
Texas Tax and Limited Pledge Revenue					
Certificate of Obligation - Series 2004					
Combination Tax and Limited Pledge Revenue					
Certificates of Obligation - Series 2011	4,455,000	-	300,000	4,155,000	315,000
General Obligation Refunding Bonds - Series 2011	4,085,000	-	490,000	3,595,000	510,000
Combination Tax and Limited Pledge Revenue					
Certificates of Obligation - Series 2012A	329,000	-	9,000	320,000	10,000
Combination Tax and Limited Pledge Revenue					
Certificates of Obligation - Series 2015	5,565,000	-	180,000	5,385,000	180,000
Tax Notes Series 2015	135,000	-	45,000	90,000	45,000
Tax Notes Series 2016	173,140	-	43,285	129,855	43,285
	14,742,140	-	1,067,285	13,674,855	1,103,285
Notes payable	316,723	-	81,595	235,128	85,084
Net pension liability	1,170,150	117,512	-	1,287,662	-
Total OPEB liability	94,795	34,363	-	129,158	-
Capital lease	246,616	-	20,103	226,513	20,882
Compensated absences	65,161	53,029	40,992	77,198	77,199
Total governmental activities	16,635,585	204,904	1,209,975	15,630,514	1,286,450
Business-type Activities					
Notes payable	333,397	-	333,397	-	-
Net pension liability	49,292	29,136	-	78,428	-
Total OPEB liability	4,636	3,231	-	7,867	-
Compensated absences	3,596	3,657	3,529	3,724	-
Total business type activities	390,921	36,024	336,926	90,019	-
Discretely Presented Component Units Activities					
Revenue bonds	2,300,000	-	210,000	2,090,000	215,000
Notes payable	119,539	-	32,414	87,125	34,670
Net pension liability	522,083	53,123	-	575,206	-
Total OPEB liability	55,966	1,730	-	57,696	-
Compensated absences	17,581	9,298	10,562	16,317	-
Due to primary government	2,721,973	-	340,000	2,381,973	355,000
Total component unit activities	5,737,142	64,151	592,976	5,208,317	604,670
Total	\$ 22,763,648	\$ 305,079	\$ 2,139,877	\$ 20,928,850	\$ 1,891,120

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			
	Primary Government						Total Requirements
	General Obligation Bonds Principal	General Obligation Bonds Interest	Total	Revenue Bonds Principal	Revenue Bonds Interest	Total	
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	946,000	309,895	1,255,895	255,000	41,144	296,144	1,552,039
2026-2030	4,477,000	1,044,208	5,521,208	810,000	62,307	872,307	6,393,514
2031-2035	3,650,000	354,747	4,004,747	110,000	-	110,000	4,114,747
2036-2040	91,000	15,243	106,243	-	-	-	106,243
2041-2045	40,000	1,400	41,400	-	-	-	41,400
Total	\$ 13,674,855	\$ 3,351,864	\$ 17,026,719	\$ 2,090,000	\$ 360,962	\$ 2,450,962	\$ 19,477,679

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 \$392,000,000 (as of September 30, 2020, 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 \$10,000,000 to \$100,000,000 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 fund balance 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	\$ 161,564
Grants and other	593,164
Total deferred inflows of resources for governmental funds	\$ 754,728

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 \$163,681 and \$9,969, respectively. Component unit deferred inflows related to net pension liability are \$73,117. Deferred outflows related to pensions are \$177,955, \$10,839, and \$79,493 in the governmental activities, business-type activities, and component unit, respectively. Additionally, deferred outflows related to OPEB are \$22,847, \$1,392, and \$10,206 in the governmental activities, business-type activities, and component unit respectively. Deferred inflows related to OPEB are \$6,650, \$405, and \$2,971 in the governmental activities, business-type activities, and component unit respectively.

NOTE 7: COMMITMENTS AND CONTINGENCIES

1. *Litigation*

At September 30, 2020, 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, 2020 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 887 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.

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.

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

At retirement, the benefits are calculated as if the sum of the employee's contributions, with interest, and the city-financing monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment 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.

Employees covered by benefit terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	33
Inactive employees entitled to but not yet receiving benefits	54
<u>Active employees</u>	<u>60</u>
<u>Total members</u>	<u>147</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 11.05% and 15.99% in calendar 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$309,638 and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions used in the December 31, 2019 valuation were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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 between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>(Arithmetic)</u>
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	<u>10.0%</u>	7.75%
Total	<u>100.0%</u>	

City of La Feria, Texas
Notes to Financial Statements

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

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.

Schedule of Changes in Net Pension Liability

The change in the City's net pension liability for TMRS pension for the fiscal year ended September 30, 2020 is as follows:

	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, 2018	\$ 4,873,552	\$ 3,654,110	\$ 1,219,442	\$ 2,236,647	\$ 1,714,564	\$ 522,083
Changes for the year						
Service cost	222,041	-	222,041	93,492	-	93,492
Interest	364,327	-	364,327	153,404	-	153,404
Change in benefit terms	416,109	-	416,109	175,207	-	175,207
Difference between expected/ actual experience	(25,804)	-	(25,804)	(19,490)	-	(19,490)
Changes of assumptions	18,707	-	18,707	7,877	-	7,877
Contributions - employer	-	164,557	(164,557)	-	69,288	(69,288)
Contributions - employee	-	104,244	(104,244)	-	43,893	(43,893)
Net investment income	-	583,331	(583,331)	-	245,617	(245,617)
Benefit payments, including refunds of employee contributions	(266,261)	(266,261)	-	(112,113)	(112,112)	(1)
Administrative expenses	-	(3,300)	3,300	-	(1,390)	1,390
Other charges	-	(100)	100	-	(42)	42
Net changes	729,119	582,471	146,648	298,377	245,254	53,123
Balance at December 31, 2019	\$ 5,602,671	\$ 4,236,581	\$ 1,366,090	\$ 2,535,024	\$ 1,959,818	\$ 575,206

City of La Feria, Texas
Notes to Financial Statements

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

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	\$ 2,179,826	\$ 1,366,090	\$ 700,825
Component unit's net pension liability	917,838	575,206	295,089
Total net pension liability	\$ 3,097,664	\$ 1,941,296	\$ 995,914

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

For the year ended September 30, 2020, the City and component unit recognized a combined pension expense in the amount of \$898,981. At September 30, 2020, 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)	\$ -	\$ 38,920	\$ -	\$ 16,387
Changes in actuarial assumptions	13,347	-	5,620	-
Differences between projected and actual investment earnings (net of current year amortization)	-	134,730	-	56,730
Contributions subsequent to the measurement date	175,447	-	73,873	-
Total	\$ 188,794	\$ 173,650	\$ 79,493	\$ 73,117

City of La Feria, Texas
Notes to Financial Statements

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

The \$175,447 and \$73,873 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, 2021. 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	\$ (55,694)	\$ (23,451)
2021	(47,494)	(19,998)
2022	8,548	3,599
2023	(65,662)	(27,647)
2024	-	-
Thereafter	-	-
Total	\$ (160,303)	\$ (67,497)

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, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	9
Active employees	60
Total members	93

NOTE 9: OTHER POST EMPLOYMENT BENEFITS

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 0.24% in calendar year 2019 and 2020, respectively. The City's contributions to the SDBF for the year ended September 30, 2020 were \$4,943, and were equal to the required contributions.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Valuation date:	12/31/2019
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount rate*	2.75%
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	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates- disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

*the discount rate was based on the Fidelity Index's "20-year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period of December 31, 2014 to December 31, 2018.

City of La Feria, Texas
Notes to Financial Statements

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (Continued)

Total OPEB Liability

The City's Total OPEB Liability was measured as of December 31, 2019, 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) Total OPEB Liability	Component Unit Increase (decrease) Total OPEB Liability	Total Total OPEB Liability
Balance at December 31, 2018	\$ 99,431	\$ 55,966	\$ 155,397
Changes for the year			
Service cost	4,915	2,069	6,984
Interest	4,126	1,737	5,863
Change in benefit terms	-	-	-
Difference between expected/ actual experience	(2,132)	(898)	(3,030)
Changes of assumptions	31,877	(677)	31,200
Contributions - employer	-	-	-
Contributions - employee	-	-	-
Net investment income	-	-	-
Benefit payments, including refunds of employee contributions	(1,192)	(501)	(1,693)
Administrative expenses	-	-	-
Other charges	-	-	-
Net changes	37,594	1,730	39,324
Balance at December 31, 2019	\$ 137,025	\$ 57,696	\$ 194,721

Total OPEB liability amounts are allocated between the City and its component unit in the statement of net position by \$137,025 and \$57,696, respectively.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current rate.

	1% Decrease in Discount Rate 1.75%	Discount Rate 2.75%	1% Increase in Discount Rate 3.75%
City's total OPEB liability	\$ 164,048	\$ 137,025	\$ 115,822
Component unit's total OPE	69,074	57,696	48,768
Total OPEB liability	\$ 233,122	\$ 194,721	\$ 164,590

City of La Feria, Texas
Notes to Financial Statements

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (Continued)

OPEB Expense and Deferred Outflows of Resources Related to OPEBs

For the year ended September 30, 2020 the City recognized combined OPEB expense in the amount of \$18,169. At September 30, 2020 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)	\$ -	2,326	\$ -	980
Changes in actuarial assumptions	21,606	4,729	9,097	1,991
Differences between projected and actual investment earnings (net of current year amortization)	-	-	-	-
Contributions subsequent to the measurement date	2,633	-	1,109	-
Total	\$ 24,239	\$ 7,055	\$ 10,206	\$ 2,971

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 \$2,633 and \$1,109 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, 2021.

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

	City	Component Unit
Year ending September 30,		
2019	\$ 3,745	\$ 1,577
2020	3,745	1,577
2021	2,987	1,257
2022	2,987	1,258
2023	1,087	457
Thereafter	-	-
Total	\$ 14,551	\$ 6,126

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, 2020, the TIRZ fund balance was at \$193,321.

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, 2020. 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 \$1,749,746 and \$45,584 from the Waterworks and Sewer System and La Feria IDC for unreimbursed advances. A portion of the current receivable from the Waterworks and Sewer System of \$325,000 was due to the City for the System's current portion of debt service requirements on the 2011 Bond Series, as disclosed in Note 4. Total amounts due to the City from component units is \$1,795,330.

Payments from Component Units - Included in other Intergovernmental revenues are payments of \$97,180 and \$56,803 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, 2020, the City has a deficit in the general fund. The deficit at September 30, 2019 was \$(2,755,960), and this increased at September 30, 2020 to \$(2,767,522). The decline in the reduction of the general fund deficit has been slowed down primarily as a result of a reduction in 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 \$495,764. 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, in prior years, 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 \$2,788,414 at September 30, 2020. 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. However, in the current year, the City is in the process of obtaining grant funding through its EDC and IDC to complete some of the projects meant to be funded through the issuance of the 2015 Certificates of Obligation. The City is expecting for the construction of these projects to begin within the next fiscal year.

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: UNCERTAINTIES

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, 2020

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive/ (Negative)
REVENUES				
Taxes:				
Property	\$ 454,000	\$ 454,000	\$ 411,724	\$ (42,276)
Sales	763,767	763,767	747,631	(16,136)
Mix Beverage	1,500	1,500	3,594	2,094
Franchise	368,500	368,500	362,320	(6,180)
Licenses and permits	38,600	38,600	45,565	6,965
Intergovernmental	543,997	543,997	1,334,074	790,077
Fees and charges	539,125	539,125	755,339	216,214
Fines	350,100	350,100	233,283	(116,817)
Interest income	12,000	12,000	9,913	(2,087)
Contributions and donations	30,725	30,725	18,910	(11,815)
Other	252,137	252,137	248,728	(3,409)
Total revenues	3,354,451	3,354,451	4,171,081	816,630
EXPENDITURES				
Current:				
General government:				
General government:	1,160,378	1,160,378	1,213,698	(53,320)
Public safety	1,516,458	1,516,458	1,444,670	71,788
Highways and streets	184,850	184,850	200,387	(15,537)
Health and welfare	6,500	6,500	6,349	151
Culture and recreation	537,376	537,376	461,510	75,866
Debt service:				
Prinicpal	136,965	136,965	101,685	35,280
Interest	19,659	19,659	24,735	(5,076)
Capital outlay	588,000	588,000	783,109	(195,109)
Total expenditures	4,150,186	4,150,186	4,236,143	(85,957)
Excess (deficiency) of revenues over (under) expenditures	(795,735)	(795,735)	(65,062)	730,673
OTHER FINANCING SOURCES (USES)				
Transfers in	825,735	825,735	53,500	(772,235)
Transfers (out)	(30,000)	(30,000)	-	30,000
Capital Lease - Other financing sources	-	-	-	-
Total other financing sources and uses	795,735	795,735	53,500	(742,235)
Net change in fund balance	-	-	(11,562)	(11,562)
Fund balance - beginning	(2,755,960)	(2,755,960)	(2,755,960)	-
Fund balance - ending	\$ (2,755,960)	\$ (2,755,960)	\$ (2,767,522)	\$ (11,562)

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 \$85,957, due to overspending in the general government, debt service interest, and capital outlay areas. The cause of the over expenditure is primarily due to a purchase of two police vehicles and the purchase of a fire truck, of which the majority of the amount was acquired with a grant received by the City from the Legacy Foundation. No budget amendment was made to account for the additional expenditures of the purchase of this fire truck.

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

	2020	2019	2018	2017	2016	2015
Total Pension Liability						
Service cost	315,533	\$ 224,723	\$ 219,389	\$ 219,149	\$ 236,999	\$ 208,767
Interest (on the total pension liability)	517,731	455,299	441,558	424,054	410,898	380,234
Changes of benefit terms	591,316	-	-	-	-	-
Difference between expected and actual experience	(45,293)	(31,086)	(50,318)	10,628	(46,049)	(16,944)
Changes of assumptions	26,584	-	-	-	61,615	-
Benefit payments, including refunds of employee contributions	(378,373)	(343,090)	(476,350)	(312,921)	(171,531)	(124,740)
Net change in total pension liability	1,027,498	305,846	134,279	340,910	491,932	447,317
Total pension liability - beginning	7,110,199	6,804,353	6,670,074	6,329,164	5,837,232	5,389,914
Total pension liability - ending (a)	\$ 8,137,697	\$ 7,110,199	\$ 6,804,353	\$ 6,670,074	\$ 6,329,164	\$ 5,837,231
Plan Fiduciary Net Position						
Contributions - employer	233,845	202,008	\$ 183,954	\$ 190,998	\$ 209,142	\$ 200,979
Contributions - employee	148,137	131,417	131,935	136,846	150,000	141,391
Net investment income	828,948	(165,962)	694,800	316,601	6,638	231,877
Benefit payments, including refunds of employee contributions	(378,373)	(343,090)	(476,350)	(312,921)	(171,531)	(124,740)
Administrative expense	(4,690)	(3,212)	(3,604)	(3,579)	(4,044)	(2,420)
Other	(140)	(168)	(183)	(193)	(200)	(199)
Net change in plan fiduciary net position	827,727	(179,007)	530,552	327,752	190,005	446,888
Plan fiduciary net position - beginning	5,368,674	5,547,681	5,017,127	4,689,375	4,499,370	4,052,482
Plan fiduciary net position - ending (b)	\$ 6,196,401	\$ 5,368,674	\$ 5,547,679	\$ 5,017,127	\$ 4,689,375	\$ 4,499,370
Net pension liability - ending (a) - (b)	\$ 1,941,296	\$ 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	76.14%	75.51%	81.53%	75.22%	74.09%	77.08%
Covered employee payroll	2,116,249	\$ 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	91.73%	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

	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 309,638	\$ 228,478	\$ 192,956	\$ 183,998	\$ 202,962	\$ 206,371
Contributions in relation to actuarially determined contribution	(309,638)	(228,478)	(192,956)	(183,998)	(202,962)	(206,371)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 2,105,089	\$ 2,081,078	\$ 1,839,977	\$ 1,884,782	\$ 2,078,015	\$ 2,103,613
Contributions as a percentage of covered payroll	14.71%	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	26 Years
Asset Valuation Method	10 Year Smoothed Market; 12% Soft Corridor
Inflation	2.5%
Salary Increases	3.50% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014 – 2018.
Mortality	Post retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
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

	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 6,984	\$ 6,946	\$ 6,031
Interest (on the total OPEB liability)	5,863	5,270	5,174
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(3,030)	(1,335)	-
Change of assumptions	31,199	(10,560)	11,882
Benefit payments, including refunds of employee contributions	(1,692)	(1,314)	(1,131)
Net Change in Total OPEB Liability	39,324	(993)	21,956
Total OPEB Liability - Beginning	155,397	156,390	134,434
Total OPEB Liability - Ending (a)	\$ 194,721	\$ 155,397	\$ 156,390
 Covered Employee Payroll	 \$ 2,116,249	 \$ 1,877,389	 \$ 1,884,782
 Total OPEB Liability as a Percentage of Covered Employee Payroll	 9.20%	 8.28%	 8.30%

Notes to schedule:

- (1) 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.
- (2) 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	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.
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, 2020

	Special Revenue Funds		
	Tax Increment Reinvestment Zone Fund	Texas Capital Fund	Community Development Block Grant Fund
ASSETS			
Cash and cash equivalents	\$ 92,395	\$ 22,083	\$ 100
Receivables			
Other	31,781	86,471	-
Due from other funds	100,926	-	-
Total assets	225,102	108,554	100
LIABILITIES			
Accounts payable	-	31,286	-
Due to other funds	-	78,768	100
Total liabilities	-	110,054	100
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues - other	31,781	-	-
Total deferred inflows of resources	31,781	-	-
FUND BALANCES (DEFICIT)			
Restricted fund balances:			
Tax increment reinvestment zone	193,321	-	-
Assigned	-	-	-
Unassigned	-	(1,500)	-
Total fund balances (deficit)	193,321	(1,500)	-
Total liabilities, deferred inflows of resources and fund balance	\$ 225,102	\$ 108,554	\$ 100

Special Revenue Funds - Continued		
Promotion of La Feria Fund	Total	Total Nonmajor Governmental Funds
\$ 17,968	\$ 132,546	\$ 132,546
-	118,252	118,252
6,332	107,258	107,258
24,300	358,056	358,056
-	31,286	31,286
-	78,868	78,868
-	110,154	110,154
-	31,781	31,781
-	31,781	31,781
-	193,321	193,321
24,300	24,300	24,300
-	(1,500)	(1,500)
24,300	216,121	216,121
\$ 24,300	\$ 358,056	\$ 358,056

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, 2020

	Special Revenue Funds		
	Tax Increment Reinvestment Zone Fund	Texas Capital Fund	Community Development Block Grant Fund
Revenues			
Property taxes	\$ 60,851	\$ -	\$ -
Hotel / motel tax	-	-	-
Fees and charges	-	-	-
Contributions and donations	-	-	-
Other	-	-	-
Total revenues	60,851	-	-
Expenditures			
Current			
General government	-	-	-
Culture and recreation	-	-	-
Total expenditures	-	-	-
Excess (deficiency) of revenues over (under) expenditures	60,851	-	-
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	60,851	-	-
Fund balance, beginning	132,470	(1,500)	-
Fund balance, ending	\$ 193,321	\$ (1,500)	\$ -

Special Revenue Funds - Continued

Promotion of La Feria Fund	Total	Total Nonmajor Governmental Funds
\$ -	\$ 60,851	\$ 60,851
12,187	12,187	12,187
19,270	19,270	19,270
585	585	585
(55)	(55)	(55)
31,987	92,838	92,838
-	-	-
29,466	29,466	29,466
29,466	29,466	29,466
2,521	63,372	63,372
-	-	-
-	-	-
-	-	-
2,521	63,372	63,372
21,779	152,749	152,749
\$ 24,300	\$ 216,121	\$ 216,121

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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, 2020, 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 22, 2021.

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 responses as item 2020-001, 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 responses as items 2020-002 and 2020-003.

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 responses. 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.

Cary Riggs & Ingram, L.L.C.

Harlingen, Texas
June 22, 2021

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City of La Feria, Texas
Schedule of Findings and Responses

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

* Material weakness(es) identified?	_____ yes	<u> X </u> no
* Significant deficiencies identified that are not considered to be material weakness(es)?	<u> X </u> yes	_____ none reported
Noncompliance material to financial statements noted?	<u> X </u> yes	_____ no

City of La Feria, Texas
Schedule of Findings and Responses

**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>
2020-001	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 Responses

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

2020-002

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, 2020, 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 Responses

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

2020-003	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, 2020, 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 worsened as a result from current year results, and 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 Responses
Corrective Action Plan

PROGRAM DESCRIPTION

CORRECTIVE ACTION PLAN

Findings - Financial Statements

Schedule Reference Number: (2020-001)
City Accounting

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: (2020-002)
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: (2020-003)
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 Responses Summary Schedule of Prior Audit Findings

DESCRIPTION

STATUS OF PRIOR YEAR FINDINGS

Schedule Reference Number:
(2019-001)

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 the City made improvements to their accounting, this is still reported as current year finding 2020-001 as a "significant deficiency."

Schedule Reference Number:
(2019-002)

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, 2020, 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 2020-002.

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CITY OF LA FERIA



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

DESCRIPTION

STATUS OF PRIOR YEAR FINDINGS

Schedule Reference Number:
(2019-003)

Use of Restricted Funds, City Financial Condition

Corrective Action Plan:

See current year finding 2020-003. The City has yet to make significant progress to replenishing the bond fund.

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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.