

TOWN OF SAN FELIPE, TEXAS

Annual Financial Report

For the Year Ended September 30, 2015

TOWN OF SAN FELIPE, TEXAS

Annual Financial Report
For the Year Ended September 30, 2015

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TOWN OF SAN FELIPE, TEXAS

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INTRODUCTORY SECTION

TOWN OF SAN FELIPE, TEXAS

Town Officials

Bobby Byars.....Mayor
Alfred HallMayor Pro-Tem
Derrick DabneyAlderman
Louis T. Bonner, Jr.Alderman
Alfreda Cloud.....Alderman
Brenda NewsomeAlderman
Sue Foley Town Secretary

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the Town Council
Town of San Felipe, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Town of San Felipe, Texas (the Town) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town as of September 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note II to the financial statements, in 2015 the Town adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

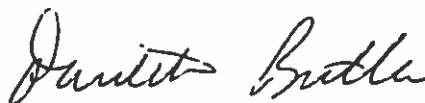
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the budgetary comparison information on pages 34 through 35, and the Schedule of Changes in Net Pension Liability and Related Ratios on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2016, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



San Antonio, Texas
January 6, 2017

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2015

This section of the Town of San Felipe, Texas' (the Town) annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year ended September 30, 2015. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Town's total net position was \$1,823,308 at September 30, 2015.
- Revenue generated from taxes and other revenues for governmental activities was \$673,029. The Town's governmental fund expenses were \$607,509.

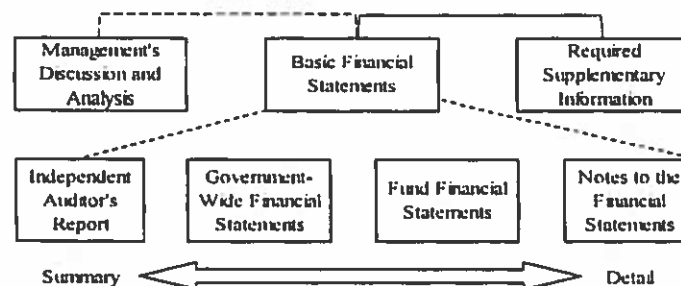
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—*management's discussion and analysis* (this section), *the basic financial statements*, *required supplementary information*, and *supplemental section* (non-required). The basic financial statements include two kinds of statements that present different views of the Town:

- The first two statements (the Statement of Net Position and Statement of Activities) are the *government-wide* financial statements that provide both *long-term* and *short-term* information about the Town's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Town's operations in more detail than the government-wide statements.
- The *governmental fund* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information and other supplemental information that further explain and support the information in the financial statements. Figure A-1 shows how required parts of this annual report are arranged and related to one another.

Figure A-1: Components of the Financial Section



TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2015

Government-Wide Statements

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's net position and how it has changed. Net position—the difference between the Town's assets and liabilities—is one way to measure the Town's financial health or position.

- Over time, increases or decreases in the Town's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town, one needs to consider additional nonfinancial factors such as changes in the Town's tax base.

The government-wide financial statements of the Town include the governmental activities. Most of the Town's basic services are included here, such as general government, public safety, and public works. Sales tax, property tax, franchise taxes, and municipal court fines finances the majority of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending for particular purposes.

The Town has the following kind of fund(s):

- *Governmental funds* – All of the Town's basic services are reported in governmental funds. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Town's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note A to the financial statements.

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2015

Notes to the Financial Statements

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The net position may serve, over time, as a useful indicator of the Town's financial position. For the Town, assets exceed liabilities by \$1,823,308 as of year-end. The Town's net position reflects its investments in capital assets (e.g., land, buildings and improvements, furniture and equipment, streets, etc.) less any debt used to acquire those assets that is still outstanding. Consequently, these assets are not available for future spending. Although the Town'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 assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

The following reflects a comparative condensed statement of net position:

	September 30,		\$ Change	% Change
	2015	2014*		
Current and Other Assets	\$ 1,643,918	\$ 1,564,587	\$ 79,331	5.1%
Capital Assets, Net	413,059	461,532	(48,473)	-10.5%
Total Assets	<u>2,056,977</u>	<u>2,026,119</u>	<u>30,858</u>	<u>1.5%</u>
Deferred Outflows				
Deferred Pension Related Outflows	8,369	5,566	2,803	50.4%
Total Deferred Outflows	<u>8,369</u>	<u>5,566</u>	<u>2,803</u>	<u>50.4%</u>
Current Liabilities	86,720	71,773	14,947	20.8%
Noncurrent Liabilities	153,229	202,124	(48,895)	-24.2%
Total Liabilities	<u>239,949</u>	<u>273,897</u>	<u>(33,948)</u>	<u>-12.4%</u>
Deferred Outflows				
Deferred Pension Related Outflows	2,089	-	2,089	100.0%
Total Deferred Outflows	<u>2,089</u>	<u>-</u>	<u>2,089</u>	<u>100.0%</u>
Net Position:				
Invested in Capital Assets,				
Net of Related Debt	223,344	231,301	(7,957)	-3.4%
Restricted	31,567	31,567	-	0.0%
Unrestricted	1,568,397	1,494,920	73,477	4.9%
Total Net Position	<u>\$ 1,823,308</u>	<u>\$ 1,757,788</u>	<u>\$ 65,520</u>	<u>3.7%</u>

*Note: Comparative information restated for adoption of GASB No. 68. See Note H for more detail.

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2015

A portion of the primary government's net position, \$223,344, represents resources invested in capital assets, net of related debt. A portion of the primary government's net position, \$31,567, represents resources that are restricted and may only be used for certain purposes allowed by external sources or enabling legislation. The remainder of the primary government's net position, \$1,568,397, represents resources that are unrestricted. These resources are used to pay off long-term debt and general expenditures.

Changes in Net Position

The following reflects a comparative statement of changes in net position of the primary government:

	September 30,		\$ Change	% Change
	2015	2014*		
Revenues				
Program Revenues:				
Charges for Services	\$ 38,603	\$ 20,322	\$ 18,281	90.0%
General Revenues:				
Property Taxes	134,009	134,739	(730)	-0.5%
Sales Taxes	468,446	431,741	36,705	8.5%
Interest and Investment Income	14,663	13,798	865	6.3%
Other Revenue	17,308	15,204	2,104	13.8%
Total Revenues	673,029	615,804	57,225	9.3%
Expenses				
Administrative and Personnel	442,782	386,071	56,711	14.7%
Public Safety	57,040	32,583	24,457	75.1%
Public Works	107,687	110,465	(2,778)	-2.5%
Total Expenses	607,509	529,119	78,390	14.8%
Change in Net Position	65,520	86,685	(21,165)	-24.4%
Net Position - Beginning	1,796,241	1,709,556	86,685	5.1%
Prior Period Adjustment	(38,453)	-	(38,453)	100.0%
Net Position - Beginning as Restated	1,757,788	1,709,556	48,232	2.8%
Net Position - Ending	\$ 1,823,308	\$ 1,796,241	\$ 27,067	1.5%

*Note: Comparative information for 2014 has not been restated for the effects of the adoption of GASB Statement No. 68 as information is not available to restate.

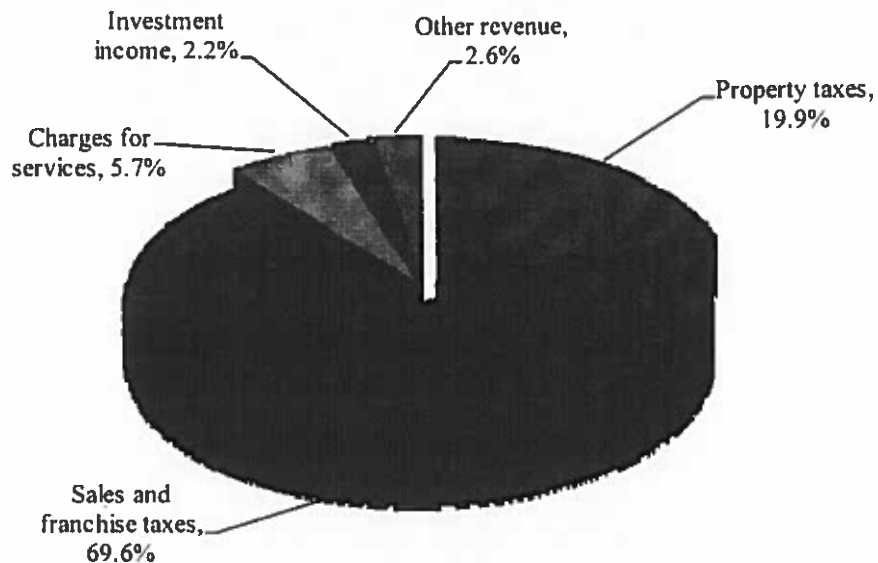
TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2015

Overall, government-wide revenues increased by \$57,225, mainly due to an increase in sales taxes. During 2015 and 2014, the Texas State Comptroller of Public Accounts notified the Town that the State had inadvertently remitted additional sales receipts to another tax jurisdiction. The terms of the settlement require the other tax jurisdiction to repay the Town their respective portion of sales receipts. During fiscal year 2015, the Town received settlement payments which were disbursed by the Texas State Comptroller of Public Accounts.

Government-wide expenses increased \$78,390, due to an increase in salaries/hourly wages, related group insurance expenses, and turnover in the police department.

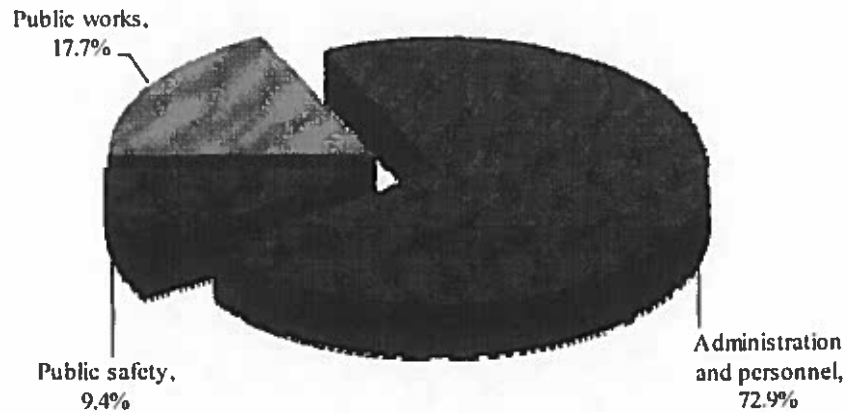
Governmental Revenues



TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2015

Governmental Expenses



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Activities

The Town's general fund reflects a total fund balance of \$1,629,332. Of this amount, \$31,567 is restricted bond proceeds, \$3,117 is assigned for court technology and \$2,330 is assigned for court security. The remaining amount, \$1,592,318, is unassigned, which means it can be used for any purpose. The general fund had an increase in total fund balance in the amount of \$70,205.

General Fund Budgetary Highlights

The actual general fund revenues were over the budgeted revenues by \$5,257 during the year. General fund expenditures exceeded the amended budget by \$49,933. This was mainly due to the purchase of park equipment.

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Town had invested in \$1,500,538 in capital assets, including land, equipment, buildings, and vehicles. The following schedule summarizes the capital assets of the Town:

	September 30,		\$ Change	% Change
	2015	2014		
Land	\$ 21,405	\$ 21,405	\$ -	0%
Construction in Progress	13,281	-	13,281	100%
Buildings and Improvements	673,526	673,526	-	0%
Furniture and Equipment	323,563	398,910	(75,347)	-19%
Infrastructure	468,763	468,763	-	0%
Total Capital Assets	1,500,538	1,562,604	(62,066)	-4%
Less:				
Accumulated Depreciation	(1,119,046)	(1,132,639)	13,593	-1%
Net Capital Assets	\$ 381,492	\$ 429,965	\$ (48,473)	-11%

Long-Term Debt

At the end of the current year, the Town had total long-term debt of \$158,148. At year end, long-term bonds outstanding account for \$120,000 and note payable for \$38,148.

More detailed information about the Town's long-term liabilities is presented in Note E.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The property tax rate for the 2016 fiscal year was reduced to \$0.1557 per \$100 valuation. The Town's fiscal year 2016 budget remains relatively consistent.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances. Questions concerning this report or requests for additional financial information should be directed to Sue Foley, Town Secretary, Town Hall, P.O. Box 129, San Felipe, Texas 77473, telephone 979-885-7035.

BASIC FINANCIAL STATEMENTS

TOWN OF SAN FELIPE, TEXAS

Statement of Net Position
As of September 30, 2015

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 1,486,657
Investments	77,583
Receivables, Net	79,678
Total Current Assets	<u>1,643,918</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	31,567
Land	21,405
Construction in Progress	13,281
Buildings and Improvements, Net	81,684
Furniture and Equipment, Net	104,138
Infrastructure, Net	160,984
Total Noncurrent Assets	<u>413,059</u>
Total Assets	<u>2,056,977</u>
DEFERRED OUTFLOWS	
Deferred Pension Related Outflows	8,369
Total Deferred Outflows	<u>8,369</u>
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	40,260
Accrued Interest Payable	675
Bonds Payable	40,000
Notes Payable	5,785
Total Current Liabilities	<u>86,720</u>
Noncurrent Liabilities	
Bonds Payable	80,000
Net Pension Liability	40,866
Notes Payable	32,363
Total Long-Term Liabilities	<u>153,229</u>
Total Liabilities	<u>239,949</u>
DEFERRED INFLOWS	
Deferred Pension Related Inflows	2,089
Total Deferred Inflows	<u>2,089</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	223,344
Restricted	31,567
Unrestricted	1,568,397
Total Net Position	<u>\$ 1,823,308</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

TOWN OF SAN FELIPE, TEXAS

Statement of Activities
For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues	Charges for Services	Net (Expense) Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Administrative and Personnel	\$ 442,782	\$ -	\$ -	(442,782)
Public Safety	57,040		36,505	(20,535)
Public Works	107,687		2,098	(105,589)
Total Governmental Activities	607,509		38,603	(568,906)
Total Government	\$ 607,509		\$ 38,603	
				General Revenues
				Property Taxes 134,009
				Sales and Franchise Taxes 468,446
				Interest Revenue 14,663
				Other Revenue 17,308
				Total General Revenues 634,426
				Change in Net Position 65,520
				Net Position - Beginning 1,796,241
				Prior period adjustments (38,453)
				Net assets, beginning (restated) 1,757,788
				Net Position - Ending \$ 1,823,308

The Accompanying Notes are an Integral Part of These Financial Statements.

TOWN OF SAN FELIPE, TEXAS

Balance Sheet – Governmental Fund
As of September 30, 2015

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 1,518,224
Investments	77,583
Receivables, Net	<u>79,678</u>
Total Assets	<u><u>1,675,485</u></u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	<u>40,260</u>
Total Liabilities	<u>40,260</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue	<u>5,893</u>
FUND BALANCES	
Restricted	31,567
Assigned	5,447
Unassigned	<u>1,592,318</u>
Total Fund Balances	<u>1,629,332</u>
Amounts reported for governmental activities in the Statement of Net Position are difference because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,119,046.	381,492
Net pension assets (and related deferred inflows and outflows of resources) do not provide current financial resources and are not reported in the funds.	
Pension Related Deferred Outflows	8,369
Pension Related Deferred Inflows	(2,089)
Net Pension Liability	(40,866)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.	5,893
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Accrued Interest Payable	(675)
Noncurrent Liabilities Due in One Year	(45,785)
Noncurrent Liabilities Due in More Than One Year	<u>(112,363)</u>
Net Position of Governmental Activities	\$ <u><u>1,823,308</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements.

TOWN OF SAN FELIPE, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund
For the Year Ended September 30, 2015

	<u>General Fund</u>
REVENUES	
Property Taxes	\$ 134,702
Sales, Franchise and Other Taxes	468,446
Permits and Licenses	2,098
Fines and Forfeitures	36,505
Interest on Investments	14,663
Other Revenue	<u>17,308</u>
Total Revenues	<u>673,722</u>
EXPENDITURES	
Current	
Administrative and Personnel	442,563
Public Safety	39,361
Public Works	108,312
Capital Outlay	<u>13,281</u>
Total Expenditures	<u>603,517</u>
Net Changes in Fund Balances	70,205
Fund Balances - Beginning of Year	<u>1,559,127</u>
Fund Balances - End of Year	<u>\$ 1,629,332</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

TOWN OF SAN FELIPE, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund
 (Continued)
 For the Year Ended September 30, 2015

Reconciliation of the change in fund balances - total governmental funds to the change in net position of governmental activities:

Net change in fund balances - governmental activities: \$ 70,205

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	13,281
Depreciation expense	(61,754)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(693)
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The change in net position liability and deferred inflows and outflows related to the Town's TMRS pension liability:	3,867
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The issuance of long-term debt (e.g., bonds, certificates of obligation) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal payments	40,516
Accrued interest	<u>98</u>

Change in net position of governmental activities	\$ <u>65,520</u>
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The Accompanying Notes are an Integral Part of These Financial Statements.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note A – Nature of the Entity and Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of San Felipe, Texas (the Town) has governance responsibilities as permitted by the general laws of the State of Texas over all municipal activities within the legal boundaries of the Town. The Town's council consists of six members – the Mayor, Mayor Pro-Tem and four aldermen. The Town provides what are considered general government services: public safety to include police and fire services, municipal court, public works to include streets and drainage, and general administration.

As required by GAAP, the financial statements of the reporting entity must include those of the Town and its component units. In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by GAAP. The criteria for including organizations as component units within the Town's reporting entity, as set forth by GASB Statement No. 14, *The Financial Reporting Entity*, include the following:

- the organization is legally separate (can sue and be sued in their own name)
- the Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the Town has no component units. Additionally, the Town is not a component unit of any other reporting entity as defined by GASB Statement No. 14.

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities are the government-wide financial statements. They report information on all of the Town's non-fiduciary activities with most of the interfund activities removed, if applicable. Governmental activities include programs supported by taxes, intergovernmental revenues, and other nonexchange transactions.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note A – Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include fees, fines and charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of account. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing resources and expenditures and other financing uses).

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The Town considers them "available" if they will be collected within 60 days after year end.

Fund Accounting

The Town reports the following major governmental fund:

General Fund – This is the Town's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note A – Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with initial maturities of three months or less.

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Accounts and property taxes receivable are reported net of allowances for uncollectible accounts. The allowance account represents management's estimate of uncollectible accounts based on experience and historical trends.

Property taxes are levied during October of each year and are due upon receipt of the Town's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

Capital Assets

Capital assets are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Town as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The minimum capitalization threshold is any individual item with a total cost greater than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of capital assets is computed using the straight-line method over the following estimated useful lives:

Furniture and Equipment	8 to 10 years
Buildings and Improvements	25 to 50 years
Infrastructure	20 to 40 years

The Town does not capitalize interest costs related to construction.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note A – Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Equity Classifications

Government-Wide Financial Statement

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitution provisions or enabling legislation.
- c. Unrestricted – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When the Town incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Town’s policy is to use restricted resources first, then unrestricted resources.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note A – Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Equity Classifications (Continued)

Fund Financial Statement

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, require that fund balances for the Town's governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The Town did not have any nonspendable fund balances at September 30, 2015.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The Town's highest level of decision-making authority is the Town Council. All fund balance commitments are authorized by ordinances, typically during the budgeting process. The Town did not have any committed fund balances at September 30, 2015.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The Town Council retains the authority to assign and unassign fund balances.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the Town's General Fund. If a fund deficit exists in other funds, then that amount is reported as a negative unassigned fund balance.

The Town would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note A – Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Budget

The original budget is adopted by the Town’s Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them. The Town’s Council may amend the budget throughout the year. Appropriations lapse at the end of the fiscal year.

Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation time per calendar year based on years of service as follows:

2 years	5 days
3 years	10 days
9 or more years	15 days

At the beginning of each calendar year, any unused vacation time is forfeited and employees’ accrued vacation time resets to the maximum amount allowed based on years of service. A liability for these amounts is reported in the fund financial statements since they are considered to be current liabilities. Compensated absences were \$4,214 at September 30, 2015.

Pensions

The net pension liability, deferred inflows and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from the TMRS’ fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note B – Deposits and Investments

Deposits

At September 30, 2015, the carrying amount of the Town's cash deposits was \$1,518,124 and the bank balance was \$1,541,146. The bank balance is categorized as follows:

Insured by the Federal Deposit Insurance Corporation (FDIC), or collateralized with securities held by the Town or its agent in the Town's name.	\$ 456,146
Collateralized with securities held by the pledging financial institution or its agent in the Town's name	1,085,000
	<hr/>
Total Bank Balance	\$ <u>1,541,146</u>

Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Town to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity of portfolio investments, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Town to invest in: (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptance, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the Town to have independent auditors perform test procedures related to investment practices as provided by the Act. The Town is in substantial compliance with the requirements of the Act and with local policies.

At September 30, 2015, the Town had funds invested in the Texas Local Government Investment Pool (TexPool). The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard and Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor's, as well as the Office of the Comptroller of Public Accounts for review.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note B – Deposits and Investments (Continued)

Investments (Continued)

TexPool operates in a manner consistent with Securities and Exchange Commission Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of the TexPool shares. The fair market value of investments in TexPool at September 30, 2015 was \$77,583.

The fair value of the TexPool investments is recorded as cash and cash equivalents on the financial statements.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the Town has adopted a deposit and investment policy. That policy addresses the following risks:

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized ratings agencies are designed to give an indication of credit risk. The Town's investment policy limits exposure to credit risk by limiting investments to those authorized by the Public Funds Investment Act. At September 30, 2015, the Town was not significantly exposed to credit risk

Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Town's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Town's name.

The Town's investment policy limits exposure to custodial credit risk by requiring all uninsured deposits and investments be covered by pledged collateral. At year-end, the Town was not exposed to custodial credit risk.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note B – Deposits and Investments (Continued)

Policies Governing Deposits and Investments (Continued)

Concentrations of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The Town's investment policy limits overconcentration of its assets in specific instruments except U.S. Treasury Securities and insured or collateralized certificates of deposit. At year-end, the Town was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's investment policy limits exposure to interest rate risk by limiting average maturities to one year. At year-end, the Town was not exposed to interest rate risk.

Analysis of Specific Deposit and Investment Risks

Foreign Currency Risk

This the risk that exchange rates will adversely affect the fair value of an investment. The Town does not have a policy related to foreign currency risk. At year-end, the Town was not exposed to foreign currency risk.

Investment Accounting Policy

The Town's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments that have a remaining term of one year or less at the time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note C – Accounts Receivable

The following comprise receivable balances at September 30, 2015:

Governmental Activities:	
State Sales Taxes Receivable	\$ 73,044
Property Taxes Receivable	7,371
Allowance for Uncollectible Accounts	<u>(737)</u>
Total Receivables, Net	<u>\$ 79,678</u>

Note D – Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

	Balance 10/01/2014	Additions	Deductions	Reclassify	Balance 09/30/2015
Governmental Activities					
Capital Assets Not Being Depreciated					
Land	\$ 21,405	\$ -	\$ -	\$ -	\$ 21,405
Construction in Progress	-	13,281	-	-	13,281
Total Capital Assets Not Being Depreciated	<u>21,405</u>	<u>13,281</u>	<u>-</u>	<u>-</u>	<u>34,686</u>
Capital Assets Being Depreciated					
Buildings and Improvements	673,526	-	-	-	673,526
Furniture and Equipment	398,910	-	(75,347)	-	323,563
Infrastructure	468,763	-	-	-	468,763
Total Capital Assets Being Depreciated	<u>1,541,199</u>	<u>-</u>	<u>(75,347)</u>	<u>-</u>	<u>1,465,852</u>
Accumulated Depreciation					
Buildings and Improvements	(583,876)	(7,966)	-	-	(591,842)
Furniture and Equipment	(272,210)	(30,350)	75,347	7,788	(219,425)
Infrastructure	(276,553)	(23,438)	-	(7,788)	(307,779)
Total Accumulated Depreciation	<u>(1,132,639)</u>	<u>(61,754)</u>	<u>75,347</u>	<u>-</u>	<u>(1,119,046)</u>
Net Capital Assets Being Depreciated	<u>408,560</u>	<u>(61,754)</u>	<u>-</u>	<u>-</u>	<u>346,806</u>
Net Capital Assets	<u>\$ 429,965</u>	<u>\$ (48,473)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 381,492</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Administrative and Personnel	\$ 4,086
Public Safety	23,195
Public Works	<u>34,473</u>
Total Governmental Activities Depreciation Expense	<u>\$ 61,754</u>

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note E – Long-Term Debt

Long-Term Debt Activity

Long-term debt activity for the year ended September 30, 2015 was as follows:

	Balance 10/01/2014	Additions	Reductions	Balance 09/30/2015	Due Within One Year
Governmental Activities:					
Certificates of Obligation, Series 2003	\$ 155,000	\$ -	\$ (35,000)	\$ 120,000	\$ 40,000
Notes Payable	43,664	-	(5,516)	38,148	5,785
Total governmental activities	\$ 198,664	\$ -	\$ (40,516)	\$ 158,148	\$ 45,785

Description of Debt

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003

On December 18, 2003, the Town issued \$500,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003 for public works, including construction and equipment of certain streets, sidewalks, drainage and park improvements. Principal is due annually on February 15. Interest is due semiannually on February 15 and August 15 at a rate of 3.99%. The final maturity date of the bonds is February 15, 2018.

Note Payable – Citizens State Bank

On September 12, 2014, the Town entered into a loan agreement with Citizens State Bank to borrow the sum of \$43,664 for the purchase of a new police vehicle. Terms include 35 payments due monthly in the amount of \$600, which includes interest at 3.99% and one balloon payment of the entire unpaid balance of principal and interest due September 12, 2017.

Debt Service Requirements

Debt service requirements at September 30, 2015 were as follows:

Year Ended September 30,	Principal	Interest	Total
2017	\$ 45,785	\$ 5,405	\$ 51,190
2018	72,320	3,574	75,894
2019	40,043	798	40,841
Total	\$ 158,148	\$ 9,777	\$ 167,925

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note F – Operating Leases

The Town leases office equipment under a non-cancellable operating lease. Total expenditures for the operating lease for the year ended September 30, 2015 were \$2,652.

The future minimum lease payments for the non-cancellable operating lease are as follows:

<u>Year Ended</u> <u>September 30.</u>	<u>Principal</u>
2016	\$ 2,383
2017	2,556
2018	2,556
2019	2,556
2020	<u>1,278</u>
Total	<u>\$ 11,329</u>

Note G – Pension Plan

Plan Description

The Town of San Felipe participates as one of the 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is tax-qualified plan under section 401(a) of the Internal Revenue Code. TMRS issues a publicity available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 26 monthly payments, which cannot exceed 75% of the member's deposits and interest.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note G- Pension Plan (Continued)

Benefits Provided (Continued)

At December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

	<u>2014</u>
Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	6
Active Employees	<u>4</u>
	<u>10</u>

Contributions

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

Employees for the Town of San Felipe were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the Town of San Felipe were 4.81% and 4.78% in calendar years 2014 and 2015, respectively. The Town's contributions to TMRS for the year ended September 30, 2015, were \$8,587, and were equal to the required contributions.

Net Pension Liability

The Town's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

The Total Pension Liability in December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0% net pension plan investment expense, including inflation

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note G – Pension Plan (Continued)

Net Pension Liability (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the Town, rates are multiplied by a factor of 100%. The rates are projected on a fully generation basis by scale BB to account for future mortality improvements. For disable annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period of January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 1, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and the best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.8%
International Equity	17.5%	6.0%
Core Fixed Income	30.0%	1.5%
Non-Core Fixed Income	10.0%	3.5%
Real Return	5.0%	1.8%
Real Estate	10.0%	5.3%
Absolute Return	5.0%	4.3%
Private Equity	5.0%	8.5%
Total	100.0%	

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note G – Pension Plan (Continued)

Net Pension Liability (Continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employees and employer contributions will be made at the rates specified in statute. Based on the assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2013	\$ 228,464	\$ 184,445	\$ 44,019
Changes for the year:			-
Service Cost	9,910		9,910
Interest	16,339		16,339
Change of benefit terms	-		-
Difference between expected and actual experience	(2,896)		(2,896)
Changes in assumptions	-		-
Contributions - employer		7,753	(7,753)
Contributions - employee		8,318	(8,318)
Net investment income		10,554	(10,554)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(110)	110
Other Changes		(9)	9
Net changes	23,353	26,506	(3,153)
Balance at 12/31/2014	\$ 251,817	\$ 210,951	\$ 40,866

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note G – Pension Plan (Continued)

Net Pension Liability (Continued)

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the Town, calculated using the discount rate of 7.0%, as well as what the Town’s net position liability would be if it were calculating using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Decrease in Discount Rate (8.0%)
Town's net pension liability	74,987	40,866	12,335

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2015, the Town recognized pension expense of \$8,587.

At September 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources 9/30/2015	Deferred Inflows of Resources 9/30/2015
Differences between Expected and Actual Economic Experience	\$ -	\$ (2,089)
Difference in Actuarial Assumptions	-	-
Differences Between Projected and Actual Investment Earnings	1,886	-
Contributions Subsequent to the Measurement Date	6,483	-
	<u>\$ 8,369</u>	<u>\$ (2,089)</u>

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note G – Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

\$8,369 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows of resources to pensions will be recognized in pension expense as follows:

		Net deferred outflows (inflows) of resources
2015	\$	(336)
2016		(336)
2017		(4)
2018		473
2019		-
Thereafter		-
Total	\$	<u>(203)</u>

Note H – Net Position

Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 68

The Town adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This new standard requires the Town plan's net pension liability (asset) and related deferred inflows and outflows of resources to be recognized on the Town's government-wide statements. This change required a prior period adjustment to restate prior years in accordance with the change in accounting principle. The prior period adjustment recorded represents the net pension liability at September 30, 2014.

TOWN OF SAN FELIPE, TEXAS

Notes to the Financial Statements
September 30, 2015

Note H – Net Position (Continued)

Restatement of Net Position

For the fiscal year ending September 30, 2015, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (“the Statement”) was implemented. The implementation of the statement resulted in the Town recording net pension liability, related deferred inflows and outflows of resources, and initial entries as prior period adjustments to be recognized on the Town’s government-wide statements. The standard requires retrospective application to the extent it is practicable. The Town’s government-wide net position for the governmental activities as of September 30, 2015, has been restated as follows:

		<u>Government-Wide Statement of Net Position Governmental Activities</u>
Net Position at September 30, 2014, As Previously Restated	\$	1,796,241
GASB Statement No. 68 adjustment:		
Beginning Prior Period Adjustment		<u>(38,453)</u>
Net Position at September 30, 2014, As Restated	\$	<u>1,757,788</u>

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one type of item reported as deferred outflows of resources, in the governmental fund on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between projected and actual investment earnings on pensions and contributions made to the pension plan to the measurement date of the actuarial valuation. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item reported as deferred inflows of resources in the governmental fund on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between expected and actual economic experience based on the actuarial valuation. At the governmental fund level only one type of item arises only under a modified accrual basis of accounting, that qualifies of reporting as deferred inflows of resources. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from uncollected property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF SAN FELIPE, TEXAS

Required Supplemental Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
 General Fund
 For the Year Ended September 30, 2015

	Budget Amounts		2015 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
REVENUES				
Property Taxes	\$ 135,000	\$ 135,000	\$ 134,702	\$ (298)
Sales, Franchise and Other Taxes	462,200	462,200	468,446	6,246
Permits and Licenses	2,000	2,000	2,098	98
Fines and Forfeiture	30,000	30,000	36,505	6,505
Interest on Investments	25,065	25,065	14,663	(10,402)
Other Revenue	14,200	14,200	17,308	3,108
Total Revenues	<u>668,465</u>	<u>668,465</u>	<u>673,722</u>	<u>5,257</u>
EXPENDITURES				
Administrative and Personnel	473,700	473,700	442,563	31,137
Public Safety	27,700	47,700	39,361	8,339
Public Works	132,050	132,050	108,312	23,738
Capital Outlay	-	-	13,281	(13,281)
Total Expenditures	<u>633,450</u>	<u>653,450</u>	<u>603,517</u>	<u>49,933</u>
Net Change in Fund Balances	<u>35,015</u>	<u>15,015</u>	<u>70,205</u>	<u>55,190</u>
Fund Balances - Beginning of Year	<u>1,559,127</u>	<u>1,559,127</u>	<u>1,559,127</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 1,594,142</u>	<u>\$ 1,574,142</u>	<u>\$ 1,629,332</u>	<u>\$ 55,190</u>

TOWN OF SAN FELIPE, TEXAS

Required Supplemental Information
Notes to the Budgetary Comparison Schedule
General Fund
For the Year Ended September 30, 2015

Note A – Budgetary Procedures

The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the Town prepares a budget for the next succeeding fiscal year.
- b. A meeting of the Town Council is then called for the purpose of adopting the proposed budget.
- c. Prior to the start of the next fiscal year, the budget is legally enacted through passage of an ordinance by the Town Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Town Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Town Council, and are not made after fiscal year end.

TOWN OF SAN FELIPE, TEXAS

Required Supplemental Information
 Schedule of Changes in Net Pension Liability and Related Ratios -- Last 10 Years

	<u>2014</u>
Total Pension Liability	
Service Cost	\$ 9,910
Interest (on the Total Pension Liability)	16,339
Difference between expected and actual experience	<u>(2,896)</u>
Net Change in Total Pension Liability	23,353
Total Pension Liability - Beginning	<u>228,464</u>
Total Pension Liability - Ending (a)	<u><u>251,817</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	7,753
Contributions - Employee	8,318
Net Investment Income	10,554
Administrative Expense	(110)
Other	<u>(9)</u>
Net Change in Plan Fiduciary Net Position	26,506
Plan Fiduciary Net Position - Beginning	<u>184,445</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>210,951</u></u>
Net Pension Liability - Ending (a) - (b)	40,866
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.77%
Covered Employee Payroll	166,351
Net Pension Liability as a Percentage of Covered Employee Payroll	24.57%

SUPPLEMENTAL INFORMATION

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

To the Honorable Mayor and Town Council
Town of San Felipe, 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 of the Town of San Felipe, Texas (the Town), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 6, 2017.

Internal Control over Financial Reporting

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

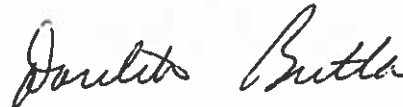
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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.



San Antonio, Texas
January 6, 2017