

**TOWN OF SAN FELIPE, TEXAS**

**Financial Report**

**For the Year Ended September 30, 2016**

TOWN OF SAN FELIPE, TEXAS

Annual Financial Report  
Year Ended September 30, 2016

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Annual Financial Report  
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INTRODUCTORY SECTION

TOWN OF SAN FELIPE, TEXAS

Town Officials

Bobby Byars.....Mayor  
Alfred Hall .....Mayor Pro-Tem  
Louis T. Bonner Jr. ....Alderman

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Derrick Dabney.....Alderman  
Brenda Newsome .....Alderman  
Jeff Zeigler.....Alderman  
Sue Foley ..... Town Secretary

FINANCIAL SECTION



**Haynie &  
Company**

**Certified Public Accountants** (a professional corporation)  
2702 N. Loop 1604 E., Ste. 202 San Antonio, TX 78232 (210) 979-0055 Fax (210) 979-0058

## **INDEPENDENT AUDITOR'S REPORT**

Robert F. Darilek  
Certified Public Accountant

Steven H. Butler  
Certified Public Accountant

Darenda Kientzman  
Certified Public Accountant

John Bookweg  
Certified Public Accountant

**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, 2016, 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 the financial audits contained in *Governmental 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 Town'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 opinion.



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Salt Lake City, Utah 84119  
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Salt Lake City, UT 84101  
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South Ogden, UT 84403  
(801) 479-4800

1221 West Mineral Avenue Suite 202  
Littleton, Colorado 80120-4544  
(303) 734-4800

873 North Cleveland Avenue  
Loveland, Colorado 80537  
(303) 577-4800

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### 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 of San Felipe, Texas as of September 30, 2016, 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 B to the financial statements, in 2016 the Town adopted new accounting guidance, *GASB Statement No. 72, Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

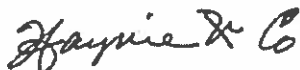
### Other Matters

#### *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 10, budgetary comparison information on pages 36 through 37, and the Schedule of Changes in Net Pension Liability and Related Ratios – Last 10 Years on page 38 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 June 11, 2018, 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.



Haynie & Company  
San Antonio, Texas  
June 11, 2018



# TOWN OF SAN FELIPE, TEXAS

## Management's Discussion and Analysis For the Year Ended September 30, 2016

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, 2016. Please read it in conjunction with the Town's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The Town's total net position was \$1,763,750 at September 30, 2016.
- Revenue generated from taxes and other revenues for governmental activities was \$661,662. The Town's governmental fund expenses were \$721,220.

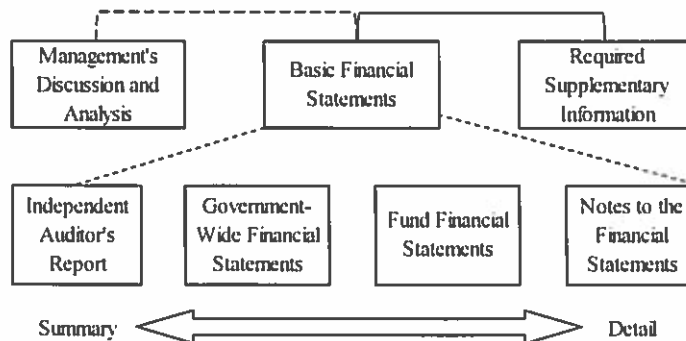
### OVERVIEW OF THE FINANCIAL STATEMENTS

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 funds* 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 the 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, 2016

### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

#### 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 fees, 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 type 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.

#### 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.

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2016

**FINANCIAL ANALYSIS OF THE TOWN 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 \$1,763,750 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      |
|--|---------------------|---------------------|--------------------|---------------|
|  | 2016                | 2015                |                    |               |
| Current and Other Assets                           | \$ 1,635,851        | \$ 1,643,918        | \$ (8,067)         | -0.5%         |
| Capital Assets, Net                                | 402,670             | 413,059             | (10,389)           | -2.5%         |
| Total Assets                                       | <u>2,038,521</u>    | <u>2,056,977</u>    | <u>(18,456)</u>    | <u>-0.9%</u>  |
| Deferred Outflows                                  |                     |                     |                    |               |
| Deferred Pension Related Outflows                  | 25,005              | 8,369               | 16,636             | 198.8%        |
| Total Deferred Outflows                            | <u>25,005</u>       | <u>8,369</u>        | <u>16,636</u>      | <u>198.8%</u> |
| Current Liabilities                                | 197,154             | 86,720              | 110,434            | 127.3%        |
| Noncurrent Liabilities                             | 97,657              | 153,229             | (55,572)           | -36.3%        |
| Total Liabilities                                  | <u>294,811</u>      | <u>239,949</u>      | <u>54,862</u>      | <u>22.9%</u>  |
| Deferred Outflows                                  |                     |                     |                    |               |
| Deferred Pension Related Outflows                  | 4,965               | 2,089               | 2,876              | 137.7%        |
| Total Deferred Outflows                            | <u>4,965</u>        | <u>2,089</u>        | <u>2,876</u>       | <u>137.7%</u> |
| Net Position:                                      |                     |                     |                    |               |
| Invested in Capital Assets,<br>Net of Related Debt | 228,157             | 223,344             | 4,813              | 2.2%          |
| Restricted   | 31,567              | 31,567              | -                  | 0.0%          |
| Unrestricted                                       | 1,504,026           | 1,568,397           | (64,371)           | -4.1%         |
| Total Net Position                                 | <u>\$ 1,763,750</u> | <u>\$ 1,823,308</u> | <u>\$ (59,558)</u> | <u>-3.3%</u>  |

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2016

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (CONTINUED)**

A portion of the primary government's net position, \$228,157, 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, \$1,504,026, 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     |
|--------------------------------------|---------------------|---------------------|--------------------|--------------|
|                                      | 2016                | *2015               |                    |              |
| <b>Revenues</b>                      |                     |                     |                    |              |
| Program Revenues:                    |                     |                     |                    |              |
| Charges for Services                 | \$ 43,488           | \$ 38,603           | \$ 4,885           | 12.7%        |
| General Revenues:                    |                     |                     |                    |              |
| Property Taxes                       | 134,488             | 134,009             | 479                | 0.4%         |
| Sales Taxes                          | 437,956             | 468,446             | (30,490)           | -6.5%        |
| Interest and Investment Income       | 15,474              | 14,663              | 811                | 5.5%         |
| Other Revenue                        | 30,256              | 17,308              | 12,948             | 74.8%        |
| Total Revenues                       | <u>661,662</u>      | <u>673,029</u>      | <u>(11,367)</u>    | <u>-1.7%</u> |
| <b>Expenses</b>                      |                     |                     |                    |              |
| Administrative and Personnel         | 499,877             | 442,782             | 57,095             | 12.9%        |
| Public Safety                        | 77,184              | 57,040              | 20,144             | 35.3%        |
| Public Works                         | 144,159             | 107,687             | 36,472             | 33.9%        |
| Total Expenses                       | <u>721,220</u>      | <u>607,509</u>      | <u>113,711</u>     | <u>18.7%</u> |
| Change in Net Position               | (59,558)            | 65,520              | (125,078)          | -190.9%      |
| Net Position - Beginning             | 1,823,308           | 1,796,241           | 27,067             | 1.5%         |
| Prior Period Adjustment              | -                   | (38,453)            | 38,453             | -100.0%      |
| Net Position - Beginning as Restated | <u>1,823,308</u>    | <u>1,757,788</u>    | <u>65,520</u>      | <u>3.7%</u>  |
| Net Position - Ending                | <u>\$ 1,763,750</u> | <u>\$ 1,823,308</u> | <u>\$ (59,558)</u> | <u>-3.3%</u> |

\*Note: Prior period adjustment in fiscal year 2015 represents the effects of GASB 68.

TOWN OF SAN FELIPE, TEXAS

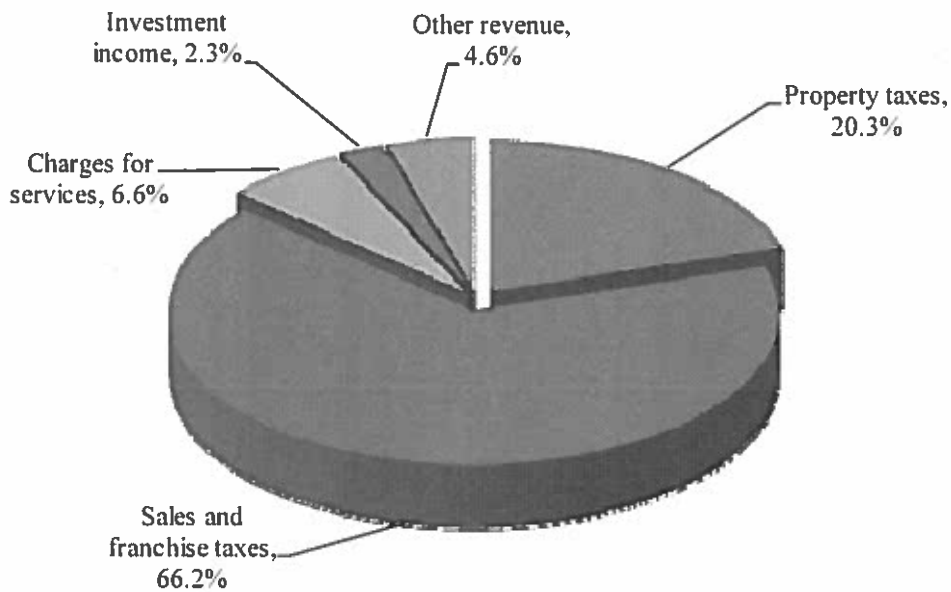
Management's Discussion and Analysis  
For the Year Ended September 30, 2016

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (CONTINUED)**

Overall, government-wide revenues decreased by \$11,367, mainly due to a decrease 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 \$113,711, due to an increase in salaries/hourly wages, related group insurance expenses, and turnover in the police department.

**Governmental Revenues**

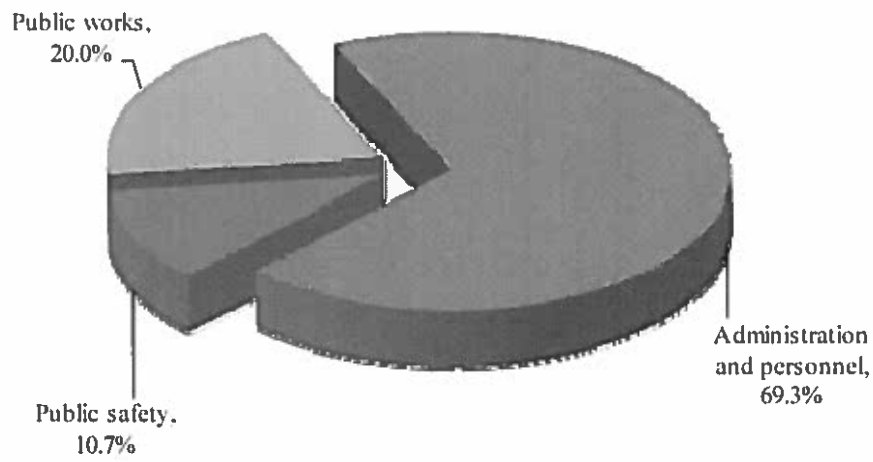


TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2016

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (CONTINUED)**

**Governmental Expenses**



**Governmental Activities**

The Town's general fund reflects a total fund balance of \$1,565,393. Of this amount, \$31,567 is restricted bond process, \$4,106 is assigned for court technology and \$3,072 is assigned for court security. The remaining amount, \$1,526,648, 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 \$65,520.

**General Fund Budgetary Highlights**

The actual general fund revenues were below the budgeted revenues by \$7,803 during the year. General fund expenditures exceeded the amended budget by \$71,150. This was mainly due to employee turnover and additional street repairs.

## TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2016

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of the fiscal year, the Town had invested in \$1,562,417 in capital assets, including land, construction in progress, equipment, buildings, and vehicles. The following schedule summarizes the capital assets of the Town:

|                            | September 30, |             | \$ Change   | % Change |
|----------------------------|---------------|-------------|-------------|----------|
|                            | 2016          | 2015        |             |          |
| 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    | 375,129       | 323,563     | 51,566      | 16%      |
| Infrastructure             | 492,357       | 468,763     | 23,594      | 5%       |
| Total Capital Assets       | 1,562,417     | 1,500,538   | 61,879      | 4%       |
| Less:                      |               |             |             |          |
| Accumulated Depreciation   | (1,191,314)   | (1,119,046) | (72,268)    | 6%       |
| Net Capital Assets         | \$ 371,103    | \$ 381,492  | \$ (10,389) | -3%      |

#### Long-Term Debt

At September 30, 2016, the Town had total long-term debt of \$142,946. At year-end, long-term bonds outstanding account for \$80,000, note payable account for \$32,440, and capital lease obligations account for \$30,506.

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

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The property tax rate for the 2016 fiscal year was \$0.1557 per \$100 valuation, which was the same for fiscal year 2015. The Town's fiscal year 2017 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, 2016

|   | Primary<br>Government<br>Governmental<br>Activities |
|---|---|
| <b>ASSETS</b>                                   |   |
| Current Assets                                  |   |
| Cash and Cash Equivalents                       | \$ 74,903   |
| Certificates of Deposit                         | 1,409,633   |
| Investments                                     | 77,807  |
| Receivables, Net                                | 72,110  |
| Prepaid   | 1,398   |
| Total Current Assets                            | <u>1,635,851</u>                                    |
| Noncurrent Assets                               |   |
| Restricted Cash and Cash Equivalents            | 31,567  |
| Land  | 21,405  |
| Buildings and Improvements, Net                 | 73,916  |
| Furniture and Equipment, Net                    | 115,953   |
| Infrastructure, Net                             | 159,829 #   |
| Total Noncurrent Assets                         | <u>402,670</u>                                      |
| <b>Total Assets</b>                             | <u>2,038,521</u>                                    |
| <b>DEFERRED OUTFLOWS</b>                        |   |
| Deferred Pension Related Outflows               | 25,005  |
| Total Deferred Outflows                         | <u>25,005</u>                                       |
| <b>LIABILITIES</b>                              |   |
| Current Liabilities                             |   |
| Accounts Payable and Accrued Liabilities        | 95,132  |
| Accrued Interest Payable                        | 691   |
| Bonds Payable                                   | 40,000  |
| Notes Payable                                   | 32,320  |
| Capital Lease                                   | 29,011  |
| Total Current Liabilities                       | <u>197,154</u>                                      |
| Noncurrent Liabilities                          |   |
| Bonds Payable                                   | 40,000  |
| Net Pension Liability                           | 56,042  |
| Notes Payable                                   | 120   |
| Capital Lease                                   | 1,495   |
| Total Long-Term Liabilities                     | <u>97,657</u>                                       |
| <b>Total Liabilities</b>                        | <u>294,811</u>                                      |
| <b>DEFERRED INFLOWS</b>                         |   |
| Deferred Pension Related Inflows                | 4,965   |
| Total Deferred Inflows                          | <u>4,965</u>  |
| <b>NET POSITION</b>                             |   |
| Invested in Capital Assets, Net of Related Debt | 228,157   |
| Restricted                                      | 31,567  |
| Unrestricted                                    | 1,504,026   |
| <b>Total Net Position</b>                       | <u>\$ 1,763,750</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, 2016

| Functions/Programs                   | Expenses          | Program Revenues<br>Charges for<br>Services | Net (Expense)<br>Revenue and<br>Changes in Net<br>Position<br>Governmental<br>Activities |
|--------------------------------------|-------------------|---|--|
| <b>Governmental Activities:</b>      |                   |   |  |
| Administrative and Personnel         | \$ 499,877        | \$ -  | \$ (499,877)   |
| Public Safety                        | 77,184            | 40,913                                      | (36,271)   |
| Public Works                         | 144,159           | 2,575                                       | (141,584)  |
| <b>Total Governmental Activities</b> | <b>721,220</b>    | <b>43,488</b>                               | <b>(677,732)</b>   |
| <b>Total Government</b>              | <b>\$ 721,220</b> | <b>\$ 43,488</b>                            |  |
|                                      |                   | <b>General Revenues</b>                     |  |
|                                      |                   | Property Taxes                              | 134,488  |
|                                      |                   | Sales and Franchise Taxes                   | 437,956  |
|                                      |                   | Interest Revenue                            | 15,474   |
|                                      |                   | Other Revenue                               | 30,256   |
|                                      |                   | <b>Total General Revenues</b>               | <b>618,174</b>   |
|                                      |                   | <b>Change in Net Position</b>               | <b>(59,558)</b>  |
|                                      |                   | <b>Net Position - Beginning</b>             | <b>1,823,308</b>   |
|                                      |                   | <b>Net Position - Ending</b>                | <b>\$ 1,763,750</b>  |

The Accompanying Notes are an Integral Part of These Financial Statements

TOWN OF SAN FELIPE, TEXAS

Balance Sheet – Governmental Fund  
As of September 30, 2016

|   | General<br>Fund     |
|---|---------------------|
| <b>ASSETS</b>   |                     |
| Cash and Cash Equivalents   | \$ 106,470          |
| Certificates of Deposit   | 1,409,633           |
| Investments   | 77,807              |
| Receivables, Net  | 72,110              |
| Prepays   | 1,398               |
| <b>Total Assets</b>   | <u>1,667,418</u>    |
| <b>LIABILITIES</b>  |                     |
| Accounts Payable and Accrued Liabilities  | <u>95,132</u>       |
| <b>Total Liabilities</b>  | <u>95,132</u>       |
| <b>DEFERRED INFLOWS OF RESOURCES</b>  |                     |
| Unavailable Revenue   | <u>6,893</u>        |
| <b>FUND BALANCES</b>  |                     |
| Restricted  | 31,567              |
| Assigned  | 7,178               |
| Unassigned  | 1,526,648           |
| <b>Total Fund Balances</b>  | <u>1,565,393</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 \$1,191,314. | 371,103             |
| 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   | 25,005              |
| Pension Related Deferred Inflows  | (4,965)             |
| Net Pension Liability   | (56,042)            |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.                         | 6,893               |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.   |                     |
| Accrued Interest Payable  | (691)               |
| Noncurrent Liabilities Due in One Year  | (101,331)           |
| Noncurrent Liabilities Due in More Than One Year  | <u>(41,615)</u>     |
| <b>Net Position of Governmental Activities</b>  | <u>\$ 1,763,750</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 Balances – Governmental Fund  
For the Year Ended September 30, 2016

|                                   | <u>General<br/>Fund</u> |
|-----------------------------------|-------------------------|
| <b>REVENUES</b>                   |                         |
| Property Taxes                    | \$ 133,488              |
| Sales, Franchise and Other Taxes  | 437,956                 |
| Permits and Licenses              | 2,575                   |
| Fines and Forfeitures             | 40,913                  |
| Interest on Investments           | 15,474                  |
| Other Revenue                     | 30,256                  |
| <b>Total Revenues</b>             | <u>660,662</u>          |
| <b>EXPENDITURES</b>               |                         |
| Current                           |                         |
| Administrative and Personnel      | 493,261                 |
| Public Safety                     | 59,512                  |
| Public Works                      | 156,028                 |
| Capital Outlay                    | 15,799                  |
| <b>Total Expenditures</b>         | <u>724,600</u>          |
| Net Changes in Fund Balances      | (63,938)                |
| Fund Balances - Beginning of Year | <u>1,629,331</u>        |
| Fund Balances - End of Year       | <u>\$ 1,565,393</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 Balances – Governmental Fund (Continued)  
 For the Year Ended September 30, 2016

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: \$ (63,938)

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       | 15,799   |
| Depreciation expense | (72,268) |

|  |       |
|--|-------|
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | 1,000 |
|--|-------|

|  |         |
|--|---------|
| The change in net position liability and deferred inflows and outflows related to the Town's TMRS pension liability: | (1,416) |
|--|---------|

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 | 61,282        |
| Accrued interest   | (17)          |
|                    | <u>61,265</u> |

|  |                           |
|--|---------------------------|
| <b>Change in net position of governmental activities</b> | <b>\$ <u>(59,558)</u></b> |
|--|---------------------------|

## TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

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

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.

#### **Financial Reporting Entity**

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 in GAAP. The criteria for including organizations as component units within the Town's reporting entity, as set forth in 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 Basic Financial Statements  
For the Year Ended September 30, 2016

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

**Basis of Presentation (Continued)**

*Government-Wide Financial Statements (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 expense 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 accounting. 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 measureable 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 funds:

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 Basic Financial Statements  
For the Year Ended September 30, 2016

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 extended asset 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 Basic Financial Statements  
For the Year Ended September 30, 2016

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, government type funds recognized 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 Statements*

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 constitutional 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 to use restricted resources first, then unrestricted resources.

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

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*, requires 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 balance at September 30, 2016.
- *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, 2016.
- *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 Basic Financial Statements  
For the Year Ended September 30, 2016

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 used 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 \$4,133 at September 30, 2016.

**Pensions**

The net pension liability and deferred outflows of resources related to pensions, and pension related expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from the TMRS’s fiduciary net position have been determined on the same basis as they are reported by the 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.

**Reclassifications**

Certain reclassifications were made to the 2015 financial statements in order to conform to the 2016 financial statement presentation.

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note B – Deposits and Investments

**Deposits**

At September 30, 2016, the bank balances and carrying value for the Town's cash deposits and certificates of deposit are shown as follows:

|   | <u>Bank</u>         | <u>Carrying Value</u> |
|---|---------------------|-----------------------|
| Cash and Cash Equivalents   | \$ 64,712           | \$ 106,370            |
| Certificates of Deposit   | <u>1,490,891</u>    | <u>1,409,633</u>      |
|   | <u>1,555,603</u>    | <u>\$ 1,516,003</u>   |
| <br>  |                     |                       |
| Insured by FDIC or collateralized with securities held by the Town  | 470,603             |                       |
| Collateralized with securities held by the pledging financial institution or its agent in the Town's name | <u>1,085,000</u>    |                       |
| Total Bank Balance  | <u>\$ 1,555,603</u> |                       |

The Town also had petty cash and change funds of \$100 at the Town totaling \$100 at year end.

**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 allowed based on the stated maturity date for the portfolio, (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 acceptances, (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.

## TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

### Note B – Deposits and Investments (Continued)

At September 30, 2016, 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.

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 to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The fair market value of investments at September 30, 2016 was \$77,807.

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 rating 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, 2016, 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, or are held by either the counterparty or the counterparty's trust department or agent but not in the Town's name.

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note B – Deposits and Investments (Continued)

**Policies Governing Deposits and Investments (Continued)**

*Custodial Credit Risk (Continued)*

The Town's investment policy limits exposure to custodial credit risk by requiring all uninsured deposits and investments be covered by pledged collateral. At September 30, 2016, the Town was not exposed to custodial credit risk.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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 of investments to one year or less. At September 30, 2016, the Town was not exposed to interest rate risk.

**Analysis of Specific Deposit and Investment Risks**

*Foreign Currency Risk*

This is 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 Basic Financial Statements  
For the Year Ended September 30, 2016

Note B – Deposits and Investments (Continued)

**Fair Value Measurements**

The Town adopted GASB Statement No. 72, *Fair Value Measurement and Application* in fiscal year 2016. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

The Town categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation input used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs which include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are not active; or other observable inputs such as interest rates and yield curves at commonly quoted intervals, implied volatilities, and credit spreads; or market-corroborated inputs
- Level 3 inputs are significant unobservable inputs.

|   | <u>9/30/2016</u>    | <u>Level 1</u>   | <u>Level 2</u>      | <u>Level 3</u> |
|---|---------------------|------------------|---------------------|----------------|
| Investments measured at amortized cost: |                     |                  |                     |                |
| External Investment Pools               |                     |                  |                     |                |
| Texpool                                 | 77,807              | 77,807           | -                   | -              |
| <br>Total                               | <u>\$ 1,487,440</u> | <u>\$ 77,807</u> | <u>\$ 1,409,633</u> | <u>\$ -</u>    |

Note C – Accounts Receivable

The following comprise receivable balances at September 30, 2016:

|                                      |                  |
|--------------------------------------|------------------|
| <b>Governmental Activities:</b>      |                  |
| State Sales Taxes Receivable         | \$ 67,534        |
| Property Taxes Receivable            | 5,085            |
| Allowance for Uncollectible Accounts | <u>(509)</u>     |
| Total Receivables, Net               | <u>\$ 72,110</u> |

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note D – Capital Assets

Capital asset activity for the year ended September 30, 2016 was as follows:

| <u>Governmental Activities</u>                    | <u>Balance</u><br><u>10/01/2015</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Reclassify</u> | <u>Balance</u><br><u>09/30/2016</u> |
|---|-------------------------------------|--------------------|------------------|-------------------|-------------------------------------|
| <b>Capital Assets Not Being Depreciated</b>       |                                     |                    |                  |                   |                                     |
| Land  | \$ 21,405                           | \$ -               | \$ -             | \$ -              | \$ 21,405                           |
| Construction in Progress                          | 13,281                              | -                  | -                | (13,281)          | -                                   |
| <b>Total Capital Assets Not Being Depreciated</b> | <b>34,686</b>                       | <b>-</b>           | <b>-</b>         | <b>(13,281)</b>   | <b>21,405</b>                       |
| <b>Capital Assets Being Depreciated</b>           |                                     |                    |                  |                   |                                     |
| Buildings and Improvements                        | 673,526                             | -                  | -                | -                 | 673,526                             |
| Furniture and Equipment                           | 323,563                             | 5,486              | -                | 46,080            | 375,129                             |
| Infrastructure                                    | 468,763                             | 10,313             | -                | 13,281            | 492,357                             |
| <b>Total Capital Assets Being Depreciated</b>     | <b>1,465,852</b>                    | <b>15,799</b>      | <b>-</b>         | <b>59,361</b>     | <b>1,541,012</b>                    |
| <b>Accumulated Depreciation</b>                   |                                     |                    |                  |                   |                                     |
| Buildings and Improvements                        | (591,842)                           | (7,768)            | -                | -                 | (599,610)                           |
| Furniture and Equipment                           | (219,425)                           | (39,751)           | -                | -                 | (259,176)                           |
| Infrastructure                                    | (307,779)                           | (24,749)           | -                | -                 | (332,528)                           |
| <b>Total Accumulated Depreciation</b>             | <b>(1,119,046)</b>                  | <b>(72,268)</b>    | <b>-</b>         | <b>-</b>          | <b>(1,191,314)</b>                  |
| <b>Net Capital Assets Being Depreciated</b>       | <b>346,806</b>                      | <b>(56,469)</b>    | <b>-</b>         | <b>59,361</b>     | <b>349,698</b>                      |
| <b>Net Capital Assets</b>                         | <b>\$ 381,492</b>                   | <b>\$ (56,469)</b> | <b>\$ -</b>      | <b>\$ 46,080</b>  | <b>\$ 371,103</b>                   |

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

|   |                  |
|---|------------------|
| <b>Governmental Activities:</b>                           |                  |
| Administrative and Personnel                              | \$ 5,199         |
| Public Safety   | 23,380           |
| Public Works  | 43,689           |
| <b>Total Governmental Activities Depreciation Expense</b> | <b>\$ 72,268</b> |



TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note E – Long-Term Obligations

**Long-Term Debt Activity**

Long-term debt activity for the year ended September 30, 2016 was as follows:

|   | Balance<br>10/01/2015 | Additions   | Reductions         | Balance<br>09/30/2016 | Due Within<br>One Year |
|---|-----------------------|-------------|--------------------|-----------------------|------------------------|
| <b>Governmental Activities:</b>         |                       |             |                    |                       |                        |
| Certificates of Obligation, Series 2003 | \$ 120,000            | \$ -        | \$ (40,000)        | \$ 80,000             | \$ 40,000              |
| Notes Payable                           | 38,148                | -           | (5,708)            | 32,440                | 32,320                 |
| Capital Lease                           | 44,918                | -           | (14,412)           | 30,506                | 29,011                 |
| <b>Total governmental activities</b>    | <b>\$ 203,066</b>     | <b>\$ -</b> | <b>\$ (60,120)</b> | <b>\$ 142,946</b>     | <b>\$ 101,331</b>      |

**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 annual on February 15. Interest is due semiannual 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, 2016 were as follows:

| Year Ended<br>September 30, | Principal         | Interest        | Total             |
|-----------------------------|-------------------|-----------------|-------------------|
| 2017                        | \$ 87,665         | \$ 5,023        | \$ 92,688         |
| 2018                        | 55,181            | 1,276           | 56,457            |
| <b>Total</b>                | <b>\$ 142,846</b> | <b>\$ 6,299</b> | <b>\$ 149,145</b> |

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

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, 2016 were \$2,383.

The future minimum lease payments for non-cancelable operating leases are as follows:

| <u>Year Ended<br/>September 30,</u> | <u>Principal</u> |
|-------------------------------------|------------------|
| 2017                                | \$ 2,556         |
| 2018                                | 2,556            |
| 2019                                | 2,556            |
| 2020                                | <u>1,278</u>     |
| Total                               | <u>\$ 8,946</u>  |

Note G – Pension Plan

**Plan Description**

The Town of San Felipe participates as one of the 866 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 a tax-qualified plan under section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

All eligible employees of the Town 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 Town, 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 Town-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 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note G – Pension Plan (Continued)

**Benefits Provided (Continued)**

At December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

|   |             |
|---|-------------|
|   | <u>2015</u> |
| Inactive employees entitled to but not yet receiving benefits | 6           |
| Active Employees  | <u>5</u>    |
|   | <u>11</u>   |

**Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contribution rate for each Town 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 4.78% and 3.72% in calendar years 2015 and 2016, respectively. The Town's contributions to TMRS for the year ended September 30, 2016, were \$8,654, and were equal to the required contributions.

**Net Pension Liability**

The Town's Net Pension Liability (NPL) was measured as of December 31, 2015, 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 the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

|                           |  |
|---------------------------|--|
| Inflation                 | 2.5% per year  |
| Overall payroll growth    | 3.0% per year  |
| Investment Rate of Return | 6.75% net pension plan investment expense, including inflation |

## TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

### 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 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 disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Tables with Blue Collar Adjustment are used with males rates by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period of December 31, 2010 through December 31, 2014. 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 31, 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. After the asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note G – Pension Plan (Continued)

**Net Pension Liability (Continued)**

| <b>Asset Class</b>    | <b>Target Allocation</b> | <b>Long-Term Expected Real Rate of Return (Arithmetic)</b> |
|-----------------------|--------------------------|--|
| Domestic Equity       | 17.5%                    | 4.55%  |
| International Equity  | 17.5%                    | 6.10%  |
| Core Fixed Income     | 10%                      | 1.00%  |
| Non-Core Fixed Income | 20%                      | 3.65%  |
| Real Rate of Return   | 10%                      | 4.03%  |
| Real Estate           | 10%                      | 5.00%  |
| Absolute Return       | 10%                      | 4.00%  |
| Private Equity        | 5%                       | 8.00%  |
| Total                 | 100%                     |  |

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that 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.

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note G – Pension Plan (Continued)

**Net Pension Liability (Continued)**

*Changes in the Net Pension Liability*

|   | <b>Total Pension<br/>Liability<br/>(a)</b> | <b>Plan Fiduciary Net<br/>Position<br/>(b)</b> | <b>Net Pension<br/>Liability<br/>(a) - (b)</b> |
|---|--|--|--|
| Balance at 12/31/2014   | \$ 251,817                                 | \$ 210,951                                     | \$ 40,866                                      |
| Changes for the year:   |  |  | -  |
| Service Cost  | 11,935                                     |  | 11,935   |
| Interest  | 18,027                                     |  | 18,027   |
| Change of benefit terms   | -  |  | -  |
| Difference between expected<br>and actual experience                | (6,928)                                    |  | (6,928)  |
| Changes in assumptions  | 10,618                                     |  | 10,618   |
| Contributions - employer  |  | 8,847  | (8,847)  |
| Contributions - employee  |  | 9,517  | (9,517)  |
| Net investment income   |  | 311  | (311)  |
| Benefit payments, including<br>refunds of employee<br>contributions | (501)                                      | (501)  | -  |
| Administrative expense  | -  | (190)  | 190  |
| Other Changes   |  | (9)  | 9  |
| Net changes   | 33,151                                     | 17,975   | 15,176   |
| <b>Balance at 12/31/2015</b>  | <b>\$ 284,968</b>                          | <b>\$ 228,926</b>                              | <b>\$ 56,042</b>                               |

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

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note G – Pension Plan (Continued)

**Net Pension Liability (Continued)**

The following presents the net pension liability of the Town, calculated using the discount rate of 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

|                              | 1% Decrease in<br>Discount Rate<br>(5.75%) | Discount Rate<br>(6.75%) | 1% Increase in<br>Discount Rate<br>(7.75%) |
|------------------------------|--|--------------------------|--|
| City's Net Pension Liability | \$ 94,383                                  | \$ 56,041                | \$ 23,906                                  |

*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](http://www.tmr.com).

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

For the year ended September 30, 2016, the Town recognized pension expense of \$8,654.

At September 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred Outflows of<br/>Resources</u> | <u>Deferred Inflows of<br/>Resources</u> |
|--|---|--|
| Differences between Expected and Actual Economic Experience  | \$ -                                      | \$ (4,965)                               |
| Difference in Actuarial Assumptions                          | 7,610                                     | -  |
| Differences Between Projected and Actual Investment Earnings | 11,564                                    | -  |
| Contributions Subsequent to the Measurement Date             | 5,831                                     | -  |
|  | <u>\$ 25,005</u>                          | <u>\$ (4,965)</u>                        |

TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

Note G – Pension Plan (Continued)

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

\$20,874 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, 2016. Other amounts reported as deferred outflows of resources to pensions will be recognized in pension expense as follows:

| Year Ended December 31, | <u>Amount</u>    |
|-------------------------|------------------|
| 2016                    | \$ 3,600         |
| 2017                    | 3,932            |
| 2018                    | 3,919            |
| 2019                    | 2,891            |
| 2020                    | -                |
| Thereafter              | -                |
| Total                   | <u>\$ 14,342</u> |

*Supplemental Death Benefits*

The Town also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The Town elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Town may terminate coverage under and discontinue participation in SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The Town contributes to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$312, \$267, and \$295, respectively which equaled the required contributions each of year.



## TOWN OF SAN FELIPE, TEXAS

Notes to the Basic Financial Statements  
For the Year Ended September 30, 2016

### Note H – Net Position

#### **Implementation of New Accounting Principles**

##### *Governmental Accounting Standards Board Statement No. 72*

In February 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application. Statement No. 72 requires the Town to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. Implementation of this statement resulted in additional disclosures related to the Town's investments measured at fair value for the year ended September 30, 2016.

### Note I – Net Position

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (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 actual 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 does not have any items that qualify for reporting under the full-accrual basis of accounting on the Statement of Net Position. The government has only one type of item, which arises only under a modified accrual basis of account that qualifies for reporting in this category. 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 (Budgetary Basis) General Fund

For the Year Ended September 30, 2016

|                                   | Budget Amounts      |                     | 2016 Actual<br>(Budget Basis) | Variance With<br>Final Budget |
|-----------------------------------|---------------------|---------------------|-------------------------------|-------------------------------|
|                                   | Original            | Final               |                               |                               |
| <b>REVENUES</b>                   |                     |                     |                               |                               |
| Property Taxes                    | \$ 135,000          | \$ 135,000          | \$ 133,488                    | \$ (1,512)                    |
| Sales, Franchise and Other Taxes  | 462,200             | 462,200             | 437,956                       | (24,244)                      |
| Permits and Licenses              | 2,000               | 2,000               | 2,575                         | 575                           |
| Fines and Forfeiture              | 30,000              | 30,000              | 40,913                        | 10,913                        |
| Interest on Investments           | 25,065              | 25,065              | 15,474                        | (9,591)                       |
| Other Revenue                     | 14,200              | 14,200              | 30,256                        | 16,056                        |
| <b>Total Revenues</b>             | <u>668,465</u>      | <u>668,465</u>      | <u>660,662</u>                | <u>(7,803)</u>                |
| <b>EXPENDITURES</b>               |                     |                     |                               |                               |
| Administrative and Personnel      | 473,700             | 473,700             | 493,261                       | (19,561)                      |
| Public Safety                     | 27,700              | 47,700              | 59,512                        | (11,812)                      |
| Public Works                      | 132,050             | 132,050             | 156,028                       | (23,978)                      |
| Capital Outlay                    | -                   | -                   | 15,799                        | (15,799)                      |
| <b>Total Expenditures</b>         | <u>633,450</u>      | <u>653,450</u>      | <u>724,600</u>                | <u>(71,150)</u>               |
| Net Change in Fund Balances       | <u>35,015</u>       | <u>15,015</u>       | <u>(63,938)</u>               | <u>(78,953)</u>               |
| Fund Balances - Beginning of Year | <u>1,629,331</u>    | <u>1,629,331</u>    | <u>1,629,331</u>              | <u>-</u>                      |
| Fund Balances - End of Year       | <u>\$ 1,664,346</u> | <u>\$ 1,644,346</u> | <u>\$ 1,565,393</u>           | <u>\$ (78,953)</u>            |

TOWN OF SAN FELIPE, TEXAS

Required Supplemental Information  
Notes to the Budgetary Comparison Schedule  
General Fund  
For the Year Ended September 30, 2016

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 the 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>2015</u>    | <u>2014</u>    |
|---|----------------|----------------|
| <b>Total Pension Liability</b>  |                |                |
| Service Cost  | \$ 11,935      | \$ 9,910       |
| Interest (on the Total Pension Liability)                                     | 18,027         | 16,339         |
| Difference between expected and actual experience                             | (6,928)        | (2,896)        |
| Changes of assumptions  | 10,618         | -              |
| Benefit payments, including refunds of employee contributions                 | (501)          | -              |
| <b>Net Change in Total Pension Liability</b>                                  | <u>33,151</u>  | <u>23,353</u>  |
| <b>Total Pension Liability - Beginning</b>                                    | <u>251,817</u> | <u>228,464</u> |
| <b>Total Pension Liability - Ending (a)</b>                                   | <u>284,968</u> | <u>251,817</u> |
| <b>Plan Fiduciary Net Position</b>  |                |                |
| Contributions - Employer  | 8,847          | 7,753          |
| Contributions - Employee  | 9,517          | 8,318          |
| Net Investment Income   | 311            | 10,554         |
| Benefit payments, including refunds of employee contributions                 | (501)          | -              |
| Administrative Expense  | (190)          | (110)          |
| Other   | (9)            | (9)            |
| <b>Net Change in Plan Fiduciary Net Position</b>                              | <u>17,975</u>  | <u>26,506</u>  |
| <b>Plan Fiduciary Net Position - Beginning</b>                                | <u>210,951</u> | <u>184,445</u> |
| <b>Plan Fiduciary Net Position - Ending (b) **</b>                            | <u>228,926</u> | <u>210,951</u> |
| <b>Net Pension Liability - Ending (a) - (b)</b>                               | 56,042         | 40,866         |
| <b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b> | 80.33%         | 83.77%         |
| <b>Covered Employee Payroll</b>   | 190,348        | 166,351        |
| <b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>      | 29.44%         | 24.57%         |

\*Note: GASB No. 68 requires ten fiscal years of data to be provided in this schedule. Fiscal year ending 2015 was the first year of implementation. The Town will develop the schedule prospectively.

\*\* Fiduciary Net Position may be off a dollar due to rounding.

SUPPLEMENTAL SECTION

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* (CONTINUED)

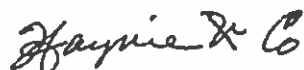
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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 the 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.



Haynie & Company  
San Antonio, Texas  
June 11, 2018