

TOWN OF SAN FELIPE, TEXAS

Annual Financial Report

For the Year Ended September 30, 2018

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Introductory Section

TOWN OF SAN FELIPE, TEXAS


Town Officials


Bobby Byars..... Mayor
Derrick Dabny.....Mayor Pro-Tem
Alfred HallAlderman
Michael Elliot.....Alderman
Larry GentryAlderman
Brenda Penrice Newsome.....Alderman
Sue Foley Town Secretary

Financial Section



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San Antonio, TX 78232

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, of the Town of San Felipe, Texas (the Town) as of and for the year ended September 30, 2018, 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.

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

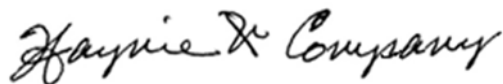
Other Matters

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 11, budgetary comparison information on pages 42 through 43, the Schedule of Changes in Net Pension Liability and Related Ratios – Last 10 Years on page 44, and the Schedule of Changes in Postemployment Benefits Other Than Pensions (OPEB) Liability and Related Ratios – Last 10 Years on page 45 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 August 6, 2020, 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
August 6, 2020

TOWN OF SAN FELIPE, TEXAS

Management's Discussion and Analysis

September 30, 2018

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, 2018. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Town's total net position was \$1,592,321 at September 30, 2018.
- Revenue generated from taxes and other revenues for governmental activities was \$687,928 . The Town's governmental fund expenses were \$737,971 .

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 information 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.

TOWN OF SAN FELIPE, TEXAS

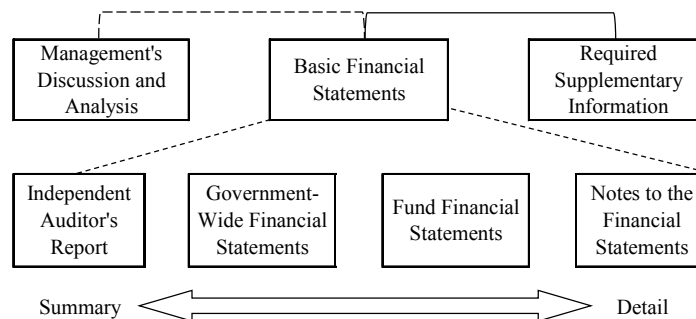
Management's Discussion and Analysis

September 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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



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.

TOWN OF SAN FELIPE, TEXAS
Management's Discussion and Analysis
September 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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
September 30, 2018

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 \$1,592,321 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,			
	2018	2017	\$ Change	% Change
Current and Other Assets	\$ 2,230,936	\$ 2,248,682	\$ (17,746)	-0.8%
Capital Assets, Net	235,381	342,892	(107,511)	-31.4%
Total Assets	2,466,317	2,591,574	(125,257)	-4.8%
Deferred Outflows				
Deferred OPEB Related Outflows	831	-	831	0.0%
Total Deferred Outflows	831	-	831	-
Current Liabilities				
Current Liabilities	119,299	168,222	(48,923)	-29.1%
Noncurrent Liabilities	741,728	779,988	(38,260)	-4.9%
Total Liabilities	861,027	948,210	(87,183)	-9.2%
Deferred Outflows				
Deferred Pension Related Outflows	13,800	1,000	12,800	1280.0%
Total Deferred Outflows	13,800	1,000	12,800	1280.0%
Net Position:				
Invested in Capital Assets, Net of Related Debt	133,953	(463,901)	597,854	-128.9%
Restricted	651,553	676,036	(24,483)	-3.6%
Unrestricted	806,815	1,430,229	(623,414)	-43.6%
Total Net Position	\$ 1,592,321	\$ 1,642,364	\$ (50,043)	-3.0%

TOWN OF SAN FELIPE, TEXAS
Management's Discussion and Analysis
September 30, 2018

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (Continued)

A portion of the primary government's net position, \$133,953 , represents resources invested in capital assets, net of related debt. A portion of the primary government's net position, \$651,553 , 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, \$806,815 , 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,			
	2018	2017	\$ Change	% Change
Revenues				
Program Revenues:				
Charges for Services	\$ 44,376	\$ 28,772	\$ 15,604	54.2%
General Revenues:				
Property Taxes	155,984	138,419	17,565	12.7%
Sales Taxes	386,327	402,421	(16,094)	-4.0%
Interest and Investment Income	18,223	17,059	1,164	6.8%
Other Revenue	83,018	46,977	36,041	76.7%
Total Revenues	687,928	633,648	54,280	8.6%
Expenses				
Administrative and Personnel	475,789	554,966	(79,177)	-14.3%
Public Safety	39,935	62,699	(22,764)	-36.3%
Public Works	142,229	137,369	4,860	3.5%
Community Center	80,018	-	80,018	0.0%
Total Expenses	737,971	755,034	(17,063)	-2.3%
Change in Net Position	(50,043)	(121,386)	71,343	-58.8%
Net Position - Beginning	1,642,364	1,763,750	(121,386)	-6.9%
Net Position - Ending	\$ 1,592,321	\$ 1,642,364	\$ (50,043)	-3.0%

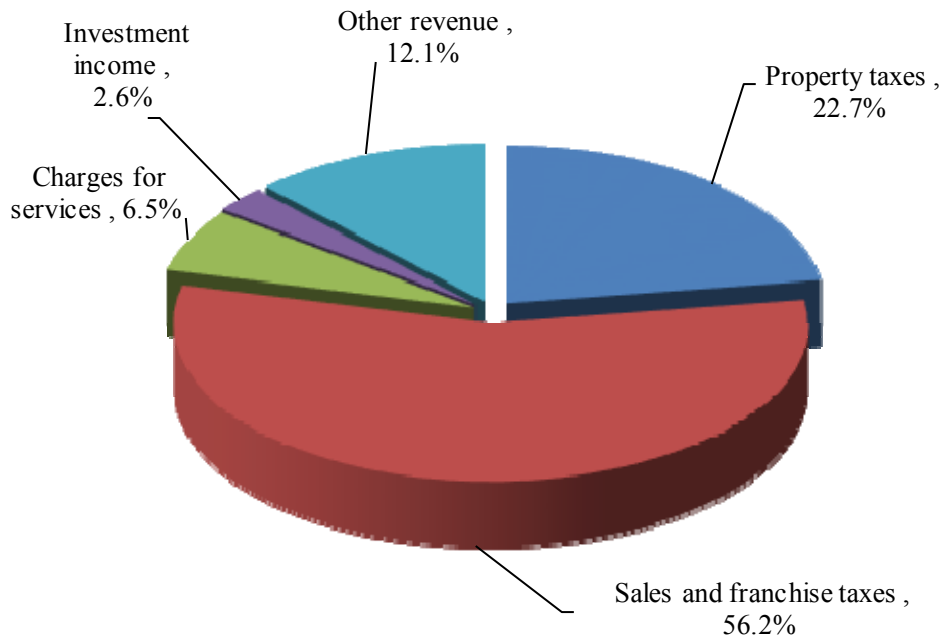
TOWN OF SAN FELIPE, TEXAS
Management's Discussion and Analysis
September 30, 2018

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (Continued)

Overall, government-wide revenues increased by \$54,280 , mainly due to an increase in property tax revenues and charges for services.

Government-wide expenses decreased by \$17,063 , due to turnover in the police department.

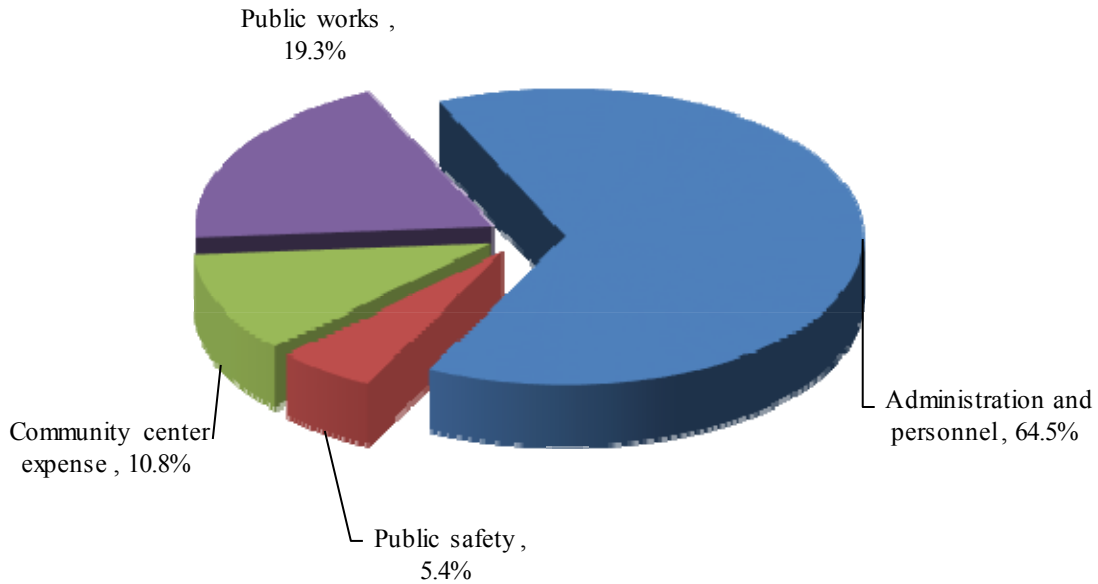
Governmental Revenues



TOWN OF SAN FELIPE, TEXAS
Management's Discussion and Analysis
September 30, 2018

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (Continued)

Governmental Expenses



Governmental Activities

The Town's general fund reflects a total fund balance of \$2,156,580 . Of this amount, \$643,674 is restricted bond funds, \$4,503 is restricted for court technology and \$3,376 is restricted for court security. The remaining amount, \$1,505,027 , 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 \$86 .

General Fund Budgetary Highlights

The actual general fund revenues were below the budgeted revenues by \$697,392 during the year. General fund expenditures were below budgeted expenses by \$694,568 . This was mainly due to the termination of the community center project.

TOWN OF SAN FELIPE, TEXAS
Management's Discussion and Analysis
September 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the Town had invested in \$1,566,604 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
	2018	2017		
Land	\$ 21,405	\$ 21,405	\$ -	0%
Construction in Progress	4,187	44,600	(40,413)	-91%
Buildings and Improvements	673,526	673,526	-	0%
Furniture and Equipment	375,129	375,129	-	0%
Infrastructure	492,357	492,357	-	0%
Total Capital Assets	<u>1,566,604</u>	<u>1,607,017</u>	<u>(40,413)</u>	<u>-3%</u>
Less:				
Accumulated Depreciation	<u>(1,331,223)</u>	<u>(1,264,125)</u>	<u>(67,098)</u>	<u>5%</u>
Net Capital Assets	<u>\$ 235,381</u>	<u>\$ 342,892</u>	<u>\$ (107,511)</u>	<u>-31%</u>

Long-Term Debt

At September 30, 2018, the Town had total long-term debt of \$745,102 . Of this amount, long-term bonds outstanding account for \$725,000 , and note payable account for \$20,102 .

More detailed information about the Town's long-term liabilities is presented in Note 5.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The property tax rate for the 2018 fiscal year was \$0.14821 per \$100 valuation, which is a decrease from fiscal year 2017. The Town's fiscal year 2018 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.

Financial Statements

TOWN OF SAN FELIPE, TEXAS

Statement of Net Position

As of September 30, 2018

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 28,412
Certificates of Deposit	1,409,633
Investments	79,559
Receivables, Net	61,779
Total Current Assets	<u>1,579,383</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	651,553
Land	21,405
Construction in Progress	4,187
Buildings and Improvements, Net	58,381
Furniture and Equipment, Net	41,602
Infrastructure, Net	109,806
Total Noncurrent Assets	<u>886,934</u>
Total Assets	<u>2,466,317</u>
DEFERRED OUTFLOWS	
Deferred Other Postemployment Benefit Related Outflows	831
Total Deferred Outflows	<u>831</u>
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	63,897
Accrued Interest Payable	2,995
Bonds Payable	45,000
Notes Payable	7,407
Total Current Liabilities	<u>119,299</u>
Noncurrent Liabilities	
Bonds Payable	680,000
Notes Payable	12,695
Net Pension Liability	37,035
Other Postemployment Benefit Liability	11,998
Total Long-Term Liabilities	<u>741,728</u>
Total Liabilities	<u>861,027</u>
DEFERRED INFLOWS	
Deferred Pension Related Inflows	13,800
Total Deferred Inflows	<u>13,800</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	133,953
Restricted	651,553
Unrestricted	806,815
Total Net Position	<u>\$ 1,592,321</u>

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

TOWN OF SAN FELIPE , TEXAS
Balance Sheet
Governmental Fund
As of September 30, 2018

		General Fund
ASSETS		
Cash and Cash Equivalents	\$	679,965
Certificates of Deposit		1,409,633
Investments		79,559
Receivables, Net		61,779
Total Assets		2,230,936
LIABILITIES		
Accounts Payable and Accrued Liabilities		66,935
Total Liabilities		66,935
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue		7,421
FUND BALANCES		
Restricted		651,553
Unassigned		1,505,027
Total Fund Balances		2,156,580
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 \$1,331,223.		235,381
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 Inflows		(13,800)
Net Pension Liability		(37,035)
Other Postemployment Benefit Liability		(11,998)
Other Postemployment Benefit Related Outflows		831
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		7,421
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Accrued Interest Payable		(2,995)
Accrued Compensated Absences		3,038
Noncurrent Liabilities Due in One Year		(52,407)
Noncurrent Liabilities Due in More Than One Year		(692,695)
Net Position of Governmental Activities	\$	1,592,321

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

TOWN OF SAN FELIPE, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended September 30, 2018

	<u>General Fund</u>
REVENUES	
Property Taxes	\$ 154,057
Sales, Franchise and Other Taxes	386,327
Permits and Licenses	9,900
Fines and Forfeitures	34,476
Interest on Investments	18,223
Other Revenue	83,018
Total Revenues	<u>686,001</u>
EXPENDITURES	
Current	
Administrative and Personnel	464,926
Public Safety	23,973
Public Works	157,411
Community Center	39,605
Total Expenditures	<u>685,915</u>
Net Changes in Fund Balances	86
Fund Balances - Beginning of Year	<u>2,156,494</u>
Fund Balances - End of Year	<u>\$ 2,156,580</u>

The accompanying notes are an integral part of the 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, 2018

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:	\$	86
<p>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.</p>		
Capital outlay		(40,413)
Depreciation expense		(67,098)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Property Tax Revenue		1,927
<p>The change in net position liability and deferred inflows and outflows related to the Town's TMRS pension liability and other postemployment benefits:</p>		
		(6,014)
<p>Some expenses reported on the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p>		
Accrued Compensated Absences		1,018
<p>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.</p>		
Principal payments		61,691
Accrued interest		(1,240)
		(50,043)
Change in net position of governmental activities	\$	<u><u>(50,043)</u></u>

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

TOWN OF SAN FELIPE

Notes to the Basic Financial Statements

September 30, 2018

1. 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
Notes to the Basic Financial Statements (Continued)
September 30, 2018

1. 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 measurable and available. The Town considers them "available" if they will be collected within 60 days after year end.

Fund Accounting

The Town reports the following major governmental 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
Notes to the Basic Financial Statements (Continued)
September 30, 2018

1. Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Investments

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

Receivables

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

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

Capital Assets

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

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

TOWN OF SAN FELIPE
Notes to the Basic Financial Statements
September 30, 2018

1. Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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.

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.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

1. Nature of the Entity and Summary of Significant Accounting Policies (Continued)

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.

Fund Financial Statement

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, 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, 2018.
- *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.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

1. Nature of the Entity and Summary of Significant Accounting Policies (Continued)

Equity Classifications (Continued)

- *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, 2018.

- *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. The Town did not have any assigned fund balances at September 30, 2018.

- *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.

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 \$3,038 at September 30, 2018.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

1. Nature of the Entity and Summary of Significant Accounting Policies (Continued)

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.

2. Deposits and Investments

Deposits

At September 30, 2018, the bank balances and carrying value for the Town's cash deposits and certificates of deposit are shown as follows:

	Bank	Carrying Value
Cash and Cash Equivalents	\$ 716,336	\$ 679,875
Certificates of Deposit	1,411,294	1,409,633
	2,127,630	2,089,508
 Insured by FDIC or collateralized with securities held by the Town	 792,630	
Collateralized with securities held by the pledging financial institutions or its agent in the Town's name	1,335,000	
Total Bank Balance	2,127,630	

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

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

2. Deposits and Investments (Continued)

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.

At September 30, 2018, 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, 2018 was \$79,559

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

TOWN OF SAN FELIPE
Notes to the Basic Financial Statements (Continued)
September 30, 2018

2. Deposits and Investments (Continued)

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, 2018, 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.

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, 2018, 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, 2018, the Town was not exposed to interest rate risk.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

2. Deposits and Investments (Continued)

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.

3. Accounts Receivable

The following comprise receivable balances at September 30, 2018:

Governmental Activities:	
State Sales Taxes Receivable	\$ 53,884
Property Taxes Receivable	8,772
Allowance for Uncollectible Accounts	<u>(877)</u>
Total Receivables, Net	<u><u>\$ 61,779</u></u>

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

4. Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

<u>Governmental Activities</u>	Balance 10/1/2017	Additions	Deletions	Balance 9/30/2018
Capital Assets Not Being Depreciated				
Land	\$ 21,405	\$ -	\$ -	\$ 21,405
Construction in Progress	44,600	39,338	(79,751)	4,187
Total Capital Assets Not Being Depreciated	<u>66,005</u>	<u>39,338</u>	<u>(79,751)</u>	<u>25,592</u>
Capital Assets Being Depreciated				
Buildings and Improvements	673,526	-	-	673,526
Furniture and Equipment	375,129	-	-	375,129
Infrastructure	492,357	-	-	492,357
Total Capital Assets Being Depreciated	<u>1,541,012</u>	<u>-</u>	<u>-</u>	<u>1,541,012</u>
Accumulated Depreciation				
Buildings and Improvements	(607,378)	(7,767)	-	(615,145)
Furniture and Equipment	(299,208)	(34,319)	-	(333,527)
Infrastructure	(357,539)	(25,012)	-	(382,551)
Total Accumulated Depreciation	<u>(1,264,125)</u>	<u>(67,098)</u>	<u>-</u>	<u>(1,331,223)</u>
Net Capital Assets Being Depreciated	<u>276,887</u>	<u>(67,098)</u>	<u>-</u>	<u>209,789</u>
Net Capital Assets	<u>\$ 342,892</u>	<u>\$ (27,760)</u>	<u>\$ (79,751)</u>	<u>\$ 235,381</u>

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

Governmental Activities:	
Administrative and Personnel	\$ 5,461
Public Safety	22,315
Public Works	39,322
Total Governmental Activities Depreciation Expense	<u>\$ 67,098</u>

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

5. Long-Term Obligations

Long-Term Debt Activity

Long-term debt activity for the year ended September 30, 2018 was as follows:

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
Governmental Activities:					
Certificates of Obligation, Series 2003	\$ 40,000	\$ -	\$ (40,000)	\$ -	\$ -
Certificates of Obligation, Series 2017	725,000	-	-	725,000	45,000
Notes Payable	26,612	-	(6,510)	20,102	7,407
Capital Lease	15,181	-	(15,181)	-	-
Total governmental activities	<u>\$ 806,793</u>	<u>\$ -</u>	<u>\$ (61,691)</u>	<u>\$ 745,102</u>	<u>\$ 52,407</u>

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 semiannually on February 15 and August 15 at a rate of 3.99%. The final maturity date of the bonds is February 15, 2018.

Note Payable – Citizens State Bank

On September 12, 2014, the Town entered into a loan agreement with Citizens State Bank to borrow the sum of \$43,664 for the purchase of a new police vehicle. Terms include 35 payments due monthly in the amount of \$600, which includes interest at 3.99% and one balloon payment of the entire unpaid balance of principal and interest due September 12, 2017. Rather than make the balloon payment, the note was renewed for an additional 36 months, which includes interest of 4.10%. The final maturity date on the note is September 12, 2020.

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017

On March 9, 2017, the Town issued \$725,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 for the costs associated with the design, planning, acquisition, construction, equipping, expansion, repair, renovation, and/or rehabilitation of certain public property, including (1) a community center; (2) parks and recreation facilities and improvements; (3) constructing, repairing and improving town streets, sidewalks and drainage; (4) an equipment shed and storage facility; (5) payment of contractual obligations for professional services in connection therewith. Principal is due annually on February 15. Interest is due semiannually on February 15 and August 15 at a rate of 2.84%. The final maturity date of the bonds is February 15, 2032.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

5. Long-Term Obligations (Continued)

Debt Service Requirements

Debt service requirements at September 30, 2018 were as follows:

Year Ended September 30,	Principal	Interest	Total
2019	\$ 52,407	\$ 20,439	\$ 72,846
2020	53,020	18,848	71,868
2021	45,000	17,395	62,395
2022	45,000	16,117	61,117
2023	50,000	14,768	64,768
2024-2032	499,675	65,816	565,491
Total	\$ <u>745,102</u>	\$ <u>153,383</u>	\$ <u>898,485</u>

6. 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, 2018 were \$2,556.

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

Year Ended September 30,	Principal
2019	\$ 2,556
2020	1,278
Total	\$ <u>3,834</u>

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

7. Pension Plan

Plan Description

The Town of San Felipe participates as one of the 872 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.tmr.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.

Employees covered by benefit terms

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

	<u>2017</u>
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	5
Active Employees	4
	<u><u>10</u></u>

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

7. Pension Plan (Continued)

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 4.14% and 4.03% in calendar years 2017 and 2018, respectively. The Town's contributions to TMRS for the year ended September 30, 2018, were \$ \$8,300 , and were equal to the required contributions.

Net Pension Liability

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

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

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

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

7. 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 Tables with Blue Collar Adjustment, 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 generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Health 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 become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to 3% floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment 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 mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). 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
Notes to Financial Statements (Continued)
September 30, 2018

7. Pension Plan (Continued)

Net Pension Liability (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that 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
Notes to Financial Statements (Continued)
September 30, 2018

7. Pension Plan (Continued)

Net Pension Liability (Continued)

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	\$ 308,667	\$ 253,679	\$ 54,988
Changes for the year:			-
Service Cost	11,960		11,960
Interest	20,684		20,684
Difference between expected and actual experience	864		864
Contributions - employer		7,308	(7,308)
Contributions - employee		9,143	(9,143)
Net investment income		35,201	(35,201)
Benefit payments, including refunds of employee contributions	(16,447)	(16,447)	-
Administrative expense	-	(182)	182
Other Changes		(9)	9
Net changes	17,061	35,014	(17,953)
Balance at 12/31/2017	\$ 325,728	\$ 288,693	\$ 37,035

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

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

7. 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 Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 74,214	\$ 37,035	\$ 5,545

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.tmrs.com.

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

For the year ended September 30, 2018, the Town recognized pension expense of \$8,300.

At September 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Economic Experience	\$ 662	\$ -
Differences Between Projected and Actual Investment Earnings	-	(14,462)
Contributions Subsequent to the Measurement Date	6,050	-
	<u>\$ 6,712</u>	<u>\$ (14,462)</u>

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

7. Pension Plan (Continued)

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

\$13,800 reported as deferred inflows 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, 2018. 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>
2018	\$ 246
2019	(782)
2020	(3,637)
2021	(3,558)
2022	-
Thereafter	-
Total	<u>\$ (7,731)</u>

8. Other Postemployment Benefits

Plan Description

The Town participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member town contributes to the SDBF at a contractually required rate (based on the covered payroll of the employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during the employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 GASB No. 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contribution for retirees.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

8. Other Postemployment Benefits

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2017 is summarized below:

	2017
Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Active Employees	4
	6

Total OPEB Liability

The Town’s total OPEB liability of \$11,998 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined by using the following actuarial assumptions and other inputs applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate*	3.31%
Retirees’ share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

*The discount rate is based on the Fidelity Index’s “20-Year Municipal GO AA Index” rates as of December 31, 2017.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

11. Other Postemployment Benefits

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

		Total OPEB Liability
Changes for the year:		
Service Cost	\$	402
Interest		395
Changes in assumptions		960
Benefit Payments*		-
Net changes		1,757
Beginning Balance		10,241
Ending Balance	\$	11,998

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB No. 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

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

The following present the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
City's Net OPEB Liability	\$ 14,342	\$ 11,998	\$ 10,051

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

8. Other Postemployment Benefits

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

At September 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference in Actuarial Assumptions	831
Contributions Subsequent to the Measurement Date	535
	\$ 1,366

\$831 reported as deferred outflows related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of total OPEB for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31,	Amount
2018	\$ 129
2019	129
2020	129
2021	129
2022	129
Thereafter	186
Total	\$ 831

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

9. 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. These items are related to differences between projected and actual investment earnings on pensions and contributions made to the pension plan and other postemployment benefits other than pension plans 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 has one type of item reported as deferred inflows of resources in the governmental fund on the Statement of Net Position, which arises under the full accrual basis of accounting. These items are related to differences between expected and actual economic experience based on the actuarial valuation. At the governmental fund level only one type of item arises only under a modified accrual basis of accounting that qualifies for reporting as deferred inflows of resources. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from uncollected property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

10. New Accounting Pronouncements

During fiscal year 2018, the Town adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was implemented as required by GASB during the fiscal year ended September 30, 2018. This Statement replaces the requirements of Statements No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended", and No. 57, "OPEB Measurements by Agent Employers and agent Multiple-Employer Plans, for OPEB." Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," establishes new accounting and financial reporting requirements for OPEB plans.

TOWN OF SAN FELIPE
Notes to Financial Statements (Continued)
September 30, 2018

11. Evaluation of Subsequent Events

Subsequent events have been evaluation through August 6, 2020, which is the date these financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economics and financial markets of many countries, including the geographical area in which the Town operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Town, to date, the Town is currently evaluating the effect they expect to experience. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

Required Supplemental Information

TOWN OF SAN FELIPE
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, 2018

REVENUES	Budget Amounts		2018 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
Property Taxes	\$ 150,000	\$ 150,000	\$ 154,057	\$ 4,057
Sales, Franchise and Other Taxes	421,000	421,000	386,327	(34,673)
Permits and Licenses	4,000	4,000	9,900	5,900
Fines and Forfeiture	36,000	36,000	34,476	(1,524)
Interest on Investments	25,810	25,810	18,223	(7,587)
Other Revenue	746,583	746,583	83,018	(663,565)
Total Revenues	<u>1,383,393</u>	<u>1,383,393</u>	<u>686,001</u>	<u>(697,392)</u>
EXPENDITURES				
Administrative and Personnel	503,150	503,150	464,926	38,224
Public Safety	37,350	37,350	23,973	13,377
Public Works	147,250	147,250	157,411	(10,161)
Community Center	692,733	692,733	39,605	653,128
Total Expenditures	<u>1,380,483</u>	<u>1,380,483</u>	<u>685,915</u>	<u>694,568</u>
Net Change in Fund Balances	<u>2,910</u>	<u>2,910</u>	<u>86</u>	<u>(2,824)</u>
Fund Balances - Beginning of Year	<u>2,156,494</u>	<u>2,156,494</u>	<u>2,156,494</u>	<u>-</u>
Fund Balances - End of Year	<u>\$ 2,159,404</u>	<u>\$ 2,159,404</u>	<u>\$ 2,156,580</u>	<u>\$ (2,824)</u>

TOWN OF SAN FELIPE
Required Supplemental Information
Notes to the Budgetary Comparison Schedule
For the Year Ended September 30, 2018

1. Budget

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability				
Service Cost	\$ 11,960	\$ 13,238	\$ 11,935	\$ 9,910
Interest (on the Total Pension Liability)	20,684	19,421	18,027	16,339
Difference between expected and actual experience	864	(1,223)	(6,928)	(2,896)
Changes of assumptions	-	-	10,618	-
Benefit payments, including refunds of employee contributions	<u>(16,447)</u>	<u>(7,737)</u>	<u>(501)</u>	<u>-</u>
Net Change in Total Pension Liability	<u>17,061</u>	<u>23,699</u>	<u>33,151</u>	<u>23,353</u>
Total Pension Liability - Beginning	<u>308,667</u>	<u>284,968</u>	<u>251,817</u>	<u>228,464</u>
Total Pension Liability - Ending (a)	<u><u>325,728</u></u>	<u><u>308,667</u></u>	<u><u>284,968</u></u>	<u><u>251,817</u></u>
Plan Fiduciary Net Position				
Contributions - Employer	7,308	7,155	8,847	7,753
Contributions - Employee	9,143	10,029	9,517	8,318
Net Investment Income	35,201	15,489	311	10,554
Benefit payments, including refunds of employee contributions	(16,447)	(7,737)	(501)	-
Administrative Expense	(182)	(175)	(190)	(110)
Other	<u>(9)</u>	<u>(9)</u>	<u>(9)</u>	<u>(9)</u>
Net Change in Plan Fiduciary Net Position	<u>35,014</u>	<u>24,752</u>	<u>17,975</u>	<u>26,506</u>
Plan Fiduciary Net Position - Beginning	<u>253,679</u>	<u>228,927</u>	<u>210,951</u>	<u>184,445</u>
Plan Fiduciary Net Position - Ending (b) **	<u><u>288,693</u></u>	<u><u>253,679</u></u>	<u><u>228,926</u></u>	<u><u>210,951</u></u>
Net Pension Liability - Ending (a) - (b)	37,035	54,988	56,042	40,866
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	88.63%	82.19%	80.33%	83.77%
Covered Employee Payroll	182,870	200,570	190,348	166,351
Net Pension Liability as a Percentage of Covered Employee Payroll	20.25%	27.42%	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.

TOWN OF SAN FELIPE
Required Supplemental Information
Schedule of Changes in Postemployment Benefits Other Than Pensions (OPEB)
Liability and Related Ratios –
Last 10 Years*

	2017
Total OPEB Liability	
Service Cost	\$ 402
Interest (on the Total OPEB Liability)	395
Changes of assumptions	960
Benefit payments	-
Net Change in Total OPEB Liability	1,757
Total OPEB Liability - Beginning	10,241
Total OPEB Liability - Ending (a)	11,998
Net Pension Liability as a Percentage of Covered Employee Payroll	6.56%

*Note: GASB No. 75 requires ten fiscal years of data to be provided in this schedule. Fiscal year ending 2018 was the first year of implementation. The Town will develop the schedule prospectively.

Supplemental Information

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Town of San Felipe, Texas (the Town) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated August 6, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, material weaknesses may exist that have not been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2018-001, 2018-002, 2018-003, and 2018-004 to be material weaknesses.

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)*

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items [refer to separately issued Summary of Findings report] to be significant deficiencies.

Compliance and Other Matters

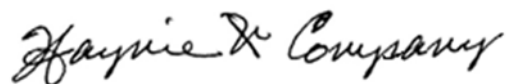
As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2018-001, 2018-002, 2018-003, and 2018-004.

The Town's Response to Findings

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

Purpose of this Report

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



San Antonio, Texas
August 6, 2020

Schedule of Findings

TOWN OF SAN FELIPE

Schedule of Findings

Finding 2018-001—Budgetary Compliance

Criteria: In accordance with the *Texas Local Government Code, Title 2, Subtitle B, Chapter 22, Subchapter A*, any expenditures in excess of the budget require that the governing body direct the issuance of any order of payment.

Condition: We observed during our audit procedures that the Town incurred and paid some expenditures in excess of what was approved in the budget. Furthermore, there did not appear to be adequate documentation of authorization from the governing body of these expenditures in the minutes or by other means.

Context: During our analysis of budget to actual activities, we noted budget shortages that could have been corrected by budgetary amendment(s) during the fiscal year. Also, a more proactive approach to reviewing and authorizing expenditures by the governing body on a timelier basis could have helped prevent this.

Cause and Effect: Without adequate procedures surrounding the Town's budgetary process, differences between the budgeted and actual financial data will continue to occur and the payment of unauthorized expenditures may result.

Recommendation: The governing body should review budget variances at least monthly in its town council meetings. This will enable the governing body to monitor remaining totals for each budget line and authorize expenditures above budgeted amounts and amend the budget in a timely manner in the event of an anticipated shortfall.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the related recommendation noted above by the end of fiscal year 2019/2020.

TOWN OF SAN FELIPE

Schedule of Findings

Finding 2018-002—Unallowable Expenditures

Criteria: The Texas Comptroller website provides guidance for identifying and avoiding unallowable expenditures as contained in Texas municipal laws and rulings.

Condition: The Town incurred and paid some expenditures for flowers, food and beverages, bonuses and payments to charity that are not allowed under Texas municipal laws and rulings.

Context: Unallowed expenditures were identified during our disbursement testing for fiscal years ending September 30, 2018 and 2017.

Cause and Effect: These findings result from failure to consult Texas municipal laws and rulings governing the expenditure of Town funds. Unallowed expenditures that were identified through our testing totaled \$1,542.48 and \$2,452.50 for the years ended September 30, 2018 and 2019, respectively.

Recommendation: The governing body should review expenditures regularly for compliance with Texas municipal laws and regulations. The Texas Comptroller website can be consulted and is located at <https://fm.xcpa.texas.gov/fm/pubs/purchase/index.php>.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the above recommendation immediately.

TOWN OF SAN FELIPE

Schedule of Findings

Finding 2018-003—Inadequate Documentation Supporting Credit Card Expenditures

Criteria: All expenditures should be supported by adequate documentation to substantiate the amount, purpose, and approval of each expenditure.

Condition: Credit card statements contained charges that did not have supporting documentation such as receipts, invoices, and approval for payment.

Context: A total of 16 credit card transactions were tested in 2018 and 2019. These transactions totaled \$736.63. Of the 16 transactions, we identified 2 totaling \$176.09 that did not contain adequate supporting documentation.

Cause and Effect: Since we were unable to obtain adequate supporting documentation for the 2 transactions noted above, we were unable to determine whether they were valid and appropriate.

Recommendation: We recommend that the credit card account maintained by the Town be reconciled each month and adequate supporting documentation be obtained to substantiate all charges.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will implement the above recommendation immediately.

TOWN OF SAN FELIPE

Schedule of Findings

Finding 2018-004—Transactions Recorded to Incorrect Accounts Within QuickBooks

Criteria: All accounting transactions should be recorded to the proper general ledger account within QuickBooks each month so that monthly financial reports provided to the governing body are in good order.

Condition: Several transactions were recorded to the wrong QuickBooks general ledger account in 2017, 2018, and 2019.

Context: This accounting deficiency was noted during our review of the general ledger detail within the QuickBooks accounting system.

Cause and Effect: Coding errors occurred because there does not appear to be a formal review function of the transaction coding within the accounting system.

Recommendation: We recommend that the governing body consider hiring an outside third party accounting firm to review the Town's monthly accounting records, perform bank reconciliations and post the month-end adjusting journal entries. This review of the monthly financial statements and reports will provide another level of checks and balances that will aid the governing body.

Views of Responsible Official(s) and Planned Corrective Actions: We have reviewed and concur with the observation discussed above. We will consider our alternatives and take the steps necessary to bring our monthly accounting processes and procedures into compliance with generally accepted accounting principles.