

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016

City of Falfurrias, Texas

City of Falfurrias, Texas
Annual Financial Report
For The Year Ended December 31, 2016

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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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2016, City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of GAAP*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 77, *Tax Abatements*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 79, *Investment Pools*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, 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

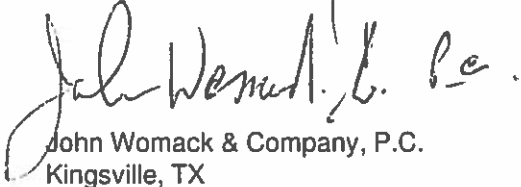
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Falfurrias, Texas's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial 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 June 9, 2017 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,



John Womack & Company, P.C.
Kingsville, TX

June 9, 2017

City of Falfurrias, Texas

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, 2016. 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 \$16,652,572.
- The fund balance of the General Fund decreased during the fiscal year by \$533,856 to \$1,165,047. This represents a 31.4% decrease from the prior year's fund balance, with the resulting fund balance being 33.0% of general fund expenditures.
- Total assets for governmental activities, were \$5,298,495; total liabilities, were \$1,241,324.
- The ratio of total assets to total liabilities for governmental activities was 4.3 to 1.
- The quick ratio (current assets to current liabilities) was 4.5 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. 6) 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

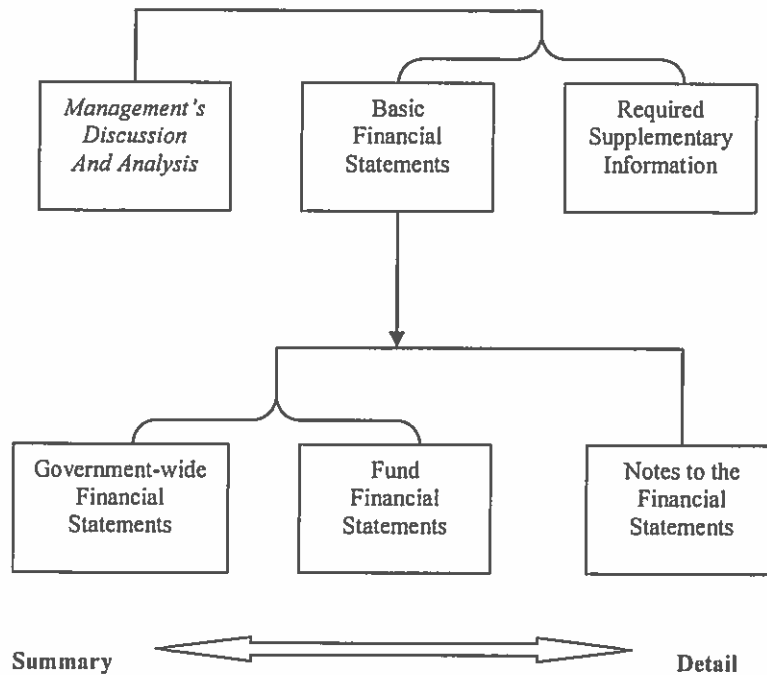


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

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, 2016, the net position, excluding the City's component unit, totaled \$3,725,550, which is a \$112,627 reduction from the prior year.

A large portion of the City's net position, 49.8%, is 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 \$178,239. Cash and cash equivalents decreased \$314,332, or 14.4%, while Due from Other Governments saw a decrease of \$143,105.

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**Table A-1: Statement of Net Position for Governmental Activities
December 31, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current & Other Assets	\$ 2,723,223	\$ 3,380,033	3,259,153	\$ 3,172,880	5,982,376	\$ 6,552,913
Restricted Assets	-	-	503,953	501,440	503,953	501,440
Capital Assets	2,575,272	2,397,033	12,337,220	12,403,044	14,912,492	14,800,077
Total Assets	<u>5,298,495</u>	<u>5,777,066</u>	<u>16,100,326</u>	<u>16,077,364</u>	<u>21,398,821</u>	<u>21,854,430</u>
Deferred Outflows of Resources	157,993	38,595	79,134	18,670	237,127	57,265
Current Liabilities	610,210	802,065	919,881	684,408	1,530,091	1,486,473
Restricted Liabilities	-	-	-	-	-	-
Long-Term Liabilities	631,114	750,490	2,310,539	2,420,337	2,941,653	3,170,827
Total Liabilities	<u>1,241,324</u>	<u>1,552,555</u>	<u>3,230,420</u>	<u>3,104,745</u>	<u>4,471,744</u>	<u>4,657,300</u>
Deferred Inflows of Resources	489,614	424,929	22,018	2,314	511,632	427,243
Net Investment in Capital Assets	1,856,489	1,445,955	9,932,220	9,843,044	11,788,709	11,288,999
Restricted	1,103,615	1,458,372	-	97,168	1,103,615	1,555,540
Unrestricted	765,446	933,850	2,994,802	3,048,763	3,760,248	3,982,613
Total Net Position	<u>\$ 3,725,550</u>	<u>\$ 3,838,177</u>	<u>12,927,022</u>	<u>\$ 12,988,975</u>	<u>16,652,572</u>	<u>\$ 16,827,152</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, 2016 and 2015**

Revenue	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for Services	\$ 1,279,282	\$ 2,034,586	\$ 2,652,444	\$ 2,703,905	\$ 3,931,726	\$ 4,738,491
Operating Grants and Contributions	143,382	72,496	-	-	143,382	72,496
Capital Grants and Contributions	418,932	407,318	226,529	-	645,461	407,318
General revenues:						
Property Taxes	443,184	413,179	-	-	443,184	413,179
Sales Taxes	699,138	731,275	-	-	699,138	731,275
Other Taxes	289,345	294,475	-	-	289,345	294,475
Donations	2,146	30,245	-	-	2,146	30,245
Investment Earnings	6,246	4,066	18,007	7,271	24,253	11,337
Miscellaneous	112,028	271,952	22,538	32,314	134,566	304,266
Total Revenues	3,393,683	4,259,592	2,919,518	2,743,490	6,313,201	7,003,082
Expenses						
General Government	664,555	779,208	-	-	664,555	779,208
Public Safety	1,144,774	1,061,198	-	-	1,144,774	1,061,198
Public Works	787,263	685,963	-	-	787,263	685,963
Health & Other public services	152,017	150,768	-	-	152,017	150,768
Tourism	68,015	121,961	-	-	68,015	121,961
Municipal Court	368,723	343,710	-	-	368,723	343,710
Principal	-	-	-	-	-	-
Interest on long-term debt	19,995	13,515	-	-	19,995	13,515
Water	-	-	1,035,145	1,342,268	1,035,145	1,342,268
Sewer	-	-	851,331	1,209,633	851,331	1,209,633
Gas	-	-	800,260	989,222	800,260	989,222
Solid Waste	595,703	558,610	-	-	595,703	558,610
Total expenses	3,801,045	3,714,933	2,686,736	3,541,123	6,487,781	7,256,056
Increase (Decrease) in Net Position	(407,362)	544,659	232,782	(797,633)	(174,580)	-252,974
Transfers	294,735	-	(294,735)	-	-	-
Increase (Decrease) in Net Position	(112,627)	544,659	(61,953)	(797,633)	(174,580)	-252,974
Net Position, Beginning	3,838,177	3,479,830	12,988,975	13,792,575	16,827,152	17,272,405
Prior period adjustment	-	(186,312)	-	(5,967)	-	(192,279)
Net Position, Ending	\$ 3,725,550	\$ 3,838,177	\$ 12,927,022	\$ 12,988,975	\$ 16,652,572	\$ 16,827,152

Governmental Activities

As shown in Table A-2, revenues for governmental activities of \$3,393,683 were less than expenses of \$3,801,045 for 2016 by \$407,362; furthermore, after transfers-in of \$294,735, the resulting \$112,627 decrease in net position for the year ended in 2016 represents a \$657,286 decrease in a change in net position from an increase of \$544,659 in net position in 2015.

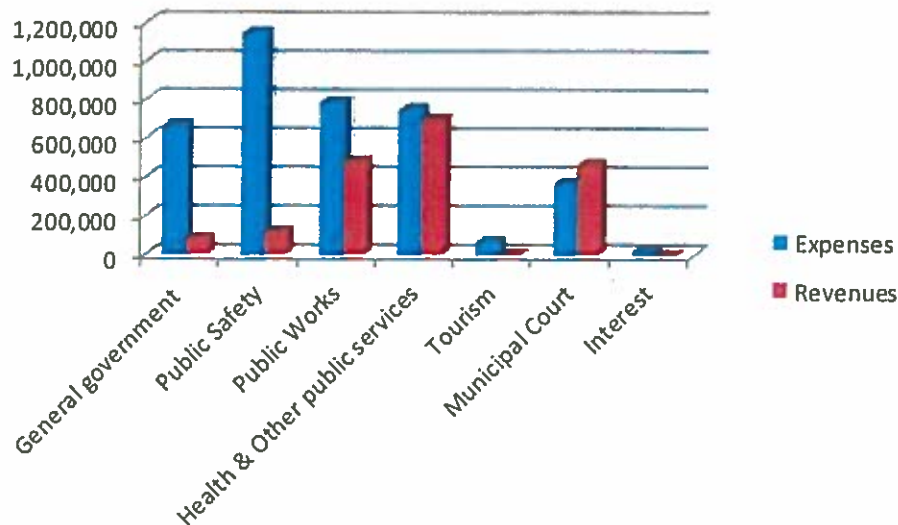
- The cost of all *governmental* activities for 2016 was \$3,801,045.
- The amount that taxpayers paid for these services through City taxes and business fees was \$1,431,667, or 42.2% of total revenues.

Some of the cost was paid by:

- Those who directly benefited from the programs, totaling \$1,279,282, or 37.7% of total revenues.
- All taxes contributed 42.2% of governmental activities' revenues. Investment earnings generated 0.2% of governmental activities' revenues.
- Public Safety (including Police and Impounding) expenses accounted for 30.1% of governmental activities, while 20.7% of the expenses are for Public Works.

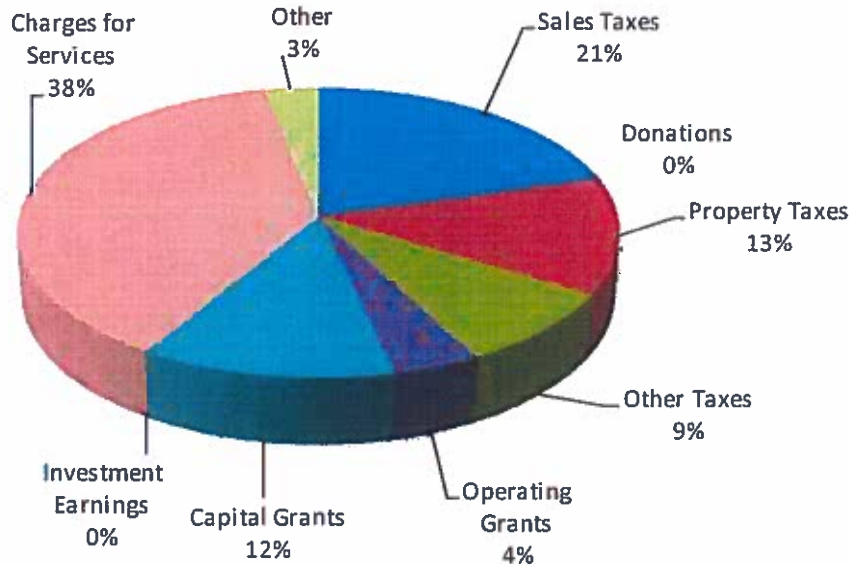
Graph 1 presents the cost of each of the City's major governmental functions, as well as the associated program revenues. As expected in governmental activities, the subsidy required from taxpayers provides the majority of support for these core services.

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 \$2,554,574 to \$2,076,510 between 2015 and 2016, or 18.7%, primarily due to a \$358,667 decrease in cash and cash equivalents along with a \$149,516 decrease in due from other funds since 2015.

Total liabilities of the General Fund decreased slightly, by \$291, or less than 0.1%, from \$368,522. The \$543,232 of unearned revenue, which was reflected as Deferred Inflows of Resources, was up \$56,082, or 11.5%, over the prior year balance of \$487,150, which was a direct result of taxes receivable going up by \$40,003.

The General Fund's unreserved and undesignated fund balance decreased from \$1,592,896 to \$772,243, for a decrease of 51.5% from fiscal year 2015 due to a net deficit in revenues over expenditures from operations.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

The total assets increased in 2016 by \$21,396, or 5.4%, due to a \$21,396 surplus in revenues exceeding expenditures. Total liabilities remained the same at zero from 2015, while total equity increased \$21,396, or 5.4% due to a surplus of revenues over expenditures of that same amount.

Budgetary Results

General Fund

Overall, General Fund revenues were more than the final budget by \$388,817. General Fund tax revenues were \$1,332,586, which was \$165,088 above the final budget. Fines and forfeitures accounted for a positive variance of \$78,013 over the 2016 final budget. Charges for services revenue were also higher than the final budget by \$78,111. Licenses and permits revenue were below the final budgeted amount by \$8,948.

General Fund expenditures were \$431,103 below the final budget. The largest positive variance in expenditures came from the General government. The Public Safety department expenditures also had a positive variance of \$123,863. In addition, \$39,860 more was spent on Parks and recreation than was budgeted, but the Street department spent \$73,367 less than was budgeted.

Non-major Governmental Funds

Two different fund types comprise this portion of the financial statements, including twelve special revenue funds and one capital projects fund. Total assets for the combined funds were \$824,859; total liabilities were \$177,792, and the total fund balances were \$647,067 with none classified as undesignated or unreserved fund balances.

Table A-3: Capital Assets at December 31, 2016 and 2015

	Governmental Activities			Business-Type Activities		
	2016	2015	% Change	2016	2015	% Change
Land	\$ 12,200	\$ 12,200	0.0%	\$ 138,326	138,326	0.0%
Construction in Progress	4,500	579,088	-99.2%	569,950	-	100.0%
Buildings and Improvements	1,044,979	1,044,979	0.0%	26,259	26,259	0.0%
Infrastructure	1,637,750	644,230	154.2%	-	-	0.0%
Equipment	956,106	934,907	2.3%	1,905,514	1,905,514	0.0%
				20,893,282	20,893,282	0.0%
Vehicles	874,886	837,269	4.5%	-	-	0.0%
Total Capital Assets	4,530,421	4,052,673	11.8%	23,533,331	22,963,381	2.5%
Accumulated Depreciation	(1,955,149)	(1,655,640)	18.1%	(11,196,111)	(10,560,337)	6.0%
Capital Assets - Net	\$ 2,575,272	\$ 2,397,033	7.4%	\$ 12,337,220	\$ 12,403,044	-0.5%

As shown in Table A-3, at December 31, 2016, within the City's governmental activities, there was a decrease in construction in progress of \$565,450. The Infrastructure portion had a \$993,520 increase during 2016, and a \$21,199 net increase in equipment. Total Capital Assets had a net increase, before depreciation, of \$477,748 from 2015 to 2016. Within the City's business-type activities, there was an increase in \$569,950 in construction in progress.

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 rate 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 2016, no new debt or capital lease debt was entered into by the City. See Note G on pages 39 through 41 for more information.

Table A-4: Long-Term Liabilities at December 31, 2016 and 2015

	Governmental		Business-Type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Certificates of Obligation	\$ 365,000	\$ 485,000	-	\$ -	365,000	\$ 485,000
Capital Leases	353,783	466,078	-	-	353,783	466,078
Refunding Bonds	-	-	2,405,000	2,560,000	2,405,000	2,560,000
Total Long-Term Debt	\$ 718,783	\$ 951,078	2,405,000	\$ 2,560,000	3,123,783	\$ 3,511,078

CALENDAR YEAR 2017 ADOPTED OPERATING BUDGET

The adopted budget for 2017 sets general fund revenues from all sources (including inter-fund transfers) at \$2,699,382. This budget is \$32,073, or 1.2% more than the prior year's final budget. The most significant cause of this slight increase in revenues from 2016 to 2017 is due to a \$32 thousand increase in property tax revenue.

Property tax revenue was budgeted to increase \$42,631, or 10.2%, compared to the prior year's actual property taxes. With a slight increase in assessed valuations for the 2016 tax year compared to 2015 (the 2015 tax year revenues are deferred to the City's 2016 fiscal year, and the 2016 tax year revenues are deferred to the City's 2017 fiscal year), coupled with a slight increase in the property tax rate to \$0.500932, the total 2017 revenue forecast was conservatively cast by management. City sales tax, which comprised 26.2% of general fund revenues for 2016, was also conservatively forecast at \$528,943, which is \$170,195, or 24.3%, less than the 2016 actual sales tax revenue of \$699,138. The franchise tax fee categories are budgeted at \$208,748, slightly lower than the \$212,115 of 2016's actual franchise taxes.

General fund expenditures, including transfers for the 2017 budget, were set at \$3,491,017, which is \$470,146, or 11.9% 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 \$791,635, as the budgeted \$2,699,382 in budgeted revenue is significantly less than the budgeted expenditures of \$3,491,017.

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)

Basic Financial Statements

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 1,864,643	\$ 2,692,566	\$ 4,557,209
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	314,057	--	314,057
<i>Accounts</i>	122,619	430,591	553,210
<i>Other</i>	167,614	--	167,614
<i>Accrued Interest Receivable</i>	1,948	--	1,948
<i>Internal Balances</i>	109,981	(109,981)	--
<i>Due from other governments</i>	142,361	152,029	294,390
<i>Inventories</i>	--	93,948	93,948
Restricted assets:			
<i>Cash and cash equivalents</i>	--	503,953	503,953
<i>Capital assets</i>	2,575,272	12,337,220	14,912,492
Total Assets	<u>5,298,495</u>	<u>16,100,326</u>	<u>21,398,821</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows of resources related to pensions	157,993	79,134	237,127
Total Deferred Outflows of Resources	<u>157,993</u>	<u>79,134</u>	<u>237,127</u>
LIABILITIES:			
<i>Accounts payable</i>	223,442	504,833	728,275
<i>Accrued wages payable</i>	--	6,248	6,248
<i>Due to other governments</i>	10,027	--	10,027
<i>Meter deposits</i>	134,408	222,155	356,563
<i>Accrued interest payable</i>	8,834	21,645	30,479
Liabilities due within one year:			
<i>Current portion of bonds payable</i>	120,000	165,000	285,000
<i>Current portion of lease payable</i>	113,499	--	113,499
Liabilities due in more than one year:			
<i>General obligation bonds payable</i>	245,000	2,240,000	2,485,000
<i>Capital leases payable</i>	240,284	--	240,284
<i>Net Pension Liability</i>	145,830	70,539	216,369
Total Liabilities	<u>1,241,324</u>	<u>3,230,420</u>	<u>4,471,744</u>
DEFERRED INFLOWS OF RESOURCES:			
<i>Deferred inflows related to pensions</i>	38,420	22,018	60,438
<i>Unearned revenue</i>	451,194	--	451,194
Total Deferred Inflows of Resources	<u>489,614</u>	<u>22,018</u>	<u>511,632</u>
NET POSITION:			
Net Investment in Capital Assets	1,856,489	9,932,220	11,788,709
Restricted For:			
Federal and State Programs	458,095	--	458,095
Capital Projects	11,019	--	11,019
Law Enforcement	141,892	--	141,892
Tourism	418,462	--	418,462
Municipal Court Building Security	49,292	--	49,292
Municipal Court Technology	13,228	--	13,228
Other Purposes	11,627	--	11,627
Unrestricted	765,446	2,994,802	3,760,248
Total Net Position	<u>\$ 3,725,550</u>	<u>\$ 12,927,022</u>	<u>\$ 16,652,572</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
<i>General government</i>	\$ 664,555	\$ 29,904	\$ 49,971	\$ --
<i>Sanitation</i>	595,703	695,678	--	--
<i>Municipal Court</i>	368,723	462,986	--	--
<i>Public Safety</i>	1,144,774	25,381	93,411	--
<i>Streets</i>	307,950	--	--	418,932
<i>Health and welfare</i>	152,017	--	--	--
<i>Parks and recreation</i>	479,313	60,474	--	--
<i>Tourism</i>	68,015	4,859	--	--
<i>Interest and fiscal charges</i>	19,995	--	--	--
Total governmental activities	<u>3,801,045</u>	<u>1,279,282</u>	<u>143,382</u>	<u>418,932</u>
Business-type Activities:				
<i>Utility</i>	1,035,145	1,434,302	--	226,529
<i>Sewer</i>	851,331	660,223	--	--
<i>Gas</i>	800,260	557,919	--	--
Total Business-type Activities	<u>2,686,736</u>	<u>2,652,444</u>	<u>--</u>	<u>226,529</u>
Total Primary Government	<u>\$ 6,487,781</u>	<u>\$ 3,931,726</u>	<u>\$ 143,382</u>	<u>\$ 645,461</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
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>
\$ (584,680)		\$ (584,680)
99,975		99,975
94,263		94,263
(1,025,982)		(1,025,982)
110,982		110,982
(152,017)		(152,017)
(418,839)		(418,839)
(63,156)		(63,156)
(19,995)		(19,995)
<u>(1,959,449)</u>		<u>(1,959,449)</u>
--	\$ 625,686	625,686
--	(191,108)	(191,108)
--	(242,341)	(242,341)
--	<u>192,237</u>	<u>192,237</u>
<u>(1,959,449)</u>	<u>192,237</u>	<u>(1,767,212)</u>
443,184	--	443,184
699,138	--	699,138
212,115	--	212,115
74,045	--	74,045
3,185	--	3,185
2,146	--	2,146
112,028	22,539	134,567
6,246	18,007	24,253
294,735	(294,735)	--
<u>1,846,822</u>	<u>(254,189)</u>	<u>1,592,633</u>
(112,627)	(61,952)	(174,579)
3,838,177	12,988,974	16,827,151
<u>\$ 3,725,550</u>	<u>\$ 12,927,022</u>	<u>\$ 16,652,572</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General Fund	GLO Grant	Other Governmental Funds	Total Governmental Funds
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 1,217,848	\$ 1	\$ 646,794	\$ 1,864,643
Receivables (net of allowances for uncollectibles):				
<i>Taxes</i>	314,057	--	--	314,057
<i>Accounts</i>	122,619	--	--	122,619
<i>Other</i>	145,402	--	22,212	167,614
<i>Accrued Interest Receivable</i>	1,948	--	--	1,948
<i>Due from other funds</i>	274,636	--	63,286	337,922
<i>Due from other governments</i>	--	49,794	92,567	142,361
Total Assets	\$ 2,076,510	\$ 49,795	\$ 824,859	\$ 2,951,164
LIABILITIES:				
<i>Accounts payable</i>	\$ 178,496	\$ --	\$ 44,946	\$ 223,442
<i>Due to other funds</i>	55,327	49,795	122,819	227,941
<i>Due to other governments</i>	--	--	10,027	10,027
<i>Meter deposits</i>	134,408	--	--	134,408
Total Liabilities	368,231	49,795	177,792	595,818
DEFERRED INFLOWS OF RESOURCES:				
<i>Unearned revenue</i>	543,232	--	--	543,232
Total Deferred Inflows of Resources	543,232	--	--	543,232
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	--	418,462	418,462
<i>Restricted for State and Federal Grants</i>	--	--	1,547	1,547
<i>Restricted for Capital Projects</i>	--	--	11,019	11,019
<i>Restricted for Donor Intent</i>	--	--	11,627	11,627
<i>Restricted for Law Enforcement</i>	--	--	141,892	141,892
<i>Restricted for Municipal Court Building Security</i>	--	--	49,292	49,292
<i>Restricted for Municipal Court Technology</i>	--	--	13,228	13,228
<i>Assigned</i>	392,804	--	--	392,804
<i>Unassigned</i>	772,243	--	--	772,243
Total equity	1,165,047	--	647,067	1,812,114
Total Liabilities, Deferred Inflows of Resources, and E	\$ 2,076,510	\$ 49,795	\$ 824,859	\$ 2,951,164

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016*

Total fund balances - governmental funds balance sheet	\$ 1,812,114
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.	2,575,272
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	92,038
Payables for bond principal which are not due in the current period are not reported in the funds.	(365,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(353,783)
Payables for bond interest which are not due in the current period are not reported in the funds.	(8,834)
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(145,830)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(38,420)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>157,993</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 3,725,550</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	GLO Grant	Other Governmental Funds	Total Governmental Funds
Revenue:				
<i>Taxes</i>	\$ 1,332,586	\$ --	\$ 74,045	\$ 1,406,631
<i>Licenses and permits</i>	26,535	--	4,859	31,394
<i>Federal and state grants</i>	--	418,932	143,382	562,314
<i>Donations</i>	300	--	1,846	2,146
<i>Charges for services</i>	758,587	--	--	758,587
<i>Fines & forfeitures</i>	455,798	--	32,569	488,367
<i>Interest</i>	3,528	--	2,718	6,246
<i>Miscellaneous</i>	109,212	--	3,750	112,962
Total revenues	<u>2,686,546</u>	<u>418,932</u>	<u>263,169</u>	<u>3,368,647</u>
Expenditures:				
<i>General government</i>	544,306	--	69,127	613,433
<i>Sanitation</i>	553,595	--	--	553,595
<i>Municipal Court</i>	339,497	--	1,244	340,741
<i>Public Safety</i>	982,859	--	103,621	1,086,480
<i>Streets</i>	256,268	418,932	--	675,200
<i>Health and welfare</i>	138,940	--	--	138,940
<i>Parks and recreation</i>	462,305	--	--	462,305
<i>Tourism</i>	--	--	62,923	62,923
Debt service:				
<i>Principal</i>	232,295	--	--	232,295
<i>Interest and fiscal charges</i>	19,995	--	--	19,995
Total expenditures	<u>3,530,060</u>	<u>418,932</u>	<u>236,915</u>	<u>4,185,907</u>
Excess (deficiency) of revenues (under) expenditures	(843,514)	--	26,254	(817,260)
Other financing sources (uses):				
<i>Transfers in</i>	326,315	--	16,657	342,972
<i>Transfers out</i>	(16,657)	--	(31,580)	(48,237)
Total other financing sources (uses)	<u>309,658</u>	<u>--</u>	<u>(14,923)</u>	<u>294,735</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(533,856)	--	11,331	(522,525)
Fund balances/equity, January 1	1,698,903	--	635,736	2,334,639
Fund balances/equity, December 31	<u>\$ 1,165,047</u>	<u>\$ --</u>	<u>\$ 647,067</u>	<u>\$ 1,812,114</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, 2016*

Net change in fund balances - total governmental funds	\$ (522,525)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	477,748
The depreciation of capital assets used in governmental activities is not reported in the funds.	(299,509)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	25,035
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	120,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	112,295
(Increase) decrease in accrued interest from beginning of period to end of period.	2,690
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(28,361)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (112,627)</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

STATEMENT OF NET POSITION

ENTERPRISE FUNDS

DECEMBER 31, 2016

	Enterprise Fund
	Utility Fund
ASSETS	
Current Assets:	
<i>Cash and cash equivalents</i>	\$ 2,692,566
<i>Accounts</i>	430,591
<i>Due from other governments</i>	152,029
<i>Inventories</i>	93,948
<i>Total current assets</i>	<u>3,369,134</u>
Restricted assets:	
<i>Cash and cash equivalents</i>	503,953
<i>Total restricted assets</i>	<u>503,953</u>
Long-term assets:	
<i>Fixed assets (net, where applicable, of accumulated depreciation)</i>	12,337,220
<i>Total long-term assets</i>	<u>12,337,220</u>
Total Assets	<u>16,210,307</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	79,134
Total Deferred Outflows of Resources	<u>\$ 79,134</u>
LIABILITIES	
Current liabilities:	
<i>Accounts payable</i>	\$ 504,833
<i>Accrued wages</i>	6,248
<i>Due to other funds</i>	109,981
<i>Total current liabilities</i>	<u>621,062</u>
<i>Payable from restricted assets:</i>	
<i>Current portion of bonds payable</i>	165,000
<i>Meter deposits</i>	222,155
<i>Accrued interest payable</i>	21,645
<i>Total payable from restricted assets</i>	<u>408,800</u>
<i>General obligation bonds payable</i>	2,240,000
<i>Net pension liability</i>	70,539
<i>Total long-term liabilities</i>	<u>2,310,539</u>
Total Liabilities	<u>3,340,401</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	22,018
Total Inflows of Resources	<u>22,018</u>
NET POSITION	
<i>Investment in general fixed assets</i>	9,932,219
<i>Restricted for debt service</i>	211,901
<i>Unrestricted</i>	2,782,902
Total Net Position	<u>\$ 12,927,022</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, 2016

	Enterprise Fund
	Utility Fund
OPERATING REVENUES:	
<i>Service revenue</i>	
<i>Water revenue</i>	\$ 1,354,496
<i>Sewer revenue</i>	639,366
<i>Gas revenue</i>	521,101
<i>Other income</i>	160,018
Total Operating Revenues	<u>2,674,981</u>
OPERATING EXPENSES:	
<i>Salaries</i>	524,108
<i>Production costs</i>	321,610
<i>Repairs and maintenance</i>	635,571
<i>Supplies</i>	16,335
<i>Employee benefits and taxes</i>	185,181
<i>Office expense</i>	70,850
<i>Insurance</i>	55,950
<i>Utilities and telephone</i>	20,032
<i>Professional fees</i>	65,524
<i>Bad debts</i>	10,266
<i>Depreciation</i>	635,774
<i>Other expense</i>	55,927
Total Operating Expenses	<u>2,597,128</u>
Operating Income (Loss)	<u>77,853</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Interest revenue</i>	18,007
<i>Non-operating grants</i>	226,529
<i>Interest expense</i>	(89,605)
Total Non-operating Revenues (Expenses)	<u>154,931</u>
Net Income (Loss) before Operating Transfers	<u>232,784</u>
TRANSFERS:	
<i>Interfund transfers in</i>	--
<i>Interfund transfers out</i>	(294,736)
Total Transfers	<u>(294,736)</u>
Net income	(61,952)
Retained earnings/fund balances, January 1	12,988,974
Retained earnings/fund balances, December 31	<u>\$ 12,927,022</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, 2016

	Utility Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 2,718,257
<i>Cash Payments to Employees for Services</i>	(509,667)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,207,199)
Net Cash Provided (Used) by Operating Activities	<u>1,001,391</u>
Cash Flows from Non-capital Financing Activities:	
<i>Proceeds (Payments) from (for) Transfers from (to) other funds</i>	(294,736)
<i>Proceeds (Payments) from (for) Borrowings with other funds</i>	(236,779)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(531,515)</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Principal and Interest Paid</i>	(246,000)
<i>Proceeds from Capital Grants</i>	236,847
<i>Acquisition or Construction of Capital Assets</i>	(569,950)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(579,103)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	18,007
Net Cash Provided (Used) for Investing Activities	<u>18,007</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(91,220)
Cash and Cash Equivalents at Beginning of Year	3,287,739
Cash and Cash Equivalents at End of Year	<u>\$ 3,196,519</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 77,853
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	635,774
<i>Provision for Uncollectible Accounts</i>	6,755
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	26,518
<i>Decrease (Increase) in Deferred Resource Outflows</i>	(60,464)
<i>Decrease (Increase) in Inventories</i>	13,182
<i>Increase (Decrease) in Accounts Payable</i>	210,110
<i>Increase (Decrease) in Deferred Resource Inflows</i>	19,704
<i>Increase (Decrease) in Net Pension Liability</i>	55,201
<i>Increase (Decrease) in Customer Deposits</i>	16,758
Total Adjustments	<u>923,538</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,001,391</u>
Cash and cash equivalents	\$ 2,692,566
Cash and cash equivalents - restricted	503,953
Total cash and cash equivalents	<u>\$ 3,196,519</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, 2016

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 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. In the government-wide statement of net position, both the governmental and business-type columns are (1) presented on a consolidated basis by column, and (2) reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

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.

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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 inside and 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, with the 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. Implementation of New Standards

The City has adopted all current GASB pronouncements that are applicable to its operations and activities. The following are new GASB Pronouncements:

GASB Statement No. 72, Fair Value Measurement and Application, addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement is effective for financial statements for periods beginning after June 15, 2015. The City has implemented this Statement in fiscal year 2016.

GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, addresses accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016 for those entities not within the scope of Statement No. 68; the City is within the scope. The requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions, as well as those whose pension plans are within the scope of Statement No. 67 or Statement No. 68, are effective for fiscal years beginning after June 15, 2015. The City has implemented this Statement in fiscal year 2016.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The City has implemented this Statement in fiscal year 2016.

GASB Statement No. 77, Tax Abatement Disclosures, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. Various disclosures are required, and they should be organized by major tax abatement program, and may disclose information for individual tax abatement agreements within those programs. Requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The City has implemented this Statement in fiscal year 2016.

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GASB Statement No. 79, Certain External Investment Pools and Pool Participants, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The requirements of this Statement No. 79 are effective for reporting periods beginning after June 15, 2015, except for the provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. In the period this Statement is first applied, changes made to comply with this Statement should be applied on a prospective basis. The implementation of Statement No. 79 will have no impact on the City as the City already records its participating investment pool, TexPool, at amortized cost and does not have any restrictions or limitations that require notation in the financial statements.

New pronouncements not yet in effect as of December 31, 2016, are expected to have a significant impact on the City's financial position, results of operations, or cash flows. The City is currently studying these new pronouncements and will adopt them, as applicable, in subsequent fiscal years.

Future GASB Statement Implementations

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, addresses the need to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pension and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The City will implement this Statement in fiscal year 2017.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, has as its primary objective to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB, Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. The City will implement this Statement in fiscal year 2018.

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local

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governmental employers, and (3) has no predominant state or local governmental employer. Requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The implementation of Statement No. 78 will have no impact on the City as its pension plans cover only City employees.

GASB Statement No. 80, Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14, will improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The City will implement this Statement in fiscal year 2017.

GASB Statement No. 81, Irrevocable Split-Interest Agreements, will improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. It can be created through trusts - or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements - in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government must also recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests and recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. The City will implement this Statement in fiscal year 2018.

GASB Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, 68 and No. 73, will address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The City will implement the required components in this Statement in fiscal year 2017 and 2018.

GASB Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. This Statement requires the current value of a

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government's AROs to be adjusted for the effects of general inflation or deflation at least annually. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The City will implement this Statement in fiscal year 2019.

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities for all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City will implement this Statement in fiscal year 2020.

The City has not fully determined the effects that implementation of these statements will have on the City's financial statements.

4. 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. Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each October 1 on the basis of assessed value at the date the enforceable lien attaches. Appraised values are established by the Brooks County Appraisal Board, assessed at 100% of appraised value, approved by the Brooks County Appraisal Review Board and certified by the Chief Appraiser. Responsibility for the billing and collection of the City's taxes has been transferred to Brooks County as a cost-cutting measure in consolidating government functions.

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.

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 2015 tax rate was \$.47468 on assessed value of \$90,983,397 and was distributed to the General Fund. The 2016 tax rate is \$.500932 on an assessed value of \$93,020,331 with tax revenue of \$451,194 which is deferred to 2017.

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.

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The top ten taxpayers are as follows:

<u>Taxpayer Name</u>	<u>Nature of Operations</u>	<u>Assessed Valuation</u>	<u>% of Total Taxable Valuation</u>
AEP Texas Central Company	Electric Utility	\$ 1,912,440	2.06%
SBB Properties, Inc.	Hotel	1,911,209	2.05%
HEB Grocery Co., LP	Retail	1,309,067	1.41%
Sun-Fal Inc.	Apartments	1,200,000	1.29%
MJRB Properties, Inc.	Hotel	1,118,765	1.20%
Boli Family Trust	Real Estate	1,082,138	1.16%
Zeba Inc.	Retail	1,000,000	1.08%
Stripes, LLC	Retail	992,583	1.07%
Commercial Net Lease Rlty	Real Estate	974,745	1.05%
First National Bank	Banking	888,794	0.96%

c. Inventories and Prepaid Items

In governmental fund types, the City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

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.

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 2016.

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e. Receivable and Payable Balances

See Footnote D in which disclosure is provided which disaggregates the receivable 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.

g. Deferred Inflows and Outflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows of resources related to pensions in the Statement of Net Position totaled \$237,127, of which \$157,993 is in governmental activities and \$79,134 in business-type activities.

There were deferred inflows of resources in the Statement of Net Position related to pensions of \$60,438.

Deferred inflows of resources in the governmental fund financial statements related to the unavailable revenues associated with property taxes totaled \$451,194.

Additional information concerning deferred outflows of resources and deferred inflows of resources related to pensions can be found in Note 8, Pension and Retirement Plans.

h. Restricted Assets

Certain debt proceeds of the City's enterprise funds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, certain resources from fines set aside according to state law for municipal court technology and building security are classified as restricted assets. The City Commission has set aside funds for future landfill closure costs, and these funds are also classified as restricted assets.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the City's policy is to apply restricted assets first.

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i. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the period incurred the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing resources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the governmental funds, bond discounts and issuance costs are treated as period costs in the year issued. Bond issuance costs are shown as an "other financing use."

f. Pension Plans

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.

g. 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.

h. 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 in 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.

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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.

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.

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

Spending Prioritization in Using Available Resources:

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.

d. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

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

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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, 2016, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,061,166 and the bank balance was \$5,134,564. The City's cash deposits at December 31, 2016 and during the year ended December 31, 2016, 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, 2016.

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.

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.

CITY OF FALFURRIAS, TEXAS
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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, 2016, consisted of the following:

	<u>General</u>	<u>Other Funds</u>	<u>Enterprise</u>	<u>Total</u>
Accounts	\$ 178,055	22,212	\$ 581,638	\$ 781,905
Taxes-Property	518,558	--	--	518,558
Taxes-Franchise & Sales	145,402	--	--	145,402
Gross Receivables	842,015	22,212	581,638	1,445,865
Less: Allowance for Uncollectible	<u>(259,937)</u>	<u>--</u>	<u>(151,047)</u>	<u>(410,984)</u>
Net Receivables	<u>\$ 582,078</u>	<u>\$ 22,212</u>	<u>\$ 430,591</u>	<u>\$ 1,034,881</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

E. Capital Assets

Capital asset activity for the year ended December 31, 2016, 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	579,088	418,932	993,520	4,500
Total capital assets not being depreciated	<u>591,288</u>	<u>418,932</u>	<u>993,520</u>	<u>16,700</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,044,979	--	--	1,044,979
Infrastructure	644,230	993,520	--	1,637,750
Equipment	934,906	21,200	--	956,106
Vehicles	837,270	37,616	--	874,886
Total capital assets being depreciated	<u>3,461,385</u>	<u>1,052,336</u>	<u>--</u>	<u>4,513,721</u>
Less accumulated depreciation for:				
Buildings and improvements				
Infrastructure	(461,937)	(40,575)	--	(502,512)
Equipment	(84,090)	(83,906)	--	(167,996)
Vehicles	(434,902)	(90,243)	--	(525,145)
Specify another category here if needed	(674,711)	(84,785)	--	(759,496)
Total accumulated depreciation	<u>(1,655,640)</u>	<u>(299,509)</u>	<u>--</u>	<u>(1,955,149)</u>
Total capital assets being depreciated, net	<u>1,805,745</u>	<u>752,827</u>	<u>--</u>	<u>2,558,572</u>
Governmental activities capital assets, net	<u>\$ 2,397,033</u>	<u>\$ 1,171,759</u>	<u>\$ 993,520</u>	<u>\$ 2,575,272</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 138,326	\$ --	\$ --	\$ 138,326
Construction in progress	--	569,950	--	569,950
Total capital assets not being depreciated	<u>138,326</u>	<u>569,950</u>	<u>--</u>	<u>708,276</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	26,259	--	--	26,259
Machinery and Equipment	1,769,328	--	--	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>22,825,055</u>	<u>--</u>	<u>--</u>	<u>22,825,055</u>
Less accumulated depreciation for:				
Buildings and improvements	(18,175)	(449)	--	(18,624)
Machinery and Equipment	(1,207,740)	(84,977)	--	(1,292,717)
Office Equipment	(136,186)	--	--	(136,186)
Mains, meters, and extensions	(8,569,460)	(495,274)	--	(9,064,734)
Sewer plant	(628,775)	(55,075)	--	(683,850)
Total accumulated depreciation	<u>(10,560,336)</u>	<u>(635,775)</u>	<u>--</u>	<u>(11,196,111)</u>
Total capital assets being depreciated, net	<u>12,264,719</u>	<u>(635,775)</u>	<u>--</u>	<u>11,628,944</u>
Business-type activities capital assets, net	<u>\$ 12,403,045</u>	<u>\$ (65,825)</u>	<u>\$ --</u>	<u>\$ 12,337,220</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Depreciation was charged to functions as follows:

General Government	\$	46,660
Sanitation		42,108
Municipal Court		25,918
Public Safety		82,641
Streets		51,358
Health & Welfare		10,568
Parks & Recreation		35,164
Tourism		5,092
	\$	<u>299,509</u>

F. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2016, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 164,655	Short-term loans
Other Governmental Funds	General Fund	55,327	Short-term loans
Other Governmental Funds	Other Governmental Funds	7,959	Short-term loans
	Total Governmental	<u>227,941</u>	
General Fund	Enterprise Fund	109,981	Short-term loans
	Total Enterprise	<u>109,981</u>	
	Total	<u>\$ 337,922</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, 2016, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	\$ 31,580	Supplement other funds sources
General fund	Enterprise Fund	294,735	Supplement other funds sources
General fund	Other Governmental Funds	16,657	Supplement other funds sources
	Total	<u>\$ 342,972</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, 2016, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of Obligation	\$ 485,000	\$ --	\$ 120,000	\$ 365,000	120,000
Capital leases (1)	466,078	--	112,295	353,783	113,499
Total governmental activities	<u>\$ 951,078</u>	<u>\$ --</u>	<u>\$ 232,295</u>	<u>\$ 718,783</u>	<u>\$ 233,499</u>

(1) Secured by ad valorem taxes and other revenue

CITY OF FALFURRIAS, TEXAS
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FOR THE YEAR ENDED DECEMBER 31, 2016

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities:					
2013 Refunding Bonds	\$ 2,560,000	\$ --	\$ 155,000	\$ 2,405,000	165,000
Total business-type activities	\$ 2,560,000	\$ --	\$ 155,000	\$ 2,405,000	\$ 165,000

	2016	2015
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	\$ 365,000	\$ 485,000
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)	2,405,000	2,560,000
Sub-Total	2,770,000	3,045,000
Less Current Portion	(285,000)	(275,000)
Total Bond Debt	\$ 2,485,000	\$ 2,770,000

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2016, are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 120,000	\$ 5,277	\$ 125,277
2018	120,000	3,200	123,200
2019	125,000	1,081	126,081
Totals	\$ 365,000	\$ 9,558	\$ 374,558

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
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	190,000	58,320	248,320
2022-2026	1,050,000	182,880	1,232,880
2027-2029	475,000	17,190	492,190
Totals	\$ 2,405,000	\$ 555,930	\$ 2,960,930

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of December 31, 2016, as follows:

<u>Year Ending December 31:</u>	
2017	\$ 125,043
2018	125,042
2019	64,718
2020	<u>64,718</u>
Total Minimum Lease Payments	379,521
Less amount representing interest	<u>(25,738)</u>
Present value of net minimum lease payments	<u>\$ 353,783</u>

The effective interest rate on capital leases is 2.98% to 5.540%.

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 2016, 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.tmrs.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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Employees covered by benefit terms:

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	34
Active employees	39
Total covered employees	91

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 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 2.02% and 3.32% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended December 31, 2016 were \$56,384, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10% per year including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 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 2015 valuation.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
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.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2014	\$ 2,218,324	\$ 2,171,280	\$ 47,044
Changes for the year			
Service cost	103,115	--	103,115
Interest	158,345	--	158,345
Change of benefit terms	40,358	--	40,358
Difference between expected and actual experience	(80,856)	--	(80,856)
Changes of assumptions	64,323	--	64,323
Contributions - employer	--	30,560	(30,560)
Contributions - employee	--	84,244	(84,244)
Net investment income	--	3,203	(3,203)
Benefit payments, including refunds of employee contributions	(96,324)	(96,324)	--
Administrative expense	--	(1,951)	1,951
Other changes	--	(96)	96
Net changes	188,961	19,636	169,325
Balance at 12/31/2015	\$ 2,407,285	\$ 2,190,916	\$ 216,369

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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	\$ 484,935	\$ 216,369	\$ (11,985)

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, 2016, the City recognized pension expense of \$96,502.

At December 31, 2016, 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	\$ 13,633	\$ 60,438
Changes in actuarial assumptions	\$ 48,080	\$ --
Difference between projected and actual investment earnings	\$ 119,030	\$ --
Contributions subsequent to the measurement date	\$ 56,384	
Total	<u>\$ 237,127</u>	<u>\$ 60,438</u>

\$56,384 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, 2016. 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:		
2017	\$	27,374
2018	\$	27,374
2019	\$	27,541
2020	\$	31,551
2021	\$	1,792
Thereafter	\$	4,673

J. Other Post Employment Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Schedule of Contribution Rates
 (RETIREE-ONLY PORTION OF THE RATE)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	.05%	.05%	100.0%
2015	.04%	.04%	100.0%
2016	.04%	.04%	100.0%

K. Health Care Coverage

During the year ended December 31, 2016, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$638 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, 2017, 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, 2016, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

L. 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 collectibility 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, 2016.

M. Closure and Postclosure Care Cost

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

N. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through June 9, 2017 (the date of the Audit Report). The financial statements include all Type I events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management and those charged with governance have determined that there are no non-recognized Type II subsequent events that require additional disclosure.

O. Budgetary Data

Budgets were prepared for all governmental funds in accordance with accounting principles generally accepted in the United States of America (GAAP) except certain Federal and State Grant Funds. As grants are awarded, grant budgets are established through the awarding agencies. The budgets are prepared on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The City did not adopt budgets for the following grant funds:

- GLO/DRS Grant #220261
- FEMA Hazard Mitigation Grant
- CDBG #7215160 Water Line Replacement

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	Parks and Recreation	\$ 39,860

P. Segment Reporting

Because the utility system fund is shown segmented as a major fund in the financial statements, further segment disclosures are not reported.

City of Falfurrias, Texas

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

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2016

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,167,498	\$ 1,167,498	\$ 1,332,586	\$ 165,088
<i>Licenses and permits</i>	35,483	35,483	26,535	(8,948)
<i>Donations</i>	--	--	300	300
<i>Charges for services</i>	680,476	680,476	758,587	78,111
<i>Fines & forfeitures</i>	377,785	377,785	455,798	78,013
<i>Interest</i>	2,500	2,500	3,528	1,028
<i>Miscellaneous</i>	33,987	33,987	109,212	75,225
Total revenues	<u>2,297,729</u>	<u>2,297,729</u>	<u>2,686,546</u>	<u>388,817</u>
Expenditures:				
<i>General government</i>	733,874	752,858	544,306	208,552
<i>Sanitation</i>	562,753	562,753	553,595	9,158
<i>Municipal Court</i>	356,554	366,393	339,497	26,896
<i>Public Safety</i>	1,068,007	1,106,722	982,859	123,863
<i>Streets</i>	330,530	329,635	256,268	73,367
<i>Health and welfare</i>	162,541	168,066	138,940	29,126
<i>Parks and recreation</i>	406,828	422,445	462,305	(39,860)
Debt service:				
<i>Principal</i>	232,682	232,682	232,295	387
<i>Interest and fiscal charges</i>	19,609	19,609	19,995	(386)
Total expenditures	<u>3,873,378</u>	<u>3,961,163</u>	<u>3,530,060</u>	<u>431,103</u>
Excess (deficiency) of revenues (under) expenditures	(1,575,649)	(1,663,434)	(843,514)	819,920
Other financing sources (uses):				
<i>Transfers in</i>	34,580	369,580	353,825	(15,755)
<i>Transfers out</i>	--	--	(44,167)	44,167
Total other financing sources (uses)	<u>34,580</u>	<u>369,580</u>	<u>309,658</u>	<u>59,922</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,541,069)	(1,293,854)	(533,856)	759,998
Fund balances/equity, January 1	1,698,903	1,698,903	1,698,903	--
Fund balances/equity, December 31	<u>\$ 157,834</u>	<u>\$ 405,049</u>	<u>\$ 1,165,047</u>	<u>\$ 759,998</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> 2016	<u>Fiscal Year</u> 2015
Total Pension Liability		
Service cost	\$ 103,115	\$ 84,934
Interest (on the total pension liability)	158,345	146,675
Changes of benefit terms	40,358	--
Difference between expected and actual experience	(80,856)	(9,065)
Changes in assumptions	64,323	--
Benefit Payments, including refunds of employee contributions	<u>(96,324)</u>	<u>(114,234)</u>
Net Change in Total Pension Liability	188,961	108,310
Total Pension Liability - Beginning	2,218,324	2,110,014
Total Pension Liability - Ending (A)	<u>\$ 2,407,285</u>	<u>\$ 2,218,324</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 30,560	\$ 34,015
Contributions - employee	84,244	81,368
Net investment income	3,203	117,495
Benefit payments, including refunds of employee contributions	(96,324)	(114,234)
Administrative expenses	(1,951)	(1,226)
Other	<u>(97)</u>	<u>(101)</u>
Net Change in Plan Fiduciary Net Position	19,635	117,317
Plan Fiduciary Net Position - Beginning	2,171,280	2,053,963
Plan Fiduciary Net Position - Ending (B)	<u>\$ 2,190,915</u>	<u>\$ 2,171,280</u>
 Net Pension Liability - Ending (A-B)	<u>\$ 216,370</u>	<u>\$ 47,044</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	91.01%	97.88%
 Covered Payroll	1,684,883	1,627,354
 Net Pension Liability as a Percentage of Covered Payroll	12.84%	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>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 56,384	\$ 36,239	\$ 34,015
Contributions in relation to the contractually required contribution	(56,384)	(36,239)	(34,015)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 1,699,996	\$ 1,759,752	\$ 1,627,354
Contributions as a percentage of covered-employee payroll	3.32%	2.06%	2.09%

* 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, 2016

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

Methods and Assumptions Used to Determine Contribution Rate:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information	1) Increased municipal matching ratio from 1-1 to 1.5-1 2) Increased statutory maximum to 9.50% due to plan changes

*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, 2016

	Special Revenue Funds	Capital Projects Fund Certificate of Obligation	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 635,775	\$ 11,019	\$ 646,794
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	22,212	--	22,212
<i>Due from other funds</i>	63,286	--	63,286
<i>Due from other governments</i>	92,567	--	92,567
Total Assets	<u>\$ 813,840</u>	<u>\$ 11,019</u>	<u>\$ 824,859</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 44,946	\$ --	\$ 44,946
<i>Due to other funds</i>	122,819	--	122,819
<i>Due to other governments</i>	10,027	--	10,027
Total Liabilities	<u>177,792</u>	<u>--</u>	<u>177,792</u>
DEFERRED INFLOWS OF RESOURCES:			
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	418,462	--	418,462
<i>Restricted for State and Federal Grants</i>	1,547	--	1,547
<i>Restricted for Capital Projects</i>	--	11,019	11,019
<i>Restricted for Donor Intent</i>	11,627	--	11,627
<i>Restricted for Law Enforcement</i>	141,892	--	141,892
<i>Restricted for Municipal Court Building Security</i>	49,292	--	49,292
<i>Restricted for Municipal Court Technology</i>	13,228	--	13,228
Total equity	<u>636,048</u>	<u>11,019</u>	<u>647,067</u>
Total Liabilities, Deferred Inflows of Resources, and E	<u>\$ 813,840</u>	<u>\$ 11,019</u>	<u>\$ 824,859</u>

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds	Capital Projects Fund Certificate of Obligation	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Taxes</i>	\$ 74,045	\$ --	\$ 74,045
<i>Licenses and permits</i>	4,859	--	4,859
<i>Federal and state grants</i>	143,382	--	143,382
<i>Donations</i>	1,846	--	1,846
<i>Fines & forfeitures</i>	32,569	--	32,569
<i>Interest</i>	2,718	--	2,718
<i>Miscellaneous</i>	3,750	--	3,750
Total revenues	<u>263,169</u>	<u>--</u>	<u>263,169</u>
Expenditures:			
<i>General government</i>	69,127	--	69,127
<i>Municipal Court</i>	1,244	--	1,244
<i>Public Safety</i>	103,621	--	103,621
<i>Tourism</i>	62,923	--	62,923
Total expenditures	<u>236,915</u>	<u>--</u>	<u>236,915</u>
Excess (deficiency) of revenues (under) expenditures	26,254	--	26,254
Other financing sources (uses):			
<i>Transfers in</i>	16,657	--	16,657
<i>Transfers out</i>	(31,580)	--	(31,580)
Total other financing sources (uses)	<u>(14,923)</u>	<u>--</u>	<u>(14,923)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	11,331	--	11,331
Fund balances/equity, January 1	624,717	11,019	635,736
Fund balances/equity, December 31	<u>\$ 636,048</u>	<u>\$ 11,019</u>	<u>\$ 647,067</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

	<u>Gifts and Bequests</u>	<u>Hotel/Motel Occupancy Tax Fund</u>	<u>FEMA Hazard Mitigation</u>	<u>Seizure Fund</u>
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 14,807	\$ 343,502	\$ --	\$ 30,614
Receivables (net of allowances for uncollectibles):				
<i>Other</i>	--	22,212	--	--
<i>Due from other funds</i>	--	52,748	--	3,300
<i>Due from other governments</i>	--	--	49,971	--
Total Assets	<u>\$ 14,807</u>	<u>\$ 418,462</u>	<u>\$ 49,971</u>	<u>\$ 33,914</u>
LIABILITIES:				
<i>Accounts payable</i>	\$ --	\$ --	\$ 44,946	\$ --
<i>Due to other funds</i>	3,180	--	5,025	4,659
<i>Due to other governments</i>	--	--	--	--
Total Liabilities	<u>3,180</u>	<u>--</u>	<u>49,971</u>	<u>4,659</u>
DEFERRED INFLOWS OF RESOURCES:				
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	418,462	--	--
<i>Restricted for State and Federal Grants</i>	--	--	--	--
<i>Restricted for Donor Intent</i>	11,627	--	--	--
<i>Restricted for Law Enforcement</i>	--	--	--	29,255
<i>Restricted for Municipal Court Building Security</i>	--	--	--	--
<i>Restricted for Municipal Court Technology</i>	--	--	--	--
Total equity	<u>11,627</u>	<u>418,462</u>	<u>--</u>	<u>29,255</u>
Total Liabilities, Deferred Inflows of Resources, and	<u>\$ 14,807</u>	<u>\$ 418,462</u>	<u>\$ 49,971</u>	<u>\$ 33,914</u>

<u>JAG Grant</u>	<u>Law Enforcement Training Grant</u>	<u>Federal Forfeiture Fund</u>	<u>Police Impound Fund</u>	<u>Security Fund</u>
\$ 1,504	\$ 4,030	\$ 89	\$ 108,889	\$ 49,292
--	--	--	--	--
--	--	--	4,659	--
--	--	--	--	--
<u>\$ 1,504</u>	<u>\$ 4,030</u>	<u>\$ 89</u>	<u>\$ 113,548</u>	<u>\$ 49,292</u>
\$ --	\$ --	\$ --	\$ --	\$ --
5	4,011	--	1,000	--
--	--	--	--	--
<u>5</u>	<u>4,011</u>	<u>--</u>	<u>1,000</u>	<u>--</u>
--	--	--	--	--
1,499	19	--	--	--
--	--	--	--	--
--	--	89	112,548	--
--	--	--	--	49,292
<u>1,499</u>	<u>19</u>	<u>89</u>	<u>112,548</u>	<u>49,292</u>
<u>\$ 1,504</u>	<u>\$ 4,030</u>	<u>\$ 89</u>	<u>\$ 113,548</u>	<u>\$ 49,292</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2016

	Homeland Security #2	Operation Border Star	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 29,089	\$ 41,010	\$ 12,949	\$ 635,775
Receivables (net of allowances for uncollectibles):				
<i>Other</i>	--	--	--	22,212
<i>Due from other funds</i>	--	--	2,579	63,286
<i>Due from other governments</i>	37,616	4,980	--	92,567
Total Assets	<u>\$ 66,705</u>	<u>\$ 45,990</u>	<u>\$ 15,528</u>	<u>\$ 813,840</u>
LIABILITIES:				
<i>Accounts payable</i>	\$ --	\$ --	\$ --	\$ 44,946
<i>Due to other funds</i>	56,649	45,990	2,300	122,819
<i>Due to other governments</i>	10,027	--	--	10,027
Total Liabilities	<u>66,676</u>	<u>45,990</u>	<u>2,300</u>	<u>177,792</u>
DEFERRED INFLOWS OF RESOURCES:				
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	--	--	418,462
<i>Restricted for State and Federal Grants</i>	29	--	--	1,547
<i>Restricted for Donor Intent</i>	--	--	--	11,627
<i>Restricted for Law Enforcement</i>	--	--	--	141,892
<i>Restricted for Municipal Court Building Security</i>	--	--	--	49,292
<i>Restricted for Municipal Court Technology</i>	--	--	13,228	13,228
Total equity	<u>29</u>	<u>--</u>	<u>13,228</u>	<u>636,048</u>
Total Liabilities, Deferred Inflows of Resources, and E	<u>\$ 66,705</u>	<u>\$ 45,990</u>	<u>\$ 15,528</u>	<u>\$ 813,840</u>

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Gifts and Bequests	Hotel/Motel Occupancy Tax Fund	FEMA Hazard Mitigation	Seizure Fund
Revenue:				
<i>Taxes</i>	\$ --	\$ 74,045	\$ --	\$ --
<i>Licenses and permits</i>	--	4,859	--	--
<i>Federal and state grants</i>	--	--	49,971	--
<i>Donations</i>	1,846	--	--	--
<i>Fines & forfeitures</i>	--	--	--	4,847
<i>Interest</i>	17	1,665	--	151
<i>Miscellaneous</i>	--	3,750	--	--
Total revenues	<u>1,863</u>	<u>84,319</u>	<u>49,971</u>	<u>4,998</u>
Expenditures:				
<i>General government</i>	2,499	--	66,628	--
<i>Municipal Court</i>	--	--	--	--
<i>Public Safety</i>	--	--	--	2,400
<i>Tourism</i>	--	62,923	--	--
Total expenditures	<u>2,499</u>	<u>62,923</u>	<u>66,628</u>	<u>2,400</u>
Excess (deficiency) of revenues (under) expenditures	(636)	21,396	(16,657)	2,598
Other financing sources (uses):				
<i>Transfers in</i>	--	--	16,657	--
<i>Transfers out</i>	--	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>16,657</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(636)	21,396	--	2,598
Fund balances/equity, January 1	<u>12,263</u>	<u>397,066</u>	<u>--</u>	<u>26,657</u>
Fund balances/equity, December 31	<u>\$ 11,627</u>	<u>\$ 418,462</u>	<u>\$ --</u>	<u>\$ 29,255</u>

JAG Grant	Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	1,523	--	--	--
--	--	--	14,232	5,772
--	19	--	604	215
--	--	--	--	--
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
--	1,542	--	14,836	5,987
--	--	--	--	--
--	--	--	--	--
--	1,523	--	7,810	1,244
--	--	--	--	--
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
--	1,523	--	7,810	1,244
--	19	--	7,026	4,743
--	--	--	--	--
--	--	--	(31,580)	--
<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
--	--	--	(31,580)	--
--	19	--	(24,554)	4,743
1,499	--	89	137,102	44,549
<u>\$ 1,499</u>	<u>\$ 19</u>	<u>\$ 89</u>	<u>\$ 112,548</u>	<u>\$ 49,292</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, 2016

	Homeland Security #2	Operation Border Star	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:				
<i>Taxes</i>	\$ --	\$ --	\$ --	\$ 74,045
<i>Licenses and permits</i>	--	--	--	4,859
<i>Federal and state grants</i>	44,943	46,945	--	143,382
<i>Donations</i>	--	--	--	1,846
<i>Fines & forfeitures</i>	--	--	7,718	32,569
<i>Interest</i>	--	--	47	2,718
<i>Miscellaneous</i>	--	--	--	3,750
Total revenues	<u>44,943</u>	<u>46,945</u>	<u>7,765</u>	<u>263,169</u>
Expenditures:				
<i>General government</i>	--	--	--	69,127
<i>Municipal Court</i>	--	--	--	1,244
<i>Public Safety</i>	44,943	46,945	--	103,621
<i>Tourism</i>	--	--	--	62,923
Total expenditures	<u>44,943</u>	<u>46,945</u>	<u>--</u>	<u>236,915</u>
Excess (deficiency) of revenues (under) expenditures	--	--	7,765	26,254
Other financing sources (uses):				
<i>Transfers in</i>	--	--	--	16,657
<i>Transfers out</i>	--	--	--	(31,580)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(14,923)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	--	7,765	11,331
Fund balances/equity, January 1	<u>29</u>	<u>--</u>	<u>5,463</u>	<u>624,717</u>
Fund balances/equity, December 31	<u>\$ 29</u>	<u>\$ --</u>	<u>\$ 13,228</u>	<u>\$ 636,048</u>

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.

City of Falfurrias, Texas

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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, 2016, 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 June 9, 2017.

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 2016-8 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 2016-4 through 2016-7 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) 2016-1 through 2016-3.


City of Falfurrias, Texas's Response to Findings

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

Purpose of this Report

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

Respectfully submitted,


John Womack & Company, P.C.
Kingsville, TX
June 9, 2017

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

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

2016-1 State Compliance - Excess Expenditures over Appropriations (Budgeting) [Repeat Finding]

Condition: The City's Budgetary Comparison Schedule - General Fund reflects a 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.

Client Response: The City will have a workshop at the end of June, 2017, in order to provide a clear understanding of all city operations and needs. The workshop will also address the current fiscal year 2017 budget and provide the means for a budget amendment shortly thereafter. The budget amendment will be a balanced budget to ensure safeguarding the public funds.

2016-2 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 (66.89%) than the 15% cap for hotel/motel tax expenditures related to promoting arts and culture. The City did not reach the 15% allocation amount on advertising, for which it spent only 5.10%.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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.

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.

Client Response: The City will monitor on a regular basis using a time phased approach to ensure that 15% allocated for advertising is being met. Further, the City has already taken steps to ensure that the arts and culture expenditures are not to exceed 15%.

The City will work with vendors, hotels and motels to place questionnaires in order to gather quantifiable information that will provide the proper fiscal analysis reports. This will help our council make more informed decisions.

Going forward, there will be purchase policy procedures in place that will be adopted by the council that will clarify the utilization of all city funds in accordance with the Texas Tax Code and Local Government Code.

2016-3 State Compliance - Certificate of Interested Parties

Condition: The City has not complied with House Bill 1295 by filing Certificate of Interested Parties forms for all qualified vendors.

Criteria: State law requires that contracts over \$1,000,000 or any contract approved by the governing board have a Certificate of Interested Parties filed electronically with the State.

Cause: Management was unaware of the House Bill 1295. There is a lack of training and education on purchasing requirements.

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 instances that require the filing of the HB 1295 disclosure form.

Client Response: Since the creation of the Finance Section under Administration, the City Administrator has identified that the staff needs further training. This fall they will begin training under Government Finance Officers Association of Texas (GFOAT). Further training will be assessed into fiscal year 2018 in order to ensure compliance with state laws.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

2016-4 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.

Client Response: While the City utilizes purchase orders, the procedure was not known to everyone. Better control is in place and the authority to request purchase orders has been streamlined. Currently, there are only two individuals per department that can request a purchase order. Requests must have an amount, vendor name and account code to indicate where the funds are to be expensed.

The City will be looking into a financial software solution that will allow for real-time fiscal tracking.

The council will be presented a draft purchase policy manual for review to be adopted in July of fiscal year 2017.

2016-5 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.

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.

Client Response: The City has created a Finance Section under Administration. This allows for finance staff to focus on the daily journalization needed in order to track all City funds. During the remaining fiscal year 2017, the City will continue to utilize outside sourcing to provide monthly journal oversight while our staff continues to learn and educate.

A financial software solution will be needed in the near future in order to provide better controls and classification of daily activity.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

2016-6 Internal Control - Cash Disbursements

Condition: The City cashed checks from the petty cash account within the Hotel/Motel Tax Fund, and engaged in cash transactions with artists relating to an annual event hosted by the City of Falfurrias.

Criteria: The City should follow normal purchasing processes for issuing payment to vendors, and payments should not be made in cash.

Cause: The City did not exercise proper care in handling transactions with regard to Hotel/Motel Occupancy Tax expenditures.

Effect: Fraudulent activity and/or errors may occur when handling cash and paying cash directly to vendors.

Recommendation: We recommend that the City implement policies and procedures to ensure that proper procedures are always followed for payments to vendors for goods or services.

Client Response: Cash disbursements are no longer allowed, as IRS fraud action could occur. Furthermore, there will be purchase policy procedures in place that will be adopted by the council that will clarify the utilization of all City funds in accordance with the Texas Tax Code and Local Government Code. This will help ensure better fiscal policy.

2016-7 Internal Control - Golf Course Collections

Condition: The City does not have adequate control over golf course revenue. Deposits from golf course revenue are not being made on a daily basis. Also, the golf course does not have a sign-in sheet in order to track the number of golfers utilizing the course, holes played, or carts utilized. This would allow accurate reconciliation to daily cash collections.

Criteria: Proper controls over golf course revenue are necessary to ensure that monies are collected, tracked, and deposited in a timely manner to minimize the potential for errors and/or fraudulent activities.

Cause: The City began management of the golf course in 2016 and hired a Golf Course Manager. A new City Administrator was also hired by the City in early 2017. Policies and procedures for proper controls were not in place when the City assumed management, and are in the process of being developed.

Effect: Inaccuracies with regard to financial reporting due to error or fraud are possible due to the lack of control over revenue and cash collections.

Recommendation: We recommend that the City implement stronger internal controls at the golf course to ensure cash is properly collected, deposited, and reconciled in a timely manner.

Client Response: Immediately implemented, the Golf Course Manager will, on a daily basis, report and turn in deposits to the finance section. This includes the register receipts and a log of daily activity that includes the number of players, golf carts rented, and inventory sold to customers.

The next phase will be to maintain running accountability of all inventory expenses to be reported on a weekly basis, and eventually on a daily basis, dependent on financial software system.

Quantities will also be used to determine budgetary needs. For example, status on all equipment, hours used, fuel consumption, etc. Acres of greens, fringe, fairways, rough and all infrastructure to include condition will also be employed.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

There will be a detailed assessment looking at leadership, management, and fiscal sustainability of the course to be addressed during the fiscal year 2018 budget process to begin in August, 2017.

2016-8 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 did not have a formal finance department and had experienced significant turnover over the past several years. The City is 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.

Client Response: The City identified early in fiscal year 2017 that better accountability was needed. City Administrator created the Finance Section under Administration. The primary tasks of the finance section are accounts receivable, payable, payroll, and to provide the City with a cursory purchase procedure until the official Purchase Policy can be adopted. The council will be presented a draft purchase policy manual for review to be adopted in July of fiscal year 2017.

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>2015-1 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>	<p>Not Implemented</p>	<p>The City hired a new City Administrator in the current year who will be responsible for implementing new policies and procedures to assist in complying with budgeting requirements.</p>
<p>2015-2 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>Not Implemented</p>	<p>The City hired a new City Administrator in the current year who will be responsible for implementing new policies and procedures to assist in complying with state laws regarding hotel/motel tax expenditures.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<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>2015-3 State Compliance - Bidding</p>	<p>Implemented</p>	<p>N/A</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> 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>		
<p>2015-4 Internal Control - Purchase Orders</p>	<p>Not Implemented</p>	<p>The City hired a new City Administrator in the current year who 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> 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>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<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>2015-5 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>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>Not Implemented</p>	<p>The City hired a new City Administrator in the current year who will be responsible for implementing new policies and procedures to ensure adequate controls exist over daily activity and journal entries.</p>
<p>2015-6 Internal Control - Credit Card Charges</p> <p>Condition: The City did not charge utility customers a fee for use of a credit card, as is required by City Ordinance.</p>	<p>Implemented</p>	<p>N/A</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>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.</p> <p>Cause: There was a lack of oversight required to ensure that the Ordinance was properly adhered to by city staff.</p> <p>Effect: The City lost available revenue to offset its cost of providing credit card services to customers.</p> <p>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.</p>		
<p>2015-7 Internal Control - Account Reconciliations</p>	<p>Not Implemented</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>		<p>The City hired a new City Administrator in the current year who will be responsible for implementing new policies and procedures to assist in reconciling accounts.</p>

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016

2016-1 State Compliance - Excess Expenditures Over Appropriations (Budgeting) [Repeat Finding]

The City will have a workshop at the end of June, 2017, in order to provide a clear understanding of all city operations and needs. The workshop will also address the current fiscal year 2017 budget and provide the means for a budget amendment shortly thereafter. The budget amendment will be a balanced budget to ensure safeguarding the public funds.

2016-2 State Compliance - Hotel/Motel Tax Expenditures [Repeat Finding]

The City will monitor on a regular basis using a time phased approach to ensure that 15% allocated for advertising is being met. Further, the City has already taken steps to ensure that the arts and culture expenditures are not to exceed 15%.

The City will work with vendors, hotels and motels to place questionnaires in order to gather quantifiable information that will provide the proper fiscal analysis reports. This will help our council make more informed decisions.

Going forward, there will be purchase policy procedures in place that will be adopted by the council that will clarify the utilization of all city funds in accordance with the Texas Tax Code and Local Government Code.

2016-3 State Compliance - Certificate of Interested Parties

Since the creation of the Finance Section under Administration, the City Administrator has identified that the staff needs further training. This fall they will begin training under Government Finance Officers Association of Texas (GFOAT). Further training will be assessed into fiscal year 2018 in order to ensure compliance with state laws.

2016-4 Internal Control - Purchase Orders [Repeat Finding]

While the City utilizes purchase orders, the procedure was not known to everyone. Better control is in place and the authority to request purchase orders has been streamlined. Currently, there are only two individuals per department that can request a purchase order. Requests must have an amount, vendor name, and account code to indicate where the funds are to be expensed.

The City will be looking into a financial software solution that will allow for real-time fiscal tracking.

The council will be presented a draft purchase policy manual for review to be adopted in July of fiscal year 2017.

2016-5 Internal Control - Account Coding and Journal Entry Approval [Repeat Finding]

The City has created a Finance Section under Administration. This allows for finance staff to focus on the daily journalization needed in order to track all City funds. During the remaining fiscal year 2017, the City will continue to utilize outside sourcing to provide monthly journal oversight while our staff continues to learn and educate.

A financial software solution will be needed in the near future in order to provide better controls and classification of daily activity.

2016-6 Internal Control - Internal Control - Cash Disbursements

Cash disbursements are no longer allowed, as IRS fraud action could occur. Furthermore, there will be purchase policy procedures in place that will be adopted by the council that will clarify the utilization of all City funds in accordance with the Texas Tax Code and Local Government Code. This will help ensure better fiscal policy.

2016-7 Internal Control - Golf Course Collections

Immediately implemented, the Golf Course Manager will, on a daily basis, report and turn in deposits to the finance section. This includes the register receipts and a log of daily activity that includes the number of players, golf carts rented, and inventory sold to customers.

The next phase will be to maintain running accountability of all inventory expenses to be reported on a weekly basis, and eventually on a daily basis, dependent on financial software system.

Quantities will also be used to determine budgetary needs. For example, status on all equipment, hours used, fuel consumption, etc. Acres of greens, fringe, fairways, rough and all infrastructure to include condition will also be employed.

There will be a detailed assessment looking at leadership, management, and fiscal sustainability of the course to be addressed during the fiscal year 2018 budget process to begin in August, 2017.

2016-8 Internal Control - Account Reconciliations [Repeat Finding]

The City identified early in fiscal year 2017 that better accountability was needed. City Administrator created the Finance Section under Administration. The primary tasks of the finance section are accounts receivable, payable, payroll, and to provide the City with a cursory purchase procedure until the official Purchase Policy can be adopted. The council will be presented a draft purchase policy manual for review to be adopted in July of fiscal year 2017.

City of Falfurrias, Texas