

**CITY OF PENITAS**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2015**

**ADRIAN WEBB, CPA**

**Certified Public Accountant**



CITY OF PENITAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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# **Adrian Webb, CPA,**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Commissioners of the City of Penitas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Penitas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Penitas's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Penitas, as of September 30, 2015, and the respective changes in financial position, and the respective budgetary comparison for the General Fund 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 4–10 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Penitas's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2016 on our consideration of the City of Penitas'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 City of Penitas's internal control over financial reporting and compliance.

  
Adrian Webb, CPA,

McAllen, Tx  
March 16, 2016

Management's Discussion and Analysis  
CITY OF PENITAS

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of City of Penitas, discuss and analyze the City's financial performance for the fiscal year ended September 30, 2015. Please read it in conjunction with the independent auditors' report on page 2, and the City's Basic Financial Statements, which begin on page 10.

**FINANCIAL HIGHLIGHTS**

- The City's net assets: increased by \$274,505, as a result of the prior period adjustment due to the correction as well as this year's operations. While net assets of our business-type activities: decreased by \$ 664,873, or nearly 4.5 percent, net assets of our governmental activities: increased, by \$ 274,505, or nearly 9.3 percent.
- During the year, the City had expenses that were \$81,284 less than the \$2,342,667 million generated in tax and other revenues for governmental programs.
- In the City's business-type activities, revenues were reported at \$653,618
- Total cost of all of the City's programs increased with few changes in programs this year.
- The General Fund ended the year with a deficit fund balance of (\$727,687).

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 10 and 11. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements starting on page 13 report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements (if applicable), provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the City.

The notes to the financial statements (starting on page 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the City's individual funds.

## **Reporting the City as a Whole**

### ***The Statement of Net Assets and the Statement of Activities***

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by federal or state agencies. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including public safety, public works, culture and recreation, economic development and assistance, and general administration. Property taxes, sales taxes, franchise taxes, charges for services, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to “customers” to help it cover all or most of the cost of providing services such as water, sewer, and solid waste services.

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the City as a whole. Laws and/or contracts require the City to establish some funds, such as grants received from federal and state agencies. The City's administration establishes several other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds. These 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 City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- Proprietary funds—The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased from \$ 2.95 million to \$ 3.23million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$ 312,585) at September 30, 2015.

In 2015, net assets of our business-type activities decreased by about \$ 664,873, about 4.5 percent. This decrease is significant to the overall operations of the City.

Table I  
City of Penitas

Net Assets	Governmental Activities 2015	Governmental Activities 2014	Business-type Activities 2015	Business-type Activities 2014	Total 2015	Total 2014
Current and other assets	2,012,418	2,132,404	1,269,915	2,163,288	3,282,333	4,295,692
Capital Assets	3,180,434	2,685,652	19,724,000	20,165,015	22,904,434	22,850,667
Total Assets	5,192,852	4,818,056	20,993,915	22,328,303	26,186,767	27,146,359
Deferred Outflows of Resources	-	-	-	-	-	-
Long-term Liabilities	373,425	409,400	5,498,000	5,571,000	5,871,425	5,980,400
Other Liabilities	1,592,066	1,455,800	1,588,900	2,185,415	3,180,966	3,641,215
Total Liabilities	1,965,491	1,865,200	7,086,900	7,756,415	9,052,391	9,621,615
Deferred Inflows of Resources	-	-	-	-	-	-
Net Assets:						
Invested in Capital Assets Net of Related Debt	2,698,304	2,159,485	14,153,000	14,523,015	16,851,304	16,682,500
Restricted	841,642	676,495	-	-	841,642	676,495
Unrestricted	(312,585)	116,876	(245,985)	48,873	(558,570)	165,749
Total Net Position	3,227,361	2,952,856	13,907,015	14,571,888	17,134,376	17,524,744

Table 2  
City of Penitas

Change In Net Asset	Combined Activities 2015	Combined Activities 2014	Amount Change
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	830,885	897,799	(66,914)
Operating Grants and Contributions	814,138	3,403,956	(2,589,818)
<b>General Revenues:</b>			
Property Taxes	891,725	902,529	(10,804)
Sales Taxes	913,988	894,227	19,761
Franchise Taxes	140,904	248,637	(107,733)
Penalties and Interest	34,571	-	34,571
Miscellaneous	596,466	65,874	530,592
<b>Total Revenue</b>	<b>2,577,654</b>	<b>6,413,022</b>	<b>(3,835,368)</b>
<b>Expenses:</b>			
General Government	1,267,265	988,687	278,578
Public Safety	927,412	783,217	144,195
Public Works	57,087	160,559	(103,472)
Culture & Recreation	196,137	220,207	(24,070)
Economic Development & Asst.	133,322	31,351	101,971
Street and Sanitation	-	49,795	(49,795)
Debt Service	17,623	21,299	(9,676)
Utility Fund Services	659,942	391,373	268,569
Other Expenditures	-	3,872	(3,872)
<b>Total Expenses</b>	<b>3,252,788</b>	<b>2,650,360</b>	<b>602,428</b>
Increase in Net Assets Before Transfers and Special items	969,889	3,762,662	(2,792,773)
Transfers	-	-	-
Special Items – Resources	-	-	-
Special Items – Prior Period Adjustments	(1,360,257)	271,542	(1,631,799)
Net Assets at 10/1/14	17,524,744	13,490,540	4,034,204
Net Assets at 9/30/15	17,134,376	17,524,744	(390,368)

The cost of all activities this year was \$3,252,788 million. However, as shown in the Statement of Activities on pages 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$891,725 million because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

## THE CITY'S FUNDS

The City's General Fund balance of (\$727,687) reported on page 13 differs from the General Fund's budgetary fund balance of (\$318,249) million reported in the General Fund budgetary comparison schedule on page 17. This is principally due to additional costs and reduced revenues.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the 2014-15 year, the City had \$24,228,490 million invested in a broad range of capital assets, including facilities, land, infrastructure, vehicles, construction in progress and equipment.

## Debt

At year-end, the City had \$6.05 million in bonds and notes outstanding versus \$ million last year an decrease of 5 percent.

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

The City's elected and appointed officials considered many factors when setting the fiscal-year 2015-2016 budget, tax rates. One of those factors is the economy. The City's population growth has increased steadily from 2000-2014. More recently the city is undergoing many construction projects that will build the infrastructure of the city and will help the city grow in size. The City of Penitas Budget for 2015-2016 included amounts available for appropriation at \$2.75 million slightly lower than the actual revenue of \$2.887 million in the 2014-2015 year. Budgeted expenditures are expected to decrease from \$2.955 million to \$2.749 million. If these estimates are realized, the City's budgetary General Fund balance is expected to increase by the close of 2015-2016.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's administration office, at City of Penitas, 1111 Main St 78576, Penitas, Texas.

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CITY OF PENITAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2015

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 197,145	\$ 72,479	\$ 269,624
Investments - Current	35,368	-	35,368
Receivables (net of allowance for uncollectibles)	1,892,372	989,962	2,882,334
Internal Balances	(122,462)	122,547	85
Due from Others	9,995	-	9,995
Restricted Assets:			
Temp. Restricted Asset (specify)	-	84,927	84,927
Capital Assets:			
Land	29,305	130,000	159,305
Infrastructure, net	1,637,642	-	1,637,642
Buildings, net	1,110,302	3,759,822	4,870,124
Machinery and Equipment, net	160,389	-	160,389
Construction in Progress	242,796	15,834,178	16,076,974
Total Assets	<u>5,192,852</u>	<u>20,993,915</u>	<u>26,186,767</u>
<b>LIABILITIES</b>			
Accounts Payable	268,030	1,515,900	1,783,930
Deferred Revenues	1,215,331	-	1,215,331
Noncurrent Liabilities			
Due Within One Year	108,705	73,000	181,705
Due in More Than One Year	373,425	5,498,000	5,871,425
Total Liabilities	<u>1,965,491</u>	<u>7,086,900</u>	<u>9,052,391</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	2,698,304	14,153,000	16,851,304
Restricted for:			
Restricted for	11,912	-	11,912
Restricted for	829,730	-	829,730
Unrestricted Net Position	(312,585)	(245,985)	(558,570)
Total Net Position	<u>\$ 3,227,361</u>	<u>\$ 13,907,015</u>	<u>\$ 17,134,376</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PENITAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
<b>GOVERNMENTAL ACTIVITIES:</b>			
General Government	\$ 1,267,265	\$ 331,463	\$ -
Public Safety	927,412	-	-
Public Works	57,087	-	-
Culture and Recreation	196,137	-	-
Conservation and Development	133,322	-	-
Bond Interest	11,623	-	-
Total Governmental Activities:	<u>2,592,846</u>	<u>331,463</u>	<u>-</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>			
Utility Fund	659,942	499,422	814,138
Total Business-Type Activities:	<u>659,942</u>	<u>499,422</u>	<u>814,138</u>
<b>TOTAL PRIMARY GOVERNMENT:</b>	<u>\$ 3,252,788</u>	<u>\$ 830,885</u>	<u>\$ 814,138</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Sales Taxes

Franchise Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

The notes to the financial statements are an integral part of this statement.

CITY OF PENITAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015

EXHIBIT C-1

	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 95,505	\$ -	\$ 101,640	\$ 197,145
Investments - Current	25,585	-	9,783	35,368
Taxes Receivable	131,760	-	33,514	165,274
Allowance for Uncollectible Taxes (credit)	(7,906)	-	(914)	(8,820)
Receivables (Net)	485,535	-	54,763	540,298
Intergovernmental Receivables	31,383	1,164,237	-	1,195,620
Due from Other Funds	61,800	-	1,237,814	1,299,614
Due from Others	-	-	9,995	9,995
Total Assets	<u>\$ 823,662</u>	<u>\$ 1,164,237</u>	<u>\$ 1,446,595</u>	<u>\$ 3,434,494</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 38,558	\$ -	\$ -	\$ 38,558
Wages and Salaries Payable	96,150	-	-	96,150
Due to Other Funds	954,775	-	467,301	1,422,076
Due to Others	-	-	133,322	133,322
Unavailable Revenues	386,985	1,164,237	-	1,551,222
Total Liabilities	<u>1,476,468</u>	<u>1,164,237</u>	<u>600,623</u>	<u>3,241,328</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	74,881	-	4,330	79,211
Total Deferred Inflows of Resources	<u>74,881</u>	<u>-</u>	<u>4,330</u>	<u>79,211</u>
<b>FUND BALANCES</b>				
Federal or State Funds Grant Restriction	-	-	829,730	829,730
Retirement of Long-Term Debt	-	-	11,912	11,912
Unassigned Fund Balance	(727,687)	-	-	(727,687)
Total Fund Balances	<u>(727,687)</u>	<u>-</u>	<u>841,642</u>	<u>113,955</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 823,662</u>	<u>\$ 1,164,237</u>	<u>\$ 1,446,595</u>	<u>\$ 3,434,494</u>

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (935,802)	\$ -	\$ (935,802)
(927,412)	-	(927,412)
(57,087)	-	(57,087)
(196,137)	-	(196,137)
(133,322)	-	(133,322)
(11,623)	-	(11,623)
<u>(2,261,383)</u>	<u>-</u>	<u>(2,261,383)</u>
-	653,618	653,618
-	653,618	653,618
<u>(2,261,383)</u>	<u>653,618</u>	<u>(1,607,765)</u>
891,725	-	891,725
913,988	-	913,988
140,904	-	140,904
34,571	-	34,571
477,824	-	477,824
118,466	176	118,642
(234,811)	234,811	-
<u>2,342,667</u>	<u>234,987</u>	<u>2,577,654</u>
81,284	888,605	969,889
2,952,856	14,571,888	17,524,744
193,221	(1,553,478)	(1,360,257)
<u>\$ 3,227,361</u>	<u>\$ 13,907,015</u>	<u>\$ 17,134,376</u>

CITY OF PENITAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

<b>Total Fund Balances - Governmental Funds</b>	\$	113,955
<p>The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net position.</p>		
		-0-
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$3,998,633 and the accumulated depreciation was \$1,312,982. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>		
		2,159,484
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2015 capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		521,473
<p>The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>		
		(159,043)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		591,492
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>3,227,361</b>

The notes to the financial statements are an integral part of this statement.

CITY OF PENITAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 707,425	\$ -	\$ 162,954	\$ 870,379
General Sales and Use Taxes	457,972	-	456,016	913,988
Franchise Tax	140,904	-	-	140,904
Penalty and Interest on Taxes	34,571	-	-	34,571
Intergovernmental Revenue and Grants	134,976	308,070	9,995	453,041
Charges for Services	330,844	-	-	330,844
Contributions & Donations from Private Sources	24,783	-	-	24,783
Other Revenue	118,783	-	302	119,085
Total Revenues	<u>1,950,258</u>	<u>308,070</u>	<u>629,267</u>	<u>2,887,595</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,123,510	4,050	32,621	1,160,181
Public Safety	650,107	-	213,899	864,006
Public Works	51,700	-	-	51,700
Culture and Recreation	182,114	-	-	182,114
Conservation and Development	-	-	133,322	133,322
Debt Service:				
Bond Principal	-	-	44,037	44,037
Bond Interest	-	-	11,623	11,623
Capital Outlay:				
Capital Outlay	204,273	304,020	-	508,293
Total Expenditures	<u>2,211,704</u>	<u>308,070</u>	<u>435,502</u>	<u>2,955,276</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(261,446)</u>	<u>-</u>	<u>193,765</u>	<u>(67,681)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	9,995	-	133,322	143,317
Transfers Out (Use)	(133,322)	-	(244,806)	(378,128)
Total Other Financing Sources (Uses)	<u>(123,327)</u>	<u>-</u>	<u>(111,484)</u>	<u>(234,811)</u>
Net Change in Fund Balances	(384,773)	-	82,281	(302,492)
Fund Balance - October 1 (Beginning)	(359,745)	-	759,361	399,616
Prior Period Adjustment	16,831	-	-	16,831
Fund Balance - September 30 (Ending)	<u>\$ (727,687)</u>	<u>\$ -</u>	<u>\$ 841,642</u>	<u>\$ 113,955</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PENITAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(302,492)
The city uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) the change in net position.		-0-
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2015 capital outlays and debt principal payments is to increase (decrease) the change in net position.		521,473
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(159,043)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) the change in net position.		21,346
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>81,284</b>

The notes to the financial statements are an integral part of this statement.

CITY OF PENITAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2015

EXHIBIT D-1

	Business Type Activities
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 157,406
Taxes Receivable	941,416
Accounts Receivable-Net of Uncollectible Allowance	48,546
Due from Other Funds	127,620
Total Current Assets	1,274,988
<b>Noncurrent Assets:</b>	
Capital Assets:	
Land Purchase and Improvements	130,000
Buildings	4,063,475
Accumulated Depreciation - Buildings	(303,653)
Construction in Progress	15,834,178
Total Noncurrent Assets	19,724,000
Total Assets	20,998,988
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	1,146,013
Wages and Salaries Payable	139,847
Contracts Payable	230,040
Due to Other Funds	5,073
Bonds Payable - Current	73,000
Total Current Liabilities	1,593,973
<b>NonCurrent Liabilities:</b>	
Notes Payable - Noncurrent	5,498,000
Total Noncurrent Liabilities	5,498,000
Total Liabilities	7,091,973
<b>NET POSITION</b>	
Net Investment in Capital Assets	14,153,000
Unrestricted Net Position	(245,985)
Total Net Position	\$ 13,907,015

The notes to the financial statements are an integral part of this statement.

CITY OF PENTAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT D-2

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 499,422
Other Revenue	176
Total Operating Revenues	499,598
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	118,327
Personnel Services - Employee Benefits	11,452
Purchased Professional & Technical Services	48,050
Purchased Property Services	70,864
Other Operating Expenses	61,090
Supplies	35,570
Depreciation	122,732
Total Operating Expenses	468,085
Operating Income	31,513
NON-OPERATING REVENUES (EXPENSES):	
Interest Expense - Non-Operating	(191,857)
Total Non-operating Revenue (Expenses)	(191,857)
Income (Loss) Before Contributions & Transfers	(160,344)
Capital Contributions	814,138
Non-Operating Transfer In	234,811
Change in Net Position	888,605
Total Net Position -October 1 (Beginning)	14,571,888
Prior Period Adjustment	(1,553,478)
Total Net Position September 30 (Ending)	\$ 13,907,015

The notes to the financial statements are an integral part of this statement.

CITY OF PENITAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Business Type</u> <u>Activities</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 503,671
Cash Payments to Employees for Services	(127,965)
Cash Payments for Suppliers	(224,727)
Net Cash Provided by Operating Activities	<u>150,979</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(50,927)
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(814,138)
Capital Contributed by Other Funds	234,811
Debt Payment	(71,000)
Interest Payment	(191,857)
Capital Grant USDA	814,135
Increase in Due from Other Govts	(155,335)
Increase in Construction Payable	120,510
Accrued Interest Payable	(317)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(63,191)</u>
Net Increase in Cash and Cash Equivalents	36,861
Cash and Cash Equivalents at Beginning of the Year:	<u>120,545</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 157,406</u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 31,513
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	122,732
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	4,073
Increase (decrease) in Accounts Payable	(7,339)
Net Cash Provided by Operating Activities	<u>\$ 150,979</u>

The notes to the financial statements are an integral part of this statement.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General Statement**

The citizens of the City voted on May 12, 2012 to incorporate the City of Penitas, Texas. The City operates under a Home Rule Charter with a Mayor – City Council form of government.

The general governmental functions include law enforcement, fire and other public safety activities, streets, sanitation, public improvements, public charities, parks and recreation, library services, zoning and general administrative services. Enterprise funds are used to account for the operations of its utility operations.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units by the Financial Accounting Standards Board (FASB), when applicable.

**B. Financial Reporting Entity**

The City's Financial reporting entity comprises the following:

Primary Government: City of Penitas

The City's basic financial statements include the accounts of all City Operations. The criteria for including organizations as component units with the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization's board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is a fiscal dependency by the organization on the City

**Blended Component Unit**

Blended component units are separate legal entities that meet the component unit criteria and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation. Currently, the City's blended component units are the Penitas Corporation, a 4A corporation, and the Development Corporation of Penitas, a 4B corporation. Both Corporations promote the economic interest and developments of the City and collect sales taxes under section 4B of the Development Corporation Act of 1979 for these purposes.

The reason they are classified as blended component units is because the City appoints all board members and can remove them at will. Some of the city officials serve in the governing bodies.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**C. Government – Wide and Fund Financial Statements**

The government-wide financial statements include the statement of the net position and the statement of activities. These statements report information on all of the non-fiduciary financial information for the City and its component units. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Eliminations have been made to minimize the double-counting of internal activities. Individual funds are not displayed, but the statements distinguish governmental activities (generally supported by taxes and the city general revenue) from business-type activities (generally financed in whole or in part with fees charged to external customers). The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues includes 1) charges to customers or applicants whose purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operations or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide reports on the financial condition and results of operations about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increase(revenues) and decrease(expenses) in net total assets.

Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of current period. The City considers property recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are sales taxes, franchise taxes, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

**E. Fund Accounting**

- a. **The General Fund** – The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- b. **Special Revenue Funds** – The City accounts for resources restricted to, or designed for, specific purposes by the City or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- c. **Debt Service Funds** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation of governmental obligation debt of governmental funds in a debt service fund.
- d. The City reports the following major enterprise fund.
  1. The Public Utilities Department – This fund's function is to provide for a source of supply of water, its purification and distribution to customers and to collect and treat wastewater for municipal customers and administer a private franchised solid waste collection and transportation service.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**F. Assets, Liabilities and Net Position or Equity**

**a. Cash and Investments**

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash are available upon demand and are considered to be "cash equivalents" when preparing financial statements. All investments are recorded at fair value based on quoted market prices. Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**b. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City conformity with Subtitle E, Teas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Taxable property includes real property and certain personal property situated in the City. Certain properties of religious, educational and charitable organizations, including the federal government and the State of Texas, are exempt from taxation. Additionally, there are other exemptions as noted below in arriving at the total assessed valuation of taxable property. The valuations are subject to county-wide revaluation every five years. The effective rate is based upon the previous year's total assessed valuation.

Allowances for uncollectible tax receivables within the General and Debt Service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and included as part of the allowance for uncollectible; except for tax receivables over 20 year,

the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The City does not write off tax receivables greater than 20 years.

**c. Inventories**

The inventories are recorded at cost and are accounted for by the consumption period.

**d. Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds".

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectible.

**e. Transactions between Funds**

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

**f. Capital Assets**

Capital assets include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are capital assets valued at their value their fair market value on the date donated. Repairs and maintenance are construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Infrastructure	30 Years
Improvements	20 Years
Water and Sewer System	30-50 Years
Machinery and Equipment	3-15 Years

**g. Compensated Absences**

No liability for compensated absences is reported in the government-wide and proprietary fund statements consist of unpaid, accumulated annual and compensation time leave balances. It is the City's policy to permit some employees to accumulate earned but unused vacation and for sick pay benefits. There is a liability for unpaid accumulated vacation leave since the City does have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**h. Long-Term Obligations**

In the government-wide, proprietary and component unit financial statements, long-term obligations are reported as liabilities. In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. The governmental fund financial statements recognize the proceeds of debt as other financing resources.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**i. Restricted Assets**

The proceeds and required reserves of debt issuances are recorded as restricted assets as they are restricted for debt service and/or capital projects, payments and/or purchases.

**j. Net Position/ Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outsource parties for use for a specific purpose.

**k. Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u>		<u>Accumulated</u>	<u>Net Value at the</u>	
<u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Depreciation</u>	<u>Beginning of the</u>	<u>Change in Net</u>
			<u>Year</u>	<u>Assets</u>
Land	\$ 29,305	-	\$ 29,305	
Buildings	1,197,225	(571,475)	625,750	
Furniture & Equipment	513,088	(328,380)	184,708	
Construction in Progress	321,558	-	321,558	
Infrastructure	1,937,457	(413,127)	1,524,330	
Change in Net Assets				\$ 2,685,651
<u>Long-term Liabilities</u>			<u>Payable at the</u>	
<u>at the beginning of the year</u>			<u>Begin of the year</u>	
Loans Payable			526,167	
Change in Net Assets				(526,167)
Net Adjustment to Net Assets				\$ 2,159,484

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Exhibit C-4 provides the reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amounts</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<b><u>Current Year Capital Outlay</u></b>			
Various Categories	477,436.00		
Total Capital Outlay	477,436.00	\$ 477,436	\$ 477,436
<b><u>Debt Principal Payments</u></b>			
Bond Principal	-		
Loan Principal	44,037.00		
Total Principal	44,037.00	44,037.00	44,037.00
<b>Total Adjustments to Net Assets</b>		<b>\$ 521,473</b>	<b>\$ 521,473</b>

Another element of the reconciliation on Exhibit C-4 is described as various reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<b><u>Adjustments to Revenue and Deferred Revenue</u></b>			
Taxes Collected from Prior Year Tax Levies			
Warrants - Deferred	\$ 386,985	\$ -	\$ 386,985
Taxes Collected from Prior Levy	(21,346)	21,346	-
Warrants - Deferred Prior Period	51,094	-	(51,094)
Uncollected Taxes from Current Year Levy	79,211	-	79,211
Other - Reclassifications	176,390	-	176,390
		<b>\$ 21,346</b>	<b>\$ 591,492</b>

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Data**

The City Council adopts an "appropriated budget" for the General Fund. In accordance with Government Accounting Board (GASB) Statement #34, a City is required to present the adopted and final amended budgeted revenues and expenditures.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to October 1, the City prepares a budget for the next succeeding fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the City Council is then called for purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance by the Council. Once a budget is approved, it can be formally amended by approval of a majority of the members of the Council. Amendments are presented to the Council at its regular meetings. Each amendment must have Council approval. As required by law, such amendments are made before the fact, and are reflected in the official minutes of the Council, and are not made after fiscal year end.
4. Budgeted amounts are ad amended by the Council. All budget appropriations lapse at year end.

**A. Budget Basis of Accounting**

The City prepares its annual budget on a basis (budget basis), which differs from generally accepted accounting principles (GAAP Basis). The budget and all transactions are presented in accordance with the City's method (budget basis) in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General fund to provide a meaningful comparison of actual results with the budget. The major differences between budget and GAAP basis are stated in the statement and schedules associated with the analysis of actual results to the budgeted expectations.

Excess of Expenditures over Appropriations

General Fund expenditures exceeded appropriations by the amount(s) noted below;

<b><u>Functional Category</u></b>	<b><u>Amount</u></b>
General Government	\$ 59,571
Culture and Recreation	\$ 16,310
Capital Outlay	\$ 136,773

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**B. Deficit Fund Balance**

General fund had a deficit fund balance of (727,687) due to excess of expenditures over revenues accumulations as of September 30, 2015.

**B. General Fund's Fund Balance Policy**

The City has adopted GASB 54 as part of its fiscal ending September 30, 2011. Implementation of GASB 54 is required of all cities for the fiscal year ending in 2011. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the City's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB 54 provides for two major types of fund balances with are non-spendable and spendable.

Non-spendable fund balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, noncurrent advances to other funds that are not expected to be collected in the next fiscal year, and the principal (corpus) of an endowment fund. The City does not have any non-spendable fund balances. In addition to non-spendable fund balance, GASB has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

**-Restricted:** Fund balances that are constrained by external parties, constitutional provisions, or enabling legislation. All of the City's restricted funds are from Special Revenue Funds, whose funds are revenues legally restricted to expenditures for a particular purpose.

**-Committed:** Fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the elected City Commissioners and Mayor. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. The City had no such fund.

**-Assigned:** Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the City Manager. The only funds assigned relate to the accumulation of funds for future capital projects.

**-Unassigned:** Fund balance of the general fund that is not constrained for any particular purpose. This is also where negative amounts from the other categories of fund balance are recognized. When an expense is incurred for purposes which both restricted and unrestricted net position are available, the City typically first applies restricted resources, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or replacement equipment acquisition. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of assigned, then unassigned, and finally committed funds.

**II. DETAILED NOTES ON FUNDS AND COMPONENT UNITS**

- A. City's funds are required to be deposited and invested under the terms of a depository contract and investment policy pursuant to state statute. The depository bank deposits for safekeeping and trust with its agent approved pledged securities authorized by Chapter 2257 Collateral for Public Funds of the

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

Government Code in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2015, the carrying amount of the City's deposits was \$354,551 including restricted cash. The City has four depository accounts at BBVA Compass, Rio Bank, Lone Star National Bank, and Plains Capital Bank.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy of maintaining contact with the trust department of its depository agency to eliminate all custodial credit risk. As of September 30, 2015, the City's bank balance was not exposed to custodial credit risk and was over-insured and over-collateralized, by FDIC insurance and pledged securities held by financial institutions.

**B. Restricted Cash – Utility Fund Bond Reserves**

The balances of restricted reserve funds as of September 30, 2015 are as follows:

<u>Certificate of Obligation</u>	<u>Reserve Amount</u>
USDA Phase I	\$ 25,696
USDA Phase II	12,369
USDA Phase III	14,257
USDA Phase IV	<u>32,605</u>
Total Restricted Cash	<u>\$ 84,927</u>

**C. Investments**

The City is required by Government Code Chapter 2256, the public Funds Investment Act ("Act"), to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, and include a list of the types of authorized investments in which the investing entity's funds may be invested, and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as part of the audit of the general purposes financial statements disclosed that in the areas of investment practices, management reports and establish appropriate policies. The City adheres to the requirements of the Act. Additionally, investment practices of the City are in accordance with local policies.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

The City has investments at September 30, 2015, in the form of Certificates of Deposit with Rio Bank in the amount of \$35,368.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of Deposit	\$35,368	\$35,368			

**Analysis of Specific Deposit and Investment Risks:**

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

**1. Interest Rate Risk**

This is the risk that changes in interest will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk. The City's investment policy states that no investment shall exceed 24 months in maturity. By limiting the exposure of its investments, the City reduces its risks to the rising or decreasing interest rates.

**2. 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 agencies are designed to an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

**3. Custodial Credit Risk**

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

**4. Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was exposed to concentration of credit risk, but highly collateralized. With the City's investment policy, diversification is stressed. The City was in compliance with its diversification investment guidelines.

**5. Foreign Currency Risk**

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the city was not exposed to foreign currency risk.

**D. Disaggregation of Receivables and Payables**

Receivables for the City at September 30, 2015, were as follows:

**Governmental Funds:**

<u>Description on Account</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service</u>	<u>Total Receivables</u>
Property Taxes	131,760	-	15,226	146,986
Sales Taxes	73,274	73,052	-	146,326
Franchise Taxes	25,275	-	-	25,275
Warrants Receivables	773,971	-	-	773,971
Grants Receivable	31,382	-	-	31,382
Urban County	-	1,164,237	-	1,164,237

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

Due from Other Governments	9,995	-	-	9,995
Due from Other Funds	<u>61,800</u>	<u>1,235,884</u>	<u>1,930</u>	<u>1,299,614</u>
Total Receivables	1,035,664	2,339,851	17,156	3,597,684
Allowance for Uncollectibles	<u>(394,891)</u>	-	<u>(914)</u>	<u>(395,805)</u>
Receivables, Net	<u><u>692,577</u></u>	<u><u>4,679,702</u></u>	<u><u>18,172</u></u>	<u><u>3,201,981</u></u>

**Business-Type Funds**

Description on Account	Enterprise Funds	Total Receivables
Utility Customer	\$ 48,546	\$ 48,546
Due from USDA	941,416	941,416
Due from General Fund	127,620	127,620
Total Receivables	1,117,582	1,117,582
Allowance for Uncollectibles	-	-
Receivables, Net	<u><u>1,117,582</u></u>	<u><u>\$ 1,117,582</u></u>

Payables for the City at September 30, 2015, were as follows:

**Governmental Activities:**

Description on Account	General Fund	Special Revenue Funds	Debt Service	Total Payables
Accounts Payable	\$38,558	-	-	\$38,558
Wages Payable	96,150	-	-	96,150
Due to Other Funds	954,775	-	467,301	1,422,076
Due to Others	-	-	133,322	133,322
Total Receivables	\$1,089,483	-	\$600,623	\$1,690,106

**Business-Type Funds**

Description on Account	Enterprise Funds	Total Payables
Accounts Payable	1,146,013	1,146,013
Wages Payable	139,847	139,847
Contracts Payable	230,040	230,040
Due to Other Funds	5,073	5,073
Bonds Payable – Current Year	73,000	73,000
Total – Accounts Payable	1,593,973	1,593,973

**E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

As of September 30, 2015 the various components of deferred outflows and inflows of resources are as follows:

At the fund level financial statements, the City has the following Deferred Inflows of Resources:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property Tax, Unavailable	\$74,881	\$4,330	\$79,211

**F. Deferred Revenue**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of deferred revenue and unearned revenue reported in the fund financial statements were as follows:

Description on Account	General Fund	Special Revenue Funds	Debt Service	Total Deferred Revenue, Governmental
Deferred Warrant Revenue	\$ 386,985	\$ -	\$ -	\$ 386,985
Urban County – 2002	-	5,768	-	5,768
Urban County – 2010	-	13,492	-	13,492
Urban County – 2011	-	123,035	-	123,035
Urban County – 2012	-	218,183	-	218,183
Urban County – 2013	-	276,531	-	276,531
Urban County – 2014	-	272,007	-	272,007
Urban County – 2015	-	255,221	-	255,221
Total Deferred Revenue, Governmental	<u>\$ 386,985</u>	<u>\$ 1,164,237</u>	<u>\$ -</u>	<u>\$ 1,551,222</u>

**G. Due from Other Funds**

The City reports interfund balances between many of its funds. The total of all balances agrees with the sum of interfund balances presented in the statements of net position / balance sheets for governmental and proprietary funds. The interfund balances are operational and short-term in nature. Interfund balances at September 30, 2015 consisted of the following:

Description on Account	Due To	Due From
General Fund:		
General Fund	46,732	46,732
Enterprise Fund	127,619	5,073
EDC A	637,750	-
Police Fund	7,505	-
Debt Service Fund	1,930	-
Tax Increment Fund	133,322	9,995
Total General Fund	954,858	61,800

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

<b>Special Revenue Fund:</b>		
General Fund		645,255
EDC A	457,307	
EDC B		457,307
Tax Increment Fund	9,995	133,322
<b>Total Special Revenue Funds</b>	<b>467,302</b>	<b>1,235,884</b>
<b>Debt Service Fund:</b>		
General Fund	-	1,930
<b>Total Debt Service</b>	<b>-</b>	<b>1,930</b>
<b>Enterprise Fund:</b>		
General Fund	5,073	127,619
<b>Total Enterprise Fund</b>	<b>5,073</b>	<b>127,619</b>
<b>TOTAL DUE TO/DUE FROM</b>	<b>1,427,233</b>	<b>1,427,233</b>

**H. Capital Assets**

<b>Primary Government Governmental Activities</b>	<b>Beginning Balance</b>	<b>Prior Period</b>	<b>Increases</b>	<b>Reclassify</b>	<b>Retirements</b>	<b>Ending Balance</b>
<i>Capital assets, not begin depreciated:</i>						
Land and Right of Way Construction in Progress	\$ 29,305	\$ -	\$ -	\$ -	\$ -	\$ 29,305
Total capital assets not being depreciated	<u>321,558</u>	<u>16,651</u>	<u>255,338</u>	<u>26,317</u>	<u>(377,068)</u>	<u>242,796</u>
	350,863	16,651	255,338	26,317	(377,068)	272,101
<i>Capital assets being depreciated:</i>						
Buildings	1,197,225	14,995	174,536	318,832	-	1,675,598
Infrastructure & Machinery & Equipment	1,937,457	-	-	31,919	-	1,969,376
	<u>513,088</u>	<u>-</u>	<u>47,742</u>	<u>-</u>	<u>-</u>	<u>560,830</u>
Total capital assets, being depreciated	3,647,770	(14,995)	222,278	350,751	-	4,205,804
<i>Less accumulated depreciation for:</i>						
Buildings	(571,475)	39,782	(33,423)	-	-	(565,116)
Infrastructure & Machinery & Equipment	(413,127)	134,952	(53,559)	-	-	(331,734)
	<u>(328,380)</u>	<u>-</u>	<u>(72,061)</u>	<u>-</u>	<u>-</u>	<u>(400,441)</u>
Total accumulated depreciation	<u>(1,312,982)</u>	<u>174,734</u>	<u>(159,043)</u>	<u>-</u>	<u>-</u>	<u>(1,297,291)</u>
Total capital assets being depreciated, net	<u>2,334,788</u>	<u>159,739</u>	<u>63,235</u>	<u>350,751</u>	<u>-</u>	<u>2,908,513</u>

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

Governmental activities capital assets, net	<u>\$ 2,685,651</u>	<u>\$176,390</u>	<u>\$ 318,573</u>	<u>\$ 350,751</u>	<u>\$ (377,068)</u>	<u>\$3,180,614</u>
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Depreciation expense was charged to functions of the governmental activities as follows:

**Governmental Activities**

General Governmental	61,996
Public Safety	63,406
Sanitation and Streets	5,387
Municipal Court	14,231
Culture and Recreation	<u>14,023</u>
Total Governmental Activities	<u>159,043</u>

BUSINESS TYPE ACTIVITIES:	Beginning Balance	Prior Period	Increases	Retirements	Ending Balance
<i>Capital assets, not being depreciated</i>					
Land and Right of Way Construction in Progress	\$ 130,000	-	-	-	\$ 130,000
Total capital assets not being depreciated	<u>16,152,462</u>	-	-	<u>(318,284)</u>	<u>15,834,178</u>
	<u>16,282,462</u>	-	-	<u>(318,284)</u>	<u>15,515,894</u>
<i>Capital assets being depreciated</i>					
Sewer Plant	3,556,000	-	-	-	3,556,000
Lift Stations	<u>507,475</u>	-	-	-	<u>507,475</u>
Total capital assets, being depreciated	<u>4,063,475</u>	-	-	-	<u>4,063,475</u>
<i>Less accumulated depreciation for:</i>					
Sewer Plant	(162,990)	-	(88,900)	-	(251,890)
Lift Stations	<u>(76,122)</u>	-	<u>(33,832)</u>	-	<u>(109,954)</u>
Total accumulated depreciation	<u>(180,922)</u>	-	<u>(122,732)</u>	-	<u>(303,854)</u>
Total capital assets being depreciated, net	<u>3,882,553</u>	-	<u>(122,732)</u>	-	<u>3,759,821</u>
<b>Business Type activities capital assets, net</b>	<u>\$ 20,165,015</u>	<u>\$ -</u>	<u>\$(122,732)</u>	<u>\$ (318,284)</u>	<u>\$19,724,000</u>

I. Long Terms Obligations

The following schedule summarizes the changes in long-term debt during year ended September 30, 2015:

Loans Payable:

Note payable to Mil Encinos for \$625,000 interest of 3.50% \$75,000

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

Note payable to Texas Leverage Fund for \$550,000, payable in monthly payments of \$3,869.84 including interest of 3.25%, due 12/17/2026.	407,130
<b>Total Loans Payable</b>	<b>\$ 482,130</b>
 \$1,364,000 Certificate of Obligation from USFADA 92-02 with annual interest rate of 3.75%, maturity date, November 1, 2050.	 \$ 1,333,000
 \$460,000 Certificate of Obligation from USFADA 92-04 with annual interest rate of 4.50%, maturity date, November 1, 2050	 448,000
 \$1,605,000 Certificate of Obligation from USFADA 92-04 with annual interest rate of 3.0%, maturity date, November 1, 2050.	 1,572,000
 Certificate of Obligation from USDA 92-06 for \$2,250,000, with annual interest rate of 3.0%, Due Date on November 1, 2053.	 2,218,000
 <b>Total Notes Payable</b>	 <b>\$ 5,571,000</b>

**Loans Payable-Governmental Activities**

Loans payable at September 30, 2015 is comprised of the following issues:

Fiscal year Ending September 30,	Principal	Interest	Total Loans Payable
2016	108,705	12,733	121,438
2017	34,817	11,621	46,438
2018	35,966	10,472	46,438
2019	37,152	9,286	46,438
2020	38,378	8,060	46,438
2021-2025	211,737	20,454	232,190
2026-2030	15,374	104	15,478
<b>Total Loans Payable</b>	<b>482,130</b>	<b>72,729</b>	<b>554,859</b>

**Certificate of Obligation & Bonds-Business-Type Activities**

Debt service requirements of bonds payables at September 30, 2015 are as follows:

Fiscal year Ending September 30,	Principal	Interest	Total COS & Bonds
2016	73,000	200,708	273,708
2017	76,000	198,128	274,128
2018	80,000	195,435	275,435
2019	82,000	192,600	274,600
2020	84,000	189,698	273,698
2021-2025	473,000	901,350	1,374,350
2026-2030	569,000	810,120	1,379,120

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

2031-2035	682,000	700,020	1,344,355
2036-2040	821,000	567,113	1,357,498
2041-2045	989,000	406,200	1,372,725
2046-2050	1,191,000	211,133	1,389,048
2051-2053	451,000	23,715	471,950
Total Bonds Payable	5,571,000	4,596,218	9,913,943

**J. CHANGES IN LONG-TERM LIABILITIES**

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>	<u>Due</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Loans and Notes Payable	<u>\$526,167</u>	<u>\$ -</u>	<u>(\$ 44,037)</u>	<u>\$482,130</u>	<u>\$108,705</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$526,167</u>	<u>\$ -</u>	<u>(\$ 44,037)</u>	<u>\$482,130</u>	<u>\$108,705</u>
<b>Business-type Activities:</b>					
Bonds Payable	<u>\$ 5,642,000</u>	<u>\$ -</u>	<u>(\$ 71,000)</u>	<u>\$5,571,000</u>	<u>\$ 73,000</u>
Total Business-type Activities					
Long-Term Liabilities	<u>\$ 5,642,000</u>	<u>\$ -</u>	<u>(\$ 71,000)</u>	<u>\$5,571,000</u>	<u>\$ 73,000</u>

**K. TAX INCREMENT REINVESTMENT ZONE**

The City of Penitas, on December 26, 2006 executed a Tri-Party agreement between the City of Penitas and the Prentias Redevelopment authority

This hereby created and established in the depository bank, a fund to call the "REINVESTMENT ZONE NUMBER ONE, CITY OF ALTON, TEXAS, TEXAS TAX INCREMENT FUND" (HEREIN CALLED THE "Tax Increment Fund"). Money in the Tax Increment Fund, from whatever source, may be disbursed from the Tax Increment Fund, invested and paid as permitted by the Act or by any agreements entered into pursuant to the Act, or as otherwise authorized by law.

**IV. OTHER INFORMATION**

**L. Litigation**

The City is the opinion in various lawsuits, Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's legal counsel and management that resolution of these matters will not have a material adverse effect on the financial condition of the City at September 30, 2015 other than the case listed below:

*Act Pipe and Supply, Inc vs L and G Concrete Construction, Inc, and Liberty Mutual Insurance Co. Vs City of Penitas, C-7113-14-1*

The City is in process of securing a partial settlement agreement with several vendors in the amount of \$600,000. The monies will be secured vis USDA.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**K. Arbitrage**

The City has issued long-term debt for capital construction projects. These bonds are subject to the arbitrage regulations. Arbitrage regulations call for the return of the difference in interest revenue against interest expense. At September 30, 2015, there was no liability of arbitrage that would have been owed to the federal government.

**L. Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and commissions, injuries to employees (workman's compensation), and natural disasters. During the fiscal year, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk pool (TML). TML is a self funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in exceeded coverage in any of the past three fiscal years. A copy of TML's comprehensive annual report may be obtained by request at the following address:

**Texas Municipal League  
1821 Rutherford Lane, Suite 400  
Austin, TX 78754-5128**

**M. Urban Country**

The City of Penitas, Texas and other municipalities in Hidalgo County participate in the Hidalgo County's "Urban Country" program. By being designed as an "Urban Country", Hidalgo County and the participating cities are entitled to receive a formula share of entitlement CDBG program funds from the U.S Department of Housing and Urban Development (HUD).

Monies received from HUD are allocated to the cities participating in the program based on agreed upon formulas. The County is responsible for the administration of the program and is ultimately responsible for including the grant activity related to the Urban Country Program in its audit report as per CDBG guidelines. All monies received from HUD on this program are handled by county. The County pays the vendors or contractors directly for goods or services which benefit the difference cities. The County also reimburses the Cities for general administration cost incurred by those cities. Monies paid by the Urban Country Program are considered federal assistance and is included in the City's schedule of expenditures of federal awards using CFDA number 14,218, Community Development Block Grant, and is subject to A-133 Single Audit requirements.

**N. RELATED PARTY TRANSACTIONS**

The City of Penitas currently contracts accounting services with Oscar Gonzalez, CPA & Associates, PLLC. A City employee has a familiar relationship with a member of this firm.

City of Penitas, Texas  
Notes to Financial Statements  
For the Year Ended September 30, 2015

**O. SUBSEQUENT EVENTS**

The City considered all subsequent events through March 15, 2016

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**REQUIRED SUPPLEMENTARY INFORMATION**

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CITY OF PENITAS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 832,827	\$ 832,827	\$ 707,425	\$ (125,402)
General Sales and Use Taxes	680,000	680,000	457,972	(222,028)
Franchise Tax	134,350	134,350	140,904	6,554
Penalty and Interest on Taxes	18,000	18,000	34,571	16,571
Intergovernmental Revenue and Grants	318,250	318,250	134,976	(183,274)
Charges for Services	266,850	266,850	330,844	63,994
Contributions & Donations from Private Sources	3,150	3,150	24,783	21,633
Other Revenue	61,000	61,000	118,783	57,783
Total Revenues	<u>2,314,427</u>	<u>2,314,427</u>	<u>1,950,258</u>	<u>(364,169)</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,063,939	1,063,939	1,123,510	(59,571)
Public Safety	801,250	801,250	650,107	151,143
Public Works	174,438	174,438	51,700	122,738
Culture and Recreation	165,804	165,804	182,114	(16,310)
Capital Outlay:				
Capital Outlay	67,500	67,500	204,273	(136,773)
Total Expenditures	<u>2,272,931</u>	<u>2,272,931</u>	<u>2,211,704</u>	<u>61,227</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>41,496</u>	<u>41,496</u>	<u>(261,446)</u>	<u>(302,942)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	9,995	9,995
Transfers Out (Use)	-	-	(133,322)	(133,322)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(123,327)</u>	<u>(123,327)</u>
Net Change	41,496	41,496	(384,773)	(426,269)
Fund Balance - October 1 (Beginning)	(359,745)	(359,745)	(359,745)	-
Prior Period Adjustment	-	-	16,831	16,831
Fund Balance - September 30 (Ending)	<u>\$ (318,249)</u>	<u>\$ (318,249)</u>	<u>\$ (727,687)</u>	<u>\$ (409,438)</u>

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

CITY OF PENITAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2015

	Crime Control & Prevention District Fund	Penitas Econ Development Corp - 4A	Police Depart Asset Forfeiture Fd	Penitas Econ Development Corp - 4B
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 66,471	\$ 25,763	\$ 9,406	\$ -
Investments - Current	-	9,783	-	-
Taxes Receivable	-	-	-	18,288
Allowance for Uncollectible Taxes (credit)	-	-	-	-
Receivables (Net)	36,473	18,290	-	-
Due from Other Funds	-	637,750	7,505	457,307
Due from Others	-	-	-	-
Total Assets	<u>\$ 102,944</u>	<u>\$ 691,586</u>	<u>\$ 16,911</u>	<u>\$ 475,595</u>
<b>LIABILITIES</b>				
Due to Other Funds	\$ -	\$ 457,306	\$ -	\$ -
Due to Others	-	-	-	-
Total Liabilities	<u>-</u>	<u>457,306</u>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Federal or State Funds Grant Restriction	102,944	234,280	16,911	475,595
Retirement of Long-Term Debt	-	-	-	-
Total Fund Balances	<u>102,944</u>	<u>234,280</u>	<u>16,911</u>	<u>475,595</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 102,944</u>	<u>\$ 691,586</u>	<u>\$ 16,911</u>	<u>\$ 475,595</u>

The notes to the financial statements are an integral part of this statement.

Tax Increment Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 101,640	\$ -	\$ 101,640
-	9,783	-	9,783
-	18,288	15,226	33,514
-	-	(914)	(914)
-	54,763	-	54,763
133,322	1,235,884	1,930	1,237,814
9,995	9,995	-	9,995
<u>\$ 143,317</u>	<u>\$ 1,430,353</u>	<u>\$ 16,242</u>	<u>\$ 1,446,595</u>
\$ 9,995	\$ 467,301	\$ -	\$ 467,301
133,322	133,322	-	133,322
<u>143,317</u>	<u>600,623</u>	<u>-</u>	<u>600,623</u>
-	-	4,330	4,330
-	-	4,330	4,330
-	829,730	-	829,730
-	-	11,912	11,912
-	829,730	11,912	841,642
<u>\$ 143,317</u>	<u>\$ 1,430,353</u>	<u>\$ 16,242</u>	<u>\$ 1,446,595</u>

CITY OF PENITAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUNDBALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Crime Control & Prevention District Fund	Penitas Econ Development Corp - 4A	Police Depart Asset Forfeiture Fd	Penitas Econ Development Corp - 4B
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
General Sales and Use Taxes	227,374	114,321	-	114,321
Intergovernmental Revenue and Grants	-	-	-	-
Other Revenue	-	302	-	-
Total Revenues	<u>227,374</u>	<u>114,623</u>	<u>-</u>	<u>114,321</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	-	32,621	-	-
Public Safety	212,500	-	1,399	-
Conservation and Development	-	-	-	-
Debt Service:				
Bond Principal	-	44,037	-	-
Bond Interest	-	11,623	-	-
Total Expenditures	<u>212,500</u>	<u>88,281</u>	<u>1,399</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>14,874</u>	<u>26,342</u>	<u>(1,399)</u>	<u>114,321</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	-	-
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	14,874	26,342	(1,399)	114,321
Fund Balance - October 1 (Beginning)	<u>88,070</u>	<u>207,938</u>	<u>18,310</u>	<u>361,274</u>
Fund Balance - September 30 (Ending)	<u>\$ 102,944</u>	<u>\$ 234,280</u>	<u>\$ 16,911</u>	<u>\$ 475,595</u>

The notes to the financial statements are an integral part of this statement.

Tax Increment Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 162,954	\$ 162,954
-	456,016	-	456,016
9,995	9,995	-	9,995
-	302	-	302
<u>9,995</u>	<u>466,313</u>	<u>162,954</u>	<u>629,267</u>
-	32,621	-	32,621
-	213,899	-	213,899
133,322	133,322	-	133,322
-	44,037	-	44,037
-	11,623	-	11,623
<u>133,322</u>	<u>435,502</u>	-	<u>435,502</u>
<u>(123,327)</u>	<u>30,811</u>	<u>162,954</u>	<u>193,765</u>
133,322	133,322	-	133,322
(9,995)	(9,995)	(234,811)	(244,806)
<u>123,327</u>	<u>123,327</u>	<u>(234,811)</u>	<u>(111,484)</u>
-	154,138	(71,857)	82,281
-	675,592	83,769	759,361
<u>\$ -</u>	<u>\$ 829,730</u>	<u>\$ 11,912</u>	<u>\$ 841,642</u>

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# Adrian Webb, CPA

Certified Public Accountant

3827 N 10<sup>th</sup> ST STE 205

McAllen, TX 78504

956-457-1043

## 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 Commissioners of the City of Penitas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Penitas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Penitas's basic financial statements and have issued our report thereon dated March 16, 2016.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Penitas'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 City of Penitas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Penitas's internal control.

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Penitas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standard* and which is described in the accompanying schedule of findings and questioned costs as item #2016-01, 2016-02, 2016-03.

We noted certain matters that we reported to management of City of Penitas, in a separate letter dated March 16, 2016.

**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.

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Adrian Webb, CPA

McAllen, Tx  
March 16, 2016

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# Adrian Webb, CPA

Certified Public Accountant

3827 N 10<sup>th</sup> St Ste 205

McAllen, TX 78504

956-457-1043

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the City Commissioners of Penitas

***Report on Compliance for Each Major Federal Program***

We have audited the City of Penitas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Penitas's major federal programs for the year ended September 30, 2015. City of Penitas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Penitas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Penitas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Penitas's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Penitas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2015.

***Report on Internal Control over Compliance***

Management of the City of Penitas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Penitas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Penitas's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Adrian Webb, CPA". The signature is stylized and cursive.

Adrian Webb, CPA

McAllen, Tx  
March 16, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2015

<b>I. Summary of the Auditor's Results:</b>	
A. The type of report issued:	Unmodified opinion.
B. Internal control over financial statements:	
Material Weakness(es) indentified?	No
Significant Deficiency(ies) identified which were not considered material weaknesses?	Yes
C. Noncompliance material to the financial statements noted?	No
D. Federal Awards: Type of Report on Compliance with major programs.	Unmodified opinion
E. Internal control over Major Programs:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified which were not considered material weaknesses?	No
F. Findings & Questioned Costs for Federal Awards as defined under Section __.510(a). OMB Circular 133	No
F. Dollar threshold used to distinguish between Type A And Type B programs.	\$300,000
G. Auditee qualified as a low-risk auditee?	Yes
H. Major Federal Program(s)	Water & Waste Disposal Systems for Rural Communities

**II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.**

**2016 - 01 – PURCHASING MANUAL**

**Criteria:** Good internal controls require that the City have a new written purchasing manual to ensure compliance with state, federal, legal and grant requirements.

**Condition:** The City did not have an approved written policy for the year under audit. The City only followed the common purchasing practices by the other government entities. Purchase disbursements during the year had incomplete support documentation including formal payment authorization.

**Effect:** Unauthorized Expenditures could occur.

**Recommendation:** The City should establish and adapt a written policy and procedures manual to be followed by City staff. All disbursements should have evidence of approval and payment authorization.

**Auditee's Response:** The City has adopted purchasing procedures manual and is in the process of implementing safeguards to ensure procedures are being followed by the City staff.

**Question Costs:** NONE

**2016 – 02 – EXPENSES IN EXCESS OF BUDGET**

**Criteria:** State law requires budget amendments to be made prior to exceeding a major functional category.

**Condition:** As noted on Page , there were three major functional categories in which expenses exceeded budgeted amounts.

**Effect:** Possible violations of state statues and potential liabilities for unauthorized expenditures.

**Recommendation:** Budget versus actual comparisons must be made on a monthly basis. Further control over expenditures should include a review of available budget amounts prior to approval of purchase orders for the expenditures of funds. The City should adopt a balance budget for its general fund operations.

**Auditee's Response:** Administration will follow auditor's recommendations to compare financial statements on a monthly basis to property control budget expenses. Budget amendments will be submitted will to the City Council as needed. Adoption of a balance budget will be adhered to.

**Questioned Costs:** NONE

### **20156- 03 – INVESTMENT OFFICER – INVESTMENT REPORTS**

**Criteria:** The Public Funds Investment Act outlines rules and requirements of all entities subject to its regulation.

**Condition:** The City does not have an authorized Investment Officer, nor has the City complied with the reporting requirements of the Public Funds Investment Act.

**Effect:** The City has not been compliant with the state laws governing public fund investing and reporting.

**Recommendation:** The City Council should name and authorize an Investment Officer to invest as required by the Act.

**Auditee's Response:** Subsequent to year end the City has planned to name its Investment Officer and will begin to report on its investments in accordance with the Act.

### **III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.E. Above**

None

**CITY OF PENITAS, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDING**  
**Fiscal Year Ended September 30, 2015**

**2014 – 1** – The system of internal controls should be designed to ensure all financial activities of the City are appropriately and timely accounted for in the City’s accounting system and ultimately, the financial statements

**Status:** Corrected

**2014 – 2** – Good internal controls require that the City have a new written purchasing manual to ensure compliance with state, federal, legal and grant requirements.

**Status:** See finding 2015-1

**2014 – 3** – State law requires budget amendments to be made prior to exceeding a major functional category.

**Status:** See finding 2015-2

**2014 – 4** – Texas Local Government Code 103.003 requires that the City completes the annual audit within 180 days of the close of the fiscal year.

**Status:** Corrected

**2014 – 5** – Letters of Conditions for the City’s wastewater treatment plant and collection system funded by USDA loans and grants requires that a reserve fund be established in a separate interest bearing account at a federally insured financial institution.

**City of Penitas, Texas**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended September 30, 2015**

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b><u>FEDERAL GRANTS</u></b>			
<b><u>U.S. Department of Agriculture</u></b>			
Water & Waste Disposal Systems for Rural Communities	10.760	50-008-742676783	\$ 814,138
<b>Total U.S. Department of Agriculture</b>			<b>814,138</b>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Passed through Hidalgo County Urban County Department:			
Community Development Block Grants/Entitlement Grants	14.218	B-02-UC48-0501	\$ 29,207
Community Development Block Grants/Entitlement Grants	14.218	B-09-UC48-0501	15,337
Community Development Block Grants/Entitlement Grants	14.218	B-10-UC48-0500	70,379
Community Development Block Grants/Entitlement Grants	14.218	B-11-UC48-0501	139,667
Community Development Block Grants/Entitlement Grants	14.218	B-12-UC48-0501	50,996
Community Development Block Grants/Entitlement Grants	14.218	B-13-UC48-0501	663
Community Development Block Grants/Entitlement Grants	14.218	B-14-UC48-0501	1,315
Community Development Block Grants/Entitlement Grants	14.218	B-15-UC48-0501	506
<b>Total U.S. Department of Housing and Urban Development</b>			<b>308,070</b>
<b><u>U.S. Department of Homeland Security</u></b>			
Passed through Texas Homeland Security Office:			
State Homeland Security Program - Operation Stonegarden	97.067	EMW-2013-55-00019	52,151
<b>Total U.S. Department of Homeland Security</b>			<b>52,151</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 1,174,359</b>
<b><u>STATE GRANTS</u></b>			
<b><u>Governor's Division of Emergency Management</u></b>			
Local Border Security Program	N/A	LBSP-15-0043	\$ 22,458
<b>Total Governor's Division of Emergency Management</b>			<b>22,458</b>
<b>Total Expenditures of State Awards</b>			<b>22,458</b>
<b>Total Expenditures of Federal &amp; State Awards</b>			<b>\$ 1,196,816</b>

**CITY OF PENITAS, TX**  
**NOTES ON ACCOUNTING FOR FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2015**

- The City uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes. Federal and state financial assistance generally is accounted for in a Special Revenue Fund because it is restricted for specific purposes.
- The accounting and financial reporting treatment applied to a fund determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus called the modified accrual basis of accounting. Nearly all Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund Type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrue, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Usually Federal grant funds are considered to be earned to the extent of the expenditures made under the provisions of the grant. When Federal Grant funds are received before related expenditures are made, they are recorded as deferred revenues.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement.

