

City of Encinal, Texas

Audited Financial Statements
and Supplementary Information

For the Year Ended September 30, 2013

City of Encinal, Texas

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Encinal, Texas

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Encinal, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-8 and 23-24 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.

Flores Auditing, PLLC

Flores Auditing, PLLC

Laredo, TX

July 31, 2015

City of Encinal, Texas

Management's Discussion and Analysis

Financial Highlights

The assets of City of Encinal, Texas exceeded its liabilities of the most recent fiscal year by \$958,751 (net assets). Of this amount, \$115,429 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$241,452. The major reason for the increase was an increase in sales taxes.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$170,223, an increase of \$84,464 in comparison with the prior period. Approximately 67% of this total amount, \$115,429, is available for spending at the City's discretion (unassigned fund balance).

Overview of the Financial Statements

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

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

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

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

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

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

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

Governmental Funds:

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

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

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

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

Notes to the financial statements:

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

Other information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found on pages 23-24 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of City of Encinal, Texas, assets exceeded liabilities by \$958,751 at the close of the most recent fiscal year.

A portion of the City's net assets (82%) reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	09/30/2013	09/30/2012
Current and Other Assets	\$ 210,024	\$ 108,701
Capital Assets	856,661	714,066
Total Assets	1,066,685	822,767
Long-term Liabilities	68,133	87,927
Other Liabilities	39,801	17,541
Total Liabilities	107,934	105,468
Invested in Capital Assets, net		
of Related Debt	788,528	626,139
Reserved for Economic Development	54,794	31,006
Unrestricted	115,429	60,154
Total Net Assets	\$ 958,751	\$ 717,299

Governmental Activities

Governmental activities increased the City's net assets by \$241,452.

	2013	2012
Revenues:		
Program revenues		
Charges for services	\$ 89,589	\$ 75,430
General revenues		
Taxes	560,262	468,357
Fines and Fees	179,427	160,744
Intergovernmental	191,521	3,718
Miscellaneous	4,350	25,040
Total Revenue	1,025,149	733,289
Expenses:		
General Government	440,233	343,993
Judicial	41,856	50,096
Public Safety	189,390	200,710
Public Service	106,802	56,606
Interest and fiscal charges	5,416	0
Total Expenses	783,697	651,405
Decrease in net assets	241,452	81,884
Beginning net assets	717,299	635,415
Ending net assets	\$ 958,751	\$ 717,299

Revenues by source- governmental activities:

	2013	
	Revenues	%
Charges for services	\$ 89,589	8.7
Taxes	560,262	54.7
Fines and fees	179,427	17.5
Intergovernmental	191,521	18.7
Miscellaneous	4,350	0.4
Total Revenue	\$ 1,025,149	100.00

Financial Analysis of the City's Funds

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

Governmental funds:

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$170,223 an increase of \$84,464 in comparison with the prior period. Approximately, 68% of this total amount, \$115,429, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for Economic Development (\$54,794).

Budgetary Highlights

The City adopts an annual appropriated budget for the governmental funds. The City budgeted \$765,140 in total revenues and \$587,495 in total expenditures for a surplus governmental funds budget of \$177,645. Actual governmental fund revenues were \$927,138 for a favorable variance compared to budgeted revenues of \$161,998. Actual governmental fund expenditures were \$866,462 for an unfavorable variance compared to budgeted expenditures of \$278,967.

Capital Assets and Debt Administration

Capital Assets:

The City's investment in capital assets for its governmental activities as of September 30, 2014, amounts to \$8,671,082 (net of accumulated depreciation).

City of Encinal, Texas Capital Assets

	Governmental Activities	
	2013	2012
Buildings and improvements	\$ 48,025	\$ 32,168
Furniture and equipment	244,527	74,905
Infrastructure	751,991	747,076
	<u>1,044,543</u>	<u>854,149</u>
Less accumulated depreciation	(187,882)	(140,083)
Total	<u>\$ 856,661</u>	<u>\$ 8,124,073</u>

Long-term debt:

The City total debt decreased by \$19,794 during the current fiscal year. The key factor in this increase was the principal payments to notes payable during the year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Financial Statements

City of Encinal, Texas
Statement of Net Assets
September 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and equivalents	\$ 55,620	\$ -	\$ 55,620
Cash and equivalents - restricted	34,577	-	34,577
Receivables	119,827	-	119,827
Capital assets			
Infrastructure	751,991	-	751,991
Buildings and improvements	48,025	-	48,025
Equipment and furniture	244,527	-	244,527
Less: accumulated depreciation	(187,882)	-	(187,882)
Total capital assets	856,661	-	856,661
Total assets	1,066,685	-	1,066,685
LIABILITIES			
Accounts payable and accrued expenses	39,801	-	39,801
Notes payable	68,133	-	68,133
Total liabilities	107,934	-	107,934
NET ASSETS			
Invested in capital assets, net of related debt	788,528	-	788,528
Restricted for:			
Economic Development Board	54,794	-	54,794
Unrestricted	115,429	-	115,429
Total net assets	\$ 958,751	\$ -	\$ 958,751

The accompanying notes are an integral part of these financial statements

City of Encinal, Texas
Statement of Activities
For the Year Ended September 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
Governmental activities				
General government	\$ 440,233	\$ 9,005	\$ 191,521	\$ (239,707)
Judicial	41,856	-	-	(41,856)
Public safety	189,390	-	-	(189,390)
Public service	106,802	80,584	-	(26,218)
Interest expense	5,416	-	-	(5,416)
Total governmental activities	<u>783,697</u>	<u>89,589</u>	<u>191,521</u>	<u>(502,587)</u>
General revenues:				
Taxes:				
Taxes:				560,262
Fines and fees				179,427
Miscellaneous				4,350
Loan Proceeds				-
Total general revenues and loan proceeds				<u>744,039</u>
Change in net assets				<u>241,452</u>
Net Assets-beginning				<u>717,299</u>
Net Assets-ending				<u>\$ 958,751</u>

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

City of Encinal, Texas
Balance Sheet
Governmental Funds
September 30, 2013

	General Fund	Economic Development Corporation	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 55,620	\$ -	\$ 55,620
Cash and cash equivalents - restricted	-	34,577	34,577
Due from other funds	-	20,217	20,217
Taxes receivable, net	24,351	-	24,351
Accounts receivable	95,476	-	95,476
Total assets	<u>175,447</u>	<u>54,794</u>	<u>230,241</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	39,801	-	39,801
Due to other funds	20,217	-	20,217
Deferred revenue	-	-	-
Total liabilities	<u>60,018</u>	<u>-</u>	<u>60,018</u>
Fund balances:			
Unassigned, reported in:			
General fund	115,429	-	115,429
Restricted for Economic Development	-	54,794	54,794
Total fund balances	<u>115,429</u>	<u>54,794</u>	<u>170,223</u>
Total liabilities and fund balances	<u>\$ 175,447</u>	<u>\$ 54,794</u>	<u>\$ 230,241</u>

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

City of Encinal, Texas
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2013

Total fund balance, governmental funds	\$ 170,223
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Add - capital assets	1,044,543
Deduct - accumulated depreciation	(187,882)

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

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

(68,133)

Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>\$ 958,751</u></u>
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The accompanying notes are an integral part of these financial statements.

City of Encinal, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2013

	General Fund	Economic Development Corporation	Total Governmental Funds
REVENUES			
Taxes	\$ 462,251	\$ 103,412	\$ 565,663
Licenses and permits	7,005	-	7,005
Fines and fees	179,427	-	179,427
Intergovernmental	191,521	-	191,521
Charges for services	82,584	-	82,584
Miscellaneous	4,350	-	4,350
Total revenues	<u>927,138</u>	<u>103,412</u>	<u>1,030,550</u>
EXPENDITURES			
Current:			
General government	312,810	79,624	392,434
Debt Service	25,210	-	25,210
Judicial	41,856	-	41,856
Public safety	189,390	-	189,390
Public service	106,802	-	106,802
Capital Outlay	190,394	-	190,394
Total expenditures	<u>866,462</u>	<u>79,624</u>	<u>946,086</u>
Excess (deficiency) of revenues over expenditures	<u>60,676</u>	<u>23,788</u>	<u>84,464</u>
OTHER FINANCING SOURCES (USES)			
Other financing sources	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	60,676	23,788	84,464
Fund balances - beginning	54,753	31,006	85,759
Fund balances - ending	<u>\$ 115,429</u>	<u>\$ 54,794</u>	<u>\$ 170,223</u>

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

City of Encinal, Texas
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2013

Net change in fund balances - total governmental funds:	\$ 84,464
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay \$190,394 exceeded depreciation \$47,799 in the current period	142,595
Other financing sources used in governmental funds are current financial resources and therefore are reported in this fund financial statement, but are not reported in the governmental activities of the Statement of Activities.	-
Notes payable used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	19,794
Other items used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	(5,401)
Change in net assets of governmental activities	<u>\$ 241,452</u>

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

1. BASIS OF ACCOUNTING

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

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

Accrual:

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

Modified Accrual:

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

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

2. FINANCIAL STATEMENT PRESENTATION

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

GOVERNMENTAL FUNDS:

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

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

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

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

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

Non-Current Governmental Assets/Liabilities:

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

Fund Balance Designations

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

Fund Balance Classification

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

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

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

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

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

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

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY

1. Cash and Investments

The City's cash at September 30, 2013 totaled \$90,197. These deposits were covered by federal depository insurance. Therefore, the City considers all of its deposits to be category 2, in that the Collateral is in the City's name and held by the Bank.

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

The City had no investments at September 30, 2013.

2. Capital Assets and Depreciation

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

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

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

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

3. INTERFUND TRANSACTIONS

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY (continued)

4. DUE FROM OTHER GOVERNMENTAL UNITS

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

5. FUND EQUITY

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

6. CAPITAL GRANT

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

7. COMPENSATED ABSENCES

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

8. BUDGETARY INFORMATION

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

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY (continued)

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

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

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

NOTE 4 DUE FROM OTHER GOVERNMENTS

Significant amounts due from other governments include:

<u>Due From</u>	<u>Amount</u>
<i>Capital Projects</i>	
Texas Dept. of Housing & Community Affairs	\$ 0
Office of Rural Community Affairs	<u>0</u>
	<u>\$ 0</u>

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 5 CAPITAL ASSETS

Governmental Activities

Details of changes in capital assets for the year September 30, 2013 are as follows:

	Balance 10/1/12	Additions	Deletions	Balance 9/30/2013
Buildings and improvements	\$ 32,168	\$ 15,857	\$ 0	\$ 48,025
Furniture and equipment	74,905	169,622	0	244,527
Infrastructure	747,076	4,915	0	751,991
	<u>\$ 854,149</u>	<u>\$ 190,394</u>	<u>\$ 0</u>	<u>1,044,543</u>
Less accumulated depreciation				(187,882)
Totals				<u>\$ 856,661</u>

Depreciation expense for governmental activities for the year September 30, 2013 was \$47,799.

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

A. Assets

Property Taxes Receivable and Property Tax Calendar

Property is appraised and a lien on such property becomes enforceable as of January 1, subject certain procedures for rendition, appraisal, appraisal review, and judicial review. Property taxes are levied by October 1 of year in which assessed, or as soon thereafter as practicable. Taxes are due and payable from October 1 of the year in which levied until January 31 of the following year without penalty or interest.

Collections of the current year's levy are reported as current collections if received by June 30, (within 9 months of the October 1 due date). Collections received thereafter are reported as delinquent collections. The City's taxes on real property are a lien against such property until paid. The City may foreclose on real property upon which it has a lien for unpaid taxes.

Tax Rates

The 2011 tax roll (for the period October 1, 2012 to September 30, 2013 was \$0.77710 per \$100 valuation. This roll year tax was used to the City's 2013 fiscal year operations.

B. Liabilities

Risk Management- Claims and Judgments

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

CITY OF ENCINAL, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims and judgments is reported in the general long-term debt account group because it is not expected to be liquidated with expendable available financial resources. The City did not have any such financial activity at the beginning, during, or the ending of the 2013 fiscal year. There were no significant reductions in insurance coverage from coverage in the prior year. Also, the amount of settlements did not exceed insurance coverage in past three years.

NOTE 7 RETIREMENT PLANS

Plan Descriptions, Contribution Information and Fund Policies

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

NOTE 8 CONTINGENCIES

Litigation

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

At September 30, 2013, the City had no lawsuits pending that are expected to have a material effect on the City's financial condition.

Supplementary Information

CITY OF ENCINAL, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
Current Property Taxes	\$ 88,898	\$ 88,898	\$ 115,339	\$ 26,441
Sales Tax	405,747	405,747	310,292	(95,455)
Franchise Fees	29,531	29,531	36,620	7,089
Total taxes	<u>524,176</u>	<u>524,176</u>	<u>462,251</u>	<u>(61,925)</u>
Fines and Fees	<u>156,039</u>	<u>156,039</u>	<u>179,427</u>	<u>23,388</u>
Intergovernmental	<u>-</u>	<u>-</u>	<u>191,521</u>	<u>191,521</u>
Licenses and permits:				
Permits	30,500	30,500	7,005	(23,495)
Total licenses and permits	<u>30,500</u>	<u>30,500</u>	<u>7,005</u>	<u>(23,495)</u>
Charges for services:				
Garbage Fees	54,000	54,000	82,584	28,584
Total charges for services	<u>54,000</u>	<u>54,000</u>	<u>82,584</u>	<u>28,584</u>
Other:				
Refunds, Reimbursements and Other	425	425	4,350	3,925
Total Other	<u>425</u>	<u>425</u>	<u>4,350</u>	<u>3,925</u>
TOTAL REVENUES	<u>\$ 765,140</u>	<u>\$ 765,140</u>	<u>\$ 927,138</u>	<u>\$ 161,998</u>
EXPENDITURES:				
GENERAL GOVERNMENT				
City Hall				
Salaries and Fringe Benefits	\$ 115,133	\$ 115,133	\$ 94,658	\$ 20,475
Contract Services	2,400	2,400	20,043	(17,643)
Professional Fees	64,200	64,200	63,327	873
Supplies	2,500	2,500	10,318	(7,818)
Travel & Training	15,650	15,650	42,877	(27,227)
Other Services and Charges	54,158	54,158	81,587	(27,429)
Total City Hall Expenses	<u>254,041</u>	<u>254,041</u>	<u>312,810</u>	<u>(58,769)</u>
Total General Government	<u>254,041</u>	<u>254,041</u>	<u>312,810</u>	<u>(58,769)</u>
DEBT SERVICE				
Principal	-	-	19,794	(19,794)
Interest	-	-	5,416	(5,416)
Total Debt Service	<u>-</u>	<u>-</u>	<u>25,210</u>	<u>(25,210)</u>
JUDICIAL				
Municipal Court				
Contract Services	-	-	14,686	(14,686)
Professional Fees	-	-	18,450	(18,450)
Supplies	1,200	1,200	45	1,155
Travel & Training	-	-	2,575	(2,575)
Other Services and Charges	2,430	2,430	6,100	(3,670)
Total Municipal Court	<u>3,630</u>	<u>3,630</u>	<u>41,856</u>	<u>(38,226)</u>
Total Judicial	<u>3,630</u>	<u>3,630</u>	<u>41,856</u>	<u>(38,226)</u>

CITY OF ENCINAL, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
PUBLIC SAFETY				
Police Department				
Salaries and Fringe Benefits	191,146	191,146	119,932	71,214
Contract Services	-	-	440	(440)
Professional Fees	-	-	500	(500)
Supplies	1,200	1,200	7,836	(6,636)
Travel & Training	24,950	24,950	34,915	(9,965)
Other Services and Charges	16,035	16,035	25,767	(9,732)
Total Police Department	<u>233,331</u>	<u>233,331</u>	<u>189,390</u>	<u>43,941</u>
Total Public Safety	<u>233,331</u>	<u>233,331</u>	<u>189,390</u>	<u>43,941</u>
PUBLIC SERVICE				
Sanitation				
Salaries and Fringe Benefits	47,803	47,803	57,634	(9,831)
Contract Services	-	-	412	(412)
Supplies	30	30	50	(20)
Travel & Training	6,425	6,425	9,733	(3,308)
Other Services and Charges	30,255	30,255	37,011	(6,756)
Total Sanitation	<u>84,513</u>	<u>84,513</u>	<u>104,840</u>	<u>(20,327)</u>
Code Compliance				
Contract Services	-	-	64	(64)
Supplies	300	300	-	300
Travel & Training	-	-	202	(202)
Other Services and Charges	3,710	3,710	375	3,335
Total Code Compliance	<u>4,010</u>	<u>4,010</u>	<u>641</u>	<u>3,369</u>
Grounds Maintenance				
Supplies	30	30	70	(40)
Travel & Training	1,925	1,925	32	1,893
Other Services and Charges	6,015	6,015	1,219	4,796
Total Grounds Maintenance	<u>7,970</u>	<u>7,970</u>	<u>1,321</u>	<u>6,649</u>
Total Public Service	<u>96,493</u>	<u>96,493</u>	<u>106,802</u>	<u>(10,309)</u>
CAPITAL OUTLAY	-	-	190,394	(190,394)
TOTAL EXPENDITURES	<u>587,495</u>	<u>587,495</u>	<u>866,462</u>	<u>(278,967)</u>
Excess (deficiency) of revenues				
over expenditures	177,645	177,645	60,676	(116,969)
FUND BALANCE AT BEGINNING OF YEAR	54,753	54,753	54,753	-
FUND BALANCE AT END OF YEAR	<u>\$ 232,398</u>	<u>\$ 232,398</u>	<u>\$ 115,429</u>	<u>\$ (116,969)</u>

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Jorge C. Flores, Manager

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

To the City Council
City of Encinal, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Encinal, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Encinal, Texas's basic financial statements, and have issued our report thereon dated July 31, 2015.

Internal Control over Financial Reporting

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

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

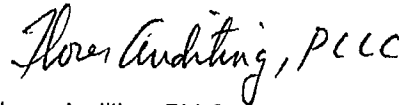
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Encinal, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Flores Auditing, PLLC".

Flores Auditing, PLLC

Laredo, TX

July 31, 2015