

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

City of Falfurrias, Texas

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Annual Financial Report
For The Year Ended December 31, 2015

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Financial Section

City of Falfurrias, Texas

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Independent Auditor's Report

To the Mayor and City Council
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Falfurrias, Texas ("the City") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 of 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 City'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 City'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.

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, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas as of December 31, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the City's proportionate share of the net pension liability and schedule of City pension contributions identified as Required Supplementary Information in the table of contents 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 Falfurrias, Texas's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

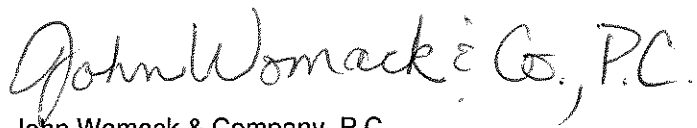
The combining financial statements is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements 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 November 16, 2016 on our consideration of City of Falfurrias, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falfurrias, Texas's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "John Womack & Co., P.C." The signature is written in a cursive, flowing style.

John Womack & Company, P.C.
Kingsville, TX
November 16, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Falfurrias (City) annual financial report presents management's discussion and analysis (MD&A) of the City's financial performance during the year ended December 31, 2015. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$16,827,152.
- The fund balance of the General Fund decreased during the fiscal year by \$170,136 to \$1,698,902. This represents a 9.1% decrease from the prior year's fund balance, with the resulting fund balance being 41.4% of general fund expenditures.
- Total assets for governmental activities, were \$5,777,066; total liabilities, excluding component units, were \$1,552,555.
- The ratio of total assets to total liabilities for governmental activities was 3.7 to 1.
- The quick ratio (current assets to current liabilities) was 4.2 to 1.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of: MD&A, the *basic financial statements*, and *supplementary information*. Figure A-1 (see pg. 5) demonstrates the relationships among the components of this annual report.

The basic financial statements are comprised of three components:

- The *government-wide financial statements* provide both long-term and short-term information about the City's overall financial status. These statements are presented for both *governmental activities* and *business-type activities*. They are designed to provide readers with a broad overview of the City's finances, similar to a private-sector business.
 - The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

- The *statement of activities* presents information to show 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. 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.
- The *fund financial statements* focus on individual parts of the City, reporting the City's operations in greater detail than the government-wide 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 fiduciary funds.
 - The *governmental fund* statements show how general government services were financed in the short-term as well as what remains for future spending. The two major governmental funds are the General Fund and the Debt Service Fund.
 - *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources belong. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements.

Notes to the financial statements provide essential additional information to provide a clear picture of the particular assets, liabilities, or inherent risks. The notes to the financial statements follow the basic financial statements.

The financial statements are followed by a section of *required supplementary information (RSI)* that further explains and supports the information in the financial statements. RSI information follows the notes to the financial statements.

Figure A-1: Required Components of the City's Annual Financial Report

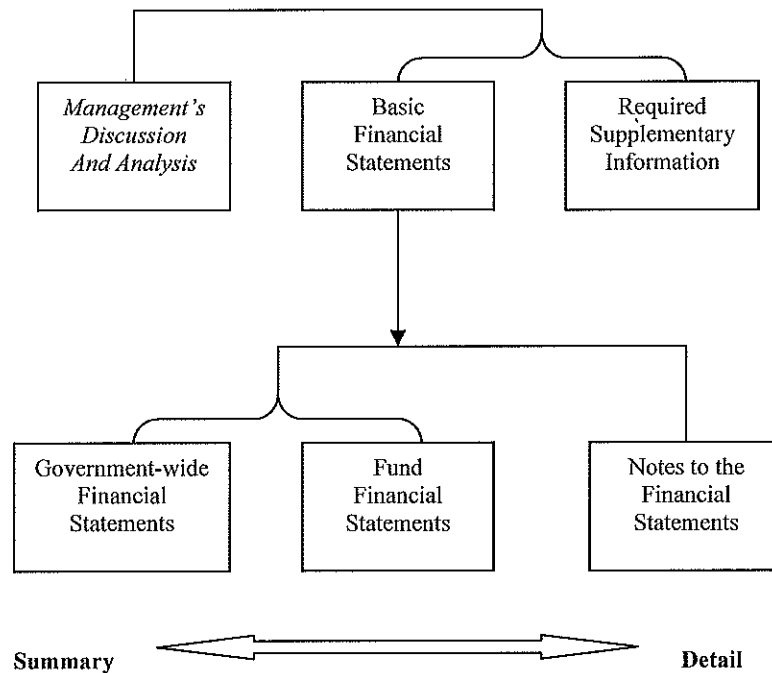


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

More about the City's Fund Financial Statements:

Governmental funds are used to account for essentially the same functions reported as *governmental activities*. 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*.

Major and non-major funds are presented separately in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. The general fund and the GLO Grant Fund are presented separately along with the aggregated *other governmental funds*.

The City adopts an annual operating budget for governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

More about the City's Proprietary Funds:

One type of *proprietary fund* is used by the City:

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The city does not have an enterprise fund since water, gas, and sewer are accounted for in the component unit. Garbage fees are collected by the component unit and passed on to the collection company. The City keeps a processing fee that is accounted for in the General Fund. The City's component unit uses enterprise funds to account for its utility system, which provides water, sewer and garbage services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Net Position serves over time as a useful indicator of the City's financial position. At December 31, 2015, the net position, excluding the City's component unit, totaled \$16,827,152, which is a \$445,253 reduction from the prior year.

A large portion of the City's net position, 67.1%, are invested in capital assets (e.g., land, utility system infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that are 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 investment 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. Capital assets were increased by \$699,490. Cash and cash equivalents, decreased \$770,337, or 12.4%, while Due from Other Governments saw an increase of \$172,172.

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**Table A-1: Statement of Net Position for Governmental Activities
December 31, 2015 and 2014**

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current & Other Assets	\$ 3,380,033	\$ 3,657,754	3,172,880	\$ 4,014,466	6,552,913	\$ 7,672,220
Restricted Assets	-	-	501,440	-	501,440	-
Capital Assets	2,397,033	1,175,689	12,403,044	12,924,898	14,800,077	14,100,587
Total Assets	<u>5,777,066</u>	<u>4,833,443</u>	<u>16,077,364</u>	<u>16,939,364</u>	<u>21,854,430</u>	<u>21,772,807</u>
Deferred Outflows of Resources	38,595	-	18,670	-	57,265	-
Current Liabilities	802,065	434,954	684,408	586,789	1,486,473	1,021,743
Restricted Liabilities	-	-	-	-	-	-
Long-Term Liabilities	750,490	-	2,420,337	2,560,000	3,170,827	2,560,000
Total Liabilities	<u>1,552,555</u>	<u>434,954</u>	<u>3,104,745</u>	<u>3,146,789</u>	<u>4,657,300</u>	<u>3,581,743</u>
Deferred Inflows of Resources	424,929	218,955	2,314	-	427,243	218,955
Net Investment in Capital Assets	1,445,955	298,096	9,843,044	10,214,898	11,288,999	10,512,994
Restricted	1,458,372	690,254	97,168	-	1,555,540	690,254
Unrestricted	933,850	2,491,480	3,048,763	3,577,677	3,982,613	6,069,157
Total Net Position	<u>\$ 3,838,177</u>	<u>\$ 3,479,830</u>	<u>12,988,975</u>	<u>\$ 13,792,575</u>	<u>16,827,152</u>	<u>\$ 17,272,405</u>

The City has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations, without substantial reductions in fund balances or net position.

Changes in Net Position

Table A-2, on the following page, details the City's change in net position from the prior year.

**Table A-2: Changes in Net Position
December 31, 2015 and 2014**

Revenue	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Program Revenues						
Charges for Services	\$ 2,034,586	\$ 2,001,875	\$ 2,703,905	\$ 2,951,311	\$ 4,738,491	\$ 4,953,186
Operating Grants & Contributions	72,496	126,379	-	-	72,496	126,379
Capital Grants & Contributions	407,318	3,200	-	-	407,318	3,200
General revenues:						
Property Taxes	413,179	418,333	-	-	413,179	418,333
Sales Taxes	731,275	767,178	-	-	731,275	767,178
Other Taxes	294,475	318,187	-	-	294,475	318,187
Donations	30,245	-	-	-	30,245	-
Investment Earnings	4,066	3,756	7,271	3,364	11,337	7,120
Miscellaneous	271,952	40,203	32,314	11,022	304,266	51,225
Total Revenues	4,259,592	3,679,111	2,743,490	2,965,697	7,003,082	6,644,808
Expenses						
General Government	779,208	721,148	-	-	779,208	721,148
Public Safety	1,061,198	1,050,719	-	-	1,061,198	1,050,719
Public Works	685,963	685,518	-	-	685,963	685,518
Health & Other public services	150,768	136,950	-	-	150,768	136,950
Tourism	121,961	142,049	-	-	121,961	142,049
Municipal Court	343,710	313,305	-	-	343,710	313,305
Principal	-	60,996	-	-	-	60,996
Interest on long-term debt	13,515	8,595	-	-	13,515	8,595
Water	-	-	1,342,268	1,000,655	1,342,268	1,000,655
Sewer	-	-	1,209,633	812,766	1,209,633	812,766
Gas	-	-	989,222	973,225	989,222	973,225
Solid Waste	558,610	589,662	-	-	558,610	589,662
Total expenses	3,714,933	3,708,942	3,541,123	2,786,646	7,256,056	6,495,588
Increase (Decrease) in Net Position	544,659	(29,831)	(797,633)	179,051	(252,974)	149,220
Transfers	-	(551,755)	-	551,755	-	-
Increase (Decrease) in Net Position	544,659	(581,586)	(797,633)	730,806	(252,974)	149,220
Net Position, Beginning	3,479,830	4,002,459	13,792,575	13,061,769	17,272,405	17,064,228
Prior period adjustment	(186,312)	58,957	(5,967)	-	(192,279)	58,957
Net Position, Ending	\$ 3,838,177	\$ 3,479,830	\$ 12,988,975	\$ 13,792,575	\$ 16,827,152	\$ 17,272,405

Governmental Activities

As shown in Table A-2, revenues for governmental activities of \$4,259,592 were more than expenses of \$3,679,111 for 2015 by \$580,481; furthermore, this increase in net position for the year ended in 2015 represents a \$1,126,244 increase in net position from a decrease of \$581,586 in net position in 2014.

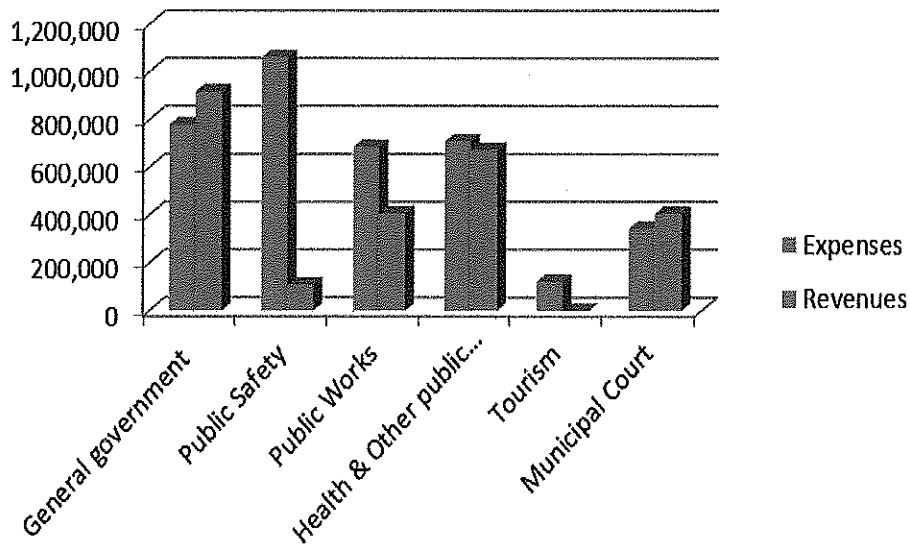
- The cost of all *governmental* activities for 2015 was \$3,714,933.
- The amount that taxpayers paid for these services through City taxes and business fees was \$1,438,929 or 33.8% of total revenues.

Some of the cost was paid by:

- Those who directly benefited from the programs, totaling \$2,034,586, or 47.8% of total revenues.
- All taxes contributed 33.8% of governmental activities' revenues. Investment earnings generated 0.1% of governmental activities' revenues.
- Public Safety (including Police and Impounding) expenses accounted for 28.6% of governmental activities, while 18.5% of the expenses are for Public Works.

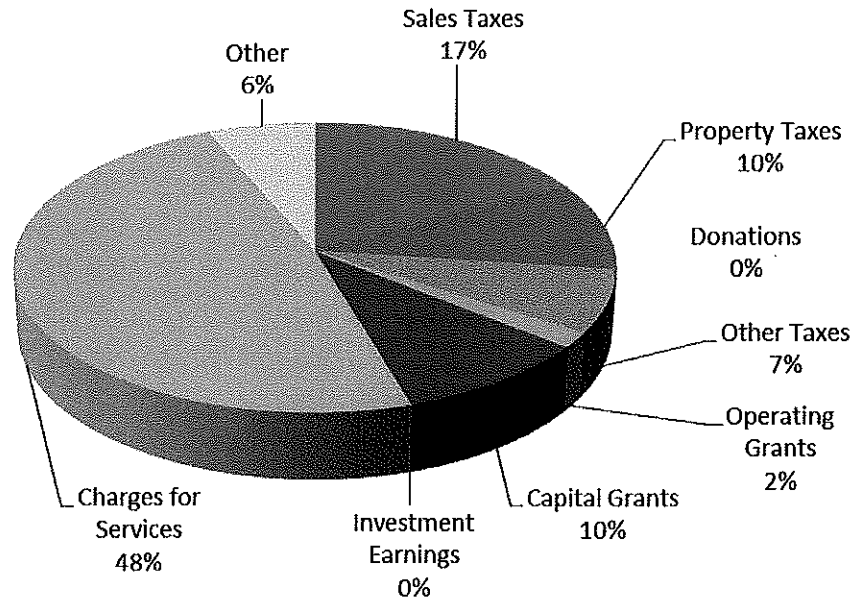
Graph 1 presents the cost of each of the City's major governmental functions, as well as the associated program revenues. As expected in governmental activities, the subsidy required from taxpayers provides the majority of support for these core services.

Graph 1: Program Revenues to Activity Expenditures



In pie chart form, Graph 2 indicates the sources of revenue for governmental activities.

Graph 2: Revenue by Source – Governmental Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

Total assets of the General Fund decreased from \$2,613,789 to \$2,554,574 between 2014 and 2015, or 2.3%, primarily due to a \$146,650 decrease in cash and cash equivalents coupled with a \$121,190 increase in due from other funds since 2014.

Total liabilities of the General Fund increased by \$86,651, or 30.7%, from \$281,871. The \$487,150 of unearned revenue, which was reflected as Deferred Inflows of Resources, was up \$24,270, or 5.2%, over the prior year balance of \$462,880, which was a direct result of taxes receivable going up by \$30,130.

The General Fund's unreserved and undesignated fund balance increased from \$1,551,738 to \$1,592,896, for an increase of 2.7% over fiscal year 2014 due to a net surplus in revenues over expenditures from operations.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

The total assets decreased in 2015 by \$38,884, or 8.9%, due to a \$27,491 deficit in expenditures being more than revenues. Total liabilities declined to zero from \$11,441 for 2014, while total equity decreased 6.5% due to expenditures exceeding revenues by \$27,443.

Budgetary Results

General Fund

Overall, General Fund revenues were more than the final budget by \$214,476. General Fund tax revenues were \$1,354,757 which was \$217,161 above the final budget. Fines and forfeitures accounted for a positive variance of \$2,481 from the 2015 final budget. Charges for services revenue were below the final budget by \$27,892. Licenses and permits revenue were above the final budgeted amount by \$15,194.

General Fund expenditures were \$98,328 above the final budget. The largest negative variance in expenditures came from Streets. An additional \$172,041 was spent for various street repairs throughout the City. In addition, \$171,075 more was spent on debt service principal than was expected. These two variations more than offset slight positive variances in the health and welfare and parks and recreation departments.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

HMOT Fund taxes were less than the final budget by \$46,280 due to major road construction that spanned several years that was completed during the year, resulting in less hotel/motel stays. Expenditures were \$5,513 under the final budget. HMOT revenue was \$39,707 below expenditures due to specific projects still occurring during 2015.

Non-major Governmental Funds

Two different fund types comprise this portion of the financial statements, including ten special revenue funds and one capital projects fund. Total assets for the combined funds were \$723,259; total liabilities were \$87,523 and the total fund balance was \$635,736 with none classified as undesignated or unreserved fund balances.

Table A-3: Capital Assets at December 31, 2015 and 2014

	Governmental Activities			Business-type Activities		
	2015	2014	% Change	2015	2014	% Change
Land	\$ 12,200	\$ 12,200	0.0%	\$ 138,326	\$ 138,326	0.0%
Construction in Progress	579,088	4,500	12768.6%	-	-	0.0%
Buildings and Improvements	1,044,979	901,906	15.9%	26,259	26,259	0.0%
Infrastructure	644,230	107,815	497.5%	-	-	0.0%
Machinery & Equipment	934,907	752,823	24.2%	1,905,514	1,792,883	6.3%
Utility Plant, Mains, meters & extensions	-	-	0.0%	20,893,282	20,893,282	0.0%
Vehicles	837,269	837,269	0.0%	-	-	0.0%
Total Capital Assets	4,052,673	2,616,513	54.9%	22,963,381	22,850,750	0.5%
Accumulated Depreciation	(1,655,640)	(1,440,826)	14.9%	(10,560,337)	(9,925,852)	6.4%
Capital Assets - Net	\$ 2,397,033	\$ 1,175,687	103.9%	\$ 12,403,044	\$ 12,924,898	-4.0%

As shown in Table A-3, at December 31, 2015, the City had an increase in construction in progress of \$574,588. The Building and Improvement portion had a \$143,073 increase during 2015, a \$536,415 increase in infrastructure, and a \$294,715 net increase in equipment. Total Capital Assets had a net increase, before depreciation, of \$1,548,791 from 2014 to 2015.

Long-term Debt

On December 16, 2013, the City refunded \$2,873,000 in USDA Cash Advance revenue bonds by issuing \$2,935,000 in Limited Tax Refunding Bonds Series 2013 with a fixed interest of 3.6%. The net proceeds of \$2,873,000 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result the liability for that debt has been removed from the City's financial statements. The City refunded the Cash Advances to gain a net present value savings of \$119,747 and a gross savings to the City of \$1,732,195. Also, during 2014, the City issued Governmental Activities' certificate of obligations in the amount of \$600,000 to finance Street Projects. During fiscal year 2015, Capital lease debt increased \$191,057 from new leases entered into for the acquisition of equipment. See Note F on pages 41 and 42 for more information.

Table A-4: Long-Term Liabilities at December 31, 2015 and 2014

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Certificates of Obligation	\$ 485,000	\$ 600,000	-	\$ -	485,000	\$ 600,000
Capital Leases	466,078	275,021	-	-	466,078	275,021
Refunding Bonds	-	-	2,560,000	2,710,000	2,560,000	2,710,000
Total Long-Term Debt	\$ 951,078	\$ 875,021	2,560,000	\$ 2,710,000	3,511,078	\$ 3,585,021

CALENDAR YEAR 2016 ADOPTED OPERATING BUDGET

The adopted budget for 2016 sets general fund revenues from all sources (including inter-fund transfers) at \$2,667,309. This budget is \$765,366, or 22.3% less than the prior year’s final budget. The greatest cause of this significant decrease in revenues from 2015 to 2016 is due to Game Rooms being shut down within the City limits by federal agents on May 31, 2015. The City had collected \$525,988 in license fees before the Game Rooms were shut down during the middle part of 2015. Also, Wal-Mart closed in July 2015, which has had a significant effect on sales tax revenue for 2016.

Property tax revenue was budgeted to increase \$12,582 or 3.0%, compared to the prior year’s actual property taxes. With a slight increase in assessed valuations for the 2016 tax year compared to 2015, and coupled with a slight decrease in property tax rate to \$0.474680, the total 2016 revenue forecast was conservatively cast by management. City sales tax, which comprised 20.1% of general fund revenues for 2015, was also conservatively forecast at \$528,943, which is \$202,332, or 27.7%, less than the 2015 actual sales tax revenue of \$731,275. The franchise tax fee categories are budgeted at \$208,748, slightly higher than the \$206,025 of 2015’s actual franchise taxes.

General fund expenditures, including transfers for the 2016 budget, were set at \$3,621,087, which is \$383,399, or 9.6% less than the prior year budget. Decreases in the budgeted expenditures for public safety and public works departments comprise the majority of the decrease in total expenditures from the prior budget. If the budgeted revenues and expenses are achieved, the fund balance will be reduced by \$953,778 as the budgeted \$2,667,309 in budgeted revenue is significantly less than the budgeted expenditures of \$3,621,087.

CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City Council, citizens, taxpayers, customers, bondholders, creditors, and other governmental sectors with a general overview of the City's financial condition and to demonstrate the City's accountability for the funds it receives.

If you have any questions about this report or need additional information, contact:

The City of Falfurrias
City Administrator
P.O. Drawer E
Falfurrias, Texas 78355

(361) 325-2420
(361) 325-9784 (fax)

City of Falfurrias, Texas

Basic Financial Statements

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS

STATEMENT OF NET POSITION

DECEMBER 31, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 2,178,975	\$ 2,786,299	\$ 4,965,274
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	274,054	--	274,054
<i>Accounts</i>	117,711	463,864	581,575
<i>Other</i>	177,000	--	177,000
<i>Accrued Interest Receivable</i>	67	--	67
<i>Internal Balances</i>	346,760	(346,760)	--
<i>Due from other governments</i>	285,466	162,347	447,813
<i>Inventories</i>	--	107,130	107,130
Restricted assets:			
<i>Cash and cash equivalents</i>	--	501,440	501,440
<i>Capital assets</i>	2,397,033	12,403,044	14,800,077
Total Assets	<u>5,777,066</u>	<u>16,077,364</u>	<u>21,854,430</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows of resources related to pensions	38,595	18,670	57,265
Total Deferred Outflows of Resources	<u>38,595</u>	<u>18,670</u>	<u>57,265</u>
LIABILITIES:			
<i>Accounts payable</i>	423,102	294,723	717,825
<i>Accrued wages payable</i>	--	6,248	6,248
<i>Due to other governments</i>	5,974	--	5,974
<i>Meter deposits</i>	129,170	205,397	334,567
<i>Accrued interest payable</i>	11,524	23,040	34,564
Liabilities due within one year:			
<i>Current portion of bonds payable</i>	120,000	155,000	275,000
<i>Current portion of lease payable</i>	112,295	--	112,295
Liabilities due in more than one year:			
<i>General obligation bonds payable</i>	365,000	2,405,000	2,770,000
<i>Capital leases payable</i>	353,783	--	353,783
<i>Net Pension Liability</i>	31,707	15,337	47,044
Total Liabilities	<u>1,552,555</u>	<u>3,104,745</u>	<u>4,657,300</u>
DEFERRED INFLOWS OF RESOURCES:			
<i>Deferred inflows related to pensions</i>	4,784	2,314	7,098
<i>Unearned revenue</i>	420,145	--	420,145
Total Deferred Inflows of Resources	<u>424,929</u>	<u>2,314</u>	<u>427,243</u>
NET POSITION:			
Net Investment in Capital Assets	1,445,955	9,843,044	11,288,999
Restricted For:			
Federal and State Programs	408,846	97,168	506,014
Capital Projects	426,337	--	426,337
Law Enforcement	163,848	--	163,848
Tourism	397,066	--	397,066
Municipal Court Building Security	44,549	--	44,549
Municipal Court Technology	5,463	--	5,463
Other Purposes	12,263	--	12,263
Unrestricted	933,850	3,048,763	3,982,613
Total Net Position	<u>\$ 3,838,177</u>	<u>\$ 12,988,975</u>	<u>\$ 16,827,152</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
<i>General government</i>	\$ 779,208	\$ 918,041	\$ --	\$ --
<i>Sanitation</i>	558,610	673,264	--	--
<i>Municipal Court</i>	343,710	406,543	--	--
<i>Public Safety</i>	1,061,198	36,738	72,496	--
<i>Streets</i>	298,920	--	--	407,318
<i>Health and welfare</i>	150,768	--	--	--
<i>Parks and recreation</i>	387,043	--	--	--
<i>Tourism</i>	121,961	--	--	--
<i>Interest and fiscal charges</i>	13,515	--	--	--
Total governmental activities	<u>3,714,933</u>	<u>2,034,586</u>	<u>72,496</u>	<u>407,318</u>
Business-type Activities:				
<i>Utility</i>	1,342,268	1,363,305	--	--
<i>Sewer</i>	1,209,633	649,638	--	--
<i>Gas</i>	989,222	690,962	--	--
Total Business-type Activities	<u>3,541,123</u>	<u>2,703,905</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 7,256,057</u>	<u>\$ 4,738,491</u>	<u>\$ 72,496</u>	<u>\$ 407,318</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Occupancy Taxes
Alcoholic Beverage Taxes
Donations
Miscellaneous
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Position - Beginning
Prior Period Adjustment
Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 138,833		\$ 138,833
114,654		114,654
62,833		62,833
(951,964)		(951,964)
108,398		108,398
(150,768)		(150,768)
(387,043)		(387,043)
(121,961)		(121,961)
(13,515)		(13,515)
<u>(1,200,533)</u>		<u>(1,200,533)</u>
---	\$ 21,037	21,037
--	(559,995)	(559,995)
--	(298,260)	(298,260)
--	<u>(837,218)</u>	<u>(837,218)</u>
<u>(1,200,534)</u>	<u>(837,218)</u>	<u>(2,037,752)</u>
413,179	--	413,179
731,275	--	731,275
206,025	--	206,025
87,118	--	87,118
1,332	--	1,332
30,245	--	30,245
271,952	32,314	304,266
4,066	7,271	11,337
--	--	--
<u>1,745,192</u>	<u>39,585</u>	<u>1,784,777</u>
544,658	(797,633)	(252,975)
3,479,831	13,792,575	17,272,406
(186,312)	(5,967)	(192,279)
<u>\$ 3,838,177</u>	<u>\$ 12,988,975</u>	<u>\$ 16,827,152</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	GLO Grant	Other Governmental Funds	Total Governmental Funds
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 1,576,515	\$ --	\$ 602,461	\$ 2,178,976
Receivables (net of allowances for uncollectibles):				
<i>Taxes</i>	274,054	--	--	274,054
<i>Accounts</i>	117,711	--	--	117,711
<i>Other</i>	153,957	--	23,043	177,000
<i>Accrued Interest Receivable</i>	67	--	--	67
<i>Due from other funds</i>	424,152	--	67,992	492,144
<i>Due from other governments</i>	8,118	247,585	29,763	285,466
Total Assets	\$ 2,554,574	\$ 247,585	\$ 723,259	\$ 3,525,418
LIABILITIES:				
<i>Accounts payable</i>	\$ 172,317	\$ 247,585	\$ 3,200	\$ 423,102
<i>Due to other funds</i>	67,501	--	77,883	145,384
<i>Due to other governments</i>	--	--	5,974	5,974
<i>Meter deposits</i>	128,704	--	466	129,170
Total Liabilities	368,522	247,585	87,523	703,630
DEFERRED INFLOWS OF RESOURCES:				
<i>Unearned revenue</i>	487,150	--	--	487,150
Total Deferred Inflows of Resources	487,150	--	--	487,150
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	--	397,066	397,066
<i>Restricted for State and Federal Grants</i>	--	--	1,528	1,528
<i>Restricted for Capital Projects</i>	--	--	11,019	11,019
<i>Restricted for Donor Intent</i>	--	--	12,263	12,263
<i>Restricted for Law Enforcement</i>	--	--	163,848	163,848
<i>Restricted for Municipal Court Building Security</i>	--	--	44,549	44,549
<i>Restricted for Municipal Court Technology</i>	--	--	5,463	5,463
<i>Assigned</i>	106,006	--	--	106,006
<i>Unassigned</i>	1,592,896	--	--	1,592,896
Total equity	1,698,902	--	635,736	2,334,638
Total Liabilities, Deferred Inflows of Resources, and Equity	\$ 2,554,574	\$ 247,585	\$ 723,259	\$ 3,525,418

CITY OF FALFURRIAS, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 DECEMBER 31, 2015

Total fund balances - governmental funds balance sheet	\$ 2,334,638
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	2,397,033
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	67,004
Payables for bond principal which are not due in the current period are not reported in the funds.	(485,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(466,078)
Payables for bond interest which are not due in the current period are not reported in the funds.	(11,524)
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(31,707)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(4,784)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>38,595</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 3,838,177</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXASSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	GLO Grant	Other Governmental Funds	Total Governmental Funds
Revenue:				
Taxes	\$ 1,354,757	\$ --	\$ 87,118	\$ 1,441,875
Licenses and permits	45,504	--	--	45,504
Federal and state grants	--	407,318	72,496	479,814
Donations	25,000	--	5,245	30,245
Charges for services	1,544,935	--	--	1,544,935
Fines & forfeitures	401,914	--	41,367	443,281
Interest	3,126	--	940	4,066
Miscellaneous	271,915	--	903	272,818
Total revenues	<u>3,647,151</u>	<u>407,318</u>	<u>208,069</u>	<u>4,262,538</u>
Expenditures:				
Current:				
General government	740,334	--	4,141	744,475
Sanitation	535,995	--	--	535,995
Municipal Court	330,268	--	485	330,753
Public Safety	942,177	--	82,624	1,024,801
Streets	504,355	407,318	415,318	1,326,991
Health and welfare	306,312	--	--	306,312
Parks and recreation	549,397	--	--	549,397
Tourism	--	--	115,942	115,942
Debt service:				
Principal	180,461	--	--	180,461
Interest and fiscal charges	13,515	--	--	13,515
Total expenditures	<u>4,102,814</u>	<u>407,318</u>	<u>618,510</u>	<u>5,128,642</u>
Excess (deficiency) of revenues (under) expenditures	(455,663)	--	(410,441)	(866,104)
Other financing sources (uses):				
Transfers in	31,580	--	--	31,580
Transfers out	--	--	(31,580)	(31,580)
Proceeds from capital leases	253,947	--	--	253,947
Total other financing sources (uses)	<u>285,527</u>	<u>--</u>	<u>(31,580)</u>	<u>253,947</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(170,136)	--	(442,021)	(612,157)
Fund balances/equity, January 1	1,869,038	--	1,077,757	2,946,795
Fund balances/equity, December 31	<u>\$ 1,698,902</u>	<u>\$ --</u>	<u>\$ 635,736</u>	<u>\$ 2,334,638</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015*

Net change in fund balances - total governmental funds	\$ (612,157)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,436,158
The depreciation of capital assets used in governmental activities is not reported in the funds.	(214,814)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(2,946)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	115,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	65,461
(Increase) decrease in accrued interest from beginning of period to end of period.	(2,539)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(253,947)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NP	14,441
Change in net position of governmental activities - Statement of Activities	<u>\$ 544,658</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

STATEMENT OF NET POSITION

ENTERPRISE FUNDS

DECEMBER 31, 2015

	Enterprise Fund
	Utility Fund
ASSETS	
Current Assets:	
<i>Cash and cash equivalents</i>	\$ 2,786,299
<i>Accounts</i>	463,864
<i>Due from other governments</i>	162,347
<i>Inventories</i>	107,130
<i>Total current assets</i>	<u>3,519,640</u>
Restricted assets:	
<i>Cash and cash equivalents</i>	501,440
<i>Total restricted assets</i>	<u>501,440</u>
Long-term assets:	
<i>Fixed assets (net, where applicable, of accumulated depreciation)</i>	12,403,044
<i>Total long-term assets</i>	<u>12,403,044</u>
<i>Total Assets</i>	<u>16,424,124</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	18,670
<i>Total Deferred Outflows of Resources</i>	<u>\$ 18,670</u>
LIABILITIES	
Current liabilities:	
<i>Accounts payable</i>	\$ 294,723
<i>Accrued wages</i>	6,248
<i>Due to other funds</i>	346,760
<i>Total current liabilities</i>	<u>647,731</u>
<i>Payable from restricted assets:</i>	
<i>Current portion of bonds payable</i>	155,000
<i>Meter deposits</i>	205,397
<i>Accrued interest payable</i>	23,040
<i>Total payable from restricted assets</i>	<u>383,437</u>
<i>General obligation bonds payable</i>	2,405,000
<i>Net pension liability</i>	15,337
<i>Total current liabilities</i>	<u>2,420,337</u>
<i>Total Liabilities</i>	<u>3,451,505</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	2,314
<i>Total Inflows of Resources</i>	<u>2,314</u>
NET POSITION	
<i>Investment in general fixed assets</i>	9,843,044
<i>Restricted for debt service</i>	211,901
<i>Unrestricted</i>	2,934,030
<i>Total Net Position</i>	<u>\$ 12,988,975</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Enterprise Fund
	Utility Fund
OPERATING REVENUES:	
<i>Service revenue</i>	
<i>Water revenue</i>	\$ 1,278,518
<i>Sewer revenue</i>	626,107
<i>Gas revenue</i>	658,967
<i>Other income</i>	172,627
Total Operating Revenues	<u>2,736,219</u>
OPERATING EXPENSES:	
<i>Salaries</i>	554,819
<i>Production costs</i>	382,954
<i>Repairs and maintenance</i>	987,500
<i>Supplies</i>	28,890
<i>Employee benefits and taxes</i>	145,324
<i>Office expense</i>	68,289
<i>Insurance</i>	38,276
<i>Utilities and telephone</i>	19,544
<i>Professional fees</i>	184,891
<i>Operating fee to City</i>	337,240
<i>Bad debts</i>	4,597
<i>Depreciation</i>	654,800
<i>Other expense</i>	40,489
Total Operating Expenses	<u>3,447,613</u>
Operating Income (Loss)	<u>(711,394)</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Interest revenue</i>	7,271
<i>Interest expense</i>	(93,510)
Total Non-operating Revenues (Expenses)	<u>(86,239)</u>
Net Income (Loss) before Operating Transfers	<u>(797,633)</u>
TRANSFERS:	
<i>Interfund transfers in</i>	--
<i>Interfund transfers out</i>	--
Net income	(797,633)
Retained earnings/fund balances, January 1	13,792,575
Prior Period Adjustment	(5,967)
Retained earnings/fund balances, December 31	<u>\$ 12,988,975</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Utility Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 2,740,167
<i>Cash Payments to Employees for Services</i>	(561,806)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(2,148,699)
Net Cash Provided (Used) by Operating Activities	<u>29,662</u>
Cash Flows from Non-capital Financing Activities:	
<i>Proceeds (Payments) from (for) Borrowings with other funds</i>	279,984
Net Cash Provided (Used) by Non-capital Financing Activities	<u>279,984</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Principal and Interest Paid</i>	(244,860)
<i>Acquisition or Construction of Capital Assets</i>	(132,945)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(377,805)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	7,271
Net Cash Provided (Used) for Investing Activities	<u>7,271</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(60,888)
Cash and Cash Equivalents at Beginning of Year	3,348,627
Cash and Cash Equivalents at End of Year	<u>\$ 3,287,739</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (711,394)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	654,800
<i>Provision for Uncollectible Accounts</i>	4,597
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(19,169)
<i>Decrease (Increase) in Deferred Resource Outflows</i>	(18,670)
<i>Decrease (Increase) in Inventories</i>	13,846
<i>Increase (Decrease) in Accounts Payable</i>	70,852
<i>Increase (Decrease) in Deferred Resource Inflows</i>	2,314
<i>Increase (Decrease) in Net Pension Liability</i>	9,369
<i>Increase (Decrease) in Customer Deposits</i>	23,117
Total Adjustments	<u>741,056</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,662</u>
Cash and cash equivalents	\$ 2,786,299
Cash and cash equivalents - restricted	501,440
Total cash and cash equivalents	<u>\$ 3,287,739</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

A. Summary of Significant Accounting Policies

The combined financial statements of City of Falfurrias, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. 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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

GLO Grant Fund. This fund accounts for revenues from the General Land Office Grant for drainage improvements, and the related expenditures of those funds.

The City reports the following major enterprise funds:

Enterprise Fund - is used to account for revenues and expenses related to goods or services sold to parties outside the City. This fund is used to account for utility operations that are financed and operated in a manner similar to private business enterprises where the costs of providing water, sewer, and natural gas services to the general public, on a continuing basis, are financed through user charges.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end, except property taxes, for which subsequent collections are not accrued as they are immaterial. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

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Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

The City operates under the laws of the State of Texas as a Type A General Law City, and is limited to a maximum annual rate of 1-1/2% of taxable property of the City. Neither the state law nor the city charter limits the proportion of this total tax rate that may be applied to debt service. The 2014 tax rate was \$.50000 on assessed value of \$80,466,798 and was distributed to the General Fund. The 2015 tax rate is \$.47468 on an assessed value of \$90,983,397 with tax revenue of \$420,145 which is deferred to 2016.

c. Inventories and Prepaid Items

Governmental inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Business-type inventories on the balance sheet are stated at the lower of cost (first-in, first-out method) or market. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors; technological developments, or other evidence of obsolescence; changes in the manner of duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal year 2015.

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Customer Meter Deposits

The Utility Fund requires a deposit when new service is initiated for a customer. These deposits are usually refunded after being held for more than one year. An active program is underway to timely reimburse all old deposits. Interest is paid on the deposits, but no accrual is made. Interest paid on these deposits is accounted for on the cash basis, as the amounts are immaterial to the financial statements as a whole.

g. Due to Volunteer Fire Department

Beginning July, 1986, the Utility Fund included on each monthly utility bill a \$1 charge for voluntary donations to the Falfurrias Emergency Medical Service and the Volunteer Fire Department. Effective October 1, 1995, the voluntary donations were limited to the Volunteer Fire Department. It is strictly a voluntary charge and can be ignored by the customer. All funds received each month as donations are then remitted the following month to the Volunteer Fire Department.

h. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary Statements of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

CITY OF FALFURRIAS, TEXAS
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In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

i. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to or deductions from TMRS'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.

j. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for any unused vacation leave accumulated during the year. Sick leave is not paid at retirement or termination. The City has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation and sick pay is charged to departments when taken by the employee.

k. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

l. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

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Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

The City has adopted a minimum fund balance policy of at least one month of the total budgeted expenditures for the General Fund.

m. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

4. Change in Accounting Policies

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, "Accounting and Financial Reporting for Pensions," which is effective for fiscal years beginning after June 15, 2014. The City has implemented the provisions of this Statement for the year ended December 31, 2015.

The Statement requires numerous new pension disclosures in the notes to the financial statements and new 10-year, pension-related charts as required supplementary information. Also, for the first time the City is required to recognize pension expense, report deferred outflows of resources and deferred inflows of resources related to pensions and a net pension liability for its proportionate shares of the collective (TMRS) pension expense, collective (TMRS) deferred outflows of resources and deferred inflows of resources related to pensions and collective (TMRS) net pension liability.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation

The City did not maintain the minimum interest and sinking fund of 2% of the outstanding bonds

Action Taken

The City will transfer in the subsequent year amounts sufficient to raise the interest and sinking fund to the minimum allowable balance.

CITY OF FALFURRIAS, TEXAS
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2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and 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:

At December 31, 2015, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,466,715 and the bank balance was \$5,680,567. The City's cash deposits at December 31, 2015 and during the year ended December 31, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose 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, and 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 had no investments at December 31, 2015.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

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b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

D. Accounts Receivable

Accounts receivable at December 31, 2015, consisted of the following:

	General	Other Funds	Enterprise	Total
Accounts	\$ 171,212	23,043	\$ 604,726	\$ 798,981
Taxes-Property	463,332	--	--	463,332
Taxes-Franchise & Sales	153,496	--	--	153,496
Other	461	--	--	461
Gross Receivables	788,501	23,043	604,726	1,416,270
Less: Allowance for Uncollectible	(242,779)	--	(140,862)	(383,641)
Net Receivables	\$ 545,722	\$ 23,043	\$ 463,864	\$ 1,032,629

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E. Capital Assets

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,200	\$ --	\$ --	\$ 12,200
Construction in progress	4,500	574,588	--	579,088
Total capital assets not being depreciated	<u>16,700</u>	<u>574,588</u>	<u>--</u>	<u>591,288</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	901,906	143,073	--	1,044,979
Infrastructure	107,815	536,415	--	644,230
Equipment	752,823	182,084	--	934,907
Vehicles	837,269	--	--	837,269
Total capital assets being depreciated	<u>2,599,813</u>	<u>861,572</u>	<u>--</u>	<u>3,461,385</u>
Less accumulated depreciation for:				
Buildings and improvements	(421,362)	(40,574)	--	(461,936)
Infrastructure	(49,860)	(34,230)	--	(84,090)
Equipment	(357,230)	(77,672)	--	(434,902)
Vehicles	(612,374)	(62,338)	--	(674,712)
Total accumulated depreciation	<u>(1,440,826)</u>	<u>(214,814)</u>	<u>--</u>	<u>(1,655,640)</u>
Total capital assets being depreciated, net	<u>1,158,987</u>	<u>646,758</u>	<u>--</u>	<u>1,805,745</u>
Governmental activities capital assets, net	<u>\$ 1,175,687</u>	<u>\$ 1,221,346</u>	<u>\$ --</u>	<u>\$ 2,397,033</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 138,326	\$ --	\$ --	\$ 138,326
Total capital assets not being depreciated	<u>138,326</u>	<u>--</u>	<u>--</u>	<u>138,326</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	26,259	--	--	26,259
Machinery and equipment	1,656,697	132,945	20,314	1,769,328
Office equipment	136,186	--	--	136,186
Mains, meters, and extensions	18,690,282	--	--	18,690,282
Sewer plant	2,203,000	--	--	2,203,000
Total capital assets being depreciated	<u>22,712,424</u>	<u>132,945</u>	<u>20,314</u>	<u>22,825,055</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,726)	(449)	--	(18,175)
Machinery and equipment	(1,135,935)	(92,119)	(20,314)	(1,207,740)
Office equipment	(127,251)	(8,935)	--	(136,186)
Mains, meters, and extensions	(8,071,240)	(498,221)	--	(8,569,461)
Sewer plant	(573,700)	(55,075)	--	(628,775)
Total accumulated depreciation	<u>(9,925,852)</u>	<u>(654,799)</u>	<u>(20,314)</u>	<u>(10,560,337)</u>
Total capital assets being depreciated, net	<u>12,786,572</u>	<u>(521,854)</u>	<u>--</u>	<u>12,264,718</u>
Business-type activities capital assets, net	<u>\$ 12,924,898</u>	<u>\$ (521,854)</u>	<u>\$ --</u>	<u>\$ 12,403,044</u>

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Depreciation was charged to functions as follows:

General Government	\$	36,895
Sanitation		22,615
Municipal Court		13,955
Public Safety		43,238
Streets		55,988
Health & Welfare		12,924
Parks & Recreation		23,180
Tourism		6,019
	\$	<u>214,814</u>

F. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2015, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 77,883	Short-term loans
General Fund	Major fund (specify fund name)	346,760	For transfer of operating fees
Other Governmental Funds	General Fund	67,501	Short-term loans
	Other Balances	--	
	Total	\$ <u>492,144</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at December 31, 2015, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	\$ 31,580	Supplement other funds sources
	Total	\$ <u>31,580</u>	

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended December 31, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of Obligation	\$ 600,000	\$ --	\$ 115,000	\$ 485,000	120,000
Capital leases (1)	275,021	253,947	62,890	466,078	112,295
Total governmental activities	\$ <u>875,021</u>	\$ <u>253,947</u>	\$ <u>177,890</u>	\$ <u>951,078</u>	\$ <u>232,295</u>

(1) Secured by ad valorem taxes and other revenue

Business-type activities:

2013 Refunding Bonds	\$ 2,710,000	\$ --	\$ 150,000	\$ 2,560,000	155,000
Total business-type activities	\$ <u>2,710,000</u>	\$ <u>--</u>	\$ <u>150,000</u>	\$ <u>2,560,000</u>	\$ <u>155,000</u>

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	<u>2015</u>	<u>2014</u>
Governmental Activities:		
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014, payable over five years, maturing March 1, 2019, with interest at 1.73%, total annual payments ranging from \$127,353 to \$126,081, secured by ad valorem taxes and limited revenue	\$ 485,000	\$ 600,000
Business Type Activities:		
Limited Tax Refunding Bonds, Series 2013, payable in annual installments of \$244,860 to \$244,320 including interest at 3.6%, secured by ad valorem taxes and maturing April 1, 2028 (1)	<u>2,560,000</u>	<u>2,710,000</u>
Sub-Total	<u>3,045,000</u>	<u>3,310,000</u>
Less Current Portion	<u>(275,000)</u>	<u>(265,000)</u>
Total Bond Debt	<u>\$ 2,770,000</u>	<u>\$ 3,045,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2015, are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 120,000	\$ 7,353	\$ 127,353
2017	120,000	5,277	125,277
2018	120,000	3,200	123,200
2019	125,000	1,081	126,081
Totals	<u>\$ 485,000</u>	<u>\$ 16,911</u>	<u>\$ 501,911</u>

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 155,000	\$ 89,370	\$ 244,370
2017	165,000	83,610	248,610
2018	170,000	77,580	247,580
2019	175,000	71,370	246,370
2020	180,000	64,980	244,980
2021-2025	1,015,000	220,050	1,235,050
2026-2028	700,000	38,340	738,340
Totals	<u>\$ 2,560,000</u>	<u>\$ 645,300</u>	<u>\$ 3,205,300</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of December 31, 2015, as follows:

<u>Year Ending December 31:</u>	
2016	\$ 125,042
2017	125,043
2018	125,042
2019	64,718
2020	64,718
Total Minimum Lease Payments	<u>504,563</u>
Less amount representing interest	38,485
Present value of net minimum lease payments	<u>\$ 466,078</u>

The effective interest rate on capital leases is 2.98% to 5.450%.

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H. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Pension Plan

1. Plan Description The City participates as one of 860 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 the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms:

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	26
Active employees	41
Total covered employees	81

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3. 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 were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.32% and 2.02% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended December 31, 2015 were \$36,239, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.

Changes in Net Pension Liability	Increase (Decrease)		
	<u>\$ Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 12/31/2013	\$ 2,053,963	\$ 2,110,014	\$ (56,051)
Changes for the year			
Service cost	--	84,934	(84,934)
Interest	--	146,675	(146,675)
Change of benefit terms	--	--	--
Difference between expected and actual experience	--	(9,065)	9,065
Changes of assumptions	--	--	--
Contributions - employer	34,015	--	34,015
Contributions - employee	81,368	--	81,368
Net investment income	117,495	--	117,495
Benefit payments, including refunds of employee contributions	(114,234)	(114,234)	--
Administrative expense	(1,226)	--	(1,226)
Other changes	(101)	--	(101)
Net changes	\$ 117,317	\$ 108,310	\$ 9,007
Balance at 12/31/2014	\$ 2,171,280	\$ 2,218,324	\$ (47,044)

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 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate.

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
City's net pension liability	\$ 290,785	\$ 47,044	\$ (160,214)

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

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

For the year ended December 31, 2015, the City recognized pension expense of \$16,399.

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 21,026	\$ 7,098
Changes in actuarial assumptions	\$ --	\$ --
Difference between projected and actual investment earnings	\$ --	\$ --
Contributions subsequent to the measurement date	\$ 36,239	\$ --
Total	<u>\$ 57,265</u>	<u>\$ 7,098</u>

\$18,670 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 December 31, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec. 31:		
2015	\$	3,289
2016	\$	3,289
2017	\$	3,289
2018	\$	4,061
2019	\$	--
Thereafter	\$	--

J. Health Care Coverage

During the year ended December 31, 2015, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$612 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2016, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2015, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

K. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at December 31, 2015.

L. Closure and Postclosure Care Cost

The City does not maintain any landfill facilities, and therefore no accrual for these care costs is necessary.

M. Subsequent Events

Subsequent events were evaluated through November 16, 2016, which is the date of the audit report.

N. Excess Expenditures over Appropriations

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund:

<u>Fund Type</u>	<u>Department</u>	<u>Amount</u>
General Fund	General Government	\$ 40,717
General Fund	Municipal Court	5,566
General Fund	Streets	172,041
General Fund	Debt Principal	171,075
General Fund	Debt Interest	13,515

O. Prior Period Adjustment

During fiscal year 2015, the City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the City must assume their proportionate share of the Net Pension Liability of the Texas Municipal Retirement System. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The resulting prior period adjustment was a debit of \$12,337 to the beginning net position of the governmental activities, and a debit of 5,967 to the beginning net position of the business-type activities.

During the fiscal year 2015, the City corrected its GASB 34 entry to defer current year taxes to the subsequent year. The City was deferring only the collected portion when the entire taxes assessed should be deferred, resulting in a correction of an error with a \$173,975 debit to beginning unrestricted net position.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2015

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,396,741	\$ 1,137,596	\$ 1,354,757	\$ 217,161
<i>Licenses and permits</i>	40,110	30,310	45,504	15,194
<i>Donations</i>	--	25,000	25,000	--
<i>Charges for services</i>	1,959,017	1,572,827	1,544,935	(27,892)
<i>Fines & forfeitures</i>	445,818	399,433	401,914	2,481
<i>Interest</i>	446	446	3,126	2,680
<i>Miscellaneous</i>	33,803	267,063	271,915	4,852
Total revenues	<u>3,875,935</u>	<u>3,432,675</u>	<u>3,647,151</u>	<u>214,476</u>
Expenditures:				
Current:				
<i>General government</i>	631,143	699,617	740,334	(40,717)
<i>Sanitation</i>	558,053	558,053	535,995	22,058
<i>Municipal Court</i>	308,002	324,702	330,268	(5,566)
<i>Public Safety</i>	1,029,164	1,077,941	942,177	135,764
<i>Streets</i>	559,019	332,314	504,355	(172,041)
<i>Health and welfare</i>	329,303	398,915	306,312	92,603
<i>Parks and recreation</i>	808,140	603,558	549,396	54,162
Debt service:				
<i>Principal</i>	9,386	9,386	180,461	(171,075)
<i>Interest and fiscal charges</i>	--	--	13,515	(13,515)
Total expenditures	<u>4,232,210</u>	<u>4,004,486</u>	<u>4,102,814</u>	<u>(98,328)</u>
Excess (deficiency) of revenues (under) expenditures	(356,275)	(571,811)	(455,663)	116,148
Other financing sources (uses):				
<i>Transfers in</i>	257,229	257,049	31,580	(225,469)
<i>Transfers out</i>	(222,469)	(222,469)	--	222,469
<i>Proceeds from capital leases</i>	--	--	253,947	253,947
Total other financing sources (uses)	<u>34,760</u>	<u>34,580</u>	<u>285,527</u>	<u>250,947</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(321,515)	(537,231)	(170,136)	367,095
Fund balances/equity, January 1	1,869,038	1,869,038	1,869,038	--
Fund balances/equity, December 31	<u>\$ 1,547,523</u>	<u>\$ 1,331,807</u>	<u>\$ 1,698,902</u>	<u>\$ 367,095</u>

CITY OF FALFURRIAS, TEXAS**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS****TEXAS MUNICIPAL RETIREMENT SYSTEM****LAST TEN FISCAL YEARS ***

	<u>Fiscal Year</u> <u>2014</u>
Total Pension Liability	
Service cost	\$ 84,934
Interest (on the total pension liability)	146,675
Changes of benefit terms	--
Difference between expected and actual experience	(9,065)
Changes in assumptions	--
Benefit Payments, including refunds of employee contributions	<u>(114,234)</u>
Net Change in Total Pension Liability	<u>108,310</u>
Total Pension Liability - Beginning	<u>2,110,014</u>
Total Pension Liability - Ending (A)	<u>\$ 2,218,324</u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 34,015
Contributions - employee	81,368
Net investment income	117,495
Benefit payments, including refunds of employee contributions	(114,234)
Administrative expenses	(1,226)
Other	<u>(101)</u>
Net Change in Plan Fiduciary Net Position	<u>117,317</u>
Plan Fiduciary Net Position - Beginning	<u>2,053,963</u>
Plan Fiduciary Net Position - Ending (B)	<u>\$ 2,171,280</u>
Net Pension Liability - Ending (A-B)	<u>\$ 47,044</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	97.88%
Covered Payroll	1,627,354
Net Pension Liability as a Percentage of Covered Payroll	2.89%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF CITY CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
LAST TEN FISCAL YEARS *

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 36,239	\$ 34,015
Contributions in relation to the contractually required contribution	(36,239)	(34,015)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 1,759,752	\$ Q
Contributions as a percentage of covered-employee payroll	2.06%	--

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

CITY OF FALFURRIAS, TEXAS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

Methods and Assumptions Used to Determine Contribution Rate:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	3%
Salary Increases	3.5% to 12% including inflation
Investment Rate of Return	7%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information	Merged with Falfurrias Utility Board 1) Adopted restricted prior service credit for City employees 2) Creation of composite participation date

City of Falfurrias, Texas

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF FALFURRIAS, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2015

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 591,442	\$ 11,019	\$ 602,461
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	23,043	--	23,043
<i>Due from other funds</i>	67,992	--	67,992
<i>Due from other governments</i>	29,763	--	29,763
Total Assets	<u>\$ 712,240</u>	<u>\$ 11,019</u>	<u>\$ 723,259</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 3,200	\$ --	\$ 3,200
<i>Due to other funds</i>	77,883	--	77,883
<i>Due to other governments</i>	5,974	--	5,974
<i>Meter deposits</i>	466	--	466
Total Liabilities	<u>87,523</u>	<u>--</u>	<u>87,523</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	397,066	--	397,066
<i>Restricted for State and Federal Grants</i>	1,528	--	1,528
<i>Restricted for Capital Projects</i>	--	11,019	11,019
<i>Restricted for Donor Intent</i>	12,263	--	12,263
<i>Restricted for Law Enforcement</i>	163,848	--	163,848
<i>Restricted for Municipal Court Building Security</i>	44,549	--	44,549
<i>Restricted for Municipal Court Technology</i>	5,463	--	5,463
Total equity	<u>624,717</u>	<u>11,019</u>	<u>635,736</u>
Total Liabilities and Equity	<u>\$ 712,240</u>	<u>\$ 11,019</u>	<u>\$ 723,259</u>

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Taxes</i>	\$ 87,118	\$ --	\$ 87,118
<i>Federal and state grants</i>	72,496	--	72,496
<i>Donations</i>	5,245	--	5,245
<i>Fines & forfeitures</i>	41,367	--	41,367
<i>Interest</i>	940	--	940
<i>Miscellaneous</i>	903	--	903
Total revenues	<u>208,069</u>	<u>--</u>	<u>208,069</u>
Expenditures:			
<i>General government</i>	4,141	--	4,141
<i>Municipal Court</i>	485	--	485
<i>Public Safety</i>	82,624	--	82,624
<i>Streets</i>	--	415,318	415,318
<i>Tourism</i>	115,942	--	115,942
Total expenditures	<u>203,192</u>	<u>415,318</u>	<u>618,510</u>
Excess (deficiency) of revenues (under) expenditures	4,877	(415,318)	(410,441)
Other financing sources (uses):			
<i>Transfers out</i>	(31,580)	--	(31,580)
Total other financing sources (uses)	<u>(31,580)</u>	<u>--</u>	<u>(31,580)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(26,703)	(415,318)	(442,021)
Fund balances/equity, January 1	651,420	426,337	1,077,757
Fund balances/equity, December 31	<u>\$ 624,717</u>	<u>\$ 11,019</u>	<u>\$ 635,736</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2015

	<u>Gifts and Bequests</u>	<u>Hotel/Motel Occupancy Tax Fund</u>	<u>Seizure Fund</u>	<u>JAG Grant</u>
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 15,243	\$ 316,569	\$ 28,016	\$ 1,504
<i>Receivables (net of allowances for uncollectibles):</i>				
<i>Other</i>	--	23,043	--	--
<i>Due from other funds</i>	--	57,454	3,300	--
<i>Due from other governments</i>	--	--	--	--
Total Assets	<u>\$ 15,243</u>	<u>\$ 397,066</u>	<u>\$ 31,316</u>	<u>\$ 1,504</u>
LIABILITIES:				
<i>Accounts payable</i>	\$ --	\$ --	\$ --	\$ --
<i>Due to other funds</i>	2,980	--	4,659	5
<i>Due to other governments</i>	--	--	--	--
<i>Meter deposits</i>	--	--	--	--
Total Liabilities	<u>2,980</u>	<u>--</u>	<u>4,659</u>	<u>5</u>
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	397,066	--	--
<i>Restricted for State and Federal Grants</i>	--	--	--	1,499
<i>Restricted for Donor Intent</i>	12,263	--	--	--
<i>Restricted for Law Enforcement</i>	--	--	26,657	--
<i>Restricted for Municipal Court Building Security</i>	--	--	--	--
<i>Restricted for Municipal Court Technology</i>	--	--	--	--
Total equity	<u>12,263</u>	<u>397,066</u>	<u>26,657</u>	<u>1,499</u>
Total Liabilities and Equity	<u>\$ 15,243</u>	<u>\$ 397,066</u>	<u>\$ 31,316</u>	<u>\$ 1,504</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Homeland Security #2
\$ 2,489	\$ 89	\$ 133,443	\$ 44,549	\$ 39,479
--	--	--	--	--
--	--	4,659	--	--
--	--	--	--	29,763
<u>\$ 2,489</u>	<u>\$ 89</u>	<u>\$ 138,102</u>	<u>\$ 44,549</u>	<u>\$ 69,242</u>
\$ --	\$ --	\$ --	\$ --	\$ --
2,489	--	1,000	--	62,773
--	--	--	--	5,974
--	--	--	--	466
<u>2,489</u>	<u>--</u>	<u>1,000</u>	<u>--</u>	<u>69,213</u>
--	--	--	--	--
--	--	--	--	29
--	89	137,102	--	--
--	--	--	44,549	--
--	--	--	--	--
<u>--</u>	<u>89</u>	<u>137,102</u>	<u>44,549</u>	<u>29</u>
<u>\$ 2,489</u>	<u>\$ 89</u>	<u>\$ 138,102</u>	<u>\$ 44,549</u>	<u>\$ 69,242</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2015

	Water & Sewer Replacement Grant #711189	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 4,877	\$ 5,184	\$ 591,442
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	--	--	23,043
<i>Due from other funds</i>	--	2,579	67,992
<i>Due from other governments</i>	--	--	29,763
Total Assets	<u>\$ 4,877</u>	<u>\$ 7,763</u>	<u>\$ 712,240</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 3,200	\$ --	\$ 3,200
<i>Due to other funds</i>	1,677	2,300	77,883
<i>Due to other governments</i>	--	--	5,974
<i>Meter deposits</i>	--	--	466
Total Liabilities	<u>4,877</u>	<u>2,300</u>	<u>87,523</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	--	--	397,066
<i>Restricted for State and Federal Grants</i>	--	--	1,528
<i>Restricted for Donor Intent</i>	--	--	12,263
<i>Restricted for Law Enforcement</i>	--	--	163,848
<i>Restricted for Municipal Court Building Security</i>	--	--	44,549
<i>Restricted for Municipal Court Technology</i>	--	5,463	5,463
Total equity	<u>--</u>	<u>5,463</u>	<u>624,717</u>
Total Liabilities and Equity	<u>\$ 4,877</u>	<u>\$ 7,763</u>	<u>\$ 712,240</u>

CITY OF FALFURRIAS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Gifts and Bequests	Hotel/Motel Occupancy Tax Fund	Seizure Fund
Revenue:			
<i>Taxes</i>	\$ --	\$ 87,118	\$ --
<i>Federal and state grants</i>	--	--	--
<i>Donations</i>	5,245	--	--
<i>Fines & forfeitures</i>	--	--	26,183
<i>Interest</i>	--	478	50
<i>Miscellaneous</i>	--	903	--
Total revenues	<u>5,245</u>	<u>88,499</u>	<u>26,233</u>
Expenditures:			
<i>General government</i>	--	--	--
<i>Municipal Court</i>	--	--	--
<i>Public Safety</i>	--	--	1,895
<i>Tourism</i>	--	115,942	--
Total expenditures	<u>--</u>	<u>115,942</u>	<u>1,895</u>
Excess (deficiency) of revenues (under) expenditures	5,245	(27,443)	24,338
Other financing sources (uses):			
<i>Transfers out</i>	<u>--</u>	<u>--</u>	<u>--</u>
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	5,245	(27,443)	24,338
Fund balances/equity, January 1	7,018	424,509	2,319
Fund balances/equity, December 31	<u>\$ 12,263</u>	<u>\$ 397,066</u>	<u>\$ 26,657</u>

JAG Grant	Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund
\$ --	\$ --	\$ --	\$ --	\$ --
--	1,543	--	--	--
--	--	--	--	--
--	--	--	6,145	3,866
--	5	--	304	94
--	--	--	--	--
<u>--</u>	<u>1,548</u>	<u>--</u>	<u>6,449</u>	<u>3,960</u>
--	--	--	--	--
--	--	--	--	485
--	2,681	--	7,095	--
--	--	--	--	--
<u>--</u>	<u>2,681</u>	<u>--</u>	<u>7,095</u>	<u>485</u>
--	(1,133)	--	(646)	3,475
--	--	--	(31,580)	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>(31,580)</u>	<u>--</u>
--	(1,133)	--	(32,226)	3,475
1,499	1,133	89	169,328	41,074
<u>\$ 1,499</u>	<u>\$ --</u>	<u>\$ 89</u>	<u>\$ 137,102</u>	<u>\$ 44,549</u>

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Homeland Security #2	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:			
<i>Taxes</i>	\$ --	\$ --	\$ 87,118
<i>Federal and state grants</i>	70,953	--	72,496
<i>Donations</i>	--	--	5,245
<i>Fines & forfeitures</i>	--	5,173	41,367
<i>Interest</i>	--	9	940
<i>Miscellaneous</i>	--	--	903
Total revenues	<u>70,953</u>	<u>5,182</u>	<u>208,069</u>
Expenditures:			
<i>General government</i>	--	4,141	4,141
<i>Municipal Court</i>	--	--	485
<i>Public Safety</i>	70,953	--	82,624
<i>Tourism</i>	--	--	115,942
Total expenditures	<u>70,953</u>	<u>4,141</u>	<u>203,192</u>
Excess (deficiency) of revenues (under) expenditures	--	1,041	4,877
Other financing sources (uses):			
<i>Transfers out</i>	--	--	(31,580)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(31,580)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	1,041	(26,703)
Fund balances/equity, January 1	29	4,422	651,420
Fund balances/equity, December 31	<u>\$ 29</u>	<u>\$ 5,463</u>	<u>\$ 624,717</u>

CITY OF FALFURRIAS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 DECEMBER 31, 2015

	Water System Improvements	Certificate of Obligation	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ --	\$ 11,019	\$ 11,019
Total Assets	<u>\$ --</u>	<u>\$ 11,019</u>	<u>\$ 11,019</u>
 LIABILITIES:	 \$ --	 \$ --	 \$ --
 FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Capital Projects</i>	\$ --	\$ 11,019	\$ 11,019
Total equity	<u> --</u>	<u> 11,019</u>	<u> 11,019</u>
Total Liabilities and Equity	<u>\$ --</u>	<u>\$ 11,019</u>	<u>\$ 11,019</u>

CITY OF FALFURRIAS, TEXAS
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015*

	Certificate of Obligation	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenue:		
Total revenues	\$ --	\$ --
Expenditures:		
Streets	415,318	415,318
Total expenditures	415,318	415,318
Excess (deficiency) of revenues (under) expenditures	(415,318)	(415,318)
Fund balances/equity, January 1	426,337	426,337
Fund balances/equity, December 31	\$ 11,019	\$ 11,019

City of Falfurrias, Texas

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

JOHN WOMACK & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's 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

Mayor and City Council
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Members of the Mayor and City Council:

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, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise City of Falfurrias, Texas's basic financial statements, and have issued our report thereon dated November 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Falfurrias, 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 Falfurrias, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Falfurrias, Texas's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-7 to be a material weakness.



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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-2 through 2015-6 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Falfurrias, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2015-1 to 2015-3.

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.

Respectfully submitted,



John Womack & Company, P.C.
Kingsville, TX
November 16, 2016

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u> X </u>	Yes	<u> </u> No
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u>	Yes	<u> </u> None Reported
Noncompliance material to financial statements noted?	<u> X </u>	Yes	<u> </u> No

2. Federal Awards

A Single Audit was not required in the current year.

B. Financial Statement Findings

2015-1 State Compliance - Excess Expenditures over Appropriations (Budgeting) [Repeat Finding]

Condition: The City's Budgetary Comparison Schedule - General Fund reflects three material instances of excess expenditures over appropriations.

Criteria: The State requires that the City adopt a budget and amend it as necessary throughout the year.

Cause: The lack of oversight in the budgetary process.

Effect/Potential Effect: A lack of controls in the expenditure process, creating an increased risk of error or fraud.

Recommendation: We recommend that the City review its policies and procedures surrounding the budget process to ensure that necessary amendments are made on a timely basis, and a budget is adopted for all required funds.

2015-2 State Compliance - Hotel/Motel Tax Expenditures [Repeat Finding]

Condition: There was insufficient documentation to support certain expenditures of Hotel/Motel Tax funds. Certain expenditures of the Tourism Fund should be supported by surveys that indicate the events held actually were increasing tourism and the local hotel industry. The City spent more than the 15% cap for hotel/motel tax expenditures related to promoting arts and culture. The 15% cap was \$13,715, and the City Expended \$85,845, or 626% of its allotted cap.

Criteria: The State requires that Hotel/Motel Tax funds be spent for the promotion of tourism. Proper documentation must be maintained to support these expenditures. The State also sets minimum and maximum percentages on the spending of Hotel/Motel Tax revenues.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cause: There was still a lack of training and oversight in this area.

Effect: Without the research material required, the City cannot adequately support expenditures of its local hotel occupancy tax revenue. This material would better predict the economic impact of events held in the City and would assist in determining future revenues and expenditures associated with these events. Also, spending outside of the requirements set by the state is a violation of state law.

Recommendation: We recommend that the City personnel review state laws regarding the expenditure of Hotel/Motel Tax funds and provide adequate documentation for each expenditures. In addition, we recommend that the City establish a system of internal controls over funds provided and goods purchased with the Hotel/Motel tax monies for City events and review expenditures throughout the year to compliance with state laws.

2015-3 State Compliance - Bidding [Repeat Finding]

Condition: The City has accumulated over \$50,000 in expenditures with a vendor that is not an approved vendor through a purchasing cooperative or state contract, and did not use a competitive bidding process. In addition, the City did not perform proper advertising on one bid.

Criteria: State law requires that contracts and purchases greater than \$50,000 be obtained through competitive bidding procedures.

Cause: Management did not understand that expenditures for this vendor would accumulate past the bidding threshold. It was believed that bidding requirements applied on a "per job" basis, rather than on a cumulative basis for the year. There was a lack of proper oversight over the bidding process.

Effect: The effect is a violation of state law and an increase in the risk of legal liability.

Recommendation: We recommend the City more carefully monitor expenditures in order to enable identification of situations where bidding will be required. We also recommend management obtain further education regarding State procurement laws.

2015-4 Internal Control - Purchase Orders [Repeat Finding]

Condition: There is currently no purchase order system in place in which department heads can indicate approval of purchases, or through which receipt of goods can be documented.

Criteria: A formal purchase order system is required for proper encumbrance accounting and documentation of approval and receiving, to strengthen internal controls and accountability.

Cause: The City has not adopted a formal purchase order system and related policies.

Effect: The effect of no formal purchase order system is a weakness in internal control over purchases and related expenditures, and an increased susceptibility to error or fraud.

Recommendation: We recommend that the City establish a formal purchase order system in order to better document approval of purchases and receipt of goods.

2015-5 Internal Control - Account Coding and Journal Entry Approval [Repeat Finding]

Condition: The City's daily activity and journal entries contained numerous coding and classification errors.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Criteria: Daily activity (deposits, accounts payable, etc) and general journal entries should be reviewed for appropriate coding and classification on a timely basis, with written evidence of review and approval.

Cause: Lack of an appropriate system of internal controls which would provide for review and approval of daily activity and journal entries on a timely basis.

Effect: The effect of these miscodings is a lack of accurate and timely information provided to the City Council and management upon which to base financial decisions.

Recommendation: We recommend that the City develop policies and procedures to strengthen controls over coding and classification of daily activity and journal entries.

2015-6 Internal Control - Credit Card Charges

Condition: The City did not charge utility customers a fee for use of a credit card, as is required by City Ordinance.

Criteria: Per the Ordinance, the City is required to charge a 3.09% credit card service fee to offset payments made by the City to credit card companies.

Cause: There was a lack of oversight required to ensure that the Ordinance was properly adhered to by city staff.

Effect: The City lost available revenue to offset its cost of providing credit card services to customers.

Recommendation: We recommend that the City implement the credit card service fee to offset credit card expenses, and implement policies and procedures to ensure its uniform application per the Ordinance.

2015-7 Internal Control - Account Reconciliations [Repeat Finding]

Condition: The City has not reconciled certain asset and liability accounts, including taxes receivable, accounts payable, and long term debt, on a timely basis during the year or at year end. In addition, federal program revenue and expenditures were not reconciled to grant reporting on a timely basis.

Criteria: Asset and liability accounts should be reconciled timely and all related journal entries made on a timely basis. Federal grant funds should be reconciled to reports filed with grantor agencies.

Cause: The City has experienced staffing changes in the accounting department, including the CFO, and are working toward training and crosstraining personnel.

Effect: The effect is the possibility of inaccuracy in monthly reporting, and , potentially, an inability to recognize fraud or other inaccuracies in a timely manner.

Recommendation: We recommend that the City implement procedures to ensure personnel are provided proper training, asset and liability accounts as well as federal program revenues and expenditures are reconciled, and related journal entries are posted on a timely basis.

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>2014-1 State Compliance - Excess Expenditures over Appropriations (Budgeting)</p> <p>Condition: The City's Budgetary Comparison Schedule - General Fund reflects two material instances of excess expenditures over appropriations.</p> <p>Criteria: The State requires that the City adopt a budget and amend it as necessary throughout the year.</p> <p>Cause: The lack of oversight in the budgetary process.</p> <p>Effect/Potential Effect: A lack of controls in the expenditure process, creating an increased risk of error or fraud.</p> <p>Recommendation: We recommend that the City review its policies and procedures surrounding the budget process to ensure that necessary amendments are made on a timely basis, and a budget is adopted for all required funds.</p>	Not Implemented	The City is in the process of searching for a new CFO. The new CFO will be responsible for implementing new policies and procedures to assist in complying with budgeting requirements.
<p>2014-2 State Compliance - Public Funds Investment Act</p> <p>Condition: The City did not comply with certain requirements of the Public Funds Investment Act. The City Investment Officers did not provide written quarterly investment reports to the Investment Committee. In addition, the City did not officially designate the Director of Finance as the Investment Officer. The Director of Finance also did not have the required continuing education hours. Finally, the City's investment policy is contradictory regarding the positions that will serve as the Investment Officer.</p> <p>Criteria: The Public Funds Investment Act requires written quarterly investment reports, official designation of the Investment Officer(s), and minimum hours of continuing professional education by the Investment Officer. The Investment Policy should clearly state the position to serve as the Investment Officer.</p>	Implemented	N/A

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Cause: Lack of oversight over the Public Funds Investment Act requirements.</p> <p>Effect/Potential Effect: Violation of the Public Funds Investment Act.</p> <p>Recommendation: We recommend that the City develop policies and procedures to ensure full compliance with the Public Funds Investment Act.</p>		
<p>2014-3 State Compliance - Hotel/Motel Tax Expenditures</p> <p>Condition: There was insufficient documentation to support certain expenditures of Hotel/Motel Tax funds.</p> <p>Criteria: The State requires that Hotel/Motel Tax funds be spent for the promotion of tourism. Proper documentation must be maintained to support these expenditures.</p> <p>Cause: This account was relatively new to the City and there was still a lack of oversight in this area.</p> <p>Effect: Lack of documentation could lead to disallowed expenditures, causing the General Fund to absorb excess costs.</p> <p>Recommendation: We recommend that the City personnel review state laws regarding the expenditure of Hotel/Motel Tax funds and provide adequate documentation for each expenditures. In addition, we recommend that the City establish a system of internal controls over funds provided and goods purchased with the Hotel/Motel tax monies for City events.</p>	<p>Not Implemented</p>	<p>The City is in the process of searching for a new CFO. The new CFO will be responsible for implementing new policies and procedures to assist in complying with state laws regarding hotel/motel tax expenditures.</p>
<p>2014-4 State Compliance - Bidding</p> <p>Condition: The City has accumulated over \$50,000 in expenditures with a vendor that is not an approved vendor through a purchasing cooperative or state contract, and did not use a competitive bidding process.</p>	<p>Not Implemented</p>	<p>The City is in the process of searching for a new CFO. The new CFO will be responsible for implementing new policies and procedures to assist in complying with state laws regarding bidding.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Criteria: State law requires that contracts and purchases greater than \$50,000 be obtained through competitive bidding procedures.</p> <p>Cause: Management did not understand that expenditures for this vendor would accumulate past the bidding threshold. It was believed that bidding requirements applied on a "per job" basis, rather than on a cumulative basis for the year.</p> <p>Effect: The effect is a violation of state law and an increase in the risk of legal liability.</p> <p>Recommendation: We recommend the City more carefully monitor expenditures in order to enable identification of situations where bidding will be required. We also recommend management obtain further education regarding State procurement laws.</p>		
2014-5 Internal Control - Billing Adjustments	Implemented	N/A
<p>Condition: Billing adjustments are performed by the collections clerk without regular documented supervision.</p> <p>Criteria: In order for internal controls to be effective, the billing adjustments should not be performed by the collections clerk.</p> <p>Cause: This condition is caused by the small number of personnel in the business office.</p> <p>Effect: The potential effect of this lack of controls is a higher risk of error or fraud due to lack of oversight.</p> <p>Recommendation: We recommend that the billing adjustments performed by the collections clerk be reviewed regularly by the Superintendent or another supervisor who does not perform any cash collections.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>2014-6 Internal Control - Purchase Orders</p> <p>Condition: There is currently no purchase order system in place in which department heads can indicate approval of purchases, or through which receipt of goods can be documented.</p> <p>Criteria: A formal purchase order system is required for proper encumbrance accounting and documentation of approval and receiving, to strengthen internal controls and accountability.</p> <p>Cause: The City has not adopted a formal purchase order system and related policies.</p> <p>Effect: The effect of no formal purchase order system is a weakness in internal control over purchases and related expenditures, and an increased susceptibility to error or fraud.</p> <p>Recommendation: We recommend that the City establish a formal purchase order system in order to better document approval of purchases and receipt of goods.</p>	<p>Not Implemented</p>	<p>The City is in the process of searching for a new CFO. The new CFO will be responsible for implementing new policies and procedures to assist in developing a modified purchase order system with the necessary internal controls.</p>
<p>2014-7 Internal Control - Account Coding and Journal Entry Approval</p> <p>Condition: The City's daily activity and journal entries contained numerous coding and classification errors.</p> <p>Criteria: Daily activity (deposits, accounts payable, etc) and general journal entries should be reviewed for appropriate coding and classification on a timely basis, with written evidence of review and approval.</p> <p>Cause: Lack of an appropriate system of internal controls which would provide for review and approval of daily activity and journal entries on a timely basis.</p> <p>Effect: The effect of these miscodings is a lack of accurate and timely information provided to the City Council and management upon which to base financial decisions.</p>	<p>Not Implemented</p>	<p>The City is in the process of searching for a new CFO. The new CFO will be responsible for implementing new policies and procedures to ensure adequate controls exist over daily activity and journal entries.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Recommendation: We recommend that the City develop policies and procedures to strengthen controls over coding and classification of daily activity and journal entries.</p>		
<p>2014-8 Internal Control - Account Reconciliations</p>	<p>Not Implemented</p>	<p>The City is in the process of searching for a new CFO. The new CFO will be responsible for implementing new policies and procedures to assist in reconciling accounts.</p>
<p>Condition: The City has not reconciled certain asset and liability accounts, including taxes receivable, accounts payable, and long term debt, on a timely basis during the year or at year end. In addition, federal program revenue and expenditures were not reconciled to grant reporting.</p>		
<p>Criteria: Asset and liability accounts should be reconciled timely and all related journal entries made on a timely basis. Federal grant funds should be reconciled to reports filed with grantor agencies.</p>		
<p>Cause: The City has experienced staffing changes in the accounting department, and are working toward training and crosstraining personnel.</p>		
<p>Effect: The effect is the possibility of inaccuracy in monthly reporting, and , potentially, an inability to recognize fraud or other inaccuracies in a timely manner.</p>		
<p>Recommendation: We recommend that the City implement procedures to ensure personnel are provided proper training, asset and liability accounts as well as federal program revenues and expenditures are reconciled, and related journal entries are posted on a timely basis.</p>		

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-1 State Compliance - Excess Expenditures over Appropriations

The City concurs with this finding. Policies and procedures surrounding the budget process will be reviewed and when/where necessary implemented. Melinda Garza, City Secretary, will coordinate these efforts.

2015-2 State Compliance - Hotel/Motel Tax Expenditures

The City concurs with this finding, and in fiscal year 2015 the staff created and performed some survey of attendants at some events funded by Hotel/Motel taxes. Further efforts will improve this process, and state laws will be reviewed to ensure compliance. Melinda Garza, City Secretary, will coordinate these efforts.

2015-3 State Compliance - Bidding

The City concurs with this finding. Staff will review state purchasing law requirements and implement the proper procedures. Melinda Garza, City Secretary, will coordinate these efforts.

2015-4 Internal Control - Purchase Orders

The City concurs with this finding, and the Business Office is working with the departments to initiate procedures where the P.O. will be approved by Department Heads when goods and services are ordered. Because the accounting software does not facilitate efficient and effective methods of posting Purchase Orders, the Accounts Payable Clerks will test the available balances in the Departments line item based on a City Administrator designated dollar amount threshold to verify the availability of funds. Melinda Garza, CFO, will coordinate these efforts.

2015-5 Internal Control - Account Coding and Journal Entry Approval

The City concurs with this finding. With the turnover in the accounting department, including the CFO, the account coding and journal entry approval process was not able to be properly reviewed. The City has hired an experienced accountant to work on a contract basis until such time as a new CFO can be hired.

2015-6 Internal Control - Credit Card Charges

The City concurs with this finding. This issue will be brought to the City Commission at the earliest possible date for direction to city staff as to implementation of this Ordinance. Melinda Garza, City Secretary, will coordinate these efforts.

2015-7 Internal Control - Account Reconciliations

The City concurs with this finding. With the turnover in the accounting department, including the CFO, the account reconciliation process was not able to be properly performed. The City has hired an experienced accountant to work on a contract basis until such time as a new CFO can be hired.