

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2017

City of Falfurrias, Texas

City of Falfurrias, Texas
Annual Financial Report
For The Year Ended December 31, 2017

TABLE OF CONTENTS

	Page	Exhibit
FINANCIAL SECTION		
Independent Auditor's Report.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	4	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	16	A-1
Statement of Activities.....	17	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	19	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	20	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	21	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	22	A-6
Statement of Net Position - Enterprise Funds.....	23	A-7
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Enterprise Funds.....	24	A-8
Statement of Cash Flows - Proprietary Funds.....	25	A-9
Notes to the Financial Statements	26	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	45	B-1
Schedule of the City's Proportionate Share of the		
Net Pension Liability - Texas Municipal Retirement System.....	46	B-2
Schedule of City's Contributions - Texas Municipal Retirement System.....	47	B-3
Notes to Required Supplementary Information.....	48	
 <u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	49	C-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	50	C-2
 Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	51	C-3
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	55	C-4

City of Falfurrias, Texas
Annual Financial Report
For The Year Ended December 31, 2017

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
OTHER SUPPLEMENTARY INFORMATION SECTION		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58	
Schedule of Findings and Questioned Costs	60	
Summary Schedule of Prior Audit Findings.....	64	
Corrective Action Plan.....	72	

Financial Section

City of Falfurrias, Texas

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

JOHN L. WOMACK, CPA
MARGARET KELLY, CPA

P. O. BOX 1147
KINGSVILLE, TEXAS 78364
(361) 592-2671
FAX (361) 592-1411

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2017, City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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

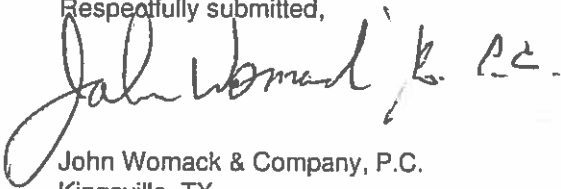
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Falfurrias, Texas's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not required parts of the basic financial 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 May 25, 2018 on our consideration of City of Falfurrias, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falfurrias, Texas's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "John Womack & Company, P.C." with a stylized flourish at the end.

John Womack & Company, P.C.
Kingsville, TX
May 25, 2018

City of Falfurrias, Texas

Basic Financial Statements

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, 2017. 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 \$17,112,221.
- The fund balance of the General Fund decreased from \$1,165,047 in 2016 to \$696,217 for 2017. This represents a 40% decrease from the prior year's fund balance, with the resulting fund balance being 20.6% of general fund expenditures.
- Total assets for governmental activities, were \$4,716,651; total liabilities, were \$1,050,569.
- The ratio of total assets to total liabilities for governmental activities was 4.5 to 1.
- The quick ratio (current assets to current liabilities) was 3.8 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.
 - *Proprietary fund* statements offer short-term and long-term financial information about the activities the City operates like a business: *enterprise funds* and *internal service funds*. The major proprietary fund is the combined Utility System 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

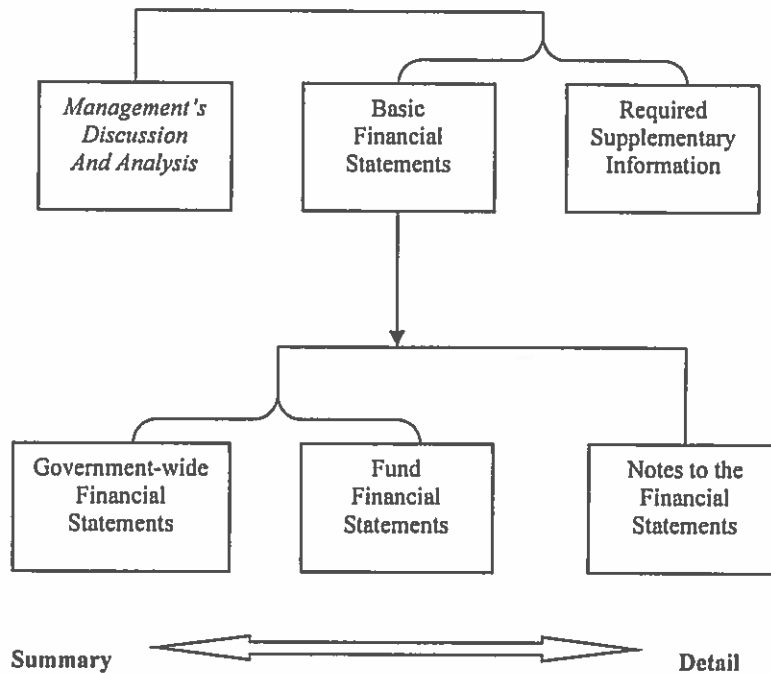


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

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, excluding solid waste, which is recorded in the General Fund. The City 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 greater 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, 2017, the net position, totaled \$3,338,029, which is a \$387,521 reduction from the prior year.

A large portion of the City's net position, 56.6%, 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 decreased by \$201,763. Cash and cash equivalents decreased \$209,113, or 11.2%, while Due from Other Governments saw a decrease of \$117,092.

This part of the page was left blank intentionally

**Table A-1: Statement of Net Position for Governmental Activities
December 31, 2017 and 2016**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current & Other Assets	\$ 2,343,142	\$ 2,723,223	\$ 3,895,954	\$ 3,259,153	\$ 6,239,096	\$ 5,982,376
Restricted Assets	-	-	60,348	503,953	60,348	503,953
Capital Assets	2,373,509	2,575,272	12,576,506	12,337,220	14,950,015	14,912,492
Total Assets	4,716,651	5,298,495	16,532,808	16,100,326	21,249,459	21,398,821
Deferred Outflows of Resources	150,767	157,993	74,605	79,134	225,372	237,127
Current Liabilities	620,162	610,210	660,331	919,881	1,280,493	1,530,091
Long-Term Liabilities	430,407	631,114	2,158,157	2,310,539	2,588,564	2,941,653
Total Liabilities	1,050,569	1,241,324	2,818,488	3,230,420	3,869,057	4,471,744
Deferred Inflows of Resources	478,820	489,614	14,733	22,018	493,553	511,632
Net Investment in Capital Assets	1,888,225	1,856,489	10,336,506	9,932,220	12,224,731	11,788,709
Restricted	751,360	1,103,615	-	-	751,360	1,103,615
Unrestricted	698,444	765,446	3,437,686	2,994,802	4,136,130	3,760,248
Total Net Position	\$ 3,338,029	\$ 3,725,550	\$ 13,774,192	\$ 12,927,022	\$ 17,112,221	\$ 16,652,572

Table A-1: Governmental-Type Activities

Current & Other Assets decreased \$380,081 from \$2,723,223 in 2016 to \$2,343,142 in 2017, or 13.9%. The majority of this decrease is due to the City's lower cash balances and a large decrease in due from other governments. Capital assets, net of accumulated depreciation, decreased from \$2,575,272 in 2016 to \$2,373,509 in 2017, or 7.8%. Long-term liabilities decreased from \$631,114 in 2016 to \$430,407 in 2017, of 31.8%, due to decreases in both general obligation bonds payable and capital leases payable.

Restricted Net Position decreased by \$352,255 from \$1,103,615 in 2016 to \$751,360 in 2017, most notably due to a decrease in federal and state programs of \$400,164, which more than offset an increase in tourism of \$48,979.

Table A-1: Business-Type Activities

The Combined Utility System's net position was \$13,774,192, which is 80.5% of total net position and experienced an increase of \$847,170 from 2016.

Current & Other Assets increased from \$3,259,153 in 2016 to \$3,895,954 in 2017, or 19.5%. Restricted cash is down from \$503,953 in 2016 to \$60,348 in 2017 due to completion of capital projects.

Current liabilities decreased from \$919,881 in 2016 to \$660,331 in 2017 due to fewer accounts payable owed at year-end than in prior year.

Net investment in Capital Assets increased from \$9,932,220 in 2016 to \$10,336,506 in 2017, or 4.1%, while unrestricted net position increased from \$2,994,802 in 2016 to \$3,437,686, or 14.8%.

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.

This part of the page was left blank intentionally

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, 2017 and 2016**

Revenue	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues						
Charges for Services	\$ 1,197,422	\$ 1,279,282	\$ 2,765,370	\$ 2,652,444	\$ 3,962,792	\$ 3,931,726
Operating Grants and Contributions	156,346	143,382	-	-	156,346	143,382
Capital Grants and Contributions	-	418,932	771,507	226,529	771,507	645,461
General revenues:						
Property Taxes	471,091	443,184	-	-	471,091	443,184
Sales Taxes	686,499	699,138	-	-	686,499	699,138
Other Taxes	298,094	289,345	-	-	298,094	289,345
Donations	24,310	2,146	-	-	24,310	2,146
Investment Earnings	5,375	6,246	16,160	18,007	21,535	24,253
Miscellaneous	105,629	112,028	38,042	22,538	143,671	134,566
Total Revenues	<u>2,944,766</u>	<u>3,393,683</u>	<u>3,591,079</u>	<u>2,919,518</u>	<u>6,535,845</u>	<u>6,313,201</u>
Expenses						
General Government	646,924	664,555	-	-	646,924	664,555
Public Safety	1,177,725	1,144,774	-	-	1,177,725	1,144,774
Public Works	695,979	787,263	-	-	695,979	787,263
Health & Other public services	175,756	152,017	-	-	175,756	152,017
Tourism	35,569	68,015	-	-	35,569	68,015
Municipal Court	288,099	368,723	-	-	288,099	368,723
Principal	-	-	-	-	-	-
Interest on long-term debt	16,715	19,995	-	-	16,715	19,995
Water	-	-	1,155,502	1,035,145	1,155,502	1,035,145
Sewer	-	-	665,472	851,331	665,472	851,331
Gas	-	-	613,560	800,260	613,560	800,260
Solid Waste	604,896	595,703	-	-	604,896	595,703
Total expenses	<u>3,641,663</u>	<u>3,801,045</u>	<u>2,434,534</u>	<u>2,686,736</u>	<u>6,076,197</u>	<u>6,487,781</u>
Increase (Decrease) in Net Position	(696,897)	(407,362)	1,156,545	232,782	459,648	(174,580)
Transfers	309,376	294,735	(309,376)	(294,735)	-	-
Increase (Decrease) in Net Position	(387,521)	(112,627)	847,169	(61,953)	459,648	(174,580)
Net Position, Beginning	3,725,550	3,838,177	12,927,023	12,988,976	16,652,573	16,827,153
Prior period adjustment	-	-	-	-	-	-
Net Position, Ending	<u>\$ 3,338,029</u>	<u>\$ 3,725,550</u>	<u>\$ 13,774,192</u>	<u>\$ 12,927,023</u>	<u>\$ 17,112,221</u>	<u>\$ 16,652,573</u>

Table A-2: Governmental Activities

As shown in Table A-2, revenues for governmental activities of \$2,944,766 were less than expenses of \$3,641,663 for 2017 by \$696,897; furthermore, after transfers-in of \$309,376, the resulting \$387,521 decrease in net position for the year ended in 2017 represents a \$274,894 decrease in a change in net position from a decrease of \$112,627 in net position in 2016.

- The cost of all *governmental* activities for 2017 was \$3,641,663.
- The amount that taxpayers paid for these services through City taxes and business fees was \$1,455,684, or 49.4% of total revenues.
 - Those who directly benefited from the programs, totaling \$1,197,422, or 40.7% of total revenues.
- All taxes contributed 49.4% of governmental activities’ revenues. Investment earnings generated 0.2% of governmental activities’ revenues.
- Public Safety (including Police and Impounding) expenses accounted for 32.3% of governmental activities, while 19.1% of the expenses are for Public Works.

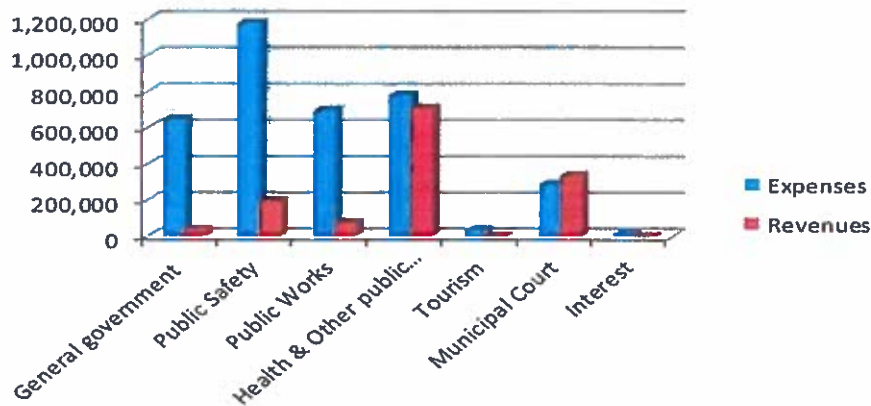
Graph 1 presents the cost of each of the City’s major governmental functions, as well as the associated program revenues.

Table A-2: Business-Type Activities

Charges for services revenue increased from \$2,652,444 in 2016 to \$2,765,370 in 2017, due to increase in utilities revenues, while wastewater and gas rates remained stable.

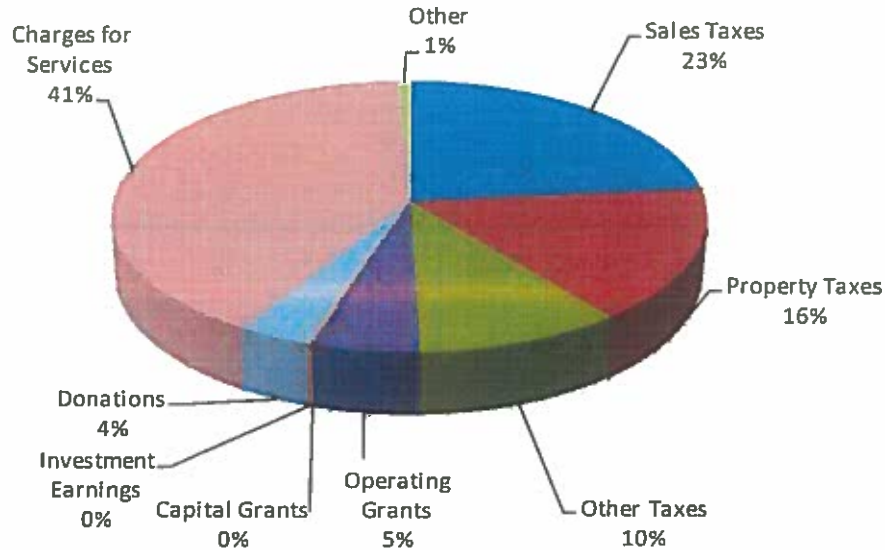
Water expenses increased from \$1,035,145 in 2016 to \$1,155,502 in 2017. Sewer expenses experienced a \$185,859 decrease, from \$851,331 in 2016 to \$665,472 in 2017. Gas expenses also decreased from \$800,260 in 2016 to \$613,560 in 2017. The resulting fluctuations accounted for a total of an \$847,169 increase in change in net position from 2016 to 2017.

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 \$2,076,510 to \$1,729,809 between 2016 and 2017, or 16.7%, primarily due to a \$238,343 decrease in cash and cash equivalents along with a \$200,478 decrease in due from other funds since 2016, which more than offset increases in taxes and other receivables from 2016 to 2017 by \$92,183.

Total liabilities of the General Fund increased, by \$92,019, or 25%, from \$368,231. The \$573,342 of unearned revenue, which was reflected as Deferred Inflows of Resources, was up \$30,110, or 5.5%, over the prior year balance of \$543,232, which was a direct result of taxes receivable going up by \$40,434.

The General Fund's unreserved and undesignated fund balance decreased from \$772,243 to \$361,388, for a decrease of 53.2% from fiscal year 2016 due to a net deficit in revenues over expenditures from operations.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

The total assets increased in 2017 by \$48,979, or 11.7%, due to a \$49,196 surplus in revenues exceeding expenditures. Total liabilities remained the same at zero from 2016, while total equity increased \$48,979, or 11.7%, due to a surplus of revenues over expenditures of that same amount.

Budgetary Results

General Fund

Overall, General Fund revenues were less than the final budget by \$111,716. General Fund tax revenues were \$1,344,599, which was \$145,028 above the final budget. Charges for Services accounted for a negative variance of \$283,445 under the 2017 final budget.

General Fund expenditures were \$2,135 above the final budget. The largest positive variance in expenditures came from the Public Safety. The Public Safety department expenditures had a negative variance of \$66,961. In addition, 67,489 less was spent on Municipal Court than was budgeted, but Health and Welfare spent \$34,268 more 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 \$790,229; total liabilities were \$95,242, and the total fund balances were \$694,987 with none classified as undesignated or unreserved fund balances.

**Table A-3: Capital Assets
December 31, 2017 and 2016**

	Governmental Activities			Business-Type Activities		
	2017	2016	% Change	2017	2016	% Change
Land	\$ 12,200	\$ 12,200	0.0%	\$ 148,222	\$ 138,326	7.2%
Construction in Progress	4,500	4,500	0.0%	262,913	569,950	-53.9%
Buildings and Improvements	1,044,979	1,044,979	0.0%	26,259	26,259	0.0%
Infrastructure	1,637,750	1,637,750	0.0%	-	-	0.0%
Equipment	972,827	956,106	1.7%	1,905,514	1,905,514	0.0%
Mains, meters and extensions				22,086,352	20,893,282	5.7%
Vehicles	914,538	874,886	4.5%	-	-	0.0%
Total Capital Assets	4,586,794	4,530,421	1.2%	24,429,260	23,533,331	3.8%
Accumulated Depreciation	(2,213,286)	(1,955,149)	13.2%	(11,852,754)	(11,196,111)	5.9%
Capital Assets - Net	\$ 2,373,508	\$ 2,575,272	-7.8%	\$ 12,576,506	\$ 12,337,220	1.9%

As shown in Table A-3, at December 31, 2017, within the City's governmental activities, there was an increase in vehicles of \$39,652. The Equipment portion had a \$16,721 increase during 2017. Total Capital Assets had a net increase, before depreciation, of \$56,373 from 2016 to 2017. Within the City's business-type activities, there was a decrease in \$307,037 in construction in progress and an increase of \$1,193,070 in Mains, Meters, Extensions and Sewer Plant.

Long-term Debt

During fiscal year 2017, no new debt or capital lease debt was entered into by the City. See Note G on pages 38 through 39 for more information.

**Table A-4: Long-Term Liabilities
December 31, 2017 and 2016**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Certificates of Obligation	\$ 245,000	\$ 365,000	\$ -	\$ -	\$ 245,000	\$ 365,000
Capital Leases	240,284	353,783	-	-	240,284	353,783
Refunding Bonds		-	2,240,000	2,405,000	2,240,000	2,405,000
Total Long-Term Debt	\$ 485,284	\$ 718,783	\$ 2,240,000	\$ 2,405,000	\$ 2,725,284	\$ 3,123,783

CALENDAR YEAR 2018 ADOPTED OPERATING BUDGET

The adopted budget for 2018 sets general fund revenues from all sources (including inter-fund transfers) at \$3,016,990. This budget is \$317,608, or 11.8% more than the prior year's final budget. The most significant cause of this increase in revenues from 2017 to 2018 is due to a \$171,057 thousand increase in Sales Tax revenue.

Budget Overview

Property tax revenue was budgeted to increase \$12,348, or 3%, compared to the prior year's actual property taxes. With a slight increase in assessed valuations for the 2017 tax year compared to 2016 (the 2016 tax year revenues are deferred to the City's 2017 fiscal year, and the 2017 tax year revenues are deferred to the City's 2018 fiscal year), coupled with a stable property tax rate to \$0.500932, the total 2018 revenue forecast was conservatively cast by management. City sales tax, which comprised 23.3% of general fund revenues for 2017, was also forecast at \$700,000, which is \$13,501, or 2%, more than the 2017 actual sales tax revenue of \$686,499. The franchise tax fee categories are budgeted at \$206,000, slightly lower than the \$208,748 of 2017's actual franchise taxes.

General fund expenditures, including transfers for the 2018 budget, were set at \$3,483,370, which is more than the \$3,491,017, or 0.22% less than the prior year budget. Decreases in the budgeted expenditures for public safety of \$176,183 and public works of \$189,665 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 \$466,380, as the budgeted \$3,016,990 in budgeted revenue is significantly less than the budgeted expenditures of \$3,483,370.

General Discussion

The City's fiscal condition is stable due, in part, to consistent growth of the City's property taxes.

Other revenues are also growing and are required to keep pace with general and specific inflation and to offset scheduled and discretionary employee compensation increases; employee professional, technical and safety training; street reconstruction and repairs; facility and office upgrades; equipment replacements; and various electronic and communication technologies. City staff must also keep a watchful eye on the cost of unfunded mandates imposed on cities by government and regulatory agencies.

CITY'S FINANCIAL MANAGEMENT

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

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

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

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

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 1,655,530	\$ 3,267,658	\$ 4,923,188
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	354,491	--	354,491
<i>Accounts</i>	120,717	495,255	615,972
<i>Other</i>	219,146	--	219,146
<i>Accrued Interest Receivable</i>	1,753	--	1,753
<i>Internal Balances</i>	(35,798)	35,798	--
<i>Due from other governments</i>	25,269	4,500	29,769
<i>Inventories</i>	--	91,164	91,164
<i>Other current assets</i>	2,034	1,579	3,613
Restricted assets:			
<i>Cash and cash equivalents</i>	--	60,348	60,348
<i>Capital assets</i>	2,373,509	12,576,506	14,950,015
Total Assets	<u>4,716,651</u>	<u>16,532,808</u>	<u>21,249,459</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows of resources related to pensions	150,767	74,605	225,372
Total Deferred Outflows of Resources	<u>150,767</u>	<u>74,605</u>	<u>225,372</u>
LIABILITIES:			
<i>Accounts payable</i>	181,137	239,301	420,438
<i>Accrued wages payable</i>	50,360	6,248	56,608
<i>Due to other governments</i>	9,812	--	9,812
<i>Meter deposits</i>	137,288	224,622	361,910
<i>Accrued interest payable</i>	4,434	20,160	24,594
Liabilities due within one year:			
<i>Current portion of bonds payable</i>	120,000	170,000	290,000
<i>Current portion of lease payable</i>	117,131	--	117,131
Liabilities due in more than one year:			
<i>General obligation bonds payable</i>	125,000	2,070,000	2,195,000
<i>Capital leases payable</i>	123,153	--	123,153
<i>Net Pension Liability</i>	182,254	88,157	270,411
Total Liabilities	<u>1,050,569</u>	<u>2,818,488</u>	<u>3,869,057</u>
DEFERRED INFLOWS OF RESOURCES:			
<i>Deferred inflows related to pensions</i>	28,489	14,733	43,222
<i>Unearned revenue</i>	450,331	--	450,331
Total Deferred Inflows of Resources	<u>478,820</u>	<u>14,733</u>	<u>493,553</u>
NET POSITION:			
Net Investment in Capital Assets	1,888,225	10,336,506	12,224,731
Restricted For:			
Federal and State Programs	57,931	--	57,931
Capital Projects	11,019	--	11,019
Law Enforcement	131,713	--	131,713
Tourism	467,441	--	467,441
Municipal Court Building Security	52,633	--	52,633
Municipal Court Technology	18,153	--	18,153
Other Purposes	12,470	--	12,470
Unrestricted	698,444	3,437,686	4,136,130
Total Net Position	<u>\$ 3,338,029</u>	<u>\$ 13,774,192</u>	<u>\$ 17,112,221</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
<i>General government</i>	\$ 646,924	\$ 36,560	\$ --	\$ --
<i>Sanitation</i>	604,896	705,095	--	--
<i>Municipal Court</i>	288,099	336,855	--	--
<i>Public Safety</i>	1,177,725	40,294	156,346	--
<i>Streets</i>	232,388	--	--	--
<i>Health and welfare</i>	175,756	--	--	--
<i>Parks and recreation</i>	463,591	78,618	--	--
<i>Tourism</i>	35,569	--	--	--
<i>Interest and fiscal charges</i>	16,715	--	--	--
Total governmental activities	<u>3,641,663</u>	<u>1,197,422</u>	<u>156,346</u>	<u>--</u>
Business-type Activities:				
<i>Utility</i>	1,155,502	1,497,488	--	771,507
<i>Sewer</i>	665,472	692,563	--	--
<i>Gas</i>	613,560	575,319	--	--
Total Business-type Activities	<u>2,434,534</u>	<u>2,765,370</u>	<u>--</u>	<u>771,507</u>
Total Primary Government	<u>\$ 6,076,197</u>	<u>\$ 3,962,792</u>	<u>\$ 156,346</u>	<u>\$ 771,507</u>
General Revenues:				
<i>Property Taxes</i>				
<i>Sales Taxes</i>				
<i>Franchise Taxes</i>				
<i>Occupancy Taxes</i>				
<i>Alcoholic Beverage Taxes</i>				
<i>Donations</i>				
<i>Miscellaneous</i>				
<i>Unrestricted Investment Earnings</i>				
<i>Transfers</i>				
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>
\$ (610,364)		\$ (610,364)
100,199		100,199
48,756		48,756
(981,085)		(981,085)
(232,388)		(232,388)
(175,756)		(175,756)
(384,973)		(384,973)
(35,569)		(35,569)
(16,715)		(16,715)
<u>(2,287,895)</u>		<u>(2,287,895)</u>
--	\$ 1,113,493	1,113,493
--	27,091	27,091
--	(38,241)	(38,241)
--	<u>1,102,343</u>	<u>1,102,343</u>
<u>(2,287,895)</u>	<u>1,102,343</u>	<u>(1,185,552)</u>
471,091	--	471,091
686,499	--	686,499
214,158	--	214,158
80,111	--	80,111
3,825	--	3,825
24,310	--	24,310
105,629	38,042	143,671
5,375	16,160	21,535
309,376	(309,376)	--
<u>1,900,374</u>	<u>(255,174)</u>	<u>1,645,200</u>
(387,521)	847,169	459,648
3,725,550	12,927,023	16,652,573
<u>\$ 3,338,029</u>	<u>\$ 13,774,192</u>	<u>\$ 17,112,221</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 979,505	\$ 676,026	\$ 1,655,531
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	354,491	--	354,491
<i>Accounts</i>	120,717	--	120,717
<i>Other</i>	197,151	21,995	219,146
<i>Accrued Interest Receivable</i>	1,753	--	1,753
<i>Due from other funds</i>	74,158	66,939	141,097
<i>Due from other governments</i>	--	25,269	25,269
<i>Other current assets</i>	2,034	--	2,034
Total Assets	<u>\$ 1,729,809</u>	<u>\$ 790,229</u>	<u>\$ 2,520,038</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 179,248	\$ 1,889	\$ 181,137
<i>Accrued wages payable</i>	50,360	--	50,360
<i>Due to other funds</i>	93,354	83,541	176,895
<i>Due to other governments</i>	--	9,812	9,812
<i>Meter deposits</i>	137,288	--	137,288
Total Liabilities	<u>460,250</u>	<u>95,242</u>	<u>555,492</u>
DEFERRED INFLOWS OF RESOURCES:			
<i>Unearned revenue</i>	573,342	--	573,342
Total Deferred Inflows of Resources	<u>573,342</u>	<u>--</u>	<u>573,342</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	--	467,441	467,441
<i>Restricted for State and Federal Grants</i>	--	1,558	1,558
<i>Restricted for Capital Projects</i>	--	11,019	11,019
<i>Restricted for Donor Intent</i>	--	12,470	12,470
<i>Restricted for Law Enforcement</i>	--	131,713	131,713
<i>Restricted for Municipal Court Building Security</i>	--	52,633	52,633
<i>Restricted for Municipal Court Technology</i>	--	18,153	18,153
<i>Assigned</i>	334,829	--	334,829
<i>Unassigned</i>	361,388	--	361,388
Total equity	<u>696,217</u>	<u>694,987</u>	<u>1,391,204</u>
Total Liabilities, Deferred Inflows of Resources, and Equity	<u>\$ 1,729,809</u>	<u>\$ 790,229</u>	<u>\$ 2,520,038</u>

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, 2017

Total fund balances - governmental funds balance sheet	\$ 1,391,204
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.	2,373,509
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	123,011
Payables for bond principal which are not due in the current period are not reported in the funds.	(245,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(240,284)
Payables for bond interest which are not due in the current period are not reported in the funds.	(4,435)
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(182,254)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(28,489)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>150,767</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 3,338,029</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, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
<i>Taxes</i>	\$ 1,344,599	\$ 80,111	\$ 1,424,710
<i>Licenses and permits</i>	34,833	--	34,833
<i>Federal and state grants</i>	--	156,346	156,346
<i>Donations</i>	20,000	4,310	24,310
<i>Charges for services</i>	784,531	--	784,531
<i>Fines & forfeitures</i>	332,531	44,618	377,149
<i>Interest</i>	2,350	3,025	5,375
<i>Miscellaneous</i>	87,742	--	87,742
Total revenues	<u>2,606,586</u>	<u>288,410</u>	<u>2,894,996</u>
Expenditures:			
<i>General government</i>	546,520	3,543	550,063
<i>Sanitation</i>	560,908	--	560,908
<i>Municipal Court</i>	264,911	540	265,451
<i>Public Safety</i>	956,711	171,846	1,128,557
<i>Streets</i>	218,291	--	218,291
<i>Health and welfare</i>	160,798	--	160,798
<i>Parks and recreation</i>	426,815	--	426,815
<i>Tourism</i>	--	32,982	32,982
Debt service:			
<i>Principal</i>	233,499	--	233,499
<i>Interest and fiscal charges</i>	16,715	--	16,715
Total expenditures	<u>3,385,168</u>	<u>208,911</u>	<u>3,594,079</u>
Excess (deficiency) of revenues (under) expenditures	(778,582)	79,499	(699,083)
Other financing sources (uses):			
<i>Transfers in</i>	340,956	--	340,956
<i>Transfers out</i>	--	(31,580)	(31,580)
<i>Insurance proceeds</i>	18,796	--	18,796
<i>Payment for legal settlement</i>	(50,000)	--	(50,000)
Total other financing sources (uses)	<u>309,752</u>	<u>(31,580)</u>	<u>278,172</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(468,830)	47,919	(420,911)
Fund balances/equity, January 1	1,165,047	647,068	1,812,115
Fund balances/equity, December 31	\$ <u>696,217</u>	\$ <u>694,987</u>	\$ <u>1,391,204</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, 2017*

Net change in fund balances - total governmental funds	\$ (420,911)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	56,373
The depreciation of capital assets used in governmental activities is not reported in the funds.	(258,137)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	30,974
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.	113,499
(Increase) decrease in accrued interest from beginning of period to end of period.	4,400
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(33,720)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (387,521)</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
DECEMBER 31, 2017

	Enterprise Fund
	Utility Fund
ASSETS	
Current Assets:	
<i>Cash and cash equivalents</i>	\$ 3,267,658
<i>Accounts receivable</i>	495,255
<i>Due from other funds</i>	35,796
<i>Due from other governments</i>	4,500
<i>Inventories</i>	91,164
<i>Other current assets</i>	1,581
<i>Total current assets</i>	<u>3,895,954</u>
Restricted assets:	
<i>Cash and cash equivalents</i>	60,348
<i>Total restricted assets</i>	<u>60,348</u>
Long-term assets:	
<i>Fixed assets (net, where applicable, of accumulated depreciation)</i>	12,576,506
<i>Total long-term assets</i>	<u>12,576,506</u>
<i>Total Assets</i>	<u>16,532,808</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	74,605
<i>Total Deferred Outflows of Resources</i>	<u>\$ 74,605</u>
LIABILITIES	
Current liabilities:	
<i>Accounts payable</i>	\$ 239,301
<i>Accrued wages</i>	6,248
<i>Total current liabilities</i>	<u>245,549</u>
<i>Payable from restricted assets:</i>	
<i>Current portion of bonds payable</i>	170,000
<i>Meter deposits</i>	224,622
<i>Accrued interest payable</i>	20,160
<i>Total payable from restricted assets</i>	<u>414,782</u>
<i>General obligation bonds payable</i>	2,070,000
<i>Net pension liability</i>	88,157
<i>Total current liabilities</i>	<u>2,158,157</u>
<i>Total Liabilities</i>	<u>2,818,488</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	14,733
<i>Total Inflows of Resources</i>	<u>14,733</u>
NET POSITION	
<i>Investment in general fixed assets</i>	10,336,506
<i>Restricted for debt service</i>	60,348
<i>Unrestricted</i>	3,377,338
<i>Total Net Position</i>	<u>\$ 13,774,192</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, 2017

	Enterprise Fund
	Utility Fund
OPERATING REVENUES:	
<i>Service revenue</i>	
<i>Water revenue</i>	\$ 1,412,541
<i>Sewer revenue</i>	671,987
<i>Gas revenue</i>	547,028
<i>Other income</i>	171,854
Total Operating Revenues	<u>2,803,410</u>
OPERATING EXPENSES:	
<i>Salaries</i>	461,828
<i>Production costs</i>	341,561
<i>Repairs and maintenance</i>	519,637
<i>Supplies</i>	17,444
<i>Employee benefits and taxes</i>	177,047
<i>Office expense</i>	60,545
<i>Insurance</i>	39,558
<i>Utilities and telephone</i>	17,710
<i>Professional fees</i>	7,836
<i>Bad debts</i>	4,613
<i>Depreciation</i>	656,643
<i>Other expense</i>	47,985
Total Operating Expenses	<u>2,352,407</u>
Operating Income (Loss)	<u>451,003</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Interest revenue</i>	16,160
<i>Non-operating grants</i>	273,471
<i>Intergovernmental donation</i>	498,037
<i>Interest expense</i>	(82,126)
Total Non-operating Revenues (Expenses)	<u>705,542</u>
Net Income (Loss) before Operating Transfers	<u>1,156,545</u>
TRANSFERS:	
<i>Interfund transfers in</i>	--
<i>Interfund transfers out</i>	(309,376)
Total Transfers	<u>(309,376)</u>
Net income	847,169
Retained earnings/fund balances, January 1	12,927,023
Retained earnings/fund balances, December 31	<u>\$ 13,774,192</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, 2017

	Utility Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 2,736,600
<i>Cash Payments to Employees for Services</i>	(446,966)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,493,652)
Net Cash Provided (Used) by Operating Activities	<u>795,982</u>
Cash Flows from Non-capital Financing Activities:	
<i>Proceeds (Payments) from (for) Transfers from (to) other funds</i>	(309,376)
<i>Proceeds (Payments) from (for) Borrowings with other funds</i>	(145,777)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(455,153)</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Principal and Interest Paid</i>	(248,611)
<i>Proceeds from Capital Grants</i>	421,000
<i>Acquisition or Construction of Capital Assets</i>	(397,892)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(225,503)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	16,161
Net Cash Provided (Used) for Investing Activities	<u>16,161</u>
Net Increase (Decrease) in Cash and Cash Equivalents	131,487
Cash and Cash Equivalents at Beginning of Year	3,196,519
Cash and Cash Equivalents at End of Year	<u>\$ 3,328,006</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ 451,003
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	656,643
<i>Provision for Uncollectible Accounts</i>	4,613
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(69,277)
<i>Decrease (Increase) in Deferred Resource Outflows</i>	4,529
<i>Decrease (Increase) in Inventories</i>	2,784
<i>Decrease (Increase) in Other Current Assets</i>	(1,581)
<i>Increase (Decrease) in Accounts Payable</i>	(265,532)
<i>Increase (Decrease) in Deferred Resource Inflows</i>	(7,285)
<i>Increase (Decrease) in Net Pension Liability</i>	17,618
<i>Increase (Decrease) in Customer Deposits</i>	2,467
Total Adjustments	<u>344,979</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 795,982</u>
Cash and cash equivalents	\$ 3,267,658
Cash and cash equivalents - restricted	60,348
Total cash and cash equivalents	<u>\$ 3,328,006</u>

Non-Cash Transactions: The City received the assets constructed through federal grants received and administered by Brooks County as a result of an interlocal agreement between the entities in the amount of \$498,037.

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, 2017

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.

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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.

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 exception of property taxes which are fully deferred. 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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. 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 implemented this Statement in fiscal year 2017.

New pronouncements not yet in effect as of December 31, 2017, 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. 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. 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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 2018.

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.

GASB Statement No. 85, Omnibus 2017, will address practice issues that have been identified during implementation of certain GASB Statements. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. This Statement addresses various miscellaneous accounting issues related to blending component units, goodwill, fair value measurement, and postemployment benefits.

GASB Statement No. 86, Certain Debt Extinguishment Issues, will improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The City will implement this Statement in fiscal year 2018.

GASB Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City will implement this Statement in fiscal year 2021.

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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

b. Property Taxes

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

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.

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 2016 tax rate was \$.500932 on assessed value of \$93,020,331 and was distributed to the General Fund. The 2017 tax rate is \$.490257 on an assessed value of \$94,551,020 with tax revenue of \$450,351 which is deferred to 2018.

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

The top ten taxpayers are as follows:

Taxpayer Name	Nature of Operations	Assessed Valuation	% of Total Taxable Valuation
AEP Texas Inc.	Electric Utility	\$ 2,268,490	2.40%
SBB Properties, Inc.	Hotel	2,100,000	2.22%
HEB Grocery Co., LP	Retail	1,241,350	1.31%
MJRB Properties, Inc.	Hotel	1,000,000	1.05%
Stripes, LLC	Retail	966,044	1.02%
Sun-Fal Inc.	Apartments	900,000	0.95%
Boli Family Trust	Real Estate	880,178	0.93%
Commercial Net Lease Rlty	Real Estate	868,176	0.92%
Zeba Inc.	Retail	806,890	0.85%
HEB Grocery Co.	Retail	771,705	0.82%

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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 2017.

e. **Receivable and Payable Balances**

See Footnote D in which disclosure is provided which disaggregates the receivables 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. This was increased to \$2 in 2011. 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 \$225,372, of which \$150,767 is in governmental activities and \$74,605 in business-type activities.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

There were deferred inflows of resources in the Statement of Net Position related to pensions of \$43,222.

Deferred inflows of resources in the governmental fund financial statements related to the unavailable revenues associated with property taxes totaled \$450,351.

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

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.

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."

j. **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to or deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

k. **Interfund Activity**

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

I. 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.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the 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.

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

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

Violation

Excess Expenditures over Appropriations
See FN O.

Action Taken

Management review of policies and procedures over budgeting.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2. Deficit Fund Balance or Fund Net Position of Individual Funds

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

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

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At December 31, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,983,536 and the bank balance was \$5,091,999. The City's cash deposits at December 31, 2017 and during the year ended December 31, 2017, 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, 2017.

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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

D. Accounts Receivable

Accounts receivable at December 31, 2017, consisted of the following:

	General	Other Funds	Enterprise	Total
Accounts	\$ 176,584	21,995	\$ 650,857	\$ 849,436
Taxes-Property	572,966	--	--	572,966
Taxes-Franchise & Sales	197,151	--	--	197,151
Gross Receivables	946,701	21,995	650,857	1,619,553
Less: Allowance for Uncollectible	(274,341)	--	(155,602)	(429,943)
Net Receivables	<u>\$ 672,360</u>	<u>\$ 21,995</u>	<u>\$ 495,255</u>	<u>\$ 1,189,610</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

E. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,200	\$ --	\$ --	\$ 12,200
Construction in progress	4,500	--	--	4,500
Total capital assets not being depreciated	<u>16,700</u>	<u>--</u>	<u>--</u>	<u>16,700</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	1,044,979	--	--	1,044,979
Infrastructure	1,637,750	--	--	1,637,750
Equipment	956,106	16,721	--	972,827
Vehicles	874,886	39,652	--	914,538
Total capital assets being depreciated	<u>4,513,721</u>	<u>56,373</u>	<u>--</u>	<u>4,570,094</u>
Less accumulated depreciation for:				
Buildings and improvements				
Infrastructure	(502,512)	(40,575)	--	(543,087)
Equipment	(167,996)	(83,906)	--	(251,902)
Vehicles	(525,145)	(71,989)	--	(597,134)
Specify another category here if needed	(759,496)	(61,667)	--	(821,163)
Total accumulated depreciation	<u>(1,955,149)</u>	<u>(258,137)</u>	<u>--</u>	<u>(2,213,286)</u>
Total capital assets being depreciated, net	<u>2,558,572</u>	<u>(201,764)</u>	<u>--</u>	<u>2,356,808</u>
Governmental activities capital assets, net	<u>\$ 2,575,272</u>	<u>\$ (201,764)</u>	<u>\$ --</u>	<u>\$ 2,373,508</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 138,326	\$ 9,896	\$ --	\$ 148,222
Construction in progress	569,950	331,122	638,159	262,913
Total capital assets not being depreciated	<u>708,276</u>	<u>341,018</u>	<u>638,159</u>	<u>411,135</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	18,861,949	1,193,070	--	20,055,019
Sewer plant	2,031,333	--	--	2,031,333
Total capital assets being depreciated	<u>22,825,055</u>	<u>1,193,070</u>	<u>--</u>	<u>24,018,125</u>
Less accumulated depreciation for:				
Buildings and improvements	(18,624)	(449)	--	(19,073)
Machinery and equipment	(1,292,717)	(77,636)	--	(1,370,353)
Office equipment	(136,186)	--	--	(136,186)
Mains, meters, and extensions	(9,064,734)	(516,441)	--	(9,581,175)
Sewer plant	(683,850)	(62,117)	--	(745,967)
Total accumulated depreciation	<u>(11,196,111)</u>	<u>(656,643)</u>	<u>--</u>	<u>(11,852,754)</u>
Total capital assets being depreciated, net	<u>11,628,944</u>	<u>536,427</u>	<u>--</u>	<u>12,165,371</u>
Business-type activities capital assets, net	<u>\$ 12,337,220</u>	<u>\$ 877,445</u>	<u>\$ 638,159</u>	<u>\$ 12,576,506</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Depreciation was charged to functions as follows:

General Government	\$	42,270
Sanitation		43,988
Municipal Court		20,524
Public Safety		86,661
Streets		16,780
Health & Welfare		12,376
Parks & Recreation		32,951
Tourism		2,587
	\$	<u>258,137</u>

F. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2017, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ 73,559	Short-term loans
Other Governmental Funds	General Fund	57,558	Short-term loans
Other Governmental Funds	Other Governmental Funds	9,981	Short-term loans
	Subtotal	<u>141,098</u>	
Enterprise Fund	General Fund	<u>35,796</u>	Short-term loans
	Total	<u>\$ 176,894</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, 2017, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Enterprise Fund	General fund	\$ 309,376	Supplement other funds sources
Other Governmental Funds	General fund	31,580	Supplement other funds sources
	Total	<u>\$ 340,956</u>	

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2017, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of Obligation	\$ 365,000	\$ --	\$ 120,000	\$ 245,000	120,000
Capital leases (1)	353,783	--	113,499	240,284	117,131
Total governmental activities	<u>\$ 718,783</u>	<u>\$ --</u>	<u>\$ 233,499</u>	<u>\$ 485,284</u>	<u>\$ 237,131</u>

(1) Secured by ad valorem taxes and other revenue

Business-type activities:					
2013 Refunding Bonds	\$ 2,405,000	\$ --	\$ 165,000	\$ 2,240,000	170,000
Total business-type activities	<u>\$ 2,405,000</u>	<u>\$ --</u>	<u>\$ 165,000</u>	<u>\$ 2,240,000</u>	<u>\$ 170,000</u>

	2017	2016
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 \$123,200 to \$126,081, secured by ad valorem taxes and limited revenue	\$ 245,000	\$ 365,000
Business Type Activities:		
Limited Tax Refunding Bonds, Series 2013, payable in annual installments of \$247,580 to \$244,320 including interest at 3.6%, secured by ad valorem taxes and maturing April 1, 2028	2,240,000	2,405,000
Sub-Total	2,485,000	2,770,000
Less Current Portion	(290,000)	(285,000)
Total Bond Debt	<u>\$ 2,195,000</u>	<u>\$ 2,485,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2017, are as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 120,000	\$ 3,200	\$ 123,200
2019	125,000	1,081	126,081
Totals	<u>\$ 245,000</u>	<u>\$ 4,281</u>	<u>\$ 249,281</u>

Year Ending December 31,	Business-type Activities		
	Principal	Interest	Total
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	195,000	51,390	246,390
2023-2027	1,090,000	144,360	1,234,360
2028-2030	240,000	4,320	244,320
Totals	<u>\$ 2,240,000</u>	<u>\$ 472,320</u>	<u>\$ 2,712,320</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of December 31, 2017, as follows:

<u>Year Ending December 31:</u>	
2018	\$ 125,042
2019	64,718
2020	64,718
Total Minimum Lease Payments	<u>254,478</u>
Less amount representing interest	<u>(14,194)</u>
Present value of net minimum lease payments	<u>\$ 240,284</u>

The effective interest rate on capital leases is 2.98% to 5.54%.

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 2017, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

I. Pension Plan

1. Plan Description

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

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

2. Benefits Provided

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

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Employees covered by benefit terms:

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	36
Active employees	48
Total covered employees	104

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5.0% of their annual gross earnings during the fiscal year. The contribution rates for the City were 3.32% and 3.56% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended December 31, 2017 were \$60,887, and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.5% to 10.5% 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, 2016, 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 2016 valuation.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

The long-term expected rate of return on pension plan investments is 6.75%. 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 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in Net Pension Liability	Increase (Decrease)		
	\$ Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 2,407,285	\$ 2,190,915	\$ 216,370
Changes for the year			
Service cost	130,560	--	130,560
Interest	160,345	--	160,345
Change of benefit terms	--	--	--
Difference between expected and actual experience	46,273	--	46,273
Changes of assumptions	--	--	--
Contributions - employer	--	51,964	(51,964)
Contributions - employee	--	85,000	(85,000)
Net investment income	--	147,934	(147,934)
Benefit payments, including refunds of employee contributions	(194,156)	(194,156)	--
Administrative expense	--	(1,672)	1,672
Other changes	--	(90)	90
Net changes	\$ 143,022	\$ 88,980	\$ 54,042
Balance at 12/31/2016	\$ 2,550,307	\$ 2,279,895	\$ 270,412

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would 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	\$ 560,783	\$ 270,412	\$ 24,347

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.tMrs.com.

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

For the year ended December 31, 2017, the City recognized pension expense of \$102,054.

At December 31, 2017, 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	\$ 32,861	\$ 43,184
Changes in actuarial assumptions	\$ 31,837	\$ --
Difference between projected and actual investment earnings	\$ 99,787	\$ 38
Contributions subsequent to the measurement date	\$ 60,887	
Total	<u>\$ 225,372</u>	<u>\$ 43,222</u>

\$60,887 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, 2017. 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:	
2018	\$ 42,274
2019	\$ 43,213
2020	\$ 35,787
2021	\$ (11)
2022	\$ --
Thereafter	\$ --

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, 2017

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	Actual Contribution
2015	.04%	.04%	100.0%	\$ 4,047
2016	.04%	.04%	100.0%	\$ 4,420
2017	.04%	.04%	100.0%	\$ 4,276

K. Health Care Coverage

During the year ended December 31, 2017, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$678 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, 2018, 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, 2017, 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, 2017.

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, 2017

N. Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through May 25, 2018 (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:

- 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	Public Safety	\$ 66,961
General Fund	Health & Welfare	34,268
General Fund	Sanitation	2,855

P. Segment Reporting

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

Required Supplementary Information

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

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,199,571	\$ 1,199,571	\$ 1,344,599	\$ 145,028
<i>Licenses and permits</i>	35,483	35,483	34,833	(650)
<i>Donations</i>	--	--	20,000	20,000
<i>Charges for services</i>	1,067,976	1,067,976	784,531	(283,445)
<i>Fines & forfeitures</i>	377,785	377,785	332,531	(45,254)
<i>Interest</i>	2,500	2,500	2,350	(150)
<i>Miscellaneous</i>	34,987	34,987	87,742	52,755
Total revenues	<u>2,718,302</u>	<u>2,718,302</u>	<u>2,606,586</u>	<u>(111,716)</u>
Expenditures:				
<i>General government</i>	605,259	551,300	546,520	4,780
<i>Sanitation</i>	558,053	558,053	560,908	(2,855)
<i>Municipal Court</i>	350,302	332,400	264,911	67,489
<i>Public Safety</i>	1,111,441	889,750	956,711	(66,961)
<i>Streets</i>	350,244	220,600	218,291	2,309
<i>Health and welfare</i>	165,372	126,530	160,798	(34,268)
<i>Parks and recreation</i>	516,675	451,400	426,815	24,585
Debt service:				
<i>Principal</i>	233,407	235,000	233,499	1,501
<i>Interest and fiscal charges</i>	16,807	18,000	16,715	1,285
Total expenditures	<u>3,907,560</u>	<u>3,383,033</u>	<u>3,385,168</u>	<u>(2,135)</u>
Excess (deficiency) of revenues (under) expenditures	(1,189,258)	(664,731)	(778,582)	(113,851)
Other financing sources (uses):				
<i>Transfers in</i>	34,580	34,580	340,956	306,376
<i>Transfers out</i>	(65,000)	(65,000)	--	65,000
<i>Insurance proceeds</i>	--	--	18,796	18,796
<i>Payment for legal settlement</i>	--	--	(50,000)	(50,000)
Total other financing sources (uses)	<u>(30,420)</u>	<u>(30,420)</u>	<u>309,752</u>	<u>340,172</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,219,678)	(695,151)	(468,830)	226,321
Fund balances/equity, January 1	1,165,047	1,165,047	1,165,047	--
Fund balances/equity, December 31	<u>\$ (54,631)</u>	<u>\$ 469,896</u>	<u>\$ 696,217</u>	<u>\$ 226,321</u>

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

	Fiscal Year <u>2016</u>	Fiscal Year <u>2015</u>	Fiscal Year <u>2014</u>
Total Pension Liability			
Service cost	\$ 130,560	\$ 103,115	\$ 84,934
Interest (on the total pension liability)	160,345	158,345	146,675
Changes of benefit terms	--	40,358	--
Difference between expected and actual experience	46,273	(80,856)	(9,065)
Changes in assumptions	--	64,323	--
Benefit Payments, including refunds of employee contributions	(194,156)	(96,324)	(114,234)
Net Change in Total Pension Liability	<u>143,022</u>	<u>188,961</u>	<u>108,310</u>
Total Pension Liability - Beginning	<u>2,407,285</u>	<u>2,218,324</u>	<u>2,110,014</u>
Total Pension Liability - Ending (A)	<u>\$ 2,550,307</u>	<u>\$ 2,407,285</u>	<u>\$ 2,218,324</u>
 Plan Fiduciary Net Position			
Contributions - employer	\$ 51,964	\$ 30,560	\$ 34,015
Contributions - employee	85,000	84,244	81,368
Net investment income	147,934	3,203	117,495
Benefit payments, including refunds of employee contributions	(194,156)	(96,324)	(114,234)
Administrative expenses	(1,672)	(1,951)	(1,226)
Other	(90)	(97)	(101)
Net Change in Plan Fiduciary Net Position	<u>88,980</u>	<u>19,635</u>	<u>117,317</u>
Plan Fiduciary Net Position - Beginning	<u>2,190,915</u>	<u>2,171,280</u>	<u>2,053,963</u>
Plan Fiduciary Net Position - Ending (B)	<u>\$ 2,279,895</u>	<u>\$ 2,190,915</u>	<u>\$ 2,171,280</u>
 Net Pension Liability - Ending (A-B)	<u>\$ 270,412</u>	<u>\$ 216,370</u>	<u>\$ 47,044</u>
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	89.40%	91.01%	97.88%
 Covered Payroll	1,700,002	1,684,883	1,627,354
 Net Pension Liability as a Percentage of Covered Payroll	15.91%	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>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 60,887	\$ 56,384	\$ 36,239
Contributions in relation to the contractually required contribution	(60,887)	(56,384)	(36,239)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 1,710,305	\$ 1,700,002	\$ 1,684,883
Contributions as a percentage of covered-employee payroll	3.56%	3.32%	2.15%

* 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, 2017**

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

Methods and Assumptions Used to Determine Contribution Rate:

Actuarial Cost Method Entry Age Normal

Amortization Method Level Percentage of Payroll, Closed

Remaining Amortization Period 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 There were no benefit changes during the year.

*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, 2017

	Special Revenue Funds	Capital Projects Fund Certificate of Obligation	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 665,007	\$ 11,019	\$ 676,026
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	21,995	--	21,995
<i>Due from other funds</i>	66,939	--	66,939
<i>Due from other governments</i>	25,269	--	25,269
Total Assets	<u>\$ 779,210</u>	<u>\$ 11,019</u>	<u>\$ 790,229</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 1,889	\$ --	\$ 1,889
<i>Due to other funds</i>	83,541	--	83,541
<i>Due to other governments</i>	9,812	--	9,812
Total Liabilities	<u>95,242</u>	<u>--</u>	<u>95,242</u>
DEFERRED INFLOWS OF RESOURCES:			
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	467,441	--	467,441
<i>Restricted for State and Federal Grants</i>	1,558	--	1,558
<i>Restricted for Capital Projects</i>	--	11,019	11,019
<i>Restricted for Donor Intent</i>	12,470	--	12,470
<i>Restricted for Law Enforcement</i>	131,713	--	131,713
<i>Restricted for Municipal Court Building Security</i>	52,633	--	52,633
<i>Restricted for Municipal Court Technology</i>	18,153	--	18,153
Total equity	<u>683,968</u>	<u>11,019</u>	<u>694,987</u>
Total Liabilities, Deferred Inflows of Resources, and Equity	<u>\$ 779,210</u>	<u>\$ 11,019</u>	<u>\$ 790,229</u>

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Special Revenue Funds	Capital Projects Fund Certificate of Obligation	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Taxes</i>	\$ 80,111	\$ --	\$ 80,111
<i>Federal and state grants</i>	156,346	--	156,346
<i>Donations</i>	4,310	--	4,310
<i>Fines & forfeitures</i>	44,618	--	44,618
<i>Interest</i>	3,025	--	3,025
Total revenues	<u>288,410</u>	<u>--</u>	<u>288,410</u>
Expenditures:			
<i>General government</i>	3,543	--	3,543
<i>Municipal Court</i>	540	--	540
<i>Public Safety</i>	171,846	--	171,846
<i>Tourism</i>	32,982	--	32,982
Total expenditures	<u>208,911</u>	<u>--</u>	<u>208,911</u>
Excess (deficiency) of revenues (under) expenditures	79,499	--	79,499
Other financing sources (uses):			
<i>Transfers out</i>	(31,580)	--	(31,580)
Total other financing sources (uses)	<u>(31,580)</u>	<u>--</u>	<u>(31,580)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	47,919	--	47,919
Fund balances/equity, January 1	636,049	11,019	647,068
Fund balances/equity, December 31	<u>\$ 683,968</u>	<u>\$ 11,019</u>	<u>\$ 694,987</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2017

	<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>	\$ 17,539	\$ 392,698	\$ --	\$ 49,811
Receivables (net of allowances for uncollectibles):				
<i>Other</i>	--	21,995	--	--
<i>Due from other funds</i>	--	52,748	--	5,323
<i>Due from other governments</i>	--	--	16,262	--
Total Assets	<u>\$ 17,539</u>	<u>\$ 467,441</u>	<u>\$ 16,262</u>	<u>\$ 55,134</u>
LIABILITIES:				
<i>Accounts payable</i>	\$ 1,889	\$ --	\$ --	\$ --
<i>Due to other funds</i>	3,180	--	16,262	4,659
<i>Due to other governments</i>	--	--	--	--
Total Liabilities	<u>5,069</u>	<u>--</u>	<u>16,262</u>	<u>4,659</u>
DEFERRED INFLOWS OF RESOURCES:				
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	467,441	--	--
<i>Restricted for State and Federal Grants</i>	--	--	--	--
<i>Restricted for Donor Intent</i>	12,470	--	--	--
<i>Restricted for Law Enforcement</i>	--	--	--	50,475
<i>Restricted for Municipal Court Building Security</i>	--	--	--	--
<i>Restricted for Municipal Court Technology</i>	--	--	--	--
Total equity	<u>12,470</u>	<u>467,441</u>	<u>--</u>	<u>50,475</u>
Total Liabilities, Deferred Inflows of Resources, and	<u>\$ 17,539</u>	<u>\$ 467,441</u>	<u>\$ 16,262</u>	<u>\$ 55,134</u>

JAG Grant	Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund
\$ 1,504	\$ 11	\$ 89	\$ 77,490	\$ 51,944
--	--	--	--	--
--	19	--	4,659	689
--	--	--	--	--
<u>\$ 1,504</u>	<u>\$ 30</u>	<u>\$ 89</u>	<u>\$ 82,149</u>	<u>\$ 52,633</u>
\$ --	\$ --	\$ --	\$ --	\$ --
5	--	--	1,000	--
--	--	--	--	--
<u>5</u>	<u>--</u>	<u>--</u>	<u>1,000</u>	<u>--</u>
--	--	--	--	--
1,499	11	--	--	--
--	--	--	--	--
--	--	89	81,149	--
--	--	--	--	52,633
--	--	--	--	--
<u>1,499</u>	<u>30</u>	<u>89</u>	<u>81,149</u>	<u>52,633</u>
<u>\$ 1,504</u>	<u>\$ 30</u>	<u>\$ 89</u>	<u>\$ 82,149</u>	<u>\$ 52,633</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2017

	<u>Homeland Security #2</u>	<u>Operation Border Star</u>
ASSETS:		
<i>Cash and cash equivalents</i>	\$ 9,069	\$ 47,900
<i>Receivables (net of allowances for uncollectibles):</i>		
<i>Other</i>	--	--
<i>Due from other funds</i>	--	--
<i>Due from other governments</i>	3,928	5,079
Total Assets	<u>\$ 12,997</u>	<u>\$ 52,979</u>
 LIABILITIES:		
<i>Accounts payable</i>	\$ --	\$ --
<i>Due to other funds</i>	3,156	52,979
<i>Due to other governments</i>	9,812	--
Total Liabilities	<u>12,968</u>	<u>52,979</u>
 DEFERRED INFLOWS OF RESOURCES:		
FUND BALANCES:		
<i>Restricted:</i>		
<i>Restricted for Tourism</i>	--	--
<i>Restricted for State and Federal Grants</i>	29	--
<i>Restricted for Donor Intent</i>	--	--
<i>Restricted for Law Enforcement</i>	--	--
<i>Restricted for Municipal Court Building Security</i>	--	--
<i>Restricted for Municipal Court Technology</i>	--	--
Total equity	<u>29</u>	<u>--</u>
 Total Liabilities, Deferred Inflows of Resources, and Equity	 <u>\$ 12,997</u>	 <u>\$ 52,979</u>

<u>GLO Grant</u>	<u>Technology</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit C-1)</u>
\$ --	\$ 16,952	\$ 665,007
--	--	21,995
--	3,501	66,939
--	--	25,269
<u>\$ --</u>	<u>\$ 20,453</u>	<u>\$ 779,210</u>
\$ --	\$ --	\$ 1,889
--	2,300	83,541
--	--	9,812
<u>--</u>	<u>2,300</u>	<u>95,242</u>
--	--	467,441
--	--	1,539
--	--	12,470
--	--	131,713
--	--	52,633
<u>--</u>	<u>18,153</u>	<u>18,153</u>
<u>--</u>	<u>18,153</u>	<u>683,968</u>
<u>\$ --</u>	<u>\$ 20,453</u>	<u>\$ 779,210</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, 2017

	Gifts and Bequests	Hotel/Motel Occupancy Tax Fund	Seizure Fund	JAG Grant
Revenue:				
<i>Taxes</i>	\$ --	\$ 80,111	\$ --	\$ --
<i>Federal and state grants</i>	--	--	--	--
<i>Donations</i>	4,310	--	--	--
<i>Fines & forfeitures</i>	--	--	33,553	--
<i>Interest</i>	75	1,850	287	--
Total revenues	<u>4,385</u>	<u>81,961</u>	<u>33,840</u>	<u>--</u>
Expenditures:				
<i>General government</i>	3,543	--	--	--
<i>Municipal Court</i>	--	--	--	--
<i>Public Safety</i>	--	--	12,620	--
<i>Tourism</i>	--	32,982	--	--
Total expenditures	<u>3,543</u>	<u>32,982</u>	<u>12,620</u>	<u>--</u>
Excess (deficiency) of revenues (under) expenditures	842	48,979	21,220	--
Other financing sources (uses):				
<i>Transfers out</i>	--	--	--	--
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	842	48,979	21,220	--
Fund balances/equity, January 1	11,628	418,462	29,255	1,499
Fund balances/equity, December 31	<u>\$ 12,470</u>	<u>\$ 467,441</u>	<u>\$ 50,475</u>	<u>\$ 1,499</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Homeland Security #2
\$ --	\$ --	\$ --	\$ --	\$ --
1,327	--	--	--	136,061
--	--	--	--	--
11	--	2,590	3,627	--
<u>1,338</u>	<u>--</u>	<u>471</u>	<u>254</u>	<u>--</u>
		<u>3,061</u>	<u>3,881</u>	<u>136,061</u>
--	--	--	--	--
1,327	--	--	540	--
--	--	2,880	--	136,061
<u>1,327</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
		<u>2,880</u>	<u>540</u>	<u>136,061</u>
11	--	181	3,341	--
--	--	(31,580)	--	--
<u>--</u>	<u>--</u>	<u>(31,580)</u>	<u>--</u>	<u>--</u>
11	--	(31,399)	3,341	--
19	89	112,548	49,292	29
<u>\$ 30</u>	<u>\$ 89</u>	<u>\$ 81,149</u>	<u>\$ 52,633</u>	<u>\$ 29</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, 2017

	Operation Border Star	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:			
<i>Taxes</i>	\$ --	\$ --	\$ 80,111
<i>Federal and state grants</i>	18,958	--	156,346
<i>Donations</i>	--	--	4,310
<i>Fines & forfeitures</i>	--	4,848	44,618
<i>Interest</i>	--	77	3,025
Total revenues	<u>18,958</u>	<u>4,925</u>	<u>288,410</u>
Expenditures:			
<i>General government</i>	--	--	3,543
<i>Municipal Court</i>	--	--	540
<i>Public Safety</i>	18,958	--	171,846
<i>Tourism</i>	--	--	32,982
Total expenditures	<u>18,958</u>	<u>--</u>	<u>208,911</u>
Excess (deficiency) of revenues (under) expenditures	--	4,925	79,499
Other financing sources (uses):			
<i>Transfers out</i>	--	--	(31,580)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(31,580)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	4,925	47,919
Fund balances/equity, January 1	--	13,228	636,049
Fund balances/equity, December 31	<u>\$ --</u>	<u>\$ 18,153</u>	<u>\$ 683,968</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

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

JOHN L. WOMACK, CPA
MARGARET KELLY, CPA

P. O. BOX 1147
KINGSVILLE, TEXAS 78364
(361) 592-2671
FAX (361) 592-1411

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, 2017, 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 May 25, 2018.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item(s) 2017-3 through 2017-6, that we consider 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) 2017-1 and 2017-2.

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
May 25, 2018

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u> </u> Yes	<u> X </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

2017-1 State Compliance - Excess Expenditures over Appropriations (Budgeting) [Repeat Finding]

Condition: The City's Budgetary Comparison Schedule - General Fund reflects 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: In June of 2017, after the journal entries had been caught up and the revenue projections were analyzed over the past three fiscal years, it was determined that the FY 2017 budget that was adopted in 2016 was over budget by more than \$1,000,000. In July of 2017, we amended the budget to reduce that deficit to over \$300,000.

Shortly after the final amendments of the FY 2017 budget, the City began training with the departments. Most had never been a part of the budgeting process. Currently, all departments are involved. In November 2017, the City adopted the FY 2018 budget utilizing the new process.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2017-2 State Compliance - Certificate of Interested Parties [Repeat Finding]

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: HB 1295 went into effect on January 1, 2017. While the City was made aware of the State Compliance, the procedure or section responsible was not delegated and each assumed someone else was responsible. Going forward, the City will revise our Purchase Policy to state that at the point of receiving quotes or qualifications, the Form 1295 will be a part of that process. This should meet the State Compliance requirements. This will include the submission of the form to the House Ethics Commission.

2017-3 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: On July 19, 2017, the City adopted a purchase policy manual. This provides guidelines and procedures for all City purchases. This includes Purchase Order Process and outlines the procedures. This policy is reviewed annually. On March 7, 2018, the City additionally added a policy memo that specified two individuals per department who have the authorization to request PO's on behalf of their department for better fiscal control.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2017-4 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: Since the creation of the Finance Section, made up of two personnel, it was the intent that account coding and journal entries would be maintained. As we moved through the fiscal year, there were some personnel changes and we still have a large volume of work in the Finance Section. Moving forward, we hope to implement a new software that is engineered for municipal finance. The implementation of this program will no doubt assist our City in maintaining better controls on our daily activity and bring better efficiency. If we are not able to bring the new software into the City, we will rely on outsourcing certain functions to meet the need.

2017-5 Internal Control - Golf Course Collections [Repeat Finding]

Condition: During most of the year, the City did not have adequate control over golf course revenue. Also, the golf course did not have a sign-in sheet in order to track the number of golfers utilizing the course, holes played, or carts utilized, which would allow accurate reconciliation to daily cash collections. However, the City began implementing these controls in September, 2017.

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 were in the process of being developed during 2017.

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 continue to implement internal controls at the golf course to ensure cash is properly collected, deposited, and reconciled in a timely manner.

Client Response: During the course of FY 2017, the City implemented a sign-in sheet for accountability of golf players, green fees, cart rentals, and snacks. This sign-in sheet, also accompanied by the register tape and cash, are now used to validate our daily deposits. Also, the City installed a camera system with DVR as extra measure of security. We will analyze and revise this process as needed.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

2017-6 Internal Control - Account Reconciliations [Repeat Finding]

Condition: The City did not reconcile certain asset and liability accounts, including taxes receivable, accounts payable, and long term debt, on a timely basis during the year. 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 during much of 2017 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: In the beginning of FY 2017, the finance department was in disarray. Responsibilities were not defined, and major assumptions were being made to the detriment of the City financial operations. With this in mind, the Finance Section was created to help gain better control. While this seemed effective, the volume of transactions was still high. Towards the end of the fiscal year, finance staff were able to get better control of the larger account reconciliations but left the smaller accounts unreconciled due to the lack of human capital over time. We anticipate the new accounting system will also help accomplish all necessary reconciliations.

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>2016-1 State Compliance - Excess Expenditures over Appropriations</p> <p>Condition: The City's Budgetary Comparison Schedule - General Fund reflects a 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>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.</p>	<p>Not Implemented</p>	<p>See Client Response to Finding 2017-1</p>
<p>2016-2 State Compliance - Hotel/Motel Tax Expenditures</p> <p>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%.</p>	<p>Implemented</p>	<p>N/A</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<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. The State also sets minimum and maximum percentages on the spending of Hotel/Motel Tax revenues.</p>		
<p>Cause: There was still a lack of training and oversight in this area.</p>		
<p>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.</p>		
<p>Recommendation: We recommend that the City personnel review state laws regarding the expenditure of Hotel/Motel Tax funds and provide adequate documentation for each expenditures. In addition, we recommend that the City establish a system of internal controls over funds provided and goods purchased with the Hotel/Motel tax monies for City events and review expenditures throughout the year to compliance with state laws.</p>		
<p>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%.</p>		
<p>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.</p>		
<p>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.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>2016-3 State Compliance - Certificate of Interested Parties</p>	<p>Not Implemented</p>	<p>See Client Response to Finding 2017-2.</p>
<p>Condition: The City has not complied with House Bill 1295 by filing Certificate of Interested Parties forms for all qualified vendors.</p>		
<p>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.</p>		
<p>Cause: Management was unaware of the House Bill 1295. There is a lack of training and education on purchasing requirements.</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 instances that require the filing of the HB 1295 disclosure form.</p>		
<p>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.</p>		
<p>2016-4 Internal Control - Purchase Orders</p>	<p>Not Implemented</p>	<p>See Client Response to Finding 3017-3.</p>
<p>Condition: There is currently no purchase order system in place in which department heads can indicate approval of purchases, or through which receipt of goods can be documented.</p>		
<p>Criteria: A formal purchase order system is required for proper encumbrance accounting and documentation of approval and receiving, to strengthen internal controls and accountability.</p>		
<p>Cause: The City has not adopted a formal purchase order system and related policies.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<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>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.</p> <p>The City will be looking into a financial software solution that will allow for real-time fiscal tracking.</p> <p>The council will be presented a draft purchase policy manual for review to be adopted in July of fiscal year 2017.</p>		
<p>2016-5 Internal Control - Account Coding and Journal Entry Approval</p>	<p>Not Implemented</p>	<p>See Client Response to Finding 2017-4.</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>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<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>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.</p> <p>A financial software solution will be needed in the near future in order to provide better controls and classification of daily activity.</p>		
<p>2016-6 Internal Controls - Cash Disbursements</p> <p>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.</p> <p>Criteria: The City should follow normal purchasing processes for issuing payment to vendors, and payments should not be made in cash.</p> <p>Cause: The City did not exercise proper care in handling transactions with regard to Hotel/Motel Occupancy Tax expenditures.</p> <p>Effect: Fraudulent activity and/or errors may occur when handling cash and paying cash directly to vendors.</p> <p>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.</p>	<p>Implemented</p>	<p>N/A</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Client Repsonse: 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.</p>		
<p>2016-7 Internal Control - Golf Course Collections</p>	<p>Partially Implemented</p>	<p>See Client Response to Finding 2017-5.</p>
<p>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 reconciliaiton to daily cash collections.</p>		
<p>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.</p>		
<p>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.</p>		
<p>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.</p>		
<p>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.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		
<p>2016-8 Internal Control - Account Reconciliations</p>	<p>Partially Implemented</p>	<p>See Client Response to Finding 2017-6.</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 on a timely basis.</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 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.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<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>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 wil 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.</p>		

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

2017-1 State Compliance - Excess Expenditures Over Appropriations (Budgeting) [Repeat Finding]

In June of 2017, after the journal entries had been caught up and the revenue projections were analyzed over the past three fiscal years, it was determined that the FY 2017 budget that was adopted in 2016 was over budget by more than \$1,000,000. In July of 2017, we amended the budget to reduce that deficit to over \$300,000.

Shortly after the final amendments of the FY 2017 budget, the City began training with the departments. Most had never been a part of the budgeting process. Currently, all departments are involved. In November 2017, the City adopted the FY 2018 budget utilizing the new process.

2017-2 State Compliance - Certificate of Interested Parties [Repeat Finding]

HB 1295 went into effect on January 1, 2017. While the City was made aware of the State Compliance, the procedure or section responsible was not delegated and each assumed someone else was responsible. Going forward, the City will revise our Purchase Policy to state that at the point of receiving quotes or qualifications, the Form 1295 will be a part of that process. This should meet the State Compliance requirements. This will include the submission of the form to the House Ethics Commission.

2017-3 Internal Control - Purchase Orders [Repeat Finding]

On July 19, 2017, the City adopted a purchase policy manual. This provides guidelines and procedures for all City purchases. This includes Purchase Order Process and outlines the procedures. This policy is reviewed annually. On March 7, 2018, the City additionally added a policy memo that specified two individuals per department who have the authorization to request PO's on behalf of their department for better fiscal control.

2017-4 Internal Control - Account Coding and Journal Entry Approval [Repeat Finding]

Since the creation of the Finance Section, made up of two personnel, it was the intent that account coding and journal entries would be maintained. As we moved through the fiscal year, there were some personnel changes and we still have a large volume of work in the Finance Section. Moving forward, we hope to implement a new software that is engineered for municipal finance. The implementation of this program will no doubt assist our City in maintaining better controls on our daily activity and bring better efficiency. If we are not able to bring the new software into the City, we will rely on outsourcing certain functions to meet the need.

2017-5 Internal Control - Golf Course Collections

During the course of FY 2017, the City implemented a sign-in sheet for accountability of golf players, green fees, cart rentals, and snacks. This sign-in sheet, also accompanied by the register tape and cash, are now used to validate our daily deposits. Also, the City installed a camera system with DVR as extra measure of security. We will analyze and revise this process as needed.

2017-6 Internal Control - Account Reconciliations [Repeat Finding]

In the beginning of FY 2017, the finance department was in disarray. Responsibilities were not defined, and major assumptions were being made to the detriment of the City financial operations. With this in mind, the Finance Section was created to help gain better control. While this seemed effective, the volume of transactions was still high. Towards the end of the fiscal year, finance staff were able to get better control of the larger account reconciliations but left the smaller accounts unreconciled due to the lack of human capital over time. We anticipate the new accounting system will also help accomplish all necessary reconciliations.

City of Falfurrias, Texas