

City of Encinal, Texas

Audited Financial Statements
and Supplementary Information

For the Year Ended September 30, 2015

City of Encinal, Texas

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Encinal, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Encinal, Texas'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 23-25 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2017, on our consideration of the City of Encinal, 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 the City of Encinal, Texas's internal control over financial reporting and compliance.

Flores Auditing, PLLC

Flores Auditing, PLLC

Laredo, TX

February 8, 2017

City of Encinal, Texas

Management's Discussion and Analysis

Financial Highlights

The assets of City of Encinal, Texas exceeded its liabilities of the most recent fiscal year by \$837,886 (net assets). Of this amount, \$55,075 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets decreased by \$149,081. The major reason for the decrease was an excess of expenses over revenues collected.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$62,951, an increase of \$123,554 in comparison with the prior period. Approximately 0% of this total amount, \$(14,973), is available for spending at the City's discretion (unassigned fund balance).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

The government-wide financial statements include only the City itself.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds:

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund.

The City adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided for the general fund.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the financial statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-22 of this report.

Other information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found on pages 23-25 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of City of Encinal, Texas, assets exceeded liabilities by \$837,886 at the close of the most recent fiscal year.

A portion of the City's net assets (84%) reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure 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.

	<u>09/30/2015</u>	<u>09/30/2014</u>
Current and Other Assets	\$ 189,263	\$ 233,760
Capital Assets	2,351,856	2,070,595
Total Assets	<u>2,541,119</u>	<u>2,304,355</u>
Long-term Liabilities	1,646,969	1,069,554
Other Liabilities	56,264	247,834
Total Liabilities	<u>1,703,233</u>	<u>1,317,388</u>
Invested in Capital Assets, net of Related Debt	704,887	1,001,041
Reserved for Economic Development	77,924	77,741
Unrestricted	55,075	(91,815)
Total Net Assets	<u>\$ 837,886</u>	<u>\$ 986,967</u>

Governmental Activities

Governmental activities decreased the City's net assets by \$149,081.

	2015	2014
Revenues:		
Program revenues		
Charges for services	\$ 97,617	\$ 85,923
General revenues		
Taxes	587,993	592,576
Fines and Fees	179,229	208,797
Intergovernmental	19,360	174,187
Miscellaneous	8,775	2,614
Total Revenue	<u>892,974</u>	<u>1,064,097</u>
Expenses:		
General Government	657,024	614,319
Judicial	82,388	106,975
Public Safety	170,321	185,844
Public Service	148,472	118,231
Interest and fiscal charges	55,660	10,512
Total Expenses	<u>1,113,865</u>	<u>1,035,881</u>
Decrease in net assets	(220,891)	28,216
Beginning net assets	986,967	958,751
Prior period adjustment	71,810	0
Ending net assets	<u>\$ 837,886</u>	<u>\$ 986,967</u>

Revenues by source- governmental activities:

	2015	
	Revenues	%
Charges for services	\$ 97,617	10.9
Taxes	587,993	65.8
Fines and fees	179,229	20.1
Intergovernmental	19,360	2.2
Miscellaneous	8,775	1.0
Total Revenue	<u>\$ 892,974</u>	<u>100.00</u>

Financial Analysis of the City's Funds

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

Governmental funds:

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$62,951 an increase of \$123,554 in comparison with the prior period. Approximately, 0% of this total amount, \$(-14,973), constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for Economic Development (\$77,924).

Budgetary Highlights

The City adopts an annual appropriated budget for the governmental funds. The City budgeted \$1,064,240 in total revenues and \$1,066,072 in total expenditures for a surplus governmental funds budget of \$58,168. Actual governmental fund revenues were \$795,456 for an unfavorable variance compared to budgeted revenues of \$268,784. Actual governmental fund expenditures were \$901,278 for a favorable variance compared to budgeted expenditures of \$104,794.

Capital Assets and Debt Administration

Capital Assets:

The City's investment in capital assets for its governmental activities as of September 30, 20154, amounts to \$2,351,856 (net of accumulated depreciation).

City of Encinal, Texas Capital Assets

	Governmental Activities	
	2015	2014
Buildings and improvements	\$ 1,553,025	\$ 1,112,408
Furniture and equipment	275,799	257,348
Vehicles	108,646	108,646
Infrastructure	914,178	914,178
	2,392,580	2,392,580
Less accumulated depreciation	(499,792)	(321,985)
Total	\$ 2,351,856	\$ 2,070,595

Long-term debt:

The City total debt increased by \$577,415 during the current fiscal year. The key factor in this increase was the addition of a USDA Community Facilities Loan (\$598,000).

Governmental Activities:

	Beg Bal.	Additions	Reductions	End Bal
Certificates of Obligation, Series 2008	\$ 48,313	\$ -	\$ 2,061	\$ 46,252
USDA Community Facilities Loan	915,000	598,000	19,000	1,494,000
Falcon International Bank (Trash Truck)	8,984	30,140	10,417	28,707
Dodge Ram Truck	25,794	-	4,678	21,116
Dodge Durango	23,463	-	5,405	18,058
Capital Lease-Ford Police Interceptor	48,000	-	9,164	38,836
	<u>\$ 1,069,554</u>	<u>\$ 628,140</u>	<u>\$ 50,725</u>	<u>\$ 1,646,969</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Encinal, Texas's business office, 107 N. Tejas, Encinal, Texas.

City of Encinal, Texas
Statement of Net Assets
September 30, 2015

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 29,548
Receivables	159,715
Capital assets	
Infrastructure	914,178
Buildings and improvements	1,553,025
Equipment and furniture	275,799
Vehicles	108,646
Less: accumulated depreciation	<u>(499,792)</u>
Total capital assets	<u>2,351,856</u>
Total assets	<u><u>2,541,119</u></u>
 LIABILITIES	
Accounts payable and accrued expenses	56,264
Capital leases payable	38,836
Notes payable	<u>1,608,133</u>
Total liabilities	<u>1,703,233</u>
 NET ASSETS	
Invested in capital assets, net of related debt	704,887
Restricted for:	
Economic Development Board	77,924
Unrestricted	<u>55,075</u>
Total net assets	<u><u>\$ 837,886</u></u>

The accompanying notes are an integral part of these financial statements

City of Encinal, Texas
Statement of Activities
For the Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
Governmental activities				
General government	\$ 657,024	\$ 17,215	\$ -	\$ (639,809)
Judicial	82,388	-	-	(82,388)
Public safety	170,321	-	-	(170,321)
Public service	148,472	80,402	-	(68,070)
Interest expense	55,660	-	-	(55,660)
Total governmental activities	<u>1,113,865</u>	<u>97,617</u>	<u>-</u>	<u>(1,016,248)</u>

General revenues:

Taxes:	
Ad valorem	134,703
Sales taxes	416,561
Franchise fees	36,729
Fines and fees	179,229
Interest	10
Miscellaneous	28,125
Total general revenues and loan proceeds	<u>795,357</u>
Change in net assets	(220,891)
Net Assets-beginning	986,967
Prior Period Adjustment	71,810
Net Assets-ending	<u>\$ 837,886</u>

The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
 Balance Sheet
 Governmental Funds
 September 30, 2015

	General Fund	Economic Development Corporation	USDA Loan/Grant City Hall Bldg.	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 29,548	\$ -	\$ 29,548
Due from other funds	-	48,376	-	48,376
Taxes receivable, net	70,048	-	-	70,048
Accounts receivable	89,667	-	-	89,667
Total assets	<u>159,715</u>	<u>77,924</u>	<u>-</u>	<u>237,639</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	43,658	-	-	43,658
Payroll Liabilities	12,606	-	-	12,606
Due to other funds	48,376	-	-	48,376
Deferred revenue	70,048	-	-	70,048
Total liabilities	<u>174,688</u>	<u>-</u>	<u>-</u>	<u>174,688</u>
Fund balances:				
Unassigned, reported in:				
General fund	(14,973)	-	-	(14,973)
Restricted				
Economic Development	-	77,924	-	77,924
Capital Outlay	-	-	-	-
Total fund balances	<u>(14,973)</u>	<u>77,924</u>	<u>-</u>	<u>62,951</u>
Total liabilities and fund balances	<u>\$ 159,715</u>	<u>\$ 77,924</u>	<u>\$ -</u>	<u>\$ 237,639</u>

The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2015

Total fund balance, governmental funds \$ 62,951

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.

Add - capital assets	2,851,648
Deduct - accumulated depreciation	(499,792)

Deferred revenues used in governmental funds are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Activities. 70,048

Other financing sources used in governmental funds are current financial resources and therefore are reported in this fund financial statement, but are not reported in the governmental activities of the Statement of Activities. (1,646,969)

Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 837,886</u>
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The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2015

	General Fund	Economic Development Corporation	USDA Loan/Grant City Hall Bldg.	Total Governmental Funds
REVENUES				
Ad valorem taxes	\$ 111,184	\$ -	\$ -	\$ 111,184
Sales taxes	312,421	104,140	-	416,561
Franchise fees	36,729	-	-	36,729
Licenses and permits	17,215	-	-	17,215
Fines and fees	179,229	-	-	179,229
Intergovernmental	19,360	-	-	19,360
Charges for services	80,402	-	-	80,402
Interest earnings	10	-	-	10
Miscellaneous	8,766	-	-	8,766
Total revenues	<u>765,316</u>	<u>104,140</u>	<u>-</u>	<u>869,456</u>
EXPENDITURES				
Current:				
General government	455,273	103,957	-	559,230
Judicial	82,388	-	-	82,388
Public safety	116,979	-	-	116,979
Public service	121,801	-	-	121,801
Capital Outlay	18,451	-	440,617	459,068
Debt Service				
Principal	50,726	-	-	50,726
Interest	55,660	-	-	55,660
Total expenditures	<u>901,278</u>	<u>103,957</u>	<u>440,617</u>	<u>1,445,852</u>
Excess (deficiency) of revenues over expenditures	<u>(135,962)</u>	<u>183</u>	<u>(440,617)</u>	<u>(576,396)</u>
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	30,140	-	598,000	628,140
Total other financing sources and uses	<u>30,140</u>	<u>-</u>	<u>598,000</u>	<u>628,140</u>
Net change in fund balances	(105,822)	183	157,383	51,744
Fund balances - beginning	19,039	77,741	(157,383)	(60,603)
Prior Period Adjustment	71,810	-	-	71,810
Fund balances - ending	<u>\$ (14,973)</u>	<u>\$ 77,924</u>	<u>\$ -</u>	<u>\$ 62,951</u>

The accompanying notes are an integral part of these financial statements.

City of Encinal, 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 September 30, 2015

Net change in fund balances - total governmental funds:	\$ 51,744
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay \$459,068 exceeded depreciation \$177,807 in the current period	281,261
Other financing sources used in governmental funds are current financial resources and therefore are reported in this fund financial statement, but are not reported in the governmental activities of the Statement of Activities.	23,518
Notes payable used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	50,726
Other items used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	(628,140)
	(220,891)
Change in net assets of governmental activities	\$ (220,891)

The accompanying notes are an integral part of these financial statements.

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1 GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City of Encinal, Texas (the "City") adopted the provisions and Statutes for cities in the State of Texas. The City provides fire, street and social services and public improvements, planning and zoning and general and administrative services. It also provides sanitation services.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or as major individual funds (within the fund financial statements).

Both the government-wide and fund financial statements within the basic financial statements categorize primary activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide Statement of Activities reflects both the gross and net cost per functional categories (public safety, public works, etc.) that are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fines and forfeitures, licenses and permit fees, taxes and charges for services. The operating grants include operating-specific and discretionary (either operating or capital grants while the capital grants columns reflects capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or use taxes, intergovernmental revenues, interest income, etc.). Historically, the previous model did not summarize or present net cost by function or activity. The City does not currently employ an indirect cost allocation system.

This government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements are, in substance, very similar to the financial statements presented in the previous model. Emphasis here is on the governmental or business-type categories. Management has elected to treat all governmental funds as major funds.

The governmental funds statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted.

This presentation is deemed most appropriate to (a) demonstrate legal and covenant compliance, (b) demonstrate the sources and use of liquid resources, and (c) demonstrate how the City's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented on the page following each statement, which briefly explains the adjustment necessary to transform the fund based financial statements into the governmental column of the government-wide presentation.

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

1. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurement made, regardless of the measurement focus applied.

The Government-wide Financial Statements and the Proprietary and Fiduciary Fund Financial Statements are presented on an accrual basis of accounting. The Governmental Funds in the Fund Financial Statements are presented on a modified accrual basis.

Accrual:

All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

Modified Accrual:

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exceptions to this general rule is that debt service expenditures, compensated absences and claims and judgments, are recognized when due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement #33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should under most circumstances, be reported as advances by the provider and deferred revenues by the recipient.

2. FINANCIAL STATEMENT PRESENTATION

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures, or expenses as appropriate. The various funds are reported by generic classification within the financial statements. Governmental resources allocated to, and accounted for, in the individual funds are based on the specific activities in accordance with laws, regulations, or other restrictions.

GOVERNMENTAL FUNDS:

The focus of Governmental Funds measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on governmental bonds, loans, and capital leases.

Capital Projects Funds are used to account for the financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by Business-type/Proprietary Funds).

Non-Current Governmental Assets/Liabilities:

GASB Statement #34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

Fund Balance Designations

Certain fund balances or portions thereof have been reserved to indicate amounts that are not appropriated for expenditures or are legally segregated for a specific future purpose. Designation of a portion of the fund balance is established to indicate tentative plans for financial resource utilization in a future period.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) they are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash, or are not expected to be converted to cash within the next year.

Restricted - This classification includes amounts for which the constraints that have been placed on the use of the resources are either (a) externally imposed by creditors, grantors, contributors, or by laws or regulations of other governments, or (b) imposed by law through constitutional provisions or by enabling legislation.

Committed - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by order of the Board of Directors, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the fund were initially committed.

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 2 MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

Assigned - This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed.

Unassigned - This classification includes the residual fund balance for the General Fund.

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY

1. Cash and Investments

The City's cash at September 30, 2015 totaled \$29,548. These deposits were covered by federal depository insurance. Therefore, the City considers all of its deposits to be category 2, in that the Collateral is in the City's name and held by the Bank.

The City reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

The City had no investments at September 30, 2015.

2. Capital Assets and Depreciation

Capital Assets which include property, plant, equipment and infrastructure assets (e.g. roads and similar immovable items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the City are depreciated using the straight-line method over the estimated useful life of the assets as follows:

Buildings and improvements	15 to 40 years
Equipment (computer, office and vehicles)	5 years
Infrastructure-water and wastewater lines and pump stations	40 years

3. INTERFUND TRANSACTIONS

During the course of normal operations, the City has many transactions between funds. The accompanying Fund Level financial statements reflect as transfers the expenditures and transfers of resources to provide services, construct assets and meet debt service requirements. The effect of interfund activity has been eliminated in the Government-wide financial statements, except for transactions between the governmental and business-type activities.

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY (continued)

4. DUE FROM OTHER GOVERNMENTAL UNITS

To recognize resources available for Special Revenue Funds and Capital Projects Funds, the City records amounts due from grantors upon receipt of the award and records the award as deferred revenue. For grants that require expenditures for eligible grant purposes in order to earn the award, revenues are recognized when expenditures are made. For other grants and financial assistance, the amounts due from other governmental units and deferred revenue are reduced upon receipt of payment and revenues are then recognized.

5. FUND EQUITY

Certain fund balances or portions thereof have been reserved to indicate amounts that are not appropriated for expenditures or are legally segregated for a specific future purpose. Designation of a portion of the fund balance is established to indicate tentative plans for financial resource utilization in a future period.

6. CAPITAL GRANT

Capital grants restricted for capital acquisitions or construction are accounted for in the applicable Capital Projects Funds. Grant monies restricted for acquisition of Enterprise Fund capital assets are recorded as contributed equity in the applicable enterprise fund. Therefore, depreciation expense relating to fixed assets contributed or acquired with grant monies is deducted from the applicable contributed capital.

7. COMPENSATED ABSENCES

Employees are paid by prescribed formula for absences due to vacation, personal days or sickness. Employees earn five days of vacation pay per year after one consecutive year of full time employment (average 30 hours per week) with the city. Three days of sick leave and two personal days may be earned each year. Leave days must be used within the fiscal year or are forfeited at year end.

8. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The City Mayor is the budget officer and has the responsibility of preparing the City's budgeted expenditures.
- B. All City departments and organizations submit their budget requests to the City Mayor for the fiscal year commencing the following October 1, by July 1.
- C. During July, City Council conducts informal budget workshops with each department head to discuss their budget requests.
- D. On or about July 31, the City Mayor prepares a proposed budget to cover all proposed expenditures of the City for the current year. The proposed budget is available for inspection by taxpayers.

CITY OF ENCINAL, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY (continued)

- E. After the filing of the proposed budget, on a date after August 15th, but prior to September 30 of the current year, City Council conducts a public hearing on the City's proposed budget. Any taxpayer of the City of Encinal had the right to present and participate in the hearing. At the conclusion of the hearing, the proposed budget, as prepared by the City Mayor, is acted upon by the City Council. The Court had the authority to make such changes in the budget, as in its judgment the facts and the law warrant and the interest of the taxpayers demand, provided the amounts budgeted for current expenditures from the various funds for the City do not exceed the balances in these funds as of October 1 plus the anticipated revenue for the current year for which the budget is made, as estimated by the City Mayor.
- F. Under no circumstances can City Council authorize expenditures that will exceed appropriations. City Council must authorize budget amendments transferring funds among different departments within the same fund.

Anytime any revisions are necessary that alter the total appropriations of any fund, City Council must enter an order setting forth how the budget is to be amended, declaring an emergency, finding that grave public necessity exists to meet unusual and unforeseen conditions which could not, by reasonably diligent thought and attention, have been included in the original budget.

Budgets adopted on an annual basis are consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, non-grant special revenue, and debt service funds. All annual appropriations lapse at fiscal year end. Budgetary integration is not employed for capital projects funds, because they include projects which extend over a period of several years.

NOTE 4 CAPITAL ASSETS

Governmental Activities

Details of changes in capital assets for the year September 30, 2015 are as follows:

	Balance 10/1/2014	Additions	Deletions	Balance 9/30/2015
Buildings and improvements	1,112,408	440,617	-	1,553,025
Equipment and furniture	257,348	18,451	-	275,799
Vehicles	108,646	-	-	108,646
Infrastructure	914,178	-	-	914,178
Total Capital Assets	2,392,580	459,068	-	2,851,648
Less: accumulated depreciation				(499,792)
Total				<u>2,351,856</u>

Depreciation expense for governmental activities for the year September 30, 2015 was \$177,807.

CITY OF ENCINAL, TEXAS
 NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2015

NOTE 5 LONG-TERM DEBT

At the end of the current fiscal year, the City of Encinal, Texas had the following long term debt:

Governmental Activities:

	Beg Bal.	Additions	Reductions	End Bal
Certificates of Obligation, Series 2008	\$ 48,313	\$ -	\$ 2,061	\$ 46,252
USDA Community Facilities Loan	915,000	598,000	19,000	1,494,000
Falcon International Bank (Trash Truck)	8,984	30,140	10,417	28,707
Dodge Ram Truck	25,794	-	4,678	21,116
Dodge Durango	23,463	-	5,405	18,058
Capital Lease-Ford Police Interceptor	48,000	-	9,164	38,836
	<u>\$ 1,069,554</u>	<u>\$ 628,140</u>	<u>\$ 50,725</u>	<u>\$ 1,646,969</u>

NOTE 6 DETAILED NOTES ON FUNDS, ACCOUNT GROUPS AND COMPONENT UNITS

Risk Management- Claims and Judgments

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims and judgments is reported in the general long-term debt account group because it is not expected to be liquidated with expendable available financial resources. The City did not have any such financial activity at the beginning, during, or the ending of the 2015 fiscal year. There were no significant reductions in insurance coverage from coverage in the prior year. Also, the amount of settlements did not exceed insurance coverage in past three years.

NOTE 7 RETIREMENT PLANS

Plan Descriptions, Contribution Information and Fund Policies

The City does not provide pension benefits for its full-time employees.

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8 CONTINGENCIES

Litigation

The City is contingently liable in respect of lawsuits and other claims in the ordinary course of its operations. Should such contingencies become a real liability, funds would have to be appropriated in future budgets for settlement.

At September 30, 2015, the City had no lawsuits pending that are expected to have a material effect on the City's financial condition.

CITY OF ENCINAL, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Current Property Taxes	\$ 113,298	\$ 113,298	\$ 111,184	\$ (2,114)
Sales Tax	589,780	589,780	312,421	(277,359)
Franchise Fees	39,233	39,233	36,729	(2,504)
Total taxes	<u>742,311</u>	<u>742,311</u>	<u>460,334</u>	<u>(281,977)</u>
Fines and Fees	<u>233,869</u>	<u>233,869</u>	<u>179,229</u>	<u>(54,640)</u>
Intergovernmental	<u>-</u>	<u>-</u>	<u>19,360</u>	<u>19,360</u>
Licenses and permits:				
Permits	6,000	6,000	17,215	11,215
Total licenses and permits	<u>6,000</u>	<u>6,000</u>	<u>17,215</u>	<u>11,215</u>
Charges for services:				
Garbage Fees	81,635	81,635	80,402	(1,233)
Total charges for services	<u>81,635</u>	<u>81,635</u>	<u>80,402</u>	<u>(1,233)</u>
Loan Proceeds	<u>-</u>	<u>-</u>	<u>30,140</u>	<u>30,140</u>
Interest	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
Other:				
Refunds, Reimbursements and Other	425	425	8,766	8,341
Total Other	<u>425</u>	<u>425</u>	<u>8,766</u>	<u>8,341</u>
TOTAL REVENUES	<u>\$ 1,064,240</u>	<u>\$ 1,064,240</u>	<u>\$ 795,456</u>	<u>\$ (268,784)</u>
EXPENDITURES:				
GENERAL GOVERNMENT				
City Hall				
Salaries and Fringe Benefits	\$ 110,123	\$ 110,123	\$ 125,744	\$ (15,621)
Contract Services	8,220	8,220	18,244	(10,024)
Professional Fees	114,600	114,600	66,005	48,595
Supplies	6,500	6,500	18,570	(12,070)
Insurance	18,000	18,000	48,745	(30,745)
Travel & Training	38,950	38,950	37,963	987
Repair and Maintenance	22,500	22,500	4,830	17,670
Utilities	31,120	31,120	59,074	(27,954)
Other Services and Charges	88,650	88,650	76,098	12,552
Total City Hall Expenses	<u>438,663</u>	<u>438,663</u>	<u>455,273</u>	<u>(16,610)</u>
Total General Government	<u>438,663</u>	<u>438,663</u>	<u>455,273</u>	<u>(16,610)</u>
DEBT SERVICE				
Principal	50,726	50,726	50,726	-
Interest	38,584	38,584	55,660	(17,076)
Total Debt Service	<u>89,310</u>	<u>89,310</u>	<u>106,386</u>	<u>(17,076)</u>
JUDICIAL				
Municipal Court				
Salaries and Fringe Benefits	50,444	50,444	39,861	10,583
Contract Services	-	-	11,479	(11,479)
Professional Fees	-	-	26,650	(26,650)
Supplies	1,200	1,200	677	523
Insurance	-	-	258	(258)
Travel & Training	2,350	2,350	2,382	(32)
Other Services and Charges	35,960	35,960	1,081	34,879
Total Municipal Court	<u>89,954</u>	<u>89,954</u>	<u>82,388</u>	<u>7,566</u>
Total Judicial	<u>89,954</u>	<u>89,954</u>	<u>82,388</u>	<u>7,566</u>

CITY OF ENCINAL, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
PUBLIC SAFETY				
Police Department				
Salaries and Fringe Benefits	182,028	182,028	98,369	83,659
Contract Services	-	-	-	-
Professional Fees	-	-	550	(550)
Supplies	1,200	1,200	691	509
Insurance	8,000	8,000	-	8,000
Travel & Training	21,675	21,675	12,730	8,945
Repairs and Maintenance	4,150	4,150	597	3,553
Other Services and Charges	7,110	7,110	4,042	3,068
Total Police Department	224,163	224,163	116,979	107,184
Total Public Safety	224,163	224,163	116,979	107,184
PUBLIC SERVICE				
Sanitation				
Salaries and Fringe Benefits	90,972	90,972	70,922	20,050
Contract Services	27,500	27,500	16,992	10,508
Professional Services	-	-	-	-
Supplies	750	750	7,573	(6,823)
Travel & Training	12,450	12,450	10,232	2,218
Repairs and Maintenance	9,000	9,000	6,961	2,039
Utilities	-	-	437	(437)
Other Services and Charges	18,035	18,035	7,599	10,436
Total Sanitation	158,707	158,707	120,716	37,991
Code Compliance				
Contract Services	-	-	-	-
Supplies	-	-	-	-
Travel & Training	-	-	-	-
Repairs and Maintenance	750	750	-	750
Other Services and Charges	600	600	-	600
Total Code Compliance	1,350	1,350	-	1,350
Grounds Maintenance				
Insurance	600	600	-	600
Repairs and Maintenance	3,325	3,325	1,085	2,240
Other Services and Charges	-	-	-	-
Total Grounds Maintenance	3,925	3,925	1,085	2,840
Total Public Service	163,982	163,982	121,801	42,181
CAPITAL OUTLAY	-	-	18,451	(18,451)
TOTAL EXPENDITURES	1,006,072	1,006,072	901,278	104,794
Excess (deficiency) of revenues over expenditures	58,168	58,168	(105,822)	(163,990)
FUND BALANCE AT BEGINNING OF YEAR	19,039	19,039	19,039	-
PRIOR PERIOD ADJUSTMENT	-	-	71,810	71,810
FUND BALANCE AT END OF YEAR	\$ 77,207	\$ 77,207	\$ (14,973)	\$ (92,180)

CITY OF ENCINAL, TEXAS
USDA LOAN/GRANT PROJECT - CITY HALL BUILDING
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budget	Current Year	Variance
REVENUES:			
Intergovernmental	\$ -	\$ -	\$ -
Interest	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:			
Capital Outlay			
Administration	-	-	-
Architectural	20,039	20,039	-
Construction	420,578	420,578	-
Total Expenditures	<u>440,617</u>	<u>440,617</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(440,617)</u>	<u>(440,617)</u>	<u>-</u>
Other Financing Sources (Uses):			
Operating Transfers In/(Out)	-	-	-
Loan Proceeds	598,000	598,000	-
Net Other Financing Sources (Uses)	<u>598,000</u>	<u>598,000</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>157,383</u>	<u>157,383</u>	<u>-</u>
Fund Balance at beginning of year	<u>(157,383)</u>	<u>(157,383)</u>	<u>-</u>
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

To the City Council
City of Encinal, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Encinal, Texas's basic financial statements, and have issued our report thereon dated February 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Encinal, 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 Encinal, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Encinal, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Encinal, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Flores Auditing, PLLC

Flores Auditing, PLLC

Laredo, TX

February 8, 2017