

City of Encinal, Texas
Audited Financial Statements
and Supplementary Information
For the Year Ended September 30, 2017

City of Encinal, Texas

Table of Contents

Independent Auditor’s Report..... 1
Management’s Discussions and Analysis..... 3

FINANCIAL STATEMENTS

Statement of Net Position..... 9
Statements of Activities10
Balance Sheet-Governmental Funds..... 11
Reconciliation of the Governmental Funds Balance Sheet to the
Statements of Net Position.....12
Statements of Revenues, Expenditures and Changes in Funds Balances-
Governmental Funds.....13
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities..... 14
Notes to Final Statements..... 15

SUPPLEMENTARY INFORMATION

Statements of Revenues, Expenditures and Charge in Fund Balance-
Budget and Actual General Fund..... 23

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matter Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 26

De La Garza CPA Firm, P.C.

P.O. Box 451756 Laredo, TX 78045

(956) 220-3785 / ben@dlgcpafirm.com

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Encinal, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each mayor fund, and the aggregate remaining fund information of the City of Encinal, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Encinal, Texas's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 statement 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 perspective financial position of the governmental activities, the aggregate discretely presented components units, each major fund and the aggregate remaining fund information of the City of Encinal, Texas, as of September 30, 2017 and the perspective 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 on page 3-8 and 23-25, respectively, 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 basics financial financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2022, on our consideration of the City of Encinal, Texas's internal control over financial reporting and on our test 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* is considering the City of Encinal, Texas internal control over financial reporting and compliance.

De La Garza CPA Firm, P.C.
Laredo, Texas
September 12, 2022

City of Encinal, Texas

Management's Discussion and Analysis

Profile of the Government

The City of Encinal incorporated in 1978 and became part of La Salle County. The City of Encinal operates under the council-manager form of government. The policy-making and legislative authority are vested to the City Council consisting of the Mayor and five Council members. The governing council is responsible, among other things for passing ordinances, adopting budgets, appointing committees, and the hiring of the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the directors of the various departments. The council is elected on a non-partisan basis. Council members and the Mayor may serve a two-year term and continue serving by election of the citizens. Council members and the Mayor are elected at large.

Financial Highlights

The assets of City of Encinal, Texas exceed its liabilities by \$821,497 as of the end of fiscal year 2017 of this amount, \$130,886 (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 \$40,961 from 2016. The major reason for the increase was an excess of revenue over expenses.

As of the close of the current fiscal year, the City's governmental funds reported combined ending funds balances of \$239,758, an increase of \$39,269 in comparison with the prior period.

Approximately 79% of this total amount, \$188,396 is available for spending at the City's discretion (unassigned fund balance).

Overview of the Financial Statements

The discussion and analysis are 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 statement: The government-wide financial statements are designated 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 the 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 change during the most 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 the future periods (e.g., uncollected taxes).

The government-wide financial statement includes only the City itself.
The government-wide financial statements can be found on page 5-8 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 fund is narrower than that of the government-wide financial statement, it is useful to compare the information present 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 present separately in the governmental fund 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 appropriate 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 9-14 of this report.

Notes to the financial statements:

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

Other information:

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of City of Encinal, Texas assets exceeded liabilities by \$687,122 at the close of fiscal year 2017.

A portion of the City's net assets (85%) reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses the capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resource needed to repay this debt must be provided from others sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 361,440	\$ 374,651
Capital Assets	<u>2,120,476</u>	<u>2,232,166</u>
Total Assets	<u>2,481,916</u>	<u>2,606,817</u>
Long-term Liabilities	1,538,738	1,593,767
Other Liabilities	<u>256,056</u>	<u>232,514</u>
Total Liabilities	<u>1,794,794</u>	<u>1,826,281</u>
Invested in Capital Assets, Net of Related Debt	581,738	647,537
Reserved for Economic Development	108,886	77,924
Prior Period Adjustment	-	15,297
Unrestricted	<u>(3,502)</u>	<u>39,778</u>
Total Net Position	<u>\$ 687,122</u>	<u>\$ 780,536</u>

Governmental Activities

Governmental activities increased the City's net position by: \$123,076.

	<u>2017</u>	<u>2016</u>
Revenue:		
Program Revenues		
Charges for Services	\$ 96,604	\$ 88,310
General Revenues		
Taxes	702,152	531,635
Grants	24,777	
Fines & Fees	411,903	380,364
Intergovernmental	82,737	40,200
Interest	1	5
Miscellaneous	37,584	18,670
Total Revenue	<u>1,355,758</u>	<u>1,059,184</u>
Expenses:		
General Government	799,981	621,194
Judicial	203,867	164,875
Parks & Recreation	1,869	
Public Safety	192,447	202,334
Public Service	84,495	82,703
Interest and Fiscal Charges	57,628	60,725
Total Expenses	<u>1,340,286</u>	<u>1,131,831</u>
Decrease/Increase in Net Position	15,472	(72,647)
Beginning Net Position	780,536	837,886
Restricted EEDC	(108,886)	-
Prior Period Adjustment	-	15,297
Ending Net Position	<u>\$ 687,122</u>	<u>\$ 780,536</u>

Revenues by source-governmental activities

	<u>2017</u>	
	<u>Revenues</u>	<u>%</u>
Charges for Services	\$ 96,604	7.1%
Taxes	702,152	51.8%
Grants	24,777	1.8%
Fines & Fees	411,903	30.4%
Intergovernmental	82,737	6.1%
Interest	1	0.0%
Miscellaneous	37,584	2.8%
Total Revenue	<u>\$ 1,355,758</u>	<u>100.0%</u>

Financial Analysis of the City's Funds

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

Governmental Funds:

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$239,758 an increase of \$39,269 in comparison with the prior period (fund balance as of the end of fiscal year 2016 is \$200,489).

Approximately, 79% of this total amount, \$188,396, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance, \$51,363, is reserved to indicate that it is not available for new spending because it has already been committed for Economic Development.

Budgetary Highlights

The City adopts an annual appropriated budget for the governmental funds. The City budgeted \$953,103 in total revenues and \$837,670 in total expenditures for a surplus governmental funds budget of \$115,333. Actual governmental fund revenues were \$1,355,758 for a favorable variance compare to budgeted revenues of \$402,655. Actual governmental fund expenditures were \$1,155,269 for an unfavorable variance compared to budget expenditures of \$317,599.

Capital Assets and Debt Administration

The City's investment in capital assets for its governmental activities as of September 30, 2017 amounts to \$2,120,476 (net of accumulated depreciation).

	Governmental Activities	
	2017	2016
Buildings and Improvements	\$ 1,553,025	\$ 1,553,025
Furniture and Equipment	282,478	276,799
Vehicles	123,248	123,548
Infrastructure	1,021,246	960,898
	2,979,997	2,914,270
Less Accumulated Depreciation	(859,521)	(682,104)
Total	\$ 2,120,476	\$ 2,232,166

Long-Term Debt:

The City total debt decreased by \$55,030 during the current fiscal year.

Governmental Activities:

	Beg Bal.	Additions	Reductions	End Bal.
Certificates of Obligation, Series 2008	41,457	-	3,630	37,827
USDA Community Facilities Loan	1,475,000		20,000	1,455,000
Falcon International Bank (Trash Truck)	19,691	-	9,871	9,820
Dodge Ram Truck	15,320	-	6,659	8,661
Dodge Durango	13,047	-	5,166	7,881
Capital Lease-Ford Police Interceptor	29,252	-	9,704	19,548
Totals	1,593,767	-	55,030	1,538,737

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

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

**CITY OF ENCINAL
STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER, 30 2017**

ASSETS	Governmental Activities
Cash and Equivalents	\$ (2,638)
Receivables	214,332
Other Current Assets	149,747
Capital Assets	
Infrastructure	1,021,246
Buildings and Improvements	1,553,025
Equipment and Furniture	282,478
Vehicles	123,248
Less: Accumulated Depreciation	(859,521)
Total Capital Assets	2,120,476
Total Assets	2,481,916
LIABILITIES	
Accounts Payable and Accrued Expenses	256,056
Notes Payable	1,538,738
Total Liabilities	1,794,794
NET POSITION	
Invested in Capital Assets, net of related debt	581,738
Economic Development Board	108,886
Unrestricted	(3,502)
Total Net Position	\$ 687,122

**CITY OF ENCINAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<u>Function/Programs</u>	<u>Program Revenue</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
Governmental activities				
General Government	799,981	96,604		(703,377)
Judicial	203,867			(203,867)
Parks and Recreation	1,869			(1,869)
Public Safety	192,447			(192,447)
Public Service	84,495	-		(84,495)
Interest Expense	57,628			(57,628)
Total Governmental Activities	1,340,286	96,604		(1,243,683)

General revenues:

Taxes

Property Taxes, Levied for General Purposes	118,486
Sales Tax	583,667
Franchise Fees	36,330
Fines and fees	375,573
Interest	1
Grants	24,777
Miscellaneous	37,584
General Revenues, Special Items, and Transfers	82,737

1,259,154

Change in Net Position

15,472

Net Position-beginning

780,536

Reserved for EEDC

(108,886)

Net Position-ending

687,122

**CITY OF ENCINAL
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

ASSETS	General Fund	Economic Development Corporation	Total Governmental Funds
Cash and Equivalents	(12,001)	9,363	(2,638)
Due from Other Funds	-	101,269	101,269
Employee Advances	3,977	-	3,977
Petty Cash	-	-	-
Prepaid Taxes	2,501	-	2,501
Taxes Receivable, Net	100,096	-	100,096
Accounts Receivable	114,236	42,000	156,236
Total Assets	208,808	152,632	361,440
LIABILITIES			
Liabilities			
Accounts Payable	18,250	235	18,485
Payroll Liabilities	22,967	-	22,967
Criminal Cost Payable	68,832	-	68,832
Due to Other Funds	101,269	-	101,269
Sales Tax Payable	992	-	992
Notes Payable	-	43,511	43,511
Total Liabilities	212,310	43,746	256,056
Fund Balances:			
Adjustment to Fund Balance	-	-	-
<i>Unassigned, Reported in:</i>			
General Fund	(3,502)	108,886	105,384
Total Fund balances	(3,502)	108,886	105,384
Total Liabilities and Fund Balances	208,808	152,632	361,440

**CITY OF ENCINAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Total fund balance - governmental funds	105,384
---	---------

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the statement of net position

Add: Capital Assets	2,979,997
Deduct: Accumulated Depreciation	(859,521)

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

Other financial sources used in governmental funds are current financial resources and therefore are reported in the fund financial statement, but are not reported in the government activities of the statement of activities.	<u>(1,538,738)</u>
--	--------------------

Changes in net position of governmental activities	<u><u>687,122</u></u>
--	-----------------------

CITY OF ENCINAL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

REVENUES	General Fund	Economic Development Corporation	Total Governmental Funds
Sales Taxes	\$ 442,640	\$ 141,026	\$ 583,667
Ad Valorem Taxes	118,486	-	118,486
Licenses, Permits and Fees	11,536	-	11,536
Fines & Fees	364,038	-	364,038
Franchise Fees	36,330	-	36,330
Grants	24,777	-	24,777
Intergovernmental	82,737	-	82,737
Interest	-	1	1
Charges for Services	96,204	400	96,604
Donations for Projects	23,633	-	23,633
Miscellaneous	13,951	-	13,951
Total Revenues	1,214,331	141,427	1,355,758
EXPENDITURES			
Current			
General Government	659,324	90,015	749,338
Judicial	203,867	-	203,867
Parks & Recreation	1,869	-	1,869
Public Safety	192,447	-	192,447
Public Service	84,495	-	84,495
Debt Service			
Principal	-	-	-
Interest	57,628	-	57,628
Total Expenditures	1,199,629	90,015	1,289,643
Excess (Deficiency) of Revenues over Expenditures	14,702	51,412	66,115
OTHER FINANCING SOURCES (USES)			
Net Change in Fund Balance	14,702	51,412	66,115
Fund Balances - Beginning	24,071	15,199	39,269
Fund Balances - Ending	\$ 38,773	\$ 66,611	\$ 105,384

Adjustments to Fund Balance

CITY OF ENCINAL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Net Change in Fund Balances - Total Governmental Funds:	105,384
---	---------

Other financing sources used in governmental funds are current financial resources and therefore are not reported in the fund financial statement, but are not reported in the governmental activities of the Statement of Activities	581,738
---	---------

Change in net assets of governmental activities	<u>687,122</u>
---	----------------

NOTE 1 GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The City of Encinal, Texas (the “City”) adopted the provision and Statutes for cities in the State of Texas. The City provides a range of municipal services including police and fire protection, street and social services, public improvements, sanitation services, planning and zoning, and general and administrative services.

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. While the previous models 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 a major individual funds (within the fund financial statements).

Both the government-wide and fund financial statements within the basic financial statement categorize primary activities as either government 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, operation and capital grants. The program revenues must be directly associated with the function or a business-type activity. Programs revenues includes revenues from fines and forfeitures, licenses and permit fees, taxes and charges for services. The operation grants include operating grants include operating-specific and discretionary (either operating or capital grants while the capital grants columns reflect 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 represent net cost by function or activity. The City does not currently employ an indirect cost allocation system.

The 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 mayor funds.

The governmental funds statement in the fund financial statement 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 source 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 statement are present on a different measurement focus and basis of accounting than the government-wide statement’s 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.

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

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 revenues 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 when the related liability is incurred. The exceptions to this general rule are 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 receipt should recognize receivable 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.

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:

General Fund: The General fund is the 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 revenues 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 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 purpose 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 is 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 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 was initially committed.

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 balance of all the General Fund.

NOTE 3 ASSETS, LIABILITIES AND FUND EQUITY

1. Cash and Investments

The City’s cash at September 30, 2017 totaled \$, which is recorded as a bank overdraft. 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 purchase to be cash equivalents.

The City had no investments at September 30, 2017.

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 \$25,000 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 values at the date of donation. The cost 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 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 reflects 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.

4. Due from Other Governmental Units

To recognize resources available for Special Revenues 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 them recognized.

5. Fund Equity

Certain fund balances or portions thereof have been reserved to indicate amounts that are not appropriate 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 resources 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 as the responsibility of preparing the City's budget 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. 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.
- 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.
- E. After the filing of the proposed budget, on a date after August 15th, but prior to September 30 on the current year, City Council conducts a public hearing on the City's proposed budget. Any taxpayer of the City of Encinal had the right to present and participate in the hearing. At the conclusion of the hearing, the proposed budget, as prepared by the City Mayor, is acted upon by the City Council. The Court has the authority to make such changes in the budget, as in its judgments the facts and the law warrant and the interest of the taxpayer's demand, provided the amount budgeted for the 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 revision is 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.

Budget 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 integrations are not employed for capital projects funds, because they include projects which extended over a period of several years.

NOTE 4. CAPITAL ASSETS

Governmental Activities

Details of changes in capital assets for the year September 30, 2017 are as follows:

	Balance	Adjustments		Balance
	October 1, 2016	Additions	and Retirements	September 30, 2017
Buildings and improvements	1,553,025	-	-	1,553,025
Equipment and furniture	276,799	5,679	-	282,478
Vehicles	123,548	-	(300)	123,248
Construction in progress				-
Infrastructure	960,898	60,348		1,021,246
Total Capital Assets	2,914,270	66,027	(300)	2,979,997
Less: accumulated depreciation				(859,521)
Total				2,120,476

Depreciation expense for governmental activities for the year September 30, 2017 was \$177,417.

NOTE 5 LONG-TERM DEBT

The City total debt decreased by \$55,030 during the current fiscal year.

Governmental Activities:

	Beg Bal.	Additions	Reductions	End Bal.
Certificates of Obligation, Series 2008	41,457	-	3,630	37,827
USDA Community Facilities Loan	1,475,000	-	20,000	1,455,000
Falcon International Bank (Trash Truck)	19,691	-	9,871	9,820
Dodge Ram Truck	15,320	-	6,659	8,661
Dodge Durango	13,047	-	5,166	7,881
Capital Lease-Ford Police Interceptor	29,252	-	9,704	19,548
Totals	1,593,767	-	55,030	1,538,737

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

Risk Management-Claims and Judgments

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable 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 frequently 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 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 2017 fiscal year. There were no significant reductions in insurance coverage from coverage in the prior year. Also, the amounts 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 benefit 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 the future budgets for settlement. At September 30, 2017 the City had no lawsuits pending that are expected to have a material effect on the City’s financial condition.

NOTE 9 SUBSEQUENT EVENTS

The City has evaluated subsequent events through September 12, 2022 (the date the financial statements were available for release). No events have transpired from the statement of financial position date through that date that would impact the financial statements.

NOTE 10 HEALTH EPIDEMICS

The COVID-19 pandemic has certainly had a dramatic effect on the U.S. economy across most sectors and industries. Some businesses that were once financially strong prior to the economy crisis, have quickly found themselves in a financial tailspin, with cash flow challenges and risk of their ability to continue as a going concern. Shortages in supply chains coupled with inflation have added to the financial challenges companies continue to have leading into 2022.

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

**CITY OF ENCINAL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET VS ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts		Actual Amounts,	Variance with
			Budgetary Basis	Final Budget
	Original	Final		Positive (Negative)
Revenues: Taxes:				
Current Property Taxes	118,485.84	118,485.84	118,485.84	-
Sales Tax	428,051.63	428,051.63	583,666.62	155,614.99
Franchise Fees	37,644.22	37,644.22	36,329.53	(1,314.69)
Total Taxes	584,181.69	584,181.69	738,481.99	154,300.30
Fines and Fees	358,346.17	358,346.17	523,002.89	164,656.72
Intergovernmental	-	-	82,736.84	82,736.84
Licensed and permits:				-
Permits	10,000.00	10,000.00	11,535.50	1,535.50
Total Licenses and Permits	10,000.00	10,000.00	11,535.50	1,535.50
Loan Proceeds				-
Interest	-	-	1.00	1.00
Other: Insurance Proceeds Accident & Loss				-
Refunds, Reimbursements and Other	575.00	575.00		(575.00)
Total Other				-
TOTAL REVENUES	953,102.86	953,102.86	1,355,758.22	402,655.36
EXPENDITURES:				-
GENERAL GOVERNMENT				-
City Hall				-
Salaries and Fringe Benefits	113,134.87	113,134.87	144,207.51	31,072.64
Payroll Taxes	8,172.46	8,172.46	10,774.31	2,601.85
Contract Services	-	-		-
Professional Fees	78,400.00	78,400.00	88,938.10	10,538.10
Supplies	2,200.00	2,200.00	22,134.93	19,934.93
Insurance	9,200.00	9,200.00	11,934.46	2,734.46
Travel & Training	5,500.00	5,500.00	1,176.51	(4,323.49)
Repairs and Maintenance	1,410.00	1,410.00	3,629.50	2,219.50
Utilities	14,700.00	14,700.00	34,028.86	19,328.86
Other Services and Charges	65,590.00	65,590.00	483,156.82	417,566.82
Total City Hall Expenses	298,307.33	298,307.33	799,981.00	501,673.67
Total General Government	298,307.33	298,307.33	799,981.00	501,673.67
DEBT SERVICE				-
Principal		-		-
Interest	57,627.53	57,627.53	57,627.53	-
Total Debt Service	57,627.53	57,627.53	57,627.53	-

**CITY OF ENCINAL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET VS ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

JUDICIAL				-
Municipal Court				-
Salaries and Fringe Benefits	46,212.51	46,212.51	38,637.04	(7,575.47)
Payroll Taxes	3,347.44	3,347.44	2,754.24	(593.20)
Contract Services				-
Professional Fees	23,940.00	23,940.00	22,863.00	(1,077.00)
Supplies			200.00	200.00
Insurance			243.94	243.94
Travel & Training	550.00	550.00	1,520.00	970.00
Repairs and Maintenance				-
Utilities				-
Other Services and Charges	51,628.89	51,628.89	137,648.40	86,019.51
Total Municipal Court	125,678.84	125,678.84	203,866.62	78,187.78
Total Judicial	125,678.84	125,678.84	203,866.62	78,187.78
PUBLIC SAFETY				-
Police Department				-
Salaries and Fringe Benefits	171,078.52	171,078.52	130,079.83	(40,998.69)
Payroll Taxes	12,335.05	12,335.05	9,806.32	(2,528.73)
Contract Services				-
Professional Fees				-
Supplies	350.00		461.08	461.08
Insurance	3,800.00	3,800.00	11,823.07	8,023.07
Travel & Training	1,000.00	1,000.00	790.00	(210.00)
Repairs and Maintenance	2,550.00	2,550.00	220.00	(2,330.00)
Utilities				-
Other Services and Charges	15,410.00	15,410.00	39,266.99	23,856.99
Total Police Department	206,523.57	206,523.57	192,447.29	(14,076.28)
Total Public Safety	206,523.57	206,523.57	192,447.29	(14,076.28)
PUBLIC SERVICE				-
Sanitation				-
Salaries and Fringe Benefits	60,288.88	60,288.88	44,595.42	(15,693.46)
Payroll Taxes	4,371.79	4,371.79	3,108.07	(1,263.72)
Contract Services				-
Professional Fees				-
Supplies			1,586.05	1,586.05
Insurance	1,000.00	1,000.00	173.74	(826.26)
Travel & Training				-
Repairs and Maintenance	9,355.00	9,355.00	1,575.08	(7,779.92)
Utilities				-
Other Services and Charges	22,771.14	22,771.14	33,456.38	10,685.24
Total Sanitation	97,786.81	97,786.81	84,494.74	(13,292.07)

**CITY OF ENCINAL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET VS ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Parks & Recreation				-
Contract Services			-	-
Supplies				-
Travel & Training				-
Repairs and Maintenance				-
Utilities				-
Other Services and Charges			1,868.65	1,868.65
Total Code Compliance			1,868.65	1,868.65
Grounds Maintenance				-
Insurance				-
Repair and Maintenance				-
Other Services and Charges				-
Total Grounds Maintenance			-	-
Total Public Service			86,363.39	86,363.39
CAPITAL OUTLAY				-
TOTAL EXPENDITURES	785,924.08	785,924.08	1,340,285.83	640,725.14
Excess (deficiency) of revenues over expenditures	167,178.78	167,178.78	15,472.39	(151,706.39)
				-
				-
FUND BALANCE AT BEGINNING OF YE	15,198.64	15,198.64	24,070.64	39,269.28
NET CHANGE IN FUND BALANCE				66,114.72
			-	-
FUND BALANCE AT END OF YEAR		-	39,543.03	105,384.00

De La Garza CPA Firm, P.C.

P.O. Box 451756 Laredo, TX 78045

(956) 220-3785 / ben@dlgcpafirm.com

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 17, 2017, 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 September 12, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Encinal, Texas'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Encinal, Texas'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

De La Garza CPA Firm, P.C.

City of Encinal, Texas
September 12, 2022