

**City of Encinal, Texas**

**Audited Financial Statements  
and Supplementary Information**

**For the Year Ended September 30, 2018**

# City of Encinal, Texas

## Table of Contents

Independent Auditor’s Report.....	1
Management’s Discussions and Analysis.....	4

### **FINANCIAL STATEMENTS**

Statement of Net Position.....	10
Statements of Activities .....	11
Balance Sheet-Governmental Funds.....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statements of Net Assets.....	13
Statements of Revenues, Expenditures and Changes in Funds Balances- Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Notes to Final Statements.....	16

### **SUPPLEMENTARY INFORMATION**

Statements of Revenues, Expenditures and Charge in Fund Balance- Budget and Actual General Fund.....	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matter Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	28

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council  
City of Encinal, Texas

### **Opinions**

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, 2018, and the related notes to the financial statements, which collectively comprise the City of Encinal, Texas' basic financial statements as listed in the table of contents.

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, 2018, and the respective changes in financial position and, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Encinal, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Encinal, Texas' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Encinal, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Encinal, Texas' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

## **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Encinal, Texas' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*De La Garza CPA Firm, P.C.*

De La Garza CPA Firm, P.C.

Laredo, Texas

April 08, 2024

## City of Encinal, Texas

### Management's Discussion and Analysis

#### Profile of the Government

The City of Encinal, which was incorporated in 1978 and is now part of La Salle County, operates within the framework of a council-manager form of government. The City Council, composed of the Mayor and five Council members, holds the authority for policymaking and legislation. Its responsibilities encompass the enactment of ordinances, the approval of budgets, the formation of committees, and the selection of the City Manager. The City Manager, in turn, is tasked with executing the policies and ordinances established by the City Council, overseeing day-to-day governmental operations, and appointing departmental directors. The council operates on a non-partisan basis, with members serving two-year terms and being eligible for re-election by the citizens. Both Council members and the Mayor are elected at large.

#### Financial Highlights

As of the conclusion of fiscal year 2018, the City of Encinal, Texas exhibits a surplus of assets over liabilities amounting to \$749,130.

Compared to the previous year, the city's total net position experienced an increase of \$62,008, primarily attributed to an increase of revenues over related expenses.

At the end of the current fiscal year, the combined ending funds balances for the City's governmental funds stand at \$254,585, reflecting an increase of \$149,182 compared to the preceding period.

#### Overview of the Financial Statements

The purpose of the discussion and analysis is to provide an introductory overview of the City's fundamental financial statements. These statements consist of three main components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Additionally, this report includes supplementary information beyond the core financial statements.

***Government-wide financial statements:*** The government-wide financial statements aim to offer readers a comprehensive overview of the City's financial position, akin to private-sector businesses.

The statement of net assets presents information on all of the City's assets and liabilities, with the disparity between the two depicted as net assets. Changes in net assets over time can indicate improvements or deteriorations in the City's financial position.

The statement of activities illustrates how the City's net assets evolve over the fiscal year. All alterations in net assets are disclosed as soon as the underlying events occur, irrespective of when related cash flows transpire. Consequently, revenues and expenses are reported in this statement for certain items that will yield cash flows in future periods (e.g., uncollected taxes).

The government-wide financial statement encompasses only the City itself.

These financial statements can be located on pages 6-9 of this report.

***Fund Financial Statements:***

A fund refers to a collection of related accounts utilized to manage resources earmarked for specific activities or objectives. The City employs fund accounting to ensure and demonstrate compliance with finance-related mandates.

***Governmental Funds:***

Governmental funds are utilized to track functions similar to those reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements concentrate on the immediate inflows and outflows of expendable resources, as well as the balances of expendable resources available at the fiscal year's end. This data can be valuable in assessing a government's short-term financing needs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it's beneficial to compare the information provided for governmental funds with analogous information presented for governmental activities in the government-wide financial statements. Such comparisons enable readers to better grasp the long-term repercussions of the City's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances offer reconciliations to facilitate this comparison between governmental funds and governmental activities.

The City administers three distinct governmental funds. Information pertaining to the general fund, debt service fund, and capital projects fund is separately detailed in both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City annually adopts an appropriate budget for the general fund, for which a budgetary comparison statement is provided.

The primary governmental fund financial statements are available on pages 10-15 of this report.

***Notes to the Financial Statements:***

The notes offer supplementary details crucial for a comprehensive comprehension of the information presented in both the government-wide and fund financial statements. These notes can be located on pages 16-25 of this report.

***Other Information:***

Beyond the fundamental financial statements and their associated notes, this report includes specific required supplementary information. The required supplementary information is available on pages 26-28 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 \$749,130 at the close of fiscal year 2018.

A portion of the City's net assets (73%) 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 the 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 resource needed to repay this debt must be provided from others sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<u>2018</u>	<u>2017</u>
Current and Other Assets	\$ 730,083	\$ 361,440
Capital Assets	2,002,121	2,120,476
<b>Total Assets</b>	<b><u>2,732,204</u></b>	<b><u>2,481,916</u></b>
Long-term Liabilities	1,507,576	1,538,738
Other Liabilities	475,498	256,056
<b>Total Liabilities</b>	<b><u>1,983,074</u></b>	<b><u>1,794,794</u></b>
Invested in Capital Assets, Net of Related Debt	494,545	581,738
Reserved for Economic Development	54,780	108,886
Unrestricted	199,805	(3,502)
<b>Total Net Position</b>	<b><u>\$ 749,130</u></b>	<b><u>\$ 687,122</u></b>

*The Notes to the Financial Statements are an integral part of this Statement.*



## Governmental Activities

Governmental activities increased the City's net position by: \$62,008.

	<u>2018</u>	<u>2017</u>
<b>Revenue:</b>		
<b>Program Revenues</b>		
Charges for Services	\$ 79,412	\$ 96,604
<b>General Revenues</b>		
Taxes	573,125	702,152
Grants	128,675	24,777
Fines & Fees	328,726	411,903
Intergovernmental	-	82,737
Interest	1	1
Miscellaneous	61,454	37,584
<b>Total Revenue</b>	<b><u>1,171,393</u></b>	<b><u>1,355,758</u></b>
<b>Expenses:</b>		
General Government	687,910	799,981
Judicial	157,580	203,867
Parks and Recreation	-	1,869
Public Safety	198,764	192,447
Public Service	64,079	84,495
Interest and Fiscal Charges	55,832	57,628
<b>Total Expenses</b>	<b><u>1,164,165</u></b>	<b><u>1,340,286</u></b>
Decrease/Increase in Net Position	7,228	15,472
Beginning Net Position	687,122	780,536
Restricted EEDC	54,780	(108,886)
<b>Ending Net Position</b>	<b><u>\$ 749,130</u></b>	<b><u>\$ 687,122</u></b>

### Revenues by source-governmental activities

	<u>2018</u>	
	<u>Revenues</u>	<u>%</u>
Charges for Services	\$ 79,412	6.8%
Taxes	573,125	48.9%
Grants	128,675	11.0%
Fines & Fees	328,726	28.1%
Miscellaneous	61,454	5.2%
<b>Total Revenue</b>	<b><u>\$ 1,171,393</u></b>	<b><u>100.0%</u></b>

The Notes to the Financial Statements are an integral part of this Statement.

## Financial Analysis of the City's Funds

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

### *Governmental Funds:*

The focus on 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 \$254,585 an increase of \$149,182 in comparison with the prior period (fund balance as of the end of fiscal year 2017 is \$105,403).

The fund balance is reserved, indicating that it is not available for new spending because it has already been committed for Economic Development.

### **Budgetary Highlights**

The City adopts an annual appropriated budget for the governmental funds. The City budgeted \$1,061,003 in total revenues and \$926,503 in total expenditures for a surplus governmental funds budget of \$134,500. Actual governmental fund revenues were \$1,171,392 for a favorable variance compare to budgeted revenues of \$110,389. Actual governmental fund expenditures were \$1,164,165 for an unfavorable variance compared to budget expenditures of \$237,662.

### **Capital Assets and Debt Administration**

The City's investment in capital assets for its governmental activities as of September 30, 2018 amounts to \$2,002,121 (net of accumulated depreciation).

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
Buildings and Improvements	\$ 1,553,025	\$ 1,553,025
Furniture and Equipment	282,478	282,478
Vehicles	178,248	123,248
Infrastructure	1,031,067	1,021,246
	<b>3,044,818</b>	<b>2,979,997</b>
Less Accumulated Depreciation	(1,042,697)	(859,521)
<b>Total</b>	<b>\$ 2,002,121</b>	<b>\$ 2,120,476</b>

*The Notes to the Financial Statements are an integral part of this Statement.*

**Long-Term Debt:**

The City total debt decreased by \$31,162 during the current fiscal year.

**Governmental Activities:**

	<b>Beg Bal.</b>	<b>Additions</b>	<b>Reductions</b>	<b>End Bal.</b>
Certificates of Obligation, Series 2008	37,827	1,347	0	39,174
USDA Community Facilities Loan	1,455,000		21,000	1,434,000
Falcon International Bank (Trash Truck)	9,820	-	9,820	(0)
Falcon International Bank (Trash Truck)	0	19,162	-	19,162
Dodge Ram Truck	8,661	-	7,211	1,450
Dodge Durango	7,881	-	5,465	2,417
Capital Lease-Ford Police Interceptor	19,548	-	8,175	11,373
<b>Totals</b>	<b>1,538,737</b>	<b>20,509</b>	<b>51,671</b>	<b>1,507,576</b>

**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 question about this report or need additional financial information, contact the City of Encinal, Texas’s business office, 107 N. Tejas, Encinal, Texas.

*The Notes to the Financial Statements are an integral part of this Statement.*

**CITY OF ENCINAL  
STATEMENT OF NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<b>ASSETS</b>	<b>Governmental Activities</b>
Cash and Equivalents	(8,830)
Receivables	249,651
Other Current Assets	147,315
<b>Capital Assets</b>	
Infrastructure	1,031,067
Buildings and Improvements	1,553,025
Equipment and Furniture	282,478
Vehicles	178,248
Less: Accumulated Depreciation	(1,042,697)
<b>Total Capital Assets</b>	<u>2,002,121</u>
<b>Other Assets</b>	
Economic Development Corp.	341,947
<b>Total Assets</b>	<u><u>2,732,204</u></u>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Expenses	475,498
Notes Payable	1,507,576
<b>Total Liabilities</b>	<u>1,983,074</u>
<b>NET POSITION</b>	
Invested in Capital Assets, net of related debt	494,545
Economic Development Board	54,780
Unrestricted	199,805
<b>Total Net Position</b>	<u><u>\$ 749,130</u></u>

*The Notes to the Financial Statements are an integral part of this Statement.*

**CITY OF ENCINAL, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<u>Function/Programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
Governmental activities				
General Government	608,498	79,412		(687,910)
Judicial	157,580	-		(157,580)
Public Safety	198,764	-		(198,764)
Public Service	64,079	-		(64,079)
Interest Expense	55,832	-		(55,832)
Total Governmental Activities	<b>1,084,753</b>	<b>79,412</b>		<b>(1,164,165)</b>

General revenues:

Taxes	573,125
Fines and fees	328,726
Interest	1
Grants	128,675
Miscellaneous	61,454
Total General Revenues, Special Items, Transfers	79,412
	<b>1,171,393</b>
Change in Net Position	7,228
Net Position-Beginning	687,122
Reserved for Economic Development	54,780
Net Position-Ending	<b>749,130</b>

*The Notes to the Financial Statements are an integral part of this Statement.*

**CITY OF ENCINAL  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<b>ASSETS</b>	<b>General Fund</b>	<b>Economic Development Corporation</b>	<b>Total Governmental Funds</b>
Cash and Equivalents	(8,830)	-	(8,830)
Employee Advances	1,545	-	1,545
Prepaid Taxes	2,501	-	2,501
Taxes Receivable, Net	111,411	-	111,411
Accounts Receivable	138,240	-	138,240
Other Assets	143,269	341,947	485,216
<b>Total Assets</b>	<b>388,136</b>	<b>341,947</b>	<b>730,083</b>
<b>LIABILITIES</b>			
Liabilities			
Accounts Payable	209,031	-	209,031
Payroll Liabilities	12,921	-	12,921
Criminal Cost Payable	108,510	-	108,510
Due to Other Funds	144,164	-	144,164
Sales Tax Payable	872	-	872
<b>Total Liabilities</b>	<b>475,498</b>	<b>-</b>	<b>475,498</b>
<b>Fund Balances:</b>			
<i>Unassigned, Reported in:</i>			
General Fund	(87,362)	341,947	254,585
Total Fund balances	(87,362)	341,947	254,585
<b>Total Liabilities and Fund Balances</b>	<b>388,136</b>	<b>341,947</b>	<b>730,083</b>

*The Notes to the Financial Statements are an integral part of this Statement.*

**CITY OF ENCINAL  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Total fund balance - governmental funds	254,585
---	---------

Amounts reported for governmental activities in the statement of activities 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 position

Add: Capital Assets	3,044,818
Deduct: Accumulated Depreciation	(1,042,697)

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

Other financial sources used in governmental funds are current financial resources and therefore are reported in the fund financial statement, but are not reported in the government activities of the statement of activities.	<u>(1,507,576)</u>
--	--------------------

Changes in net position of governmental activities	<u><b>749,130</b></u>
--	-----------------------

*The Notes to the Financial Statements are an integral part of this Statement.*

**CITY OF ENCINAL**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

<b>REVENUES</b>	<b>General Fund</b>	<b>Economic Development Corporation</b>	<b>Total Governmental Funds</b>
Sales Taxes	\$ 359,469	\$ 100,311	\$ 459,780
Ad Valorem Taxes	113,345	-	113,345
Fines and Fees	328,726	-	328,726
Franchise Fees	38,853	-	38,853
Grants	128,675	-	128,675
Interest	-	1	1
Charges for Services	79,412	-	79,412
Miscellaneous	22,601	-	22,601
<b>Total Revenues</b>	<b>1,071,081</b>	<b>100,312</b>	<b>1,171,393</b>
<b>EXPENDITURES</b>			
<b>Current</b>			
General Government	639,224	48,686	687,910
Judicial	157,580	-	157,580
Public Safety	198,764	-	198,764
Public Service	64,079	-	64,079
<b>Debt Service</b>			
Interest and Fiscal Charges	55,832	-	55,832
<b>Total Expenditures</b>	<b>1,115,479</b>	<b>48,686</b>	<b>1,164,165</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>\$ (44,398)</b>	<b>\$ 51,626</b>	<b>\$ 7,228</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Net Change in Fund Balance	(44,398)		7,228
Fund Balances - Beginning	38,773	66,611	105,384
Adjustments to Fund Balance	87,193	54,780	141,973
<b>Fund Balances - Ending</b>	<b>81,568</b>	<b>121,391</b>	<b>254,585</b>

*The Notes to the Financial Statements are an integral part of this Statement.*



**City of Encinal**  
**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, 2018**

Net change in fund balances - total governmental funds: 254,585

Other financing sources used in governmental funds are current financial resources and therefore, are not reported in the fund financial statement, but are reported in the Statement of Activities. 494,545

Change in net position of governmental activities: 749,130

*The Notes to the Financial Statements are an integral part of this Statement.*

## **NOTE 1 GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The City of Encinal, Texas (referred to as the “City”) operates under the provisions and statutes applicable to cities in the State of Texas. The City delivers a variety of municipal services, including police and fire protection, street maintenance, social services, public infrastructure improvements, sanitation services, planning and zoning, as well as general administrative services.

The basic financial statements encompass both government-wide (reflecting the City as a whole) and fund financial statements. Whereas previous models focused on aggregating fund types, the new reporting model emphasizes either the entire City or major individual funds within the fund financial statements.

Both the government-wide and fund financial statements categorize primary activities as either government activities or business-type activities. In the government-wide statement of Net Assets, both governmental and business-type activities columns are consolidated and reflect a full accrual, economic resource basis, incorporating long-term assets, receivables, debt, and obligations.

The government-wide statement of activities delineates both gross and net costs per functional categories (e.g., public safety, public works) supported by general government revenues. This statement deducts gross expenses (including depreciation) by related program revenues, operation and capital grants, where program revenues are directly associated with functions or business-type activities.

The net cost, by function or business-type activity, is typically covered by general revenue sources. The government-wide focus primarily assesses the City's sustainability and aggregate financial position changes during the fiscal period.

The fund financial statements closely resemble those in the previous model, with emphasis on governmental or business-type categories. All governmental funds are treated as major funds. These statements follow a current financial resource and modified accrual basis of accounting, aligning with standard budgeting practices.

This presentation method is chosen to demonstrate legal and covenant compliance, showcase the source and use of liquid resources, and illustrate how the City's actual performance aligns with the budget or fiscal plan. Due to differences in measurement focus and accounting basis between governmental fund statements and the government-wide statement's governmental column, a reconciliation is provided to transform fund-based financial statements into the government-wide presentation's governmental column.

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

### **Basis of Accounting:**

Basis of Accounting refers to when revenues or expenditures/expenses are recorded in the accounts and reported in the financial statements. It pertains to the timing of measurement, regardless of the measurement focus employed.

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

### **Accrual:**

All proprietary funds follow the accrual basis of accounting, where revenues are recognized when earned, and expenses are recognized when incurred. Property taxes and interest associated with the current fiscal period are considered accrual-susceptible and thus recognized as revenues of the current fiscal period. Other revenue items are recognized when measurable and received in cash by the City.

### **Modified Accrual:**

All governmental funds utilize the modified accrual basis of accounting. Under this approach, revenues are recorded when they are both measurable and available for collection within the current period or shortly thereafter to settle current liabilities. Expenditures are typically recognized when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recognized when due.

Regarding intergovernmental revenues, as per GASB statement #33, liabilities and expenses are recognized by the provider, and receivables and revenues are recognized by the recipient when the eligibility requirements, including time requirements, are met. Resources transmitted before meeting eligibility requirements are typically reported as advances by the provider and deferred revenues by the recipient.

### **Financial Statement Presentation:**

The City's financial transactions are recorded in individual funds, each of which is managed through a distinct set of self-balancing accounts encompassing assets, liabilities, reserves, fund equity, revenues, and expenditures or expenses as applicable. These diverse funds are categorized generically within the financial statements, with governmental resources allocated to and accounted for in accordance with specific activities outlined by laws, regulations, or other constraints.

**Governmental Funds:** Within the Fund Financial Statements, the measurement focus of Governmental Funds centers on determining the financial position and changes therein (sources, uses, and balances of financial resources), rather than on net income. Below is a summary of the City's Governmental Funds:

**General Fund:** Serving as the City's primary operating fund, the General Fund encompasses all financial resources except those earmarked for another fund.

**Special Revenue Funds:** These funds are designated to account for proceeds from specific revenue sources legally restricted for expenditures toward specified purposes.

**Debt Service Funds:** Designed to accumulate funds for the periodic payment of principal and interest on governmental bonds, loans, and capital leases.

**Capital Projects Funds:** These funds manage financial resources allocated for the acquisition and construction of major capital facilities, excluding those financed by Business-type or Proprietary Funds.

**Non-current Governmental Assets/Liabilities:**

In accordance with GASB statement #34, the presentation of Account Groups has been eliminated, but the records are maintained and their information is incorporated into the Governmental column in the government-wide Statement of Net Assets.

**Fund Balance Designations:**

Certain portions of fund balances have been reserved to signify amounts not appropriated for expenditures or legally segregated for specific future purposes. Designation of a portion of the fund balance indicates tentative plans for financial resource utilization in a future period.

**Fund Balance Classification:**

The governmental fund financial statements classify fund balances based on a hierarchy primarily determined by the extent to which the District is obligated to adhere to constraints on the specific purpose for which amounts in the respective governmental funds can be expended. The classifications in the governmental fund financial statements are as follows:

**Nonspendable** – This category encompasses amounts that are unavailable for expenditure either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash, or are not anticipated to be converted to cash within the next year.

**Restricted** – Amounts in this classification are subject to constraints imposed externally by creditors, grantors, contributors, or by laws or regulations of other governments, or internally by law through constitutional provisions or enabling legislation.

**Committed** – This classification includes amounts that are earmarked for specific purposes as determined by the Board of Directors, the District’s highest level of decision-making authority. These funds can only be utilized for their designated purpose unless the Board of Directors revises or removes the specified use through a similar action to the one taken when the funds were initially committed.

**Assigned** – This category comprises amounts designated for specific purposes based on the District’s intent, but which are neither restricted nor committed.

**Unassigned** – This category represents the remaining fund balance of the General Fund after all other classifications have been accounted for

### **NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY**

#### **Cash and Investments**

As of September 30, 2018, the City's negative cash balance amounted to \$(8,830). These deposits were protected by federal depository insurance. Consequently, all of the City's deposits are categorized as category 2, indicating that the collateral is in the City's name and held by the Bank.

The City reporting entity classifies highly liquid investments with an original maturity of three months or less at the time of purchase as cash equivalents.

As of September 30, 2018, the City did not have any investments.

#### **Capital Assets and Depreciation**

**Capital assets**, comprising property, plant, equipment, and infrastructure assets such as roads and similar immovable items, are disclosed in the relevant governmental or business-type activities columns within the government-wide financial statements.

Capital assets are defined as assets with an initial individual cost exceeding \$25,000 and an estimated useful life exceeding two years. These assets are recorded at historical cost or estimated historical cost if purchased or constructed, with donated capital assets recorded at estimated fair values as of the donation date. Routine maintenance and repairs that do not enhance asset value or substantially extend asset life are expensed and not capitalized. Significant expenditures for capital assets and improvements are capitalized as projects are completed.

The depreciation of the city's capital assets follows the straight-line method over their estimated useful lives as outlined below:

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

#### **INTERFUNDS TRANSACTIONS**

In the normal course of operations, the city engages in numerous transactions between funds. The financial statements at the Fund Level provided herein depict the expenditures and resource transfers essential for service provision, asset construction, and meeting debt service obligations. The impact of interfund activities has been eliminated in the Government-wide financial statements, with the exception of transactions occurring between governmental and business-type activities.

#### **DUE FROM OTHER GOVERNMENTAL UNITS**

To acknowledge resources available for Special Revenues and Capital Projects Funds, the City records amounts due from grantors upon receiving the award and classifies the award as deferred revenue. For grants necessitating expenditures for eligible grant purposes to earn the award, revenues are recognized upon expenditure. For other grants and financial assistance, the amounts due from other governmental units and deferred revenue decrease upon receipt of payment, followed by revenue recognition.

## **FUND EQUITY**

Certain fund balances or portions thereof have been set aside to signify amounts that are not available for current expenditures or are legally earmarked for specific future purposes. This designation of a portion of the fund balance serves to indicate tentative plans for utilizing financial resources in a future period.

## **CAPITAL GRANT**

Capital grants designated for capital acquisitions or construction are recorded within the relevant Capital Projects Funds. Grant funds restricted for the acquisition of capital assets in Enterprise Funds are documented as contributed equity in the respective enterprise fund. Consequently, depreciation expenses associated with fixed assets contributed or acquired through grant funds are subtracted from the corresponding contributed capital.

## **COMPENSATED ABSENCES**

Employees receive compensation according to a prescribed formula for absences resulting from vacation, personal days, or sickness. After completing one consecutive year of full-time employment (averaging 30 hours per week) with the City, employees earn five days of vacation pay annually. Additionally, they accrue three days of sick leave and two personal days each year. It's important to note that accrued leave days must be utilized within the fiscal year; otherwise, they are forfeited at the end of the year.

## **BUDGETARY INFORMATION**

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. The City Mayor serves as the budget officer and is responsible for preparing the City's budget expenditures.
- B. All City departments and organizations submit their budget requests to the City Mayor for the fiscal year beginning on October 1 by July 1.
- C. Around July 31, the City Mayor drafts a proposed budget encompassing all projected expenditures for the current year, which is made available for inspection by taxpayers.
- D. On or about July 31, the City Mayor submits a proposed budget covering all planned expenditures for the current year, which is also open for taxpayer inspection.
- E. Following the submission of the proposed budget, typically after August 15th but before September 30th of the current year, the City Council holds a public hearing on the City's proposed budget. Taxpayers of the City of Encinal have the right to participate in this hearing. At its conclusion, the City Council deliberates on the proposed budget as prepared by the City Mayor. The Council is empowered to make changes to the budget deemed necessary based on facts, laws, taxpayer interests, and anticipated revenues, provided that total expenditures from various funds do not exceed the available balances plus anticipated revenue for the current year, estimated by the City Mayor.

F. City Council is not authorized to approve expenditures surpassing appropriations. Any adjustments that affect the total appropriations of any fund require an order from the City Council, declaring an emergency and stating the necessity to address unforeseen conditions. Such revisions must comply with generally accepted accounting principles.

Annual budgets, adopted on a yearly basis, adhere to generally accepted accounting principles. Appropriations are annually adopted for general, non-grant special revenue, and debt service funds, with all appropriations lapsing at the fiscal year-end. Budgetary controls are not utilized for capital projects funds, given their multi-year project durations.

**NOTE 4. CAPITAL ASSETS**

**Governmental Activities**

Details of changes in capital assets for the year September 30, 2018, are as follows: (insert schedule)

**City of Encinal, Texas  
Notes to Financial Statements  
September 30, 2018**

	<b>Balance</b>		<b>Adjustments</b>		<b>Balance</b>
	<b>October 1, 2017</b>	<b>Additions</b>	<b>and</b>	<b>Retirements</b>	<b>September 30, 2018</b>
Buildings and improvements	1,553,025	-	-	-	1,553,025
Equipment and furniture	282,478	-	-	-	282,478
Vehicles	123,248	55,000	-	-	178,248
Construction in progress					-
Infrastructure	1,021,246	9,821			1,031,067
Total Capital Assets	2,979,997	64,821		-	3,044,818
Less: accumulated depreciation					(1,042,697)
Total					2,002,121

## **NOTE 5 LONG-TERM DEBT**

The City total debt decreased by \$31,162 during the current fiscal year.

### **Governmental Activities:**

	<b>Beg Bal.</b>	<b>Additions</b>	<b>Reductions</b>	<b>End Bal.</b>
Certificates of Obligation, Series 2008	37,827	1,347	0	39,174
USDA Community Facilities Loan	1,455,000		21,000	1,434,000
Falcon International Bank (Trash Truck)	9,820	-	9,820	(0)
Falcon International Bank (Trash Truck)	0	19,162	-	19,162
Dodge Ram Truck	8,661	-	7,211	1,450
Dodge Durango	7,881	-	5,465	2,417
Capital Lease-Ford Police Interceptor	19,548	-	8,175	11,373
<b>Totals</b>	<b>1,538,737</b>	<b>20,509</b>	<b>51,671</b>	<b>1,507,576</b>

## **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 question about this report or need additional financial information, contact the City of Encinal, Texas's business office, 107 N. Tejas, Encinal, Texas.

## **NOTE 6 DETAILED NOTES OF FUNDS, ACCOUNT GROUP AND COMPONENT UNITS**

### *Risk Management-Claims and Judgments*

The City faces various risks of loss, including those related to torts, theft, damage, errors, omissions, and natural disasters. To mitigate these risks, the City maintains commercial insurance coverage.

Liabilities are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. These liabilities include provisions for incurred but not reported (IBNR) claims. The calculation of claim liabilities considers factors such as inflation, recent claim settlement trends, frequency and amount of payouts, 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 settled with readily available financial resources. During the 2018 fiscal year, the City did not engage in any financial activity related to claims and judgments. There were no significant reductions in insurance coverage compared to the prior year, and the settlement amounts did not exceed insurance coverage over the past three years.



## **NOTE 7 RETIREMENT PLANS**

### *Plan Descriptions, Contribution Information and Fund Policies*

The city does not offer pension benefits to its full-time employees.

## **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 the future budgets for settlement.

As of September 30, 2018, the City had no lawsuits pending that are expected to have a material effect on the City's financial condition.

## **NOTE 9 ACCOUNTS RECEIVABLE – OTHER**

As of September 30, 2018, outstanding balances totaling \$134,720 were attributed to the City's trash services. In response, the City intends to implement a revised policy aimed at both delivering essential services to its residents and addressing the outstanding receivables by forgiving the debt owed by citizens. City management proposes the adoption of the following policy:

**REVISED 10/11/2023.**

**DUE TO THE SHUTDOWN OF OUR CITY SERVICES ON OCTOBER 1, 2023  
THE POLICY CHANGES WILL BE EFFECTIVE DECEMBER 1, 2023, AND ALL  
DATES/DEADLINES WILL BE MOVED BACK 30 DAYS**

### **OUTLINE OF CHANGES TO TRASH ACCOUNT POLICIES**

The policy changes will become effective November 1, 2023

1. Trash will be picked up twice per week,
2. Residential Trash fees will increase as follows:
  - Residential fees per month will remain at 19.10,
  - Residential late fees will increase from 2.00 to 10.00,
  - Residential fees in arrears 90 days or more will incur an additional \$50.00 deposit due within 5 days of notice,
  - Residential fees in excess of 90 days without paying the deposit within the 5-day notice period will be suspended and will incur a non-refundable reactivation fee of \$75.00
  - Commercial late fees will increase to 35.00 on all trash accounts (each account will incur an individual late fee)

3. Other:
  - Payment options will include automatic debit from customers account without a processing fee,
  - Advance pay of 12 months will receive a 10% discount,
  - Advance pay of 6-11 months will receive a 5% discount,
  - One free trash can will be given to customer after 6 consecutive months of on time trash payments (customer must complete a request form, customers that are in pay agreements are not eligible until the pay agreement is paid in full)
  - Customer will be given the option of purchasing a trash can at the rate specified,
  - Customer bill will indicate the number of days past due to facilitate prompt payments and to avoid the additional deposit requirement.
  
4. Initial One-time Payment agreements for bills in arrears 6 months up to 48 months:
  - Customers will be given the option of entering into a 12-month payment agreement with a 50% down payment and 12 consecutive current payment for both the payment agreement and the monthly trash service, once all payments have been timely completed any amount due above the 48 months will be forgiven,
  - Customers who are in arrears less than 6 months may make arrangements to pay the balance over a 90-day period.
  
5. Rollout of policy changes:
  - Notice of the policy changes will be included in the October 2023 trash bills, the policy will become effective November 1, 2023,
  - The same policy update will be included in trash bills until December 2023,
  - Customers who are 30 days delinquent will receive a “PAST DUE” stamp on their bill,
  - Customers who are 60 days delinquent will continue to receive a “PAST DUE” stamp and a yellow post card will be mailed to them that reminds them of the policy, fees, and the possibility of suspension of services,
  - Customers who are 75 days delinquent will be sent a pink suspension notice advising them of the policy fees, suspension of services and the reinstatement fee if services are terminated,
  - Services will be terminated if the customer is delinquent in excess of 90 days without paying the deposit within the 5-day notice period.
  - If the account is not reinstated it will be suspended and incur a non-refundable reactivation fee of \$75.00 along with the fees previously mentioned,
  - The option to have the past due amount forgiven will expire in 180 days, individuals who have not entered into an agreement may not be eligible for debt forgiveness.
  
6. Offer for New Customers to sign up for trash service:
  - The city will conduct a mass mailout inviting all customers (within the city limits and in the county) who want to establish a trash account to sign up for trash service,
  - New service may be applied for by completing the trash application, signing the service agreement, and paying the applicable deposit and the first month service fee.

#### **NOTE 10 SUBSEQUENT EVENTS**

The City has conducted an assessment of subsequent events up to April 08, 2024, which represents the date when the financial statements became available for release. During this period, no events have occurred that would necessitate adjustments to the financial statements as of the statement of financial position date.

**NOTE 11 HEALTH EPIDEMICS**

The COVID-19 pandemic has certainly had a dramatic effect on the U.S. economy across most sectors and industries. Some businesses that were once financially strong prior to the economic crisis, have quickly found themselves in a financial tailspin, with cash flow challenges and risk of their ability to continue as a going concern. Shortages in supply chains coupled with inflation have added to the financial challenges companies continue to have leading into 2024.

Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact on the City's operations and finances.

**CITY OF ENCINAL  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET VS ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	Budgeted	Amounts	Actual Amounts,	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive
				(Negative)
<b>Taxes:</b>				
Current Property Taxes	116,266.40	116,266.40	113,345.44	(2,920.96)
Sales Tax	500,329.02	500,329.02	459,779.58	(40,549.44)
Franchise Fees	32,594.87	32,594.87	38,852.88	6,258.01
<b>Total Taxes</b>	<u>649,190.29</u>	<u>649,190.29</u>	<u>611,977.90</u>	<u>(37,212.39)</u>
<b>Fines and Fees</b>	408,238.15	408,238.15	551,340.31	143,102.16
<b>Intergovernmental</b>	-	-	-	-
<b>Licensed and permits:</b>				-
Permits	3,000.00	3,000.00	8,074.00	5,074.00
<b>Total Licenses and Permits</b>	3,000.00	3,000.00	8,074.00 #	5,074.00
<b>Loan Proceeds</b>				-
<b>Interest</b>	-	-	-	-
<b>Other: Insurance Proceeds Accident &amp; Loss</b>				-
Refunds, Reimbursements and Other	575.00	575.00		(575.00)
<b>Total Other</b>				-
<b>TOTAL REVENUES</b>	1,061,003.44	1,061,003.44	<b>1,171,392.21</b>	110,388.77
<b>EXPENDITURES:</b>				
<b>GENERAL GOVERNMENT</b>				-
<b>City Hall</b>				-
Salaries and Fringe Benefits	143,736.08	143,736.08	135,701.30	(8,034.78)
Payroll Taxes	-	-	-	-
Contract Services	-	-		-
Professional Fees	82,640.00	82,640.00	73,523.19	(9,116.81)
Supplies	2,500.00	2,500.00	14,114.08	11,614.08
Insurance	8,500.00	8,500.00	46,178.96	37,678.96
Travel & Training	1,500.00	1,500.00	(507.81)	(2,007.81)
Repairs and Maintenance	2,500.00	2,500.00	1,506.72	(993.28)
Utilities	19,000.00	19,000.00	36,400.72	17,400.72
Other Services and Charges	67,820.00	67,820.00	384,195.92	316,375.92
<b>Total City Hall Expenses</b>	328,196.08	328,196.08	691,113.08	362,917.00
<b>Total General Government</b>	328,196.08	328,196.08	<b>691,113.08</b>	362,917.00

**DEBT SERVICE**

Principal	-	-	-	-
Interest	55,832.00	55,832.00	55,831.57	(0.43)
<b>Total Debt Service</b>	55,832.00	55,832.00	<b>55,831.57</b>	<b>(0.43)</b>

**JUDICIAL****Municipal Court**

Salaries and Fringe Benefits	51,735.06	51,735.06	35,024.41	(16,710.65)
Payroll Taxes	-	-	-	-
Contract Services	-	-	-	-
Professional Fees	24,418.00	24,418.00	24,891.20	473.20
Supplies			321.54	321.54
Insurance	3,500.00	3,500.00	(1,735.80)	(5,235.80)
Travel & Training	350.00	350.00	-	(350.00)
Other Services and Charges	96,285.06	96,285.06	99,078.25	2,793.19
<b>Total Municipal Court</b>	176,288.12	176,288.12	157,579.60	(18,708.52)
<b>Total Judicial</b>	176,288.12	176,288.12	<b>157,579.60</b>	<b>(18,708.52)</b>

**PUBLIC SAFETY****Police Department**

Salaries and Fringe Benefits	178,581.92	178,581.92	139,675.22	(38,906.70)
Supplies	350.00	350.00	2,683.50	2,333.50
Insurance	12,500.00	12,500.00	(136.57)	(12,636.57)
Travel & Training	350.00	350.00	-	(350.00)
Repairs and Maintenance	-	-	7.20	7.20
Other Services and Charges	21,260.00	21,260.00	55,257.08	33,997.08
<b>Total Police Department</b>	213,041.92	213,041.92	197,486.43	(15,555.49)
<b>Total Public Safety</b>	213,041.92	213,041.92	<b>197,486.43</b>	<b>(15,555.49)</b>

**PUBLIC SERVICE****Sanitation**

Salaries and Fringe Benefits	62,138.11	62,138.11	44,118.91	(18,019.20)
Payroll Taxes	-	-	-	-
Contract Services				-
Professional Fees				-
Supplies			2,720.61	2,720.61
Insurance	3,500.00	3,500.00	(3,366.68)	(6,866.68)
Travel & Training				-
Repairs and Maintenance	2,000.00	2,000.00	568.19	(1,431.81)
Utilities				-
Other Services and Charges	31,965.00	31,965.00	18,128.45	(13,836.55)
<b>Total Sanitation</b>	99,603.11	99,603.11	62,169.48	(37,433.63)
<b>Total Public Service</b>			<b>62,169.48</b>	<b>62,169.48</b>

**CAPITAL OUTLAY**

<b>TOTAL EXPENDITURES</b>	872,961.23	872,961.23	1,164,180.16	353,388.41
<b>Excess (deficiency) of revenues over expenditures</b>	188,042.21	188,042.21	7,212.05	(180,830.16)

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 Honorable Members of 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 City of Encinal, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Encinal, Texas' basic financial statements, and have issued our report thereon dated April 08, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Encinal, Texas' internal control over financial reporting (internal control) as a basis for designing 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 City of Encinal, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Encinal, Texas' 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 or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Encinal, Texas' 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 financial statements. 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.

*De La Garza CPA Firm, P.C.*

De La Garza CPA Firm, P.C.

Laredo, Texas

April 08, 2024