



CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

Raul Hernandez & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Member of the City Council
City of Falfurrias, Texas
Falfurrias, Texas 78355

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Falfurrias, for the year ended December 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing as well as certain information related to the planned scope and timing of our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Falfurrias, are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during December 31, 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates noted in the financial statements

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

City of Falfurrias

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use by the Members of the City Council and management of City of Falfurrias, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Raul Hernandez & Company, P.C.

June 23, 2021

Raul Hernandez & Company, P. C.

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Member of the City Council
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Falfurrias, Texas 78355

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas, as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Falfurrias, Texas' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Falfurrias, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Falfurrias, Texas' internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Finding No. 2018-001

- Criteria:** All transaction types occurring in the course of business should be timely and coded properly in the general ledger. Preparation of year-end adjusting journal entries, reconciliations, reviews and other general ledger tests for reasonableness and agreement to underlying journals, and third parties should be performed in readiness for the monthly reports to the City Council, and preparation of the City's annual financial statements.
- Condition:** The general ledger required many audit adjustments and reclassifications to both the current and prior period balances. Preparation of the year-end adjusting journal entries, schedules, and reconciliation of several significant areas were not complete. This resulted in additional time and effort on our part during the course of the audit. Finding is a repeat from prior fiscal year.
- Cause:** The City has not established a formal policies and procedures over year-end closing and monthly account analysis.
- Effect:** Management assessments and financial decisions, and internal and external financial reporting may be inaccurate because of an improperly maintained general ledger.
- Context:** During the course of the audit, there were various general ledger accounts that required adjustments.

Finding No. 2018-001 (continued)

Recommendation(s): The City should review their procedures for proper coding and timely recording of transactions at the end of each month and at year-end.

Management Response: The City has hired a fee accountant CPA to help with the preparation of General Ledgers and Bank Reconciliations. The City will review procedures for proper coding and timely recording of transactions at the end of each month and at year-end.

Finding No. 2018-002

Criteria: The City is required to maintain policies and procedures to track an asset's cost, depreciation and the disposal of assets.

Condition: The City has not prepared written policies for accounting of fixed asset additions and deletions. During the audit, we noted that the procedures to accurately account for current year additions and deletions were not adequate. We had to perform an extended analysis of the detail ledgers searching for many fixed asset additions which management inadvertently omitted. The fixed asset records were updated to account for these additions during the audit.

Cause: Management did not exercise due care in accurately accounting for fixed asset additions and deletions during the fiscal year.

Effect: Some capital assets may not be accurately identified and recorded.

Context: Current year additions and deletions for fixed assets were not accounted for at year-end.

Recommendation: The City should develop fixed asset accounting policies and enhance its procedures to accurately track current year fixed asset additions and deletions. Management should coordinate with the fixed asset management company to ensure that all current year additions and deletions have been recorded on the City's fixed asset records.

Management Response: The City has hired a fee accountant CPA and will develop fixed asset accounting policies and enhance procedures to accurately track current year fixed asset additions and deletions.

Finding No. 2018-003

- Criteria: Journal entries should be reviewed by someone other than the preparer.
- Condition: In conducting the audit, we noted numerous posting errors. Significant quantities of audit journal entries were needed to correct posting errors. Finding is a repeat from prior fiscal year.
- Cause: The policy implemented for the review of journal entries was not followed.
- Effect: The City understated and overstated multiple account balances. Reports provided to City Council were inaccurate.
- Context: During the course of the audit, there were various general ledger accounts that required adjustments.
- Recommendation: The City should follow its journal entry review policy and procedures. A responsible official should review and approve all journal entries posted to the ledgers.
- Management Response: The City has hired a fee accountant CPA to help with the preparation of General Ledgers. The City will review procedures for proper journal entry coding and timely recording of transactions at the end of each month and at year-end.

As required, we communicated the list of accumulated misstatements to management on a timely basis to provide them with an opportunity to correct them. We performed additional audit procedures to determine that management adjusted the financial statements so that the risk that the financial statements are materially misstated has been reduced to an appropriate low level. After management made the corrections to the respective accounts, we evaluated management's work to determine whether the corrections have been recorded properly and whether uncorrected misstatements remain.

We expanded our audit procedures to determine the extent of the issues identified and whether any material misstatements of the financial statements existed whether due to fraud or error. We also performed the additional audit procedures to determine that management adjusted the financial statements so that the risk of the financial statements being materially misstated has been reduced to an appropriate low level.

This communication is intended solely for the information and use of management, Members of the City Council, and others within the City of Falfurrias, Texas, and is not intended to be, and should not be, used by anyone other than these specified parties.

Raul Hernandez & Company, P.C.

Corpus Christi, TX

June 23, 2021

CITY OF FALFURRIAS, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
DECEMBER 31, 2018

CITY OF FALFURRIAS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Falfurrias, Texas
Falfurrias, Texas 78355

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Falfurrias, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of Falfurrias, Texas's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Falfurrias, Texas's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Falfurrias, Texas as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, the City of Falfurrias, Texas adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and budgetary comparison and schedule of the City of Falfurrias, Texas's proportionate share of the net pension liability and schedule of City of Falfurrias, Texas's pension contributions, and schedule of the City of Falfurrias, Texas's proportionate share of the net OPEB liability and schedule of City of Falfurrias, Texas's OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2021, on our consideration of the City of Falfurrias, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Falfurrias, Texas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falfurrias, Texas's internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas
June 23, 2021

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CITY OF FALFURRIAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Our discussion and analysis of the City's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the City's Governmental Activities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,595,700 (net position). Of this amount, \$2,077,863 is net investment in capital assets; \$835,945 is restricted for external purposes with a remaining unrestricted net position totaling \$681,892 which may be used to meet the government's ongoing obligations to citizens and creditors.
- The assets and deferred outflows of resources of the City's business-type activities exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$13,586,547 (net position). Of this amount, \$63,900 is restricted for debt service and \$5,026,472 (unrestricted net position) may be used to meet the water and sewer systems ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year the City's governmental funds reported a combined ending fund balance of \$1,383,933 of which \$835,945 was restricted for external purposes leaving a total of \$547,988 in unassigned fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund totaled \$547,988 and external restrictions on fund balances amounted to \$163,189.
- The City's total net debt increased by \$2,079,060 during the current fiscal year, which represents the current year principal and capital lease payments of (\$407,107), recognition of capital lease of \$2,431,000, decrease of pension obligations of (\$177,343), recognition of compensated absences totaling \$117,389, and an increase in net OPEB liability of \$115,121 due to GASB 75 implementation.

Overview of the Financial Statements

The basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

CITY OF FALFURRIAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Government-wide financial statements

The Statement of Net position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole and present a longer-term view of the City's finances. These statements include all assets and liabilities of the City, and the statements are presented on the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

Activities of the City as a whole include governmental activities, and business-type activities. Governmental activities are those activities which are financed primarily through taxes and grants.

Most of the City's basic services are reported as governmental activities. Business-type activities are those activities which are intended to recover all or a significant portion of their costs through user fees and charges. Utility system operations are a common example of business-type activities. The City has no component units. Component units are legally separate organizations for which the City is financially accountable. Whenever a City is financially accountable for activities of a legally separate organization, those activities are reported in the government-wide financial statements as component unit activities.

The accrual basis of accounting used for the government-wide financial statements recognizes revenues when earned and expenses when incurred regardless of when cash is received or paid.

Fund financial statements

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for the City's governmental funds and proprietary funds, as opposed to the government-wide statements which reflect the City as a whole.

Fund financial statements are prepared using the measurement focus and basis of accounting applicable to each broad fund category. Governmental fund financial statements are presented on a spending or "financial flow" measurement focus using the modified accrual basis of accounting. Proprietary fund financial statements are presented on a cost of services or "capital maintenance" measurement focus using the accrual basis of accounting. Because the proprietary fund financial statements are presented using the same measurement focus and basis of accounting as the government-wide financial statements, the totals from the proprietary fund financial statements flow directly into the business-type activities column of the government-wide financial statements. For the governmental funds, reconciliation is presented to describe the differences between the net position, and change in net position reported in the governmental fund financial statements and the net position, and change in net position reported in the governmental activities column of the government-wide financial statements.

CITY OF FALFURRIAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Notes to the financial statements

The notes provide additional information that is essential to a complete understanding of the information provided in the government-wide and fund financial statements.

Condensed Financial Information

Condensed financial information is presented in the following tables in a comparative format which allows for the comparison of current and prior year information.

Government-wide net position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 2,384,948	2,343,142	6,245,883	3,895,954	8,630,831	6,239,096
Restricted Assets	-	-	63,900	60,348	63,900	60,348
Capital assets	2,326,041	2,373,509	12,997,175	12,576,506	15,323,216	14,950,015
Total assets	<u>4,710,989</u>	<u>4,716,651</u>	<u>19,306,958</u>	<u>16,532,808</u>	<u>24,017,947</u>	<u>21,249,459</u>
Deferred Outflows of Resources	61,851	150,767	34,822	74,605	96,673	225,372
Total Assets and Deferred outflows of resources	<u>\$ 4,772,840</u>	<u>\$ 4,867,418</u>	<u>\$ 19,341,780</u>	<u>\$ 16,607,413</u>	<u>\$ 24,114,620</u>	<u>\$ 21,474,831</u>
Long-term liabilities	247,958	430,407	4,501,000	2,158,157	4,748,958	2,588,564
Other liabilities	608,167	620,162	1,220,178	660,331	1,828,345	1,280,493
Total liabilities	<u>856,125</u>	<u>1,050,569</u>	<u>5,721,178</u>	<u>2,818,488</u>	<u>6,577,303</u>	<u>3,869,057</u>
Deferred Inflows of Resources	321,015	478,820	34,055	14,733	355,070	493,553
Net position:						
Invested in capital assets, net of debt	2,077,863	1,888,225	8,496,175	10,336,506	10,574,038	12,224,731
Restricted	835,945	751,360	63,900	-	899,845	751,360
Unrestricted	681,892	698,444	5,026,472	3,437,686	5,708,364	4,136,130
Total net position	<u>\$ 3,595,700</u>	<u>3,338,029</u>	<u>13,586,547</u>	<u>13,774,192</u>	<u>17,182,247</u>	<u>17,112,221</u>
Total liabilities and net position	<u>\$ 4,772,840</u>	<u>\$ 4,867,418</u>	<u>\$ 19,341,780</u>	<u>\$ 16,607,413</u>	<u>\$ 24,114,620</u>	<u>\$ 21,474,831</u>

The City's governmental activities showed a decrease in net position of (\$94,578). Unrestricted net position is used to meet the government's ongoing obligations to citizens and creditors. External restrictions on net position totaled \$835,945 at year end.

The City's business-type activities showed an increase in net position of \$2,734,367, however, unrestricted net position was \$5,026,472.

More detailed information relating to the change in net position, the change in capital assets, and the change in long-term liabilities are discussed in the pages to follow.

CITY OF FALFURRIAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

	City of Falfurrias Changes in Revenues and Expenditures					
	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 1,126,762	\$ 1,197,422	\$ 2,757,686	\$ 2,765,370	\$ 3,884,448	\$ 3,962,792
Operating grants and contributions	224,081	156,346	4,500	-	228,581	156,346
Capital grants and contributions	-	-	-	771,507	-	771,507
General revenues:						
Property Taxes	672,639	471,091	-	-	672,639	471,091
Sales tax	759,337	686,499	-	-	759,337	686,499
Franchise taxes	292,811	298,094	-	-	292,811	298,094
Grants and Contributions	20,946	24,310	-	-	-	-
Investment Earnings	6,119	5,375	17,381	16,160	23,500	21,535
Miscellaneous	104,170	105,629	45,869	38,042	150,039	143,671
Transfers In	623,332	309,376	-	-	623,332	309,376
Total revenues	\$ 3,830,197	\$ 3,254,142	\$ 2,825,436	\$ 3,591,079	\$ 6,634,687	\$ 6,820,911
Expenses						
General Government	570,824	646,924	-	-	570,824	646,924
Judicial	261,627	288,099	-	-	261,627	288,099
Public Safety	1,077,595	1,177,725	-	-	1,077,595	1,177,725
Public Works	1,082,599	695,979	-	-	1,082,599	695,979
Health and Welfare	58,187	35,569	-	-	58,187	35,569
Culture and Recreation	448,254	175,756	-	-	448,254	175,756
Interest on Debt	10,667	16,715	-	-	10,667	16,715
Utility System	-	-	2,359,386	2,434,534	-	2,434,534
Transfers Out	-	-	623,332	309,376	-	309,376
Total expenses	\$ 3,509,753	\$ 3,036,767	\$ 2,982,718	\$ 2,743,910	\$ 3,509,753	\$ 5,780,677

Governmental Activities

Governmental Activities total revenues increased by \$576,055 while total expenditures increased by \$472,986.

Business-Type Activities

Business-Type Activities total revenues decreased by (\$765,643) while total expenditures increased by \$238,808.

CITY OF FALFURRIAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Capital Asset and Debt Administration

Capital assets

The City of Falfurrias's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$15,323,216 (net of accumulated depreciation). This investment in capital assets includes land, buildings, and system improvements, and machinery and equipment. The total net increase in the City's investments in capital assets for the current year was \$372,487.

City of Falfurrias's Capital Assets
(Net of Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2018	2017	2018	2017	2018	2017
Capital assets, not being depreciated:						
Land	\$ 12,200	\$ 12,200	\$ 148,222	\$ 148,222	\$ 160,422	\$ 160,422
Construction in Progress	23,674	4,500	981,702	262,913	1,005,376	267,413
	<u>35,874</u>	<u>16,700</u>	<u>1,129,924</u>	<u>411,135</u>	<u>1,165,798</u>	<u>427,835</u>
Capital assets, being depreciated:						
Buildings	1,182,944	1,044,979	26,259	26,259	1,209,203	1,071,238
Machinery and Equipment	1,743,497	1,887,365	2,212,599	1,905,514	3,956,096	3,792,879
Infrastructure	1,637,750	1,637,750	22,130,505	22,086,617	23,768,255	23,724,367
	<u>4,564,192</u>	<u>4,570,094</u>	<u>24,369,362</u>	<u>24,018,390</u>	<u>28,933,554</u>	<u>28,588,484</u>
Less accumulated depreciation for:						
Buildings	(591,908)	(543,087)	(19,971)	(19,073)	(611,879)	(562,160)
Machinery and Equipment	(1,346,309)	(1,418,297)	(1,578,648)	(1,506,539)	(2,924,957)	(2,924,836)
Infrastructure	(335,808)	(251,902)	(10,903,492)	(10,326,692)	(11,239,300)	(10,578,594)
Total accumulated depreciation	<u>(2,274,025)</u>	<u>(2,213,286)</u>	<u>(12,502,111)</u>	<u>(11,852,304)</u>	<u>(14,776,136)</u>	<u>(14,065,590)</u>
Total capital assets, being depreciated, net	<u>2,290,167</u>	<u>2,356,808</u>	<u>11,867,251</u>	<u>12,166,086</u>	<u>14,157,418</u>	<u>14,522,894</u>
Capital assets, net	<u>\$ 2,326,041</u>	<u>\$ 2,373,508</u>	<u>\$ 12,997,175</u>	<u>\$ 12,577,221</u>	<u>\$ 15,323,216</u>	<u>\$ 14,950,729</u>

Additional information on City of Falfurrias's capital assets can be found in Note 6.

Long-Term Debt

At year end, the City had the following debt issues outstanding.

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2018	2017	2018	2017	2018	2017
Certificates of Obligation	\$ 125,000	\$ 245,000	\$ -	\$ -	\$ 125,000	\$ 245,000
Capital Leases	122,959	240,284	2,431,000	-	2,553,959	240,284
Refunding Bonds	-	-	2,070,000	2,240,000	2,070,000	2,240,000
Total debt	<u>\$ 247,959</u>	<u>\$ 485,284</u>	<u>\$ 4,501,000</u>	<u>\$ 2,240,000</u>	<u>\$ 4,748,959</u>	<u>\$ 2,725,284</u>

Additional information on the City of Falfurrias's long-term debt can be found in Note 7.

CITY OF FALFURRIAS, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Economic Factors

The adopted budget for 2019 sets general fund revenues from all sources (including interfund transfers) at \$3,098,990. This budget is \$82,000, or .02% more than the prior year's final budget. The most significant increase in revenue from 2018 to 2019 is due to a \$132,000 increase in Utility Board Operating Fee.

Budget Overview

Property tax revenue budgeted in 2019 remained the same compared to the prior year's budget. With a slight increase in assessed valuations for the 2018 tax year compared to 2017 (the 2017 tax year revenues are deferred to the City's 2018 fiscal year, and the 2018 tax year revenues are deferred to the City's 2019 fiscal year), coupled with a stable property tax rate to \$0.474807, the total 2019 revenue forecast was conservatively cast by management. City sales tax, which comprised 23.2% of general fund revenues for 2018, remained forecast at \$700,000, which is slightly lower than the 2018 actual sales tax revenue of \$759,337. The franchise tax fee categories remained budgeted at \$206,000, which was also slightly lower than the \$218,565 of 2018's actual franchise taxes.

General Fund expenditures, including transfers for the 2019 budget, were set at \$3,155,575, which is less than the \$3,483,370, or 0.9% less than the prior year budget. Decreases in the budgeted expenditures for administration of \$106,625 and public works of \$131,990 comprise the majority of the decrease in total expenditures from the prior budget. If the budgeted revenues and expenses are achieved, the fund balance will be reduced by \$56,585, as the budgeted \$3,098,990 in revenue is slightly less than the budgeted expenditures of \$3,155,575.

General Discussion

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

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

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general 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, please direct your requests to the Office of the City Administrator, P.O. Drawer E, Falfurrias, Texas 78355.

BASIC FINANCIAL STATEMENTS

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CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
1010 Cash and Cash Equivalents	\$ 1,144,830	\$ 3,377,311	\$ 4,522,141
1030 Investments - Current	630,642	-	630,642
1050 Taxes Receivable, Net	367,000	-	367,000
1150 Accounts Receivable, Net	125,743	426,371	552,114
1152 Other Receivables	121,850	-	121,850
1300 Due from Other Funds	(35,796)	35,796	-
1390 Due from Others	30,679	2,315,242	2,345,921
1410 Inventories	-	91,163	91,163
1611 Restricted - Cash and Cash Equivalents	-	63,900	63,900
Capital Assets:			
1760 Capital Assets, Net	2,326,041	12,997,175	15,323,216
1000 Total Assets	<u>4,710,989</u>	<u>19,306,958</u>	<u>24,017,947</u>
DEFERRED OUTFLOWS OF RESOURCES			
1997 Deferred Outflow Related to Pension Plan	54,580	31,305	85,885
1998 Deferred Outflow Related to OPEB	7,271	3,517	10,788
1500 Total Deferred Outflows of Resources	<u>61,851</u>	<u>34,822</u>	<u>96,673</u>
LIABILITIES			
2010 Accounts Payable	167,535	793,099	960,634
2020 Wages and Salaries Payable	130,859	64,843	195,702
2050 Deposits Payable	155,438	212,795	368,233
2060 Retainage Payable	-	35,939	35,939
2090 Due to Others	9,811	-	9,811
2140 Accrued Interest Payable	4,204	45,631	49,835
Noncurrent Liabilities:			
2501 Due Within One Year	185,556	296,700	482,256
2502 Due In More Than One Year	62,402	4,204,300	4,266,702
2580 Net Pension Liability	62,728	30,341	93,069
2585 Net OPEB Liability	77,591	37,530	115,121
2000 Total Liabilities	<u>856,125</u>	<u>5,721,178</u>	<u>6,577,303</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unearned Revenue	255,745	-	255,745
2602 Deferred Inflow Related to Pension Plan	65,270	34,055	99,325
2500 Total Deferred Inflows of Resources	<u>321,015</u>	<u>34,055</u>	<u>355,070</u>
NET POSITION			
3200 Net Investment in Capital Assets	2,077,863	8,496,175	10,574,038
Restricted for:			
3820 Restricted for Federal or State Funds	22,096	-	22,096
3830 Restricted for Tourism	440,602	-	440,602
3850 Restricted for Capital Acquisition	11,019	-	11,019
3860 Restricted for Debt Service	-	63,900	63,900
3890 Restricted for Other Purposes	362,228	-	362,228
3900 Unrestricted	681,892	5,026,472	5,708,364
3000 Total Net Position	<u>\$ 3,595,700</u>	<u>\$ 13,586,547</u>	<u>\$ 17,182,247</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Data Control Codes	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
100 General Government	\$ 570,824	\$ 23,970	\$ 24,511
120 Judicial	261,627	324,042	-
200 Public Safety	1,077,595	9,998	199,570
300 Public Works	1,082,599	694,493	-
400 Health and Welfare	58,187	-	-
500 Culture and Recreation	448,254	74,259	-
720 Interest on Debt	10,667	-	-
Total Governmental Activities	<u>3,509,753</u>	<u>1,126,762</u>	<u>224,081</u>
BUSINESS-TYPE ACTIVITIES:			
701 Utility Fund	2,359,386	2,757,686	4,500
Total Business-Type Activities	<u>2,359,386</u>	<u>2,757,686</u>	<u>4,500</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 5,869,139</u>	<u>\$ 3,884,448</u>	<u>\$ 228,581</u>

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
5120	General Sales and Use Taxes
5170	Franchise Tax
5190	Penalty and Interest on Taxes
5600	Grants and Contributions
5700	Miscellaneous Revenue
5800	Investment Earnings
5800	Transfers In (Out)
	Total General Revenues and Transfers
	Change in Net Position
	Net Position - Beginning
	Prior Period Adjustment
	Net Position - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (522,343)	\$ -	\$ (522,343)
62,415	-	62,415
(868,027)	-	(868,027)
(388,106)	-	(388,106)
(58,187)	-	(58,187)
(373,995)	-	(373,995)
(10,667)	-	(10,667)
<u>(2,158,910)</u>	<u>-</u>	<u>(2,158,910)</u>
-	402,800	402,800
-	402,800	402,800
<u>(2,158,910)</u>	<u>402,800</u>	<u>(1,756,110)</u>
652,208	-	652,208
759,337	-	759,337
292,811	-	292,811
20,431	-	20,431
20,946	-	20,946
104,170	45,869	150,039
6,119	17,381	23,500
623,332	(623,332)	-
<u>2,479,355</u>	<u>(560,082)</u>	<u>1,919,273</u>
320,444	(157,282)	163,162
3,338,029	13,774,192	17,112,221
(62,773)	(30,363)	(93,136)
<u>\$ 3,595,700</u>	<u>\$ 13,586,547</u>	<u>\$ 17,182,247</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
ASSETS			
1010 Cash and Cash Equivalents	\$ 475,306	\$ 669,524	\$ 1,144,830
1030 Investments - Current	630,642	-	630,642
1050 Taxes Receivable	367,000	-	367,000
1150 Accounts Receivable, Net	110,193	15,550	125,743
1152 Other Receivables	121,850	-	121,850
1300 Due from Other Funds	198,018	67,334	265,352
1390 Due from Others	-	30,679	30,679
1000 Total Assets	<u>\$ 1,903,009</u>	<u>\$ 783,087</u>	<u>\$ 2,686,096</u>
LIABILITIES			
2010 Accounts Payable	\$ 167,535	\$ -	\$ 167,535
2020 Wages and Salaries Payable	54,938	-	54,938
2050 Contracts Payable	155,438	-	155,438
2080 Due to Other Funds	200,628	100,519	301,147
2090 Due to Others	-	9,812	9,812
2000 Total Liabilities	<u>578,539</u>	<u>110,331</u>	<u>688,870</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	613,293	-	613,293
2600 Total Deferred Inflows of Resources	<u>613,293</u>	<u>-</u>	<u>613,293</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	22,096	22,096
3460 Tourism	-	440,602	440,602
3470 Capital Projects	-	11,019	11,019
3490 Other Restricted Fund Balance	-	199,039	199,039
Assigned Fund Balance:			
3590 Other Assigned Fund Balance	163,189	-	163,189
3600 Unassigned Fund Balance	547,988	-	547,988
3000 Total Fund Balances	<u>711,177</u>	<u>672,756</u>	<u>1,383,933</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,903,009</u>	<u>\$ 783,087</u>	<u>\$ 2,686,096</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2018

Total Fund Balances - Governmental Funds	\$	1,383,933
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to Increase (decrease) net position.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		2,140,620
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		470,996
<p>Included in the noncurrent assets/(liabilities) is the recognition of the City's net pension asset/(liability) required by GASB 68 in the amount of (\$62,728), a deferred resource inflow in the amount of (\$65,270), and a deferred resource outflow in the amount of \$54,580. This resulted in an increase/(decrease) in net position by (\$73,418).</p>		
		(73,418)
<p>Included in the noncurrent assets/(liabilities) is the recognition of the City's new OPEB asset/(liability) required by GASB 75 in the amount of (\$77,591), a deferred resource inflow in the amount of \$0, and a deferred resource outflow in the amount of \$7,271. This resulted in an increase/(decrease) in net position by (\$70,320).</p>		
		(70,320)
<p>The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(280,909)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		24,798
Net Position of Governmental Activities	\$	3,595,700

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

Data Control Codes	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 417,667	\$ -	\$ 417,667
5120 General Sales and Use Taxes	759,337	-	759,337
5170 Franchise Tax	218,565	74,246	292,811
5190 Penalty and Interest on Taxes	20,431	-	20,431
5200 Licenses and Permits	23,971	-	23,971
5300 Intergovernmental Revenue and Grants	-	224,082	224,082
5400 Charges for Services	771,200	-	771,200
5510 Fines	320,124	11,699	331,823
5610 Investment Earnings	2,953	3,166	6,119
5640 Contributions & Donations	13,900	7,045	20,945
5700 Other Revenue	82,475	8,520	90,995
5020 Total Revenues	<u>2,630,623</u>	<u>328,758</u>	<u>2,959,381</u>
EXPENDITURES:			
Current:			
0100 General Government	479,969	10,251	490,220
0120 Judicial	231,484	524	232,008
0200 Public Safety	823,109	132,977	956,086
0300 Public Works	992,060	-	992,060
0400 Health and Welfare	41,412	-	41,412
0500 Culture and Recreation	306,227	103,251	409,478
Debt Service:			
0710 Principal on Debt	120,000	-	120,000
0720 Interest on Debt	10,897	-	10,897
0790 Lease Payments	117,107	-	117,107
Capital Outlay:			
0800 Capital Outlay	<u>147,365</u>	<u>94,406</u>	<u>241,771</u>
6030 Total Expenditures	<u>3,269,630</u>	<u>341,409</u>	<u>3,611,039</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(639,007)</u>	<u>(12,651)</u>	<u>(651,658)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	13,887	-	13,887
7915 Transfers In	706,710	22,000	728,710
8911 Transfers Out	(73,798)	(31,580)	(105,378)
7956 Insurance Recoveries	<u>7,168</u>	<u>-</u>	<u>7,168</u>
7080 Total Other Financing Sources (Uses)	<u>653,967</u>	<u>(9,580)</u>	<u>644,387</u>
1200 Net Change in Fund Balances	14,960	(22,231)	(7,271)
0100 Fund Balance - January 1 (Beginning)	<u>696,217</u>	<u>694,987</u>	<u>1,391,204</u>
3000 Fund Balance - December 31 (Ending)	<u>\$ 711,177</u>	<u>\$ 672,756</u>	<u>\$ 1,383,933</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	(7,271)
<p>The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.</p>		
		-0-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to increase (decrease) the change in net position.</p>		
		470,996
<p>The implementation of the requirements of of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$30,758. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as current year expense. This caused a decrease in the change in net position totaling (\$38,155). The City's reported TMRS net pension expense had to be recorded. The net pension expense increased/(decreased) the change in net position by (\$6,048). The result of these changes is to increase/(decrease) the change in net position by (\$13,445)</p>		
		(13,445)
<p>The implementation of the requirements of of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/17 caused the change in the ending net position to increase in the amount of \$2,292. Contributions made before the measurement date but after the previous measurement date were reversed from deferred resource outflows and recorded as current year expense. This caused a decrease in the change in net position totaling (\$2,882). The City's reported TMRS net OPEB expense had to be recorded. The net pension expense increased/(decreased) the change in net position by (\$6,048). The result of these changes is to increase/(decrease) the change in net position by (\$13,445)</p>		
		(7,547)
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.</p>		
		(280,909)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.</p>		
		24,798
Change in Net Position of Governmental Activities	\$	320,444

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,377,311
Restricted Assets - Current:	
Cash and Cash Equivalents	63,900
Accounts Receivable, Net	426,371
Due from Other Funds	35,796
Due from Others	2,315,242
Inventories	91,163
Total Current Assets	<u>6,309,783</u>
Noncurrent Assets:	
Capital Assets:	
Capital Assets, Net	12,997,175
Total Noncurrent Assets	<u>12,997,175</u>
Total Assets	<u>19,306,958</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	31,305
Deferred Outflow Related to OPEB	3,517
Total Deferred Outflows of Resources	<u>34,822</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	793,099
Wages and Salaries Payable	64,843
Meter Deposits Payable	212,795
Retainage Payable	35,939
Accrued Interest Payable	45,631
Due Within One Year	296,700
Total Current Liabilities	<u>1,449,007</u>
Noncurrent Liabilities:	
Due In More Than One Year	4,204,300
Net Pension Liability	30,341
Net OPEB Liability	37,530
Total Noncurrent Liabilities	<u>4,272,171</u>
Total Liabilities	<u>5,721,178</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	34,055
Total Deferred Inflows of Resources	<u>34,055</u>
NET POSITION	
Net Investment in Capital Assets	8,496,175
Restricted for Debt Service	63,900
Unrestricted	5,026,472
Total Net Position	<u>\$ 13,586,547</u>

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018

EXHIBIT D-2

	Business-Type Activities
	Utility Fund
OPERATING REVENUES:	
Intergovernmental Revenue and Grants	\$ 4,500
Water Revenue	1,425,018
Sewer Revenue	696,292
Gas Revenue	636,376
Other Revenue	45,869
Total Operating Revenues	2,808,055
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	542,811
Personnel Services - Employee Benefits	112,678
Purchased Professional & Technical Services	22,092
Other Operating Costs	896,992
Supplies	11,866
Depreciation	669,896
Total Operating Expenses	2,256,335
Operating Income	551,720
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	17,381
Interest Expense - Nonoperating	(103,051)
Total NonOperating Revenue (Expenses)	(85,670)
Income Before Transfers	466,050
Nonoperating Transfers In	44,298
Transfers Out	(667,630)
Change in Net Position	(157,282)
Total Net Position - January 1 (Beginning)	13,774,192
Prior Period Adjustment	(30,363)
Total Net Position - December 31 (Ending)	\$ 13,586,547

The notes to the financial statements are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 2,808,055
Cash Payments to Employees for Services	(616,671)
Cash Payments for Other Operating Expenses	(2,509,249)
Net Cash Provided by (Used for) Operating Activities	<u>(317,865)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer In	44,298
Operating Transfer Out	(667,630)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(623,332)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,090,566)
Capital Lease Proceeds	2,431,000
Principal and Interest Paid on Capital Debt	(273,051)
Net Cash Provided by Capital and Related Financing Activities	<u>1,067,383</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>17,381</u>
Net Increase in Cash and Cash Equivalents	143,567
Cash and Cash Equivalents at the Beginning of the Year	3,328,007
Prior Period Adjustment	(30,363)
Cash and Cash Equivalents at the End of the Year	<u>\$ 3,441,211</u>
<u>Reconciliation of Operating Income to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating Income	\$ 551,720
Adjustments to Reconcile Operating Income To Net Cash Provided by (Used For) Operating Activities:	
Depreciation	669,896
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(2,246,358)
Decrease (Increase) in Interfund Receivables	4,500
Decrease (Increase) in Inventories	1,582
Increase (Decrease) in Pension/OPEB Outflows	39,783
Increase (Decrease) in Accounts Payables	661,976
Increase (Decrease) in Pension/OPEB Inflows	(964)
Net Cash Provided by (Used for) Operating Activities	<u>\$ (317,865)</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City of Falfurrias, Texas (the City) was incorporated in 1948 and operates under a General Law Type-A Government and provides the following services as authorized by its charter. The services include public safety (police and fire), public works, sanitation, health and social services, culture-recreation, public improvements, and general administrative services. Other services include utilities (water, gas, sewer services, and solid waste collection).

The accounting policies of the City conform to generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant policies.

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The government-wide financial statements provide information about the activities of the City as a whole presenting all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and changes in net position of the City. These statements are prepared using the accrual basis of accounting. Separate rows and columns are used in the government-wide statements to distinguish between governmental activities and business-type activities, with a total column for the primary government.

B. SCOPE OF REPORTING ENTITY

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, of whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

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

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

C. FUND FINANCIAL STATEMENTS

Fund financial statements are used to present more detailed information about the City's most significant funds. Separate fund financial statements are prepared for governmental funds and proprietary funds. The City has no fiduciary funds. The governmental and proprietary fund financial statements place an emphasis on major funds. Those funds which are determined to be major funds are presented in separate columns, with all nonmajor governmental funds being aggregated and displayed in a single column. Interfund receivable and payable balances and transfers between funds have been eliminated in the fund financial statements.

The City has reported the following major governmental funds:

General Fund - The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other funds are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The City has reported the following major proprietary funds:

Utility Fund - The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are finance through charges to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the funds.

Additionally, the City reports the following fund type(s):

Special Revenue Funds - The City accounts for resources restricted to, or designated for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Capital Projects Fund - This fund is a capital projects fund. It is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to whether a particular type of transaction will be recorded in the financial statements. The economic resources measurement focus recognizes all resources and obligations and the changes in them. The current financial resources measurement focus recognizes only current resources and obligations and transactions affecting current resources and obligations. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Government-wide financial statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange like transactions are recognized in accordance with the requirements specific to the class of nonexchange transactions. For the government-wide financial statements prepared on the accrual basis, property tax revenues are recognized in the period for which the taxes are levied.

Fund financial statements – government funds

The fund financial statements for the government funds are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus affects the accounting and reporting treatment of capital assets and long-term liabilities. The capital assets and long-term liabilities of the governmental activities are not recorded on the balance sheet of the fund financial statements of the governmental funds. Transactions for the purchase of assets, the issuance of debt, and the payment of debt principal are reflected in the governmental funds, but they are reported on the statement of revenues, expenditures, and changes in fund balances as capital outlay and debt service principal expenditures and proceeds from debt.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become measurable and available and recognizes expenditures in the accounting period in which the fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. All revenues of the City are considered susceptible to accrual except for revenue from delinquent property taxes receivable, revenue from fines and revenue from fines.

While the City expects all taxes on real property to ultimately be collectible, the bulk of delinquent property taxes receivable at the end of the year are not anticipated to be collected soon enough thereafter to be used to pay liabilities of the current period. Therefore, revenue from delinquent property taxes receivable is not recognized in the fund financial statements until they are considered available when collected during the current period or within 60 days of the end of the current fiscal period.

Fines receivable but not past due at the end of the fiscal year may be subsequently reduced when the offender attends a defensive driving course, provides proof of insurance, has the offense dismissed by the municipal court, or serves jail time. Current fines receivable thus does not meet the measurability criterion required to be susceptible to accrual. A significant portion of past due fines receivable is not anticipated to be collected enough to meet the criterion that the revenue be considered available.

Fund financial statements – proprietary funds

The fund financial statements for the proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting and are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and payments relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of operating income, financial position, changes in net position and cash flows. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

E. ENCUMBRANCES

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at December 31, 2018.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for purposes of the statements of cash flows represent demand accounts and petty cash. Certificates of deposit, U.S. government debt securities, money market funds, and investments in local government investment pools are recorded as investments and are not treated as cash or cash equivalents.

G. INVESTMENTS

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

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual bonds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

H. PREPAID ITEMS

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

I. RECEIVABLES

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Within the governmental fund financial statements, long-term advances and long-term receivables are reflected as unspendable fund balance indicating they do not constitute available expendable resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles is management's best estimate of the amount of credit losses based on account delinquencies and historical write-off expense.

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled has been included in the financial statements and has been accrued in the proprietary funds to record the estimated amount of revenues earned but not billed as of the end of the fiscal year. The estimate is based on the pro rata number of days in the billing cycle before and after the fiscal year end.

J. INVENTORY

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

K. INTER-FUND RECEIVABLE AND PAYABLES

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

L. TRANSACTIONS BETWEEN FUNDS

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

M. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Useful Lives</u>
Machinery and equipment	3-15 years
Vehicles	2-15 years
Improvements	20 years
Infrastructure	30 years
Buildings	50 years

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

N. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave may be accumulated at the rate of up to 80 hours for each continuous year of employment for full-time employees with between 1 and 5 years of service. Employees with between 6 and 14 years of service, up to 120 hours accumulate each year. For employees with more than 15 years of service, up to 160 hours accumulate each year. Employees, with approval, may carry over forty hours of unused vacation leave. The City allows employees to accumulate sick leave at a rate of 8 hours per month on continuous employment for full-time employees with a limit of thirty days that may be carried over. Employees are not paid for accumulated sick leave, therefore, no liability is accrued. In proprietary fund types, accumulated unpaid compensated absences are accrued when incurred. The accruals are reported as liabilities and expenses for the year incurred. The liability in the governmental fund types is recorded only in the Government-wide Financial Statements. The amount expected to be paid from current resources is not considered to be significant. Applicable liabilities in the governmental wide net assets and in the proprietary fund have been established to reflect these liabilities.

O. LONG-TERM DEBT

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses on proprietary fund refunding and on the government-wide financial statements are reported as deferred inflows or outflows and are amortized over the term of the lesser of the new bonds or the refunded bonds using the effective interest method. Bond issuance costs are recognized as expenditures/expenses when incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Bond issuance costs are shown as debt service expenditures.

P. FUND EQUITY

In the government-wide financial statements and proprietary funds financial statements, net position is classified in the following categories:

Net assets invested in capital assets

This category represents the net carrying value of all capital assets, reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction or improvement of these assets.

Restricted

The restricted component of net position represents restricted assets reduced by liabilities related to those assets. This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Unrestricted

This category is the “residual” component of net position. It consists of net position that does not meet the definition of “restricted” or “net invested in capital assets.”

In the governmental fund financial statements, fund balances are classified in the following categories:

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include inventories and prepaid items, long-term advances, long-term receivable, and nonfinancial assets held for resale.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, contributors), laws and regulations of other governments, or through enabling legislation. Some resources are spendable but are legally or contractually required to be maintained intact. Such resources include the principal of an endowment. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints that are imposed by the highest level of decision-making authority, City Council. City Council is required to take formal action by ordinance or resolution to establish, modify, or rescind a fund balance commitment. Committed funds incorporate contractual obligations constraints to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Constraints imposed on the use of assigned amounts can be removed with no formal Council action. The residual fund balance that is not Restricted or Committed in governmental funds except the General Fund is assigned.

The *unassigned* fund balance represents the spendable net resources that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned fund balance.

Q. SPENDING PRIORITIZATION IS USING AVAILABLE RESOURCES

When both restricted resources and other resources (i.e., committed, assigned, and unassigned) can be used for the same purpose, the City budget considers restricted to be spent first.

When committed, assigned, and unassigned resources can be used for the same purpose, the flow assumption in the City budget is to spend in the sequence of committed resources first, assigned second, and unassigned last.

The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong at the 25% general fund policy level. The General Fund will need to re-build with future revenues.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The Council may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

R. PROGRAM REVENUES AND INDIRECT EXPENSES

The government-wide statement of activities is presented in a format that identifies the net cost of the City's individual functions. The expenses of each function is reduced by the functions program revenues. Program revenues are revenues which derive directly from the program itself and include charges for services, program-specific operating grants and contributions, and program specific capital grants and contributions. Some governmental functions such as administration and finance are in essence indirect expenses of other functions. Governments are not required to allocate those indirect expenses to other functions, but if they do, indirect expenses should be presented in a separate column from direct expenses. The City has chosen not to allocate those indirect expenses.

S. OPERATING AND NONOPERATING REVENUES AND EXPENSES

The City's policy in distinguishing proprietary fund operating and nonoperating revenues and expenses follows the guidance for distinguishing types of cash flows. Transactions for capital and related financing activities, noncapital financing activities, or investing activities are normally not treated as operating revenues or expenses.

T. ESTIMATES

Preparation of financial statements in conformity with generally accepted accounting principle requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables which may not be collectible, inventory obsolescence, service lines and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation.

U. CUSTOMER METER DEPOSITS

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

V. DUE TO VOLUNTEER FIRE DEPARTMENT

Beginning July, 1986, the Utility Fund included on each monthly utility bill a \$1 charge for voluntary donations to the Falfurrias Emergency Medical Service and the Volunteer Fire Department. This was increased to \$2 in 2011. Effective October 1, 1995, the voluntary donations were limited to the Volunteer Fire Department. It is strictly a voluntary charge and can be ignored by the customer. All funds received each month as donations are then remitted the following month to the Volunteer Fire Department.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

W. NET PENSION LIABILITY

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

X. IMPLEMENTATION OF NEW STANDARDS

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Y. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The City has two items that qualify for reporting in this category, one is related to the City's net pension liability and the other is related to the City's net OPEB liability and both are reported on the government-wide statements of net position. This deferred outflow includes City contributions to the retirement systems contributed subsequent to the measurement date of the net pension liability and net OPEB liability, as of December 31, 2018, the City's deferred outflows totaled \$96,673.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City has two items that qualify for reporting in this category, one of which are reported on the government wide statements of net position and the other reported on the balance sheet at the governmental fund level.

Government-wide statements

One is the deferred inflow related to the net position liability and net OPEB liability and is the difference between expected and actual economic experiences and changes in actual earnings. This is amortized over subsequent accounting periods as determined by the actuary. As of December 31, 2018, the City's deferred inflow totaled \$99,325. The City's deferred inflow related to the unavailable revenues associated with property taxes totaled \$255,745.

Governmental fund level

This deferred inflow is property taxes received prior to the applicable budget year. As of December 31, 2018, the City's deferred inflow totaled \$613,293.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Z. RESTRICTED ASSETS

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except for the capital projects funds which adopt project – length budgets. Formal budgetary integration is employed as a management control device during the year for the General as well as for the Utility fund.

Although accounting principles generally accepted in the United States of America require the budgetary schedules be reported for the General Fund and all major special revenue funds with a legally adopted budget, the City of Falfurrias only prepares legally adopted annual budgets for the General Fund and Utility Fund. Therefore, the Special Revenue Funds (all non-major) do not present budgetary comparison schedules in this Annual Financial and Compliance Report.

Unused appropriations for the entire above annually budgeted funds lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Budgetary data for Capital Project Funds are budgeted over the life of the respective projects and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements. The City does not have capital project funds at year end. Revisions that alter total appropriations must be approved by City Council. Therefore, the legal level of budgetary responsibility is at the total expenditures level.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted to City Hall to obtain taxpayer comments. Prior to October 1, the budget is adopted by the City Council.

Expenditures may not legally exceed budgeted appropriations at the fund level. During the year, several supplementary appropriations were necessary.

Deficit Fund Balance or Fund Net Assets of Individual Funds

At December 31, 2018, no deficit fund balance reported.

Expenditures Over Appropriations

For the fiscal year ended December 31, 2018, expenditures in the General Fund exceeded budgeted appropriations in two functional categories for Public Safety \$10,739, and Capital Outlay \$120,365. Total expenditures were less than budgeted expenditures in the current year by \$12,115.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 3 DEPOSITS AND INVESTMENT

At December 31, 2018, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$4,586,041 and the bank balance was \$5,318,092. The City's cash deposits at December 31, 2018 and during the period ended December 31, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

A. Investments

As of December 31, 2018, the City the following investments:

<u>Governmental Activities</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value Measurement</u>	<u>Standard & Poor's Rating</u>
General Fund				
Certificates of Deposits	\$ 630,642		Level 2	
Total Governmental Activities	<u>\$ 630,642</u>			

The City was in compliance with the Investment Act.

Fair Value Measurements - The City categorizes its investments measured at fair value within the hierarchy established by generally accepted accounting principles. Investments valued at fair value are categorized based on inputs to valuation techniques as follows:

Level 1 input - Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access.

Level 2 input - Quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 input-Inputs that are unobservable for the asset or liability which are typically based upon the City's own assumptions as there is little, if any, related market activity.

Hierarchy- The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Inputs - If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The City's investments are debt securities classified in Level 2 of the fair value hierarchy and are valued using a computerized pricing service utilizing a yield-based matrix system to arrive at an estimated market value. The City does not have any Level 1 or Level 3 investments.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the City requires that the investments shall be monitored by using specific identification.

Credit Risk - Texas statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a Federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed, insured by, or backed by the full faith and credit of, this State or the United States or their respective agencies and instrumentalities; and (5) obligations of states, agencies, counties, cities and other political subdivisions of any state (rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent). As of December 31, 2018, the City's investments were secured by U.S. Government Securities.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the investment portfolio shall be diversified in terms of investment instruments maturity scheduling, and financial institutions. To further limit the risk all of the City investments are collateralized by U.S. Government Securities.

Custodial Credit Risk: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the City complies with this law, it has no custodial risk for deposits

NOTE 4 RECEIVABLES

Primary Government

Receivables at year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Receivables				
Taxes	\$ 591,935	\$ -	\$ -	\$ 591,935
Accounts	169,258	581,060	15,550	765,868
Other Receivables	121,850	-	-	121,850
Due from other governments	-	-	30,679	30,679
Gross Receivables	<u>883,043</u>	<u>581,060</u>	<u>46,229</u>	<u>1,510,332</u>
Less: Allowance for uncollectible-taxes	(224,935)	-	-	(224,935)
Less: Allowance for uncollectible-accounts	(59,065)	(154,690)	-	(213,755)
Net Total Receivables	<u>\$ 599,043</u>	<u>\$ 426,371</u>	<u>\$ 46,229</u>	<u>\$ 1,071,642</u>

Revenues of the Utility Fund are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$154,690.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Property Taxes

Property taxes are levied on October 1 bases on assessed value of property as of January 1, for all real and personal property located in the City in conformity with Subtitle I, Texas Property Tax Code. Assessed values are an approximation of market values. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Appraised values are established by the Brooks County Appraisal Board, assessed at 100% of appraised value, approved by the Brooks County Appraisal Review Board and certified by the Chief Appraiser. Responsibility for the billing and collection of the City's taxes has been transferred to Brooks County as a cost-cutting measure in consolidating government functions.

The City operates under the laws of the State of Texas as a Type A General Law City, and is limited to a maximum annual rate of 1-1/2% of taxable property of the City. Neither the state law nor the city charter limits the proportion of this total tax rate that may be applied to debt service. The 2017 tax rate was \$.490257 on assessed value of \$94,551,020 and was distributed to the General Fund. The 2018 tax rate is \$.478407 on an assessed value of \$97,359,919 with tax revenue of \$255,745 which is deferred to 2019.

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

NOTE 5 INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Primary Government

Interfund receivable and payable balances at December 31, 2018 were as follows:

Governmental Funds - Receivable Fund

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 128,018
General Fund	General Fund	70,000
Other Governmental Funds	Other Governmental Funds	30,776
Other Governmental Funds	General Fund	36,558
		<u>\$ 265,352</u>

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Proprietary Funds - Receivable Fund

Receivable Fund	Payable Fund	Amount
Utility Fund	General Fund	\$ 35,796
		\$ 35,796

The outstanding balances between funds result mainly from time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts due are scheduled to be repaid within one year.

Transfers to and from other funds during the year ended December 31, 2018, consisted of the following:

Transfer From	Transfers To	Amount	Reason
Utility Fund	General Fund	\$ 667,630	Supplement other fund sources
Other Governmental Funds	General Fund	31,580	Supplement other fund sources
General Fund	Other Governmental Funds	22,000	Supplement other fund sources
General Fund	General Fund	7,500	Supplement other fund sources
Total		\$ 728,710	

Transfers are used primarily to 1) move unassigned and unrestricted fund revenues to other funds to finance variance special projects, to finance payroll, and the purchase of capital assets.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balances	Additions	Deletions	Ending Balances
Governmental Activities				
Capital Assets, not being depreciated				
Land	12,200	-	-	12,200
Construction in Progress	4,500	19,174	-	23,674
Total capital assets, not being depreciated	<u>16,700</u>	<u>19,174</u>	<u>-</u>	<u>35,874</u>
Capital Assets, being depreciated				
Buildings and Improvements	1,044,979	137,965	-	1,182,944
Machinery and Equipment	1,887,365	84,632	(228,500)	1,743,497
Infrastructure	1,637,750	-	-	1,637,750
Total capital assets, being depreciated	<u>4,570,094</u>	<u>222,597</u>	<u>(228,500)</u>	<u>4,564,192</u>
Less accumulated depreciation for:				
Buildings and Improvements	(543,086)	(48,822)	-	(591,908)
Machinery and Equipment	(1,418,298)	(148,181)	220,170	(1,346,309)
Infrastructure	(251,902)	(83,906)	-	(335,808)
Total accumulated depreciation	<u>(2,213,286)</u>	<u>(280,909)</u>	<u>220,170</u>	<u>(2,274,025)</u>
Total capital assets, being depreciated, net	2,356,808	(58,312)	(8,330)	2,290,167
Governmental activities capital assets, net	<u>\$ 2,373,508</u>	<u>\$ (39,138)</u>	<u>\$ (8,330)</u>	<u>\$ 2,326,041</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
General Government	\$ 65,653
Municipal Court	20,877
Public Safety	73,557
Public Works	89,470
Health and Welfare	3,735
Culture and Recreation	27,617
Total Depreciation Expense - Governmental Activities	<u>\$ 280,909</u>

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Beginning Balances	Additions	Deletions	Ending Balances
Business-type Activities				
Capital Assets, not being depreciated				
Land	148,222	-	-	148,222
Construction in Progress	262,913	718,789	-	981,702
Total capital assets, not being depreciated	<u>411,135</u>	<u>718,789</u>	<u>-</u>	<u>1,129,924</u>
Capital Assets, being depreciated				
Buildings and Improvements	26,259	-	-	26,259
Machinery and Equipment	1,905,514	327,174	(20,089)	2,212,599
Infrastructure	22,086,616	43,888	-	22,130,504
Total capital assets, being depreciated	<u>24,018,389</u>	<u>371,062</u>	<u>(20,089)</u>	<u>24,369,362</u>
Less accumulated depreciation for:				
Buildings and Improvements	(19,073)	(898)	-	(19,971)
Machinery and Equipment	(1,506,539)	(92,198)	20,089	(1,578,648)
Infrastructure	(10,326,692)	(576,800)	-	(10,903,492)
Total accumulated depreciation	<u>(11,852,304)</u>	<u>(669,896)</u>	<u>20,089</u>	<u>(12,502,111)</u>
Total capital assets, being depreciated, net	12,166,086	(298,834)	(0)	11,867,251
Business-type activities capital assets, net	<u>\$ 12,577,221</u>	<u>\$ 419,955</u>	<u>\$ (0)</u>	<u>\$ 12,997,175</u>

Depreciation expense was charged to business-type activity functions as follows:

Business-Type Activities:

Buildings and Improvements	\$ 898
Machinery and Equipment	92,198
Infrastructure	576,800
Total Depreciation Expense - Business-Type Activities	<u>\$ 669,896</u>

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 7 LONG-TERM DEBT

Changes in Long-Term Liabilities

Long-term activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Certificates of Obligation	\$ 245,000	\$ -	\$ 120,000	\$ 125,000	\$ 125,000
Capital Leases	240,066	-	117,107	122,959	60,556
Total bonds and leases payable	<u>485,066</u>	<u>-</u>	<u>237,107</u>	<u>247,959</u>	<u>185,556</u>
Other long-term liabilities					
Accumulated compensated absences	-	75,921	-	75,921	-
Net pension liability	182,255	-	119,527	62,728	-
Net OPEB liability	-	77,591	-	77,591	-
Total other long-term liabilities	<u>182,255</u>	<u>153,512</u>	<u>119,527</u>	<u>216,240</u>	<u>-</u>
Total Governmental Activities	<u>\$ 667,321</u>	<u>\$ 153,512</u>	<u>\$ 356,634</u>	<u>\$ 464,199</u>	<u>\$ 185,556</u>
Business-Type Activities					
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2013 Refunding Bonds	\$ 2,240,000	\$ -	\$ 170,000	\$ 2,070,000	\$ 175,000
Capital Leases	-	2,431,000	-	2,431,000	121,700
Total bonds and leases payable	<u>2,240,000</u>	<u>2,431,000</u>	<u>170,000</u>	<u>4,501,000</u>	<u>296,700</u>
Other long-term liabilities					
Accumulated compensated absences	-	41,468	-	41,468	-
Net pension liability	88,157	-	57,816	30,341	-
Net OPEB liability	-	37,530	-	37,530	-
Total other long-term liabilities	<u>88,157</u>	<u>78,998</u>	<u>57,816</u>	<u>109,339</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 2,328,157</u>	<u>\$ 2,509,998</u>	<u>\$ 227,816</u>	<u>\$ 4,610,339</u>	<u>\$ 296,700</u>

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Primary Government

Governmental Activities

\$600,000, 2014 Certificates of Obligation due in annual installments ranging from \$115,000 to \$125,000 from March 1, 2015 through 2019; interest 1.730%	<u>\$ 125,000</u>
Total Bond Obligations	125,000
Less: Current Portion of Bond Obligations	<u>(125,000)</u>
Bond Obligations, Net of Current Portion	<u>\$ -</u>

Debt service requirements to maturity for Bond Obligations are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2019	\$ 125,000	\$ 1,081
Total	\$ 125,000	\$ 1,081

Business-Type Activities

\$2,935,000, 2013 Limited Tax Refunding Bonds due in annual installments ranging from \$150,000 to \$240,000 from April 1, 2014 through 2028; interest at 3.600%	<u>\$ 2,070,000</u>
Total Bond Obligations	2,070,000
Less: Current Portion of Bond Obligation	<u>(175,000)</u>
Bonds Obligations, Net of Current Portion	<u>\$ 1,895,000</u>

Debt service requirements to maturity for Bonds Payable in Business-Type Activities are as follows:

Year Ending December 31	Business-Type Activities	
	Principal	Interest
2019	\$ 175,000	\$ 71,370
2020	180,000	64,980
2021	190,000	58,320
2022	195,000	51,390
2023	200,000	44,280
2024-2028	1,130,000	104,400
Total	\$ 2,070,000	\$ 394,740

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Capital Lease Obligations

Governmental Activities

Capital lease obligations payable at December 31, 2018, are as follows:

\$121,096, capital lease payable to Government Capital Corporation dated June 17, 2015 through March 1, 2020 for a Lighting Project. Lease payments are due annually in the amount of \$26,443 beginning March 1, 2016, including interest at 3.322% secured by Ad Valorem Taxes. \$ 50,267

\$132,850, capital lease payable to Government Capital Corporation dated June 17, 2015 through March 1, 2020 for an Air Sweeper. Lease payments are due annually in the amount of \$29,009 beginning March 1, 2016, including interest at 3.322% secured by Ad Valorem Taxes. 55,145

\$57,314, capital lease payable to Government Capital Corporation dated September 18, 2013 through March 1, 2020 for a Silverado. Lease payments are due annually in the amount of \$9,266 beginning March 1, 2014, including interest at 3.721% secured by Ad Valorem Taxes. 17,547

Capital Leases 122,959
Less: Current Portion of Capital Leases (60,556)

Capital Leases, Net of Current Portion \$ 62,403

Debt service requirements to maturity for Capital Leases are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 60,556	\$ 4,161	\$ 64,717
2020	62,403	2,115	64,518
Total	<u>\$ 122,959</u>	<u>\$ 6,276</u>	<u>\$ 129,235</u>

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Business-Type Activities

\$2,431,000 capital lease payable to Branch Banking and Trust Company dated September 12, 2018 through September 1, 2031 for Utility Improvements. Lease payments are due quarterly beginning September 1, 2019 in amounts ranging from \$47,623 to \$180,484 including interest at 3.640% secured by Utility Equipment.	<u>\$ 2,431,000</u>
Capital Leases	2,431,000
Less: Current Portion of Capital Leases	<u>(121,700)</u>
Capital Leases, Net of Current Portion	<u>\$ 2,309,300</u>

Debt service requirements to maturity for Capital Leases are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2019	\$ 121,700	\$ 107,045	\$ 228,745
2020	111,300	82,583	193,883
2021	124,200	78,361	202,561
2022	137,800	73,655	211,455
2023	152,500	68,443	220,943
2024-2028	1,014,500	243,764	1,258,264
Thereafter	769,000	43,321	812,321
Total	<u><u>\$ 2,431,000</u></u>	<u><u>\$ 697,171</u></u>	<u><u>\$ 3,128,171</u></u>

NOTE 8 PENSION PLAN

A. Plan Description

The City of Falfurrias participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

B. Benefits Provided

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

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

Plan Provisions:

The plan provisions are adopted by the governing body of the City of Falfurrias, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2018
Employee Deposit Rate	5.00%	5.00%
Matching Ratio (City to Employee)	1.5 to 1	1.5 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (Expressed as Age / Years of Service)	60/5,0/25	60/5,0/25
Updated Service Credit	0% Repeating, Transfers	0% Repeating, Transfers
Annuity Increase (to Retirees)	0% of CPI Repeating	0% of CPI Repeating

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	36
Active employees	45
Total	<u>102</u>

C. Contributions

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

Employees for the City of Falfurrias were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Falfurrias were 3.31% and 3.29% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended December 31, 2018, were \$50,842 and were equal to the required contributions.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The target allocation and best estimate of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate:

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

Changes in the Net Pension Liability:

	Increase(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/2016	\$ 2,550,307	\$ 2,279,895	\$ 270,412
Changes for the year:			
Service Cost	128,166	-	128,166
Interest	169,372	-	169,372
Change in benefit terms	-	-	-
Diff between expected/actual experience	-	-	-
Changes of assumptions	(18,696)	-	(18,696)
Contributions - employer	-	56,635	(56,635)
Contributions - employee	-	85,558	(85,558)
Net investment income	-	315,713	(315,713)
Benefit payments, including refunds of employee contributions	(210,337)	(210,337)	-
Administrative expenses	-	(1,638)	1,638
Other charges	-	(83)	83
Net changes	68,505	245,848	(177,343)
Balance at 12/31/17	\$ 2,618,812	\$ 2,525,743	\$ 93,069

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1 -percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 391,155	\$ 93,069	\$ (158,469)

Pension Plan Fiduciary Net Position:

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

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

For the year ended December 31, 2018, the City recognized pension expense of \$64,837.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience (net of current year amortization)	\$ 19,449	\$ 33,417
Changes in actuarial assumptions	15,594	-
Difference between projected and actual investment earnings (net of current year amortization)	-	65,908
Contributions subsequent to the measurement date	50,842	-
Total	<u>\$ 85,885</u>	<u>\$ 99,325</u>

\$50,842 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2019	\$ 5,968
2020	(1,458)
2021	(36,428)
2022	(32,364)
2023	-
Thereafter	-

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 9 OTHER POST EMPLOYMENT BENEFITS (OPEB)

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a - lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other post-employment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

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

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	6
Active employees	45
Total	<u>67</u>

Contributions

Employees for the City of Falfurrias were required to contribute 0.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 0.25% and 0.22% in calendar year 2017 and 2018, respectively. The City’s contributions to TMRS for the year ended December 31, 2018 were \$3,400 and were equal to the required contributions.

Net Pension Liability

The City's Net OPEB Liability was measured as of December 31, 2017, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.50% to 10.5% per year - including inflation
Discount rate*	3.31%
Retiree's share of benefit related costs	\$0

**The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.*

Administrative Expenses - All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.

Mortality rates – service retirees - RP2000 Combined Mortality Table with Blue Collar Adjustments with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates – disabled retirees – RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.31%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the OPEB plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the Total OPEB Liability.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Total OPEB Liability:

	Increase (Decrease)
	Total OPEB Liability (a)
Balance at 12/31/2016	\$ 97,412
Changes for the year:	
Service Cost	5,647
Interest	3,776
Change in benefit terms	-
Diff between expected/actual experience	-
Changes of assumptions	8,970
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions	(684)
Administrative expenses	-
Other charges	-
Net changes	17,709
Balance at 12/31/17	\$ 115,121

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's total OPEB liability	\$ 137,838	\$ 115,121	\$ 97,171

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

For the year ended December 31, 2018, the City recognized OPEB expense in the amount of \$11,005.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience (net of current year amortization)	\$ -	\$ -
Changes in actuarial assumptions	7,388	-
Difference between projected and actual investment earnings (net of current year amortization)	-	-
Contributions subsequent to the measurement date	3,400	-
Total	\$ 10,788	\$ -

\$3,400 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended December 31:	
2019	\$ 1,582
2020	1,582
2021	1,582
2022	1,582
2023	1,060
Thereafter	-

NOTE 10 HEALTH CARE COVERAGE

During the year ended December 31, 2018, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$677 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2019, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2018, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 11 RISK MANAGEMENT

The City of Falfurrias is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Concentrations of Credit Risk

Proprietary fund accounts receivable are concentrated within the geographic service area of the utility system, which is within the City. Those receivables are not concentrated within any individually significant customers. The City requires a deposit from each utility customer prior to establishing service. The net amount of proprietary fund accounts receivable at year end after deducting the allowance for doubtful accounts and after including estimated amounts for service provided but not yet billed at year end was \$426,371. Utility customer deposits held at year end totaled \$212,795.

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES

Federal and State Assisted Grants Programs

Federal and State Funds – The City has received federal and state funds as grants and other financial assistance. These funds must be spent only as allowed by the grant and other federal or state requirements. Also, the City must follow various laws and regulations when they receive these funds. If the City does not abide by these laws and regulations or does not spend the monies, as allowed under the grant agreements, the City may be required to return the grant monies, or portion thereof, to the granting agencies. The contingent liability, if any, that may be due to the federal and state agencies, cannot be readily determined.

NOTE 13 CLOSURE AND POSTCLOSURE CARE COST

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

NOTE 14 FUND DEFICITS

At December 31, 2018, no deficit fund balances are reported.

**CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

During fiscal year 2018, the City adopted GASB statement No. 75 for *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. A prior period adjustment of (\$62,773) was made to the government wide statements which resulted in a decrease in net position and fund balance. Additionally, a prior period adjustment of (\$30,363) was made to the enterprise fund which resulted in a decrease in net position and fund balance.

NOTE 16 FUND BALANCE

Some fund balance restrictions and commitments have been grouped together under the heading of other or various purposes. Those amounts are detailed below:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance			
Restricted Fund Balance:			
Federal of State Funds Grant Restriction	\$ -	\$ 22,096	\$ 22,096
Tourism	-	440,602	440,602
Capital Projects	-	11,019	11,019
Other Restricted	-	199,039	199,039
Assigned Fund Balance:	-	-	-
Other Assigned	163,189	-	163,189
Unassigned	547,988	-	547,988
Total Fund Balance	<u>\$ 711,177</u>	<u>\$ 672,756</u>	<u>\$ 1,383,933</u>

NOTE 17 EVALUATION OF SUBSEQUENT EVENTS

The Council has evaluated subsequent events through June 23, 2021, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF FALFURRIAS, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 425,000	\$ 425,000	\$ 417,667	\$ (7,333)
5120	General Sales and Use Taxes	700,000	700,000	759,337	59,337
5170	Franchise Tax	206,000	206,000	218,565	12,565
5190	Penalty and Interest on Taxes	24,000	24,000	20,431	(3,569)
5200	Licenses and Permits	24,000	24,000	23,971	(29)
5400	Charges for Services	1,090,000	1,017,000	771,200	(245,800)
5510	Fines	400,000	350,000	320,124	(29,876)
5610	Investment Earnings	1,000	1,000	2,953	1,953
5640	Contributions & Donations	-	-	13,900	13,900
5700	Other Revenue	42,410	41,910	82,475	40,565
5020	Total Revenues	2,912,410	2,788,910	2,630,623	(158,287)
EXPENDITURES:					
Current:					
0100	General Government	582,600	508,475	479,969	28,506
0120	Judicial	282,000	270,600	231,484	39,116
0200	Public Safety	794,860	812,370	823,109	(10,739)
0300	Public Works	1,082,190	1,024,100	992,060	32,040
0400	Health and Welfare	69,970	42,000	41,412	588
0500	Culture and Recreation	392,750	344,200	306,227	37,973
Debt Service:					
0710	Principal on Debt	120,000	120,000	120,000	-
0720	Interest on Debt	15,893	15,893	10,897	4,996
0790	Lease Payments	117,107	117,107	117,107	-
Capital Outlay:					
0800	Capital Outlay	26,000	27,000	147,365	(120,365)
6030	Total Expenditures	3,483,370	3,281,745	3,269,630	12,115
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(570,960)	(492,835)	(639,007)	(146,172)
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	13,887	13,887
7915	Transfers In	104,580	104,580	706,710	602,130
8911	Transfers Out	-	(7,000)	(73,798)	(66,798)
7956	Insurance Recoveries	-	-	7,168	7,168
7080	Total Other Financing Sources (Uses)	104,580	97,580	653,967	556,387
1200	Net Change	(466,380)	(395,255)	14,960	410,215
0100	Fund Balance - January 1 (Beginning)	696,217	696,217	696,217	-
3000	Fund Balance - December 31 (Ending)	\$ 229,837	\$ 300,962	\$ 711,177	\$ 410,215

CITY OF FALFURRIAS, TEXAS
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED DECEMBER 31, 2018

EXHIBIT G-2

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 128,166	\$ 130,560	\$ 103,115	\$ 84,934
Interest (on the Total Pension Liability)	169,372	160,345	158,345	146,675
Changes of Benefit Terms	-	-	40,358	-
Difference between Expected and Actual Experience	(18,696)	46,273	(80,856)	(9,065)
Changes of Assumptions	-	-	64,323	-
Benefit Payments, Including Refunds of Employee Contributions	(210,337)	(194,156)	(96,324)	(114,234)
Net Change in Total Pension Liability	\$ 68,505	\$ 143,022	\$ 188,961	\$ 108,310
Total Pension Liability - Beginning	2,550,307	2,407,285	2,218,324	2,110,014
Total Pension Liability - Ending	\$ 2,618,812	\$ 2,550,307	\$ 2,407,285	\$ 2,218,324
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 56,635	\$ 51,964	\$ 30,560	\$ 34,015
Contributions - Employee	85,558	85,000	84,244	81,368
Net Investment Income	315,713	147,934	3,203	117,495
Benefit Payments, Including Refunds of Employee Contributions	(210,337)	(194,156)	(96,324)	(114,234)
Administrative Expense	(1,638)	(1,672)	(1,951)	(1,226)
Other	(83)	(90)	(97)	(101)
Net Change in Plan Fiduciary Net Position	\$ 245,848	\$ 88,980	\$ 19,635	\$ 117,317
Plan Fiduciary Net Position - Beginning	2,279,895	2,190,915	2,171,280	2,053,963
Plan Fiduciary Net Position - Ending	\$ 2,525,743	\$ 2,279,895	\$ 2,190,915	\$ 2,171,280
C. Net Pension Liability	\$ 93,069	\$ 270,412	\$ 216,370	\$ 47,044
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.45%	89.40%	91.01%	97.88%
E. Covered Payroll	\$ 1,711,159	\$ 1,700,002	\$ 1,684,883	\$ 1,627,354
F. Net Pension Liability as a Percentage of Covered Payroll	5.44%	15.91%	12.84%	2.89%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only four years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF FALFURRIAS, TEXAS
 SCHEDULE OF CONTRIBUTIONS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE FISCAL YEAR 2018

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 50,842	\$ 60,887	\$ 56,384	\$ 36,239
Contributions in Relation to the Actuarially Determined Contributions	(50,842)	(60,887)	(56,384)	(36,239)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,545,347	\$ 1,710,305	\$ 1,700,002	\$ 1,684,883
Contributions as a Percentage of Covered Payroll	3.29%	3.56%	3.32%	2.15%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF FALFURRIAS, TEXAS
NOTES TO SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

CITY OF FALFURRIAS, TEXAS
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED DECEMBER 31, 2018

	FY 2018 Plan Year 2017
Total OPEB Liability	
Service Cost	\$ 5,647
Interest on the Total OPEB Liability	3,776
Changes of Benefit Terms	-
Difference between Expected and Actual Experience	-
Changes of Assumptions	8,970
Benefit Payments*	(684)
Net Change in Total OPEB Liability	<u>17,709</u>
Total OPEB Liability - Beginning	97,412
Total OPEB Liability - Ending	<u>\$ 115,121</u>
Covered Payroll	\$ 1,711,159
Total OPEB Liability as a Percentage of Covered Payroll	6.73%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF FALFURRIAS, TEXAS
NOTES TO SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	17 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and
Other Information:	There were no benefit changes during the year.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except for the capital projects funds which adopt project – length budgets. Formal budgetary integration is employed as a management control device during the year for the General and for the Utility funds.

Although accounting principles generally accepted in the United States of America require that budgetary schedules be reported for the General Fund and all funds with a legally adopted budget, the City of Falfurrias, Texas only prepares legally adopted annual budgets for the General Fund and Utility Fund. Therefore, special revenue funds (all non-major) do not present budgetary comparison schedules in this Annual Financial Report.

Unused appropriations for all of the above annually budgeted funds lapse at the end of each year. The budget amounts shown in the financial statements are the final authorized amounts during the year.

Budgetary data for Capital Project Funds are budgeted over the life of the respective project and not on an annual basis. Therefore, this data is not presented in the accompanying combined financial statements.

Revisions that alter total appropriations must be approved by the City Council. Therefore, the legal level of budgetary responsibility is at the total expenditures level.

City Management establishes the amount of estimated revenues and other resources available for appropriation for the succeeding budget year. City Management submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating fund includes proposed expenditures and the means of financing them. Public hearings are conducted to City Hall to obtain taxpayers comments. Prior to October 1, the budget is adopted by the City Council.

Expenditures may not legally exceed budgeted appropriations at the fund level.

Expenditures Over Appropriations

For the fiscal year ended December 31, 2018, expenditures in the General Fund exceeded budgeted appropriations in two functional categories for Public Safety \$10,739, and Capital Outlay \$120,365. Total expenditures were less than budgeted expenditures in the current year by \$12,115.

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COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

CITY OF FALFURRIAS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018

Data Control Codes	203 Homeland Security #2	215 Gifts and Bequests	220 Hotel/Motel Occupancy Tax Fund	230 JAG Grant	
ASSETS					
1010	Cash and Cash Equivalents	\$ 29,460	\$ 20,410	\$ 411,390	\$ 1,504
1150	Accounts Receivable, Net	-	-	15,550	-
1300	Due from Other Funds	-	395	52,748	-
1390	Due from Others	14,417	-	-	-
1000	Total Assets	<u>\$ 43,877</u>	<u>\$ 20,805</u>	<u>\$ 479,688</u>	<u>\$ 1,504</u>
LIABILITIES					
2080	Due to Other Funds	\$ 34,027	\$ 3,180	\$ 39,086	\$ 5
2090	Due to Others	9,812	-	-	-
2000	Total Liabilities	<u>43,839</u>	<u>3,180</u>	<u>39,086</u>	<u>5</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	38	-	-	1,499
3460	Tourism	-	-	440,602	-
3470	Capital Acquisition and Contractual Obligation	-	-	-	-
3490	Other Restricted Fund Balance	-	17,625	-	-
3000	Total Fund Balances	<u>38</u>	<u>17,625</u>	<u>440,602</u>	<u>1,499</u>
4000	Total Liabilities and Fund Balances	<u>\$ 43,877</u>	<u>\$ 20,805</u>	<u>\$ 479,688</u>	<u>\$ 1,504</u>

250 Seizure Fund	260 Law Enforemnt Training Grant	265 Federal Forfeiture Fund	270 Police Impound Fund	275 Security Fund	284 CDBG Grant #7217122	286 FEMA Hazard Mitigation	290 Technology Fund
\$ 53,020	\$ 1,452	\$ 90	\$ 49,441	\$ 53,361	\$ 2,826	\$ 16,262	\$ 19,289
-	-	-	-	-	-	-	-
5,322	19	-	4,659	689	-	-	3,502
-	-	-	-	-	-	16,262	-
<u>\$ 58,342</u>	<u>\$ 1,471</u>	<u>\$ 90</u>	<u>\$ 54,100</u>	<u>\$ 54,050</u>	<u>\$ 2,826</u>	<u>\$ 32,524</u>	<u>\$ 22,791</u>
\$ 4,659	\$ -	\$ -	\$ 1,000	\$ -	\$ -	\$ 16,262	\$ 2,300
-	-	-	-	-	-	-	-
<u>4,659</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>16,262</u>	<u>2,300</u>
-	1,471	-	-	-	2,826	16,262	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
53,683	-	90	53,100	54,050	-	-	20,491
<u>53,683</u>	<u>1,471</u>	<u>90</u>	<u>53,100</u>	<u>54,050</u>	<u>2,826</u>	<u>16,262</u>	<u>20,491</u>
<u>\$ 58,342</u>	<u>\$ 1,471</u>	<u>\$ 90</u>	<u>\$ 54,100</u>	<u>\$ 54,050</u>	<u>\$ 2,826</u>	<u>\$ 32,524</u>	<u>\$ 22,791</u>

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CITY OF FALFURRIAS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018

Data Control Codes	Total Nonmajor Special Revenue Funds	602 Certificate of Obligation Series 2014	Total Nonmajor Governmental Funds
ASSETS			
1010 Cash and Cash Equivalents	\$ 658,505	\$ 11,019	\$ 669,524
1150 Accounts Receivable, Net	15,550	-	15,550
1300 Due from Other Funds	67,334	-	67,334
1390 Due from Others	30,679	-	30,679
1000 Total Assets	<u>\$ 772,068</u>	<u>\$ 11,019</u>	<u>\$ 783,087</u>
LIABILITIES			
2080 Due to Other Funds	\$ 100,519	\$ -	\$ 100,519
2090 Due to Others	9,812	-	9,812
2000 Total Liabilities	<u>110,331</u>	<u>-</u>	<u>110,331</u>
FUND BALANCES			
Restricted Fund Balance:			
3250 Federal or State Funds Grant Restriction	22,096	-	22,096
3260 Tourism	440,602	-	440,602
3270 Capital Acquisition and Contractual Obligation	-	11,019	11,019
3290 Other Restricted Fund Balance	199,039	-	199,039
3000 Total Fund Balances	<u>661,737</u>	<u>11,019</u>	<u>672,756</u>
4000 Total Liabilities and Fund Balances	<u>\$ 772,068</u>	<u>\$ 11,019</u>	<u>\$ 783,087</u>

CITY OF FALFURRIAS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018

Data Control Codes	203 Homeland Security #2	215 Gifts and Bequests	220 Hotel Motel Occupancy Tax Fund	230 JAG Grant
REVENUES:				
Taxes:				
5170 Franchise Tax	\$ -	\$ -	\$ 74,246	\$ -
5300 Intergovernmental Revenue and Grants	199,570	-	-	-
5510 Fines	-	-	-	-
5610 Investment Earnings	-	111	2,166	-
5640 Contributions & Donations	-	7,045	-	-
5700 Other Revenue	-	-	-	-
5020 Total Revenues	<u>199,570</u>	<u>7,156</u>	<u>76,412</u>	<u>-</u>
EXPENDITURES:				
Current:				
0100 General Government	-	2,001	-	-
0120 Judicial	-	-	-	-
0200 Public Safety	124,329	-	-	-
0500 Culture and Recreation	-	-	103,251	-
Capital Outlay:				
0800 Capital Outlay	<u>75,232</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030 Total Expenditures	<u>199,561</u>	<u>2,001</u>	<u>103,251</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9</u>	<u>5,155</u>	<u>(26,839)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
8911 Transfers Out	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	9	5,155	(26,839)	-
0100 Fund Balance - January 1 (Beginning)	<u>29</u>	<u>12,470</u>	<u>467,441</u>	<u>1,499</u>
3000 Fund Balance - December 31 (Ending)	<u>\$ 38</u>	<u>\$ 17,625</u>	<u>\$ 440,602</u>	<u>\$ 1,499</u>

250 Seizure Fund	260 Law Enforemmt Training Grant	265 Federal Forfeiture Fund	270 Police Impound Fund	275 Security Fund	284 CDBG Grant #7217122	286 FEMA Hazard Mitigation	290 Technology Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	8,250	16,262	-
-	1,436	-	6,345	1,674	-	-	2,244
251	6	-	271	267	-	-	94
-	-	-	-	-	-	-	-
8,520	-	-	-	-	-	-	-
<u>8,771</u>	<u>1,442</u>	-	<u>6,616</u>	<u>1,941</u>	<u>8,250</u>	<u>16,262</u>	<u>2,338</u>
-	-	-	-	-	8,250	-	-
5,563	-	-	3,085	524	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	19,174	-	-
<u>5,563</u>	-	-	<u>3,085</u>	<u>524</u>	<u>27,424</u>	-	-
<u>3,208</u>	<u>1,442</u>	-	<u>3,531</u>	<u>1,417</u>	<u>(19,174)</u>	<u>16,262</u>	<u>2,338</u>
-	-	-	-	-	22,000	-	-
-	-	-	(31,580)	-	-	-	-
-	-	-	(31,580)	-	22,000	-	-
3,208	1,442	-	(28,049)	1,417	2,826	16,262	2,338
<u>50,475</u>	<u>29</u>	<u>90</u>	<u>81,149</u>	<u>52,633</u>	-	-	<u>18,153</u>
<u>\$ 53,683</u>	<u>\$ 1,471</u>	<u>\$ 90</u>	<u>\$ 53,100</u>	<u>\$ 54,050</u>	<u>\$ 2,826</u>	<u>\$ 16,262</u>	<u>\$ 20,491</u>

CITY OF FALFURRIAS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018

Data Control Codes	Total Nonmajor Special Revenue Funds	602 Certificate of Obligation Series 2014	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
5170 Franchise Tax	\$ 74,246	\$ -	\$ 74,246
5300 Intergovernmental Revenue and Grants	224,082	-	224,082
5510 Fines	11,699	-	11,699
5610 Investment Earnings	3,166	-	3,166
5640 Contributions & Donations	7,045	-	7,045
5700 Other Revenue	8,520	-	8,520
5020 Total Revenues	<u>328,758</u>	<u>-</u>	<u>328,758</u>
EXPENDITURES:			
Current:			
0100 General Government	10,251	-	10,251
0120 Judicial	524	-	524
0200 Public Safety	132,977	-	132,977
0500 Culture and Recreation	103,251	-	103,251
Capital Outlay:			
0800 Capital Outlay	94,406	-	94,406
6030 Total Expenditures	<u>341,409</u>	<u>-</u>	<u>341,409</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(12,651)</u>	<u>-</u>	<u>(12,651)</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	22,000	-	22,000
8911 Transfers Out	<u>(31,580)</u>	<u>-</u>	<u>(31,580)</u>
7080 Total Other Financing Sources (Uses)	<u>(9,580)</u>	<u>-</u>	<u>(9,580)</u>
1200 Net Change in Fund Balance	(22,231)	-	(22,231)
0100 Fund Balance - January 1 (Beginning)	<u>683,968</u>	<u>11,019</u>	<u>694,987</u>
3000 Fund Balance - December 31 (Ending)	<u>\$ 661,737</u>	<u>\$ 11,019</u>	<u>\$ 672,756</u>

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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Raul Hernandez & Company, P.C.
Certified Public Accountants
5402 Holly Rd., Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

**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 Falfurrias, Texas
Falfurrias, Texas 78355

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Falfurrias, Texas's basic financial statements, and have issued our report thereon June 23, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Falfurrias, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Falfurrias, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Falfurrias, Texas's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001, 2018-002, and 2018-003 to be material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001, 2018-002, and 2018-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Falfurrias, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2018-001, 2018-002, and 2018-003.

City of Falfurrias, Texas's Response to Findings

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

Purpose of this Report

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

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

June 23, 2021

**CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

X Yes ___ No

One or more significant deficiencies identified?

X Yes ___ None Reported

Noncompliance material to financial statements noted?

___ Yes X No

2. Federal Awards – N/A

Internal control over major programs:

One or more material weaknesses identified?

___ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses?

___ Yes X None Reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?

___ Yes X No

Identification of major programs:

CFDA Number(s)
N/A

Name of Federal Program or Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

___ Yes X No

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018

B. Financial Statement Findings

Finding No. 2018-001

- Criteria:** All transaction types occurring in the course of business should be timely and coded properly in the general ledger. Preparation of year-end adjusting journal entries, reconciliations, reviews and other general ledger tests for reasonableness and agreement to underlying journals, and third parties should be performed in readiness for the monthly reports to the City Council, and preparation of the City's annual financial statements.
- Condition:** The general ledger required many audit adjustments and reclassifications to both the current and prior period balances. Preparation of the year-end adjusting journal entries, schedules, and reconciliation of several significant areas were not complete. This resulted in additional time and effort on our part during the course of the audit. Finding is a repeat from prior fiscal year.
- Cause:** The City has not established a formal policies and procedures over year-end closing and monthly account analysis.
- Effect:** Management assessments and financial decisions, and internal and external financial reporting may be inaccurate because of an improperly maintained general ledger.
- Context:** During the course of the audit, there were various general ledger accounts that required adjustments.
- Recommendation(s):** The City should review their procedures for proper coding and timely recording of transactions at the end of each month and at year-end.
- Management Response:** The City has hired a fee accountant CPA to help with the preparation of General Ledgers and Bank Reconciliations. The City will review procedures for proper coding and timely recording of transactions at the end of each month and at year-end.

**CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding No. 2018-002

- Criteria:** The City is required to maintain policies and procedures to track an asset's cost, depreciation and the disposal of assets.
- Condition:** The City has not prepared written policies for accounting of fixed asset additions and deletions. During the audit, we noted that the procedures to accurately account for current year additions and deletions were not adequate. We had to perform an extended analysis of the detail ledgers searching for many fixed asset additions which management inadvertently omitted. The fixed asset records were updated to account for these additions during the audit.
- Cause:** Management did not exercise due care in accurately accounting for fixed asset additions and deletions during the fiscal year.
- Effect:** Some capital assets may not be accurately identified and recorded.
- Context:** Current year additions and deletions for fixed assets were not accounted for at year-end.
- Recommendation:** The City should develop fixed asset accounting policies and enhance its procedures to accurately track current year fixed asset additions and deletions. Management should coordinate with the fixed asset management company to ensure that all current year additions and deletions have been recorded on the City's fixed asset records.
- Management Response:** The City has hired a fee accountant CPA and will develop fixed asset accounting policies and enhance procedures to accurately track current year fixed asset additions and deletions.

**CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Finding No. 2018-003

Criteria: Journal entries should be reviewed by someone other than the preparer.

Condition: In conducting the audit, we noted numerous posting errors. Significant quantities of audit journal entries were needed to correct posting errors. Finding is a repeat from prior fiscal year.

Cause: The policy implemented for the review of journal entries was not followed.

Effect: The City understated and overstated multiple account balances. Reports provided to City Council were inaccurate.

Context: During the course of the audit, there were various general ledger accounts that required adjustments.

Recommendation: The City should follow its journal entry review policy and procedures. A responsible official should review and approve all journal entries posted to the ledgers.

Management Response: The City has hired a fee accountant CPA to help with the preparation of General Ledgers. The City will review procedures for proper journal entry coding and timely recording of transactions at the end of each month and at year-end.

C. Federal Award Findings and Questioned Costs
NONE

**CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

REFERENCE NUMBER

STATUS OF PRIOR YEAR'S FINDINGS

Reference Number: (2017-1)

Excess of Expenditures over Appropriations
The City began budget training with the departments and adopted the fiscal year 2018 budget utilizing the new process. We consider this finding to be resolved as of December 31, 2018.

Reference Number: (2017-2)

State Compliance – Certificate of Interested Parties
The City revised their purchase policy manual which provides guidelines and procedures for all City Purchases. We consider this finding to be resolved as of December 31, 2018.

Reference Number: (2017-3)

Purchase Orders
The City adopted a purchase policy manual which provides guidelines and procedures for all City Purchases. We consider this finding to be resolved as of December 31, 2018.

Reference Number: (2017-4)

Account Coding and Journal Entry Approval
See current year finding 2018-003.

Reference Number: (2017-5)

Golf Course Collections
The City has implemented procedures to validate daily deposits. We consider this finding to be resolved as of December 31, 2018.

Reference Number: (2017-6)

Account Reconciliations
See current year finding 2018-001.

**CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018**

Management will undertake the proper steps to maintain accurate financial records, overall internal control and timely financial reporting.

The City Manager is the contact person and will oversee corrective action.