

City of Presidio, Texas
Annual Financial Report
for the Year Ended September 30, 2015

City of Presidio, Texas
Financial Statements with Supplementary Information
Table of Contents
for the Year Ended September 30, 2015

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1
	Management's Discussion and Analysis	3
	<u>Basic Financial Statements</u>	
A-1	Statement of Net Position	8
B-1	Statement of Activities	9
	Governmental Fund Financial Statements	
C-1	Balance Sheet	10
C-2	Reconciliation for C-1	11
C-3	Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	12
C-4	Reconciliation for C-3	13
C-5	Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual - General Fund	14
	Proprietary Fund Financial Statements	
D-1	Statement of Net Position - Enterprise Fund	15
D-2	Statement of Revenues, Expenses and Changes in Net Position - Enterprise Fund	16
D-3	Statement of Cash Flows - Enterprise Fund	17
	Notes to the Basic Financial Statements	18
	Individual Grants	43
	Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	44
	Schedule of Findings	46

Painter and Associates, P.C.

Certified Public Accountants

836 King George Lane
Savannah, Texas 76227-7854

INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
Presidio, Texas

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the City of Presidio, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise a portion of the City'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. 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 adverse audit opinion.

Basis for Adverse Opinion on the Financial Statements as a Whole

Management has not provided the documentation required to substantiate charges made to display the financial position and changes in financial position for the financial statements of its government-wide activities, governmental activities and business-type activities. Accounting principles generally accepted in the United States of America require the substantiation of charges made for the presentation of the financial statements for the government-wide activities and for the governmental activities and business-type activities. The amounts that would be reported in the City's financial statements for government-wide activities, governmental activities and business-type activities have not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Financial Statements as a Whole" paragraph, the financial statements referred to above do not present fairly the financial position of the City of Presidio, Texas, as of September 30, 2015, or the changes in financial position or, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Painter and Associates, P.C.

Savannah, Texas
December 8, 2017

The City of Presidio, Texas

Management's Discussion and Analysis

In this section of the Annual Financial Report, we, the managers of the City of Presidio, 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 1, and the City's Basic Financial Statements which begin on page 8.

FINANCIAL HIGHLIGHTS

The City's net position decreased by \$2,119,142 as a result of this year's operations and as a result the net position of our governmental activities increased by \$170,14 and the net position of our business-like activities decreased by \$2,289,283.

During the year, the City had expenses that were \$170,141 more than the \$2,629,037 of revenues generated by the general operations of the City's governmental type funds and \$23,700 more expenses than generated by water and sewer sales and other revenues for the proprietary-type fund of \$1,554,002.

Depreciation expense for the current year was \$325,558 while it was \$339,452 for the prior year.

The governmental type General Fund ended the year with a fund balance of \$464,283 which was a decrease of \$864,498 from the prior year plus prior period adjustments. The proprietary-type Water and Sewer Fund ended the year with an unrestricted net position amount of \$1,049,341 which represented a decrease of \$2,289,283 from the prior year plus prior period adjustments.

The budget for the City's General Fund revealed \$948,987 more revenues were received during the year than were originally budgeted while \$941,037 more expenses were incurred than were budgeted for the year. The net effect of the budget variance was a positive \$8,608 budget variance.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities 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 10, 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 departments within the City or to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements, starting on page 18, provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 8. 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 Position 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.

These two statements report the City's net position and changes thereof. The City's net position, 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 position 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 nonfinancial factors as well.

In the Statement of Net Position and the Statement of Activities we present the City in two kinds of activity:

Governmental activities – The funds reported by the City here are the General Fund, Special Revenue Funds and the Debt Service Fund.

Business type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City water and sewer system is reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 10 and provide detailed information about the most significant funds—not the City as a whole. Laws and contracts require the City to establish some funds by State law and bond covenants. The City's administration establishes many other funds to help it control and manage money for particular purposes such as grants. The City's two kind of funds—governmental and proprietary—use different accounting approaches.

Governmental funds—The City's General Fund, Special Revenue Funds and the Debt Service Funds 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 governmental type funds activities. We describe the differences between governmental activities, reported in the Governmental Funds Balance Sheet and the Governmental Funds Revenues, Expenditures, and Changes in Fund Balance, and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary funds – When the City charges customers for the services it provides these services are reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities, and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances. In fact, the City's enterprise fund is the same as we reported in the government-wide statements but provide more detail and additional information, such as cash flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City implemented GASB Statement #34 in a prior year. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

TABLE I - SUMMARY OF NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and Other Assets	\$ 1,049,441	\$ 550,593	\$ 233,734	\$ 885,477	\$ 1,283,176	\$ 1,436,070
Capital Assets, net	4,218,716	4,546,297	318,816	1,234,746	4,537,532	5,781,043
Total Assets	\$ 5,268,157	\$ 5,096,890	\$ 552,551	\$ 2,120,223	\$ 5,820,708	\$ 7,217,113
Liabilities:						
Current Liabilities	\$ 1,001,767	\$ 473,509	\$ 1,075,588	\$ 372,702	\$ 2,077,355	\$ 846,211
Long-term Liabilities	2,765,581	3,292,714	69,209	50,484	2,834,790	3,343,198
Total Liabilities	3,767,349	3,766,223	1,144,797	423,186	4,912,145	4,189,409
Net Position:						
Invested in Capital Assets	1,028,296	825,045	457,095	1,370,339	\$ 1,485,391	\$ 2,195,384
Restricted	6,189	6,187	-	-	6,189	6,187
Unrestricted	466,323	499,435	(1,049,341)	326,698	(583,018)	826,133
Total Net Position	1,500,808	1,330,667	(592,246)	1,697,037	908,562	3,027,704
Total Liabilities and Net Position	\$ 5,268,157	\$ 5,096,890	\$ 552,551	\$ 2,120,223	\$ 5,820,708	\$ 7,217,113

TABLE II - SUMMARY OF CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
General Revenues	\$ 2,629,037	\$ 4,021,382	\$ 1,554,002	\$ 1,668,547	\$ 4,183,039	\$ 5,689,929
Total Revenues	2,629,037	4,021,382	1,554,002	1,668,547	4,183,039	5,689,929
Expenses:						
General Expenses	3,664,834	4,927,501	1,576,702	1,544,558	5,241,535	6,472,059
Total Expenses	3,664,834	4,927,501	1,576,702	1,544,558	5,241,535	6,472,059
Increase (Decrease) in Net Position	(1,035,797)	(906,119)	(22,700)	123,989	(1,058,497)	(782,130)
Operating Transfers	(610,046)	314,235	-	-	(610,046)	314,235
Net Position - Beginning of Year	1,330,667	2,010,149	1,697,037	2,009,148	3,027,704	4,019,297
Adjustments	1,815,984	(87,598)	(2,266,583)	(436,101)	(450,599)	(523,699)
Net Position - End of Year	\$ 1,500,808	\$ 1,330,667	\$ (592,246)	\$ 1,697,036	\$ 908,562	\$ 3,027,703

THE CITY'S FUNDS

As the City completed the year, its governmental and proprietary funds as presented in the Statement of Net Position on page 8 reported a combined net position balance of \$1,500,808, which is an increase from last year's total of \$1,330,667. The primary source of the fund balance is the governmental revenues (i.e. ad valorem taxes, sales taxes, charges for services) and the proprietary fund revenues (i.e. water and sewer sales) as all other special revenue funds are cost reimbursement and thus have little or no fund balance.

Over the course of the year, the City Council did not revise the City's budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2015, the City had over nine million dollars invested in a broad range of assets ranging from buildings, vehicles, equipment, and waste water treatment facilities. There were additions to fixed assets during the year.

TABLE III - Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 431,504	\$ 431,504	\$ -	\$ -	\$ 431,504	\$ 431,504
General Government	6,086,581	4,593,024	-	-	6,086,581	4,593,024
Water System	-	-	905,904	883,736	905,904	883,736
Landfill System	-	-	892,094	892,094	892,094	892,094
Sewer System	-	-	731,936	713,303	731,936	713,303
Accumulated Depreciation	(2,299,368)	(2,101,807)	(1,557,223)	(1,429,227)	(3,856,592)	(3,531,034)
Total Net Capital Assets	<u>\$4,218,716</u>	<u>\$2,922,721</u>	<u>\$ 972,710</u>	<u>\$1,059,906</u>	<u>\$5,191,427</u>	<u>\$3,982,628</u>

Debt Administration

At year-end, the City had \$3,190,420 of outstanding debt. The debt was from the City's sale of various certificates of obligation issues, notes payable, and capital leases. The debt carries various interest rates with differing maturities. A detail list of debt and lease obligations owed by the City of Presidio at year end is presented below:

The City of Presidio, Texas
Management's Discussion and Analysis (continued)

Holder of Issue	Original Amount	Date of Issuance	Date of Maturity	Rate of Interest	Balance at 9/30/15
Berkadia	\$ 420,000	08/85	07/24	5.00%	\$ 84,000
Berkadia	102,000	10/85	07/24	5.00%	92,000
Southside Bank	265,000	11/03	10/14	4.99%	90,235
Schertz Bank	291,037	01/05	01/17	5.15%	64,319
U.S. Department of Agriculture	85,000	01/05	01/23	4.75%	62,000
U.S. Department of Agriculture	100,000	01/05	01/23	4.75%	49,000
Caterpillar Finance	220,615	02/11	02/16	3.75%	43,535
Caterpillar Finance	84,169	12/11	06/16	3.75%	15,971
Certificate of Obligation 2012	1,200,000	03/12	03/22	3.01%	890,000
Bank and Trust	395,000	04/13	03/22	2.40%	314,360
Limited Tax Refunding Bonds 2013	1,300,000	05/13	03/28	2.98%	320,000
Certificate of Obligation 2013	1,300,000	05/13	03/28	2.98%	1,165,000
	<u>\$ 5,762,821</u>				<u>\$ 3,190,420</u>

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 business office, at the City of Presidio City Hall, P.O. BOX 1889, Presidio, Texas 79845.

THE CITY OF PRESIDIO, TEXAS
Statement of Net Position
September 30, 2015

Exhibit A-1

	Primary Government			Component Unit
	Governmental	Business-Type		Presidio Municipal
	Activities	Activities	Total	Development
				District
Assets				
Unrestricted Assets				
Cash	\$ 247,144	\$ -	\$ 247,144	\$ 343,319
Receivables, net	303,944	233,734	537,678	8,229
Due From	492,165	-	492,165	70,206
Restricted Assets				
Cash	6,189	-	6,189	-
Capital Assets				
Land	431,504	892,094	1,323,597	29,665
Infrastructure	6,086,580	1,637,839	7,724,420	-
Machinery & Equipment	-	39,248	39,248	86,532
Accumulated Depreciation	(2,299,368)	(2,250,365)	(4,549,733)	-
Total Assets	\$ 5,268,157	\$ 552,551	\$ 5,820,708	\$ 537,951
Liabilities				
Current Liabilities				
Accounts Payable	\$ 14,067	\$ 16,454	\$ 30,521	\$ -
Payroll Liabilities	562,862	566,969	1,129,831	-
Notes Payable - Current	424,838	-	424,838	-
Due To	-	492,165	492,165	-
Total Current Liabilities	1,001,767	1,075,588	2,077,355	-
Long-term Liabilities				
Utility Deposits	-	69,209	69,209	-
Notes Payable - Long-term	2,765,581	-	2,765,581	-
Total Long-term Liabilities	2,765,581	69,209	2,834,790	-
Total Liabilities	3,767,349	1,144,797	4,912,145	-
Net Position				
Invested in Capital Assets	1,028,296	457,095	1,485,391	116,197
Restricted	6,189	-	6,189	185,250
Unrestricted	466,323	(1,049,341)	(583,018)	236,504
Total Net Position	1,500,808	(592,246)	908,562	537,951
Total Liabilities and Net Position	\$ 5,268,157	\$ 552,551	\$ 5,820,708	\$ 537,951

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

THE CITY OF PRESIDIO, TEXAS
Statement of Activities
for the Year Ended September 30, 2015

Exhibit B-1

	Net (Expenses) Revenues and Changes in Net Position					
	Program Revenues			Primary Government		Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business Activities	Presidio Municipal Development District
Primary Government:						
Government Activities:						
Administration	\$ 1,511,816	\$ -	\$ -	\$ (1,511,816)	\$ -	\$ (1,511,816)
Animal Control	44,050	689	-	(43,361)	-	(43,361)
Library	117,838	1,483	-	(116,355)	-	(116,355)
Senior Center	290,243	75,465	-	(214,778)	-	(214,778)
Fire Department	15,418	13,750	3,750	2,082	-	2,082
Municipal Court	42,368	66,548	-	24,180	-	24,180
Police Department	381,894	-	-	(381,894)	-	(381,894)
Youth Club	33,912	-	-	(33,912)	-	(33,912)
Emergency Services	540,105	154,403	-	(385,701)	-	(385,701)
Code Enforcement	46,467	4,350	-	(42,117)	-	(42,117)
Parks & Pool	48,973	9	-	(48,964)	-	(48,964)
Tourism	107,193	5,060	-	(102,133)	-	(102,133)
Other	484,556	-	95,885	(388,672)	-	(388,672)
	<u>3,664,834</u>	<u>321,758</u>	<u>99,635</u>	<u>(3,243,441)</u>	<u>-</u>	<u>(3,243,441)</u>
Business-Type Activities:						
Enterprise Funds	1,576,702	1,554,002	-	-	(22,700)	(22,700)
	<u>1,576,702</u>	<u>1,554,002</u>	<u>-</u>	<u>-</u>	<u>(22,700)</u>	<u>(22,700)</u>
Component Unit:						
Presidio Municipal Development District	151,290					151,290
Total Expenses	<u>\$ 5,392,825</u>	<u>\$ 1,875,760</u>	<u>\$ 99,635</u>	<u>(3,243,441)</u>	<u>(22,700)</u>	<u>(3,266,141)</u>
General Revenues:						
Taxes						
Property Taxes				664,674	-	664,674
Sales Taxes				418,324	-	418,324
Franchise Taxes				11,370	-	11,370
Hotel / Motel Taxes				16,595	-	16,595
Miscellaneous Revenues				1,096,681	-	1,096,681
Bond Proceeds				-	-	-
Investment Earnings				-	-	-
						514
Total General Revenues and Transfers				<u>2,207,644</u>	<u>-</u>	<u>2,207,644</u>
Income (Expense) Before Transfers				<u>(1,035,797)</u>	<u>(22,700)</u>	<u>(1,058,497)</u>
Transfers				<u>(610,046)</u>	<u>-</u>	<u>(610,046)</u>
Change in Net Position				<u>(1,645,843)</u>	<u>(22,700)</u>	<u>(1,668,543)</u>
Net Position - Beginning of the Year				<u>1,330,667</u>	<u>1,697,037</u>	<u>3,027,704</u>
Adjustments to Net Position				<u>1,815,984</u>	<u>(2,266,583)</u>	<u>(450,599)</u>
Net Position - End of the Year				<u>\$ 1,500,808</u>	<u>\$ (592,246)</u>	<u>\$ 908,562</u>
						<u>\$ 537,951</u>

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

THE CITY OF PRESIDIO, TEXAS
Reconciliation of Governmental Fund Balances to
the Statement of Net Position
September 30, 2015

Exhibit C-2

Total Fund Balance - Governmental Funds	\$ 472,512
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. At the beginning of the year the costs of these assets was \$ 8,844,942 and the accumulated depreciation was \$3,191,581. 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 assets	1,673,057
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 the reduction 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.	(319,203)
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	<u>(325,558)</u>
Net Position - Governmental Activities	<u><u>\$ 1,500,808</u></u>

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

THE CITY OF PRESIDIO, TEXAS
Statement of Revenue, Expenditures and Changes
in Fund Balance - Governmental Funds
for the Year Ended September 30, 2015

Exhibit C-3

	General Fund	Major Special Revenue Funds	Total
Revenues			
Property Taxes	\$ 664,674	\$ -	\$ 664,674
Sales Taxes	418,324	-	418,324
Franchise Taxes	11,370	-	11,370
Other Taxes	16,595	-	16,595
Fees		-	-
Animal Control	689	-	689
Library	1,483	-	1,483
Senior Center	75,465	-	75,465
Fire Department	17,500	-	17,500
Municipal Court	66,548	-	66,548
Police	-	-	-
EMS	154,403	-	154,403
Bond Proceeds	-	-	-
Interest	-	-	-
Grants	6,325	95,885	102,210
Miscellaneous Income	1,099,775	-	1,099,775
Total Revenues	2,533,152	95,885	2,629,037
Expenditures			
Administration	1,511,816	-	1,511,816
Animal Control	44,050	-	44,050
Library	117,838	-	117,838
Senior Center	290,243	-	290,243
Fire Department	15,418	-	15,418
Municipal Court	42,368	-	42,368
Police Department	381,894	-	381,894
Youth Club	33,912	-	33,912
EMS	540,105	-	540,105
Code Enforcement	46,467	-	46,467
Parks and Recreation	48,973	-	48,973
Tourism	107,193	-	107,193
Non-departmental	104,491	96,113	200,604
Total Expenditures	3,284,768	96,113	3,380,881
Excess (Deficiency) of Revenues Over (Under) Expenditures	(751,617)	(228)	(751,844)
Transfers	(610,046)	-	(610,046)
Change in Fund Balance	(1,361,663)	(228)	(1,361,890)
Fund Balance - Beginning of the Year	497,165	8,457	505,622
Adjustments	1,328,781	-	1,328,781
Fund Balance - End of the Year	<u>\$ 464,283</u>	<u>\$ 8,229</u>	<u>\$ 472,512</u>

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

THE CITY OF PRESIDIO, TEXAS

Exhibit C-4

**Reconciliation of Governmental Funds Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
for the Year Ended September 30, 2015**

Change in Fund Balance - Governmental Funds	\$ (1,361,890)
Current year capital outlays and long-term debt principal payments are expenditures and the fund financial statements, but they should be shown as increases in capital assets and the reducing 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 assets.	319,203
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 net position.	187,283
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current 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 the reclassifications and recognitions is to increase (decrease)	<u>(180,392)</u>
Change in Net Position - Governmental Activities	<u>\$ (1,035,797)</u>

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

THE CITY OF PRESIDIO, TEXAS

Exhibit C-5

**Statement of Revenue, Expenditures and Changes in Fund Balance
Budget to Actual - General Fund
for the Year Ended September 30, 2015**

	<u>Budget</u>		2015	Variance With Final Budget Positive or (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$ 565,975	\$ 565,975	\$ 664,674	\$ 98,699
Sales Taxes	160,000	160,000	418,324	258,324
Franchise Taxes	17,900	17,900	11,370	(6,530)
Other Taxes	40,500	40,500	16,595	(23,905)
Animal Control	3,000	3,000	689	(2,311)
Library	28,190	28,190	1,483	(26,707)
Senior Center	179,000	179,000	75,465	(103,535)
Fire Department	30,000	30,000	17,500	(12,500)
Municipal Court	52,000	52,000	66,548	14,548
Police	39,000	39,000	-	(39,000)
EMS	322,000	322,000	154,403	(167,597)
Interest	500	500	-	(500)
Grants	25,000	25,000	6,325	(18,675)
Miscellaneous Income	121,100	121,100	1,099,775	978,675
Total Revenues	1,584,165	1,584,165	2,533,152	948,987
Expenditures				
Administration	860,955	860,955	1,511,816	(650,861)
Animal Control	57,504	57,504	44,050	13,454
Library	115,194	115,194	117,838	(2,643)
Senior Center	266,883	266,883	290,243	(23,360)
Fire Department	65,650	65,650	15,418	50,232
Municipal Court	66,393	66,393	42,368	24,025
Police Department	286,719	286,719	381,894	(95,176)
Youth Club	-	-	33,912	(33,912)
EMS	490,684	490,684	540,105	(49,420)
Code Enforcement	54,746	54,746	46,467	8,279
Parks and Recreation	79,662	79,662	48,973	30,689
Tourism	-	-	107,193	(107,193)
Non-departmental	-	-	104,491	(104,491)
Total Expenditures	2,344,389	2,344,389	3,284,768	(940,379)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(760,224)	(760,224)	(751,617)	8,608
Transfers	-	-	(610,046)	-
Change in Fund Balance	\$ (760,224)	\$ (760,224)	(1,361,663)	\$ 8,608
Fund Balance - Beginning of the Year			497,165	
Adjustments			1,328,781	
Fund Balance - End of the Year			<u>\$ 464,283</u>	

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

THE CITY OF PRESIDIO, TEXAS
Statement of Net Position - Enterprise Fund
September 30, 2015

Exhibit D-1

	<u>Enterprise Fund</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ -
Receivables, net	233,734
Total Current Assets	<u>233,734</u>
Noncurrent Assets	
Capital Assets	
Plant, Property and Equipment	2,569,181
Accumulated Depreciation - Plant, Property and Equipment	(2,250,365)
Total Noncurrent Assets	<u>318,816</u>
Total Assets	<u><u>\$ 552,551</u></u>
Liabilities and Net Position	
Current Liabilities	
Accounts Payable	\$ 16,454
Payroll Liabilities	566,969
Due To	492,165
Total Current Liabilities	<u>1,075,588</u>
Noncurrent Liabilities	
Utility Deposits	69,209
Total Noncurrent Liabilities	<u>69,209</u>
Total Liabilities	<u>1,144,797</u>
Net Position	
Invested in Capital Assets	457,095
Unrestricted	(1,049,341)
Total Net Position	<u>(592,246)</u>
Total Liabilities and Net Position	<u><u>\$ 552,551</u></u>

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

THE CITY OF PRESIDIO, TEXAS
Statement of Revenue, Expenses and Changes
in Net Position - Enterprise Fund
September 30, 2015

Exhibit D-2

	<u>Enterprise Fund</u>
Revenues	
Charges for Water Services	\$ 442,972
Charges for Sewer Services	378,944
Charges for Garbage Services	732,086
Investment Earnings	-
Other Revenue	-
Total Operating Revenues	<u>1,554,002</u>
Expenses	
Water Department	539,102
Sewer Department	581,076
Garbage Department	218,078
Miscellaneous	100,167
Depreciation	138,279
Total Operating Expenses	<u>1,576,702</u>
Operating Income (Expense)	(22,700)
Total Net Position - Beginning	1,697,037
Adjustments	(2,266,583)
Total Net Position - Ending	<u><u>\$ (592,246)</u></u>

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

THE CITY OF PRESIDIO, TEXAS
Statement of Cash Flows - Enterprise Fund
for the Year Ended September 30, 2015

Exhibit D-3

	<u>Enterprise Fund</u>
Cash Flows from Operating Activities	
Cash Received from User Charges	2,219,959
Cash Payments for Water Department Charges	(539,102)
Cash Payments for Sewer Department Charges	(581,076)
Cash Payments for Garbage Department Charges	(308,554)
Cash Payments for Street Paving Charges	(100,167)
Transfers and Due To	(1,331,915)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(640,854)</u>
Cash and Cash Equivalents at the Beginning of the Year	<u>640,854</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ -</u></u>

**Reconciliation of Operating Income to Net Cash Provided
by Operating Activities**

Operating Income	\$ (22,700)
Adjustments for Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	138,279
Effect of Increases and Decreased in Current Assets and Liabilities	
Decrease (Increase) in Receivables	10,889
(Increase) Decrease in Payables	11,021
Prior Period Adjustments	<u>(137,489)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 0</u></u>

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

City of Presidio, Texas

Notes to the Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Presidio, Texas is a municipal corporation incorporated under the Constitution of the State of Texas. The City operates under a Council-City Administrator form of government. The Council is composed of a Mayor and five Council members, all of whom are elected at large for two-year staggered terms.

As a local government the City is exempt from federal income taxes, under Internal Revenue Code Section 115, and state sales tax.

The City of Presidio complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary type funds apply Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions based on or after November 30, 1989. For the fiscal year ended September 30, 2004, the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

In 2004, the City implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34), GASB Statement 37, *Basic Financial Statements - and Management Discussion and Analysis – for State and Local Governments; Omnibus* which provides additional guidance for the implementation of GASB Statement 34, and GASB Statement No. 38, *Certain Financial Statement Disclosures* which changes note disclosure requirements for governmental entities.¹

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, city-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required financial statements and notes.

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* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all the City's operations. The City of Presidio is a Texas General Law city with five councilors plus a mayor. All positions are elected at large. City ordinance provides for a City Administrator. The City provides the following services: public safety, public works, sanitation, recreation and waterworks. The City is a separate legal entity and is neither an oversight nor a component unit of any other entity. Specific elements of oversight and component unit responsibilities considered in the conclusion of the above were financial interdependency, designation of management, election of the governing body, the ability to significantly influence operations and accountability of fiscal matters.

Discretely Presented Component Units

Discretely presented component units are separate legal entities. The Presidio Municipal Development District (PMDD) is a legally separate entity from the City. PMDD is governed by a board composed of members selected by the City Council.

Blended Component Units

Blended component units are separate legal entities 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 unit's funds are blended into those of the City's by appropriate activity type to compose the primary government. The City has no blended component units.

C. Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements, the Statement of Net Position and the Statement of Activities, display information for the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these accounts. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support

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 program. Program revenues include

- 1) charges to customers or applicants who 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 operational or capital requirements of a particular program.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position. All interfund transactions between governmental funds and governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and

fiduciary. Since the resources in the fiduciary funds cannot be used for City operations, they are not included in the government-wide statements. The City does not currently have any fiduciary funds. The City considers some governmental and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principle ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total of all funds of that category or type; and
- b. Total assets, liabilities, revenues, expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total of all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made from the General Fund.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of interest and principle on the general long-term debt of the City other than debt service payments made by the enterprise funds. Ad valorem taxes are used for the payment of principle and interest on the City's judgment.

Proprietary Fund

Enterprise funds are used to account for those business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Water and Sewer Fund

Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Internal Service Fund

Revenue and expenses related to services provided to organizations inside the city on a cost reimbursement basis are accounted for in an internal service fund. The city has no internal service funds.

D. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined below. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheet. Their operating statements present sources and uses of available spendable financial resources during a given period. The funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. The City considers all revenues available if they are collectible within 60 days after year end.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The discretely presented component unit uses the current financial resources measurement focus and modified accrual basis of accounting.

Budgetary Control

The City Charter establishes the fiscal year as the twelve month period beginning October 1st. The departments submit to the City Administrator a budget of estimated expenditures for the ensuing fiscal year after which the City Administrator subsequently submits a budget of estimated expenditures and revenues to the City Council by August 1st.

Upon receipt of the budget estimates, the council holds public hearing on the proposed budget. Information about the Budget Ordinance is then published in the official newspaper of the City.

At least ten days prior to October 1st, the budget is legally enacted through passage of an ordinance. The City Administrator is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council

Budgeted amounts are as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations, which were restated.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

Appropriations lapse at year end.

E. Assets, Liabilities, and Equity

Cash and investments

For the purpose of the Statement of Net Position, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash, and cash equivalents" include all demand and savings accounts, and certificates of deposit.

Investments are reported at fair value which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems are not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value.

Interfund Receivable and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivable and payables." Long-term interfund loans (non-current portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See note 3 for details of interfund transactions, including receivables and payables at year end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowance for uncollectible accounts receivable are based upon historical trends and periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the

accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary Fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

Inventories

The City maintains an inventory of small tools and various supplies. As items are purchased they are expensed to the related accounts. An inventory count is taken at year end and accounts are adjusted accordingly. Inventory is stated at cost, on the first-in-first-out basis.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide of fund financial statements.

Government-wide statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to September 30, 2004.

Prior to July 1, 2004, governmental funds infrastructure assets were not capitalized. These assets (back to July 1, 2004) have been valued at estimated historical value.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in, Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lived by type of asset is as follows:

Buildings	25-50 years
Improvements	10-50 years
Machinery & equipment	3-20 years
Utility systems	25-50 years
Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the government fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the governmental and proprietary funds that are legally restricted as to their use. The primary restricted assets are related to the promissory note trustee accounts and utility meter deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable and accrued compensated absences.

Long-term debt for the governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimate based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability

payable from expendable financial resources, while the proprietary funds report the liability as it is incurred.

Equity Classifications

Government-wide Statements

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

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

Fund Statements

Fund Balance Classification Policies and Procedures

The City has adopted the fund balance classifications prescribed by *GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are classified as non-spendable, restricted, committed, assigned and unassigned based on the circumstances that apply.

Fund Balance – The City reports the following fund balance categories which describe the relative strength of the spending constraints:

- Non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance classification includes funds with constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b. Imposed by law through constitutional provisions or enabling legislation.
- Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by court

resolution/formal action of the commissioners' court which is the government's highest level of decision-making authority.

- Assigned fund balances include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the commissioners' court action or (b) by a county judge who is the official delegated by the commissioners' court with the authority to assign amounts to be used for specific purposes.
- Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Fund Balance Policies and Procedures

- Minimum Fund Balance Policies – The City has not formally adopted a minimum fund balance policy; however, in practice deficit special revenue funds are classified as unassigned since the deficits are typically paid through pooled cash overdraft.
- Encumbrances – The City does not encumber or reserve an appropriation for future expenditures. Appropriations lapse at fiscal year end and must be appropriated in the next fiscal year budget.
- Order of Expenditure – When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amount to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its budget or its commitment or assignment actions.

Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Sales Tax

The City presently levies a two and one-quarter cent sales tax on taxable sales within the City. The sales tax is collected by the Texas State Comptroller's Office and remitted to the city in the month following receipt by the comptroller's Office. The State comptroller receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund and then allocated between the General Fund and the Presidio Chamber of Commerce and the Presidio Municipal Development District.

Property Tax

Property tax is levied each October 1st on the assessed (appraisal) value listed as of the prior January 1st for all real and business personal property located in the City. Taxable assessed value represents the appraisal value less applicable exemptions authorized by the City Council. Appraisal values are established by the Appraisal Board of Review at 100% for estimated fair market value.

Taxes are due on October 1st, the levy date, and are delinquent at the following January 31st. Tax liens are automatic on January 31st each year. The tax lien is part of a law suit for property that can be filed any time after taxes become delinquent (February 1st). The City usually waits until after July 1st to file suits on real estate property. As of July 1st, 15% collection costs may be added to all delinquent accounts.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with *Generally Accepted Accounting Principles* have been recognized as revenues.

In Texas, county-wide central appraisal districts are required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least every three years; however, the City may, at its own expense, require annual reviews of appraisal values. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this legislation the City continues to set tax rates on City property. However, if the effective tax rate, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the effective tax rate of the previous year.

The combined tax rate to finance municipal services was \$.7196 per \$100 of taxable valuation. The rate to finance payment of principal and interest on long-term debt was \$.4643 per \$100 of taxable valuation while \$.2553 was dedicated to the General Fund.

Delinquent Taxes Receivable

Delinquent taxes are prorated between the general fund and the debt service funds based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible

property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances, all interfund transfers between individual governmental funds have been eliminated.

2. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

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

independent auditors perform test procedures related to investment practices as provided by the Act.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is that eligible securities for collateralization are those securities defined as eligible securities by the Public Funds Collateral Act. The City requires monthly reports with market value of pledged securities and requires the investment officer to monitor adequacy of collateralization levels to verify market values and total collateral positions. The City was not exposed to any custodial credit risk.

b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City is collateralized with a security that is pledged to the City but is not owned by the City. The security is a FMLMC Pool security as well as municipal bonds in the amount of \$998,328 that are pledged to the City.

c. Interest-rate Risk - Interest-rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. The City does not purchase or sell debt securities and invests only with the designated bank depository or with Lone Star and as such does not have a policy that addresses this issue.

d. Other Credit Risk Exposure - The City does not have a policy regarding investment in debt securities held either directly or indirectly because the City does not invest in this type security, securities of the U.S. government or of agencies guaranteed by the U.S. government. The City does invest in a public funds investment pool as permitted by Government code 2256.016.

e. Concentration Risk - The City invests only in securities back by the U.S. Government and thus does not have a policy regarding a concentration of credit risk.

The City's investments at September 30, 2015, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>
Logic Investment Pool	\$52,616.74

As of September 30, 2015 the City's investments in LOGIC were rated AAA investment program.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At year the City was not exposed to interest rate risk.

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 in conformity with Subtitle E, Texas 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

(1) when they become due or past due and receivable within the current period and;

(2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

3. Accounts Receivable

Accounts receivable of the governmental activities consisted of delinquent ad valorem taxes and the business-like activities consisted of utilities receivable. The receivable totaled \$537,678 of which \$303,944 related to the governmental activities and \$233,734 corresponded with the business-like activities.

4. Capital Assets

Capital assets for the year ended September 30, 2015, were as follows:

	Balance at 9/30/2014	Additions	Deletions	Balance at 9/30/2015
Governmental:				
Land	\$ 431,504	\$ -	\$ -	\$ 431,504
General Government	4,593,024	1,493,556	-	6,086,581
Machinery & Equipment	167,200	-	167,200	-
Work-in-Progress	1,289,175	-	1,289,175	-
Totals at Historical Cost	<u>6,480,903</u>	<u>1,493,556</u>	<u>1,456,375</u>	<u>6,518,084</u>
Less Accumulated Depreciation				
General Government	(2,101,807)	(197,561)	-	(2,299,368)
Total Accumulated Depreciation	<u>(2,101,807)</u>	<u>(197,561)</u>	<u>-</u>	<u>(2,299,368)</u>
Governmental Capital Assets, Net	\$ <u>4,379,096</u>	\$ <u>1,295,995</u>	\$ <u>1,456,375</u>	\$ <u>4,218,716</u>
Proprietary:				
Water System	\$ 883,736	\$ 22,168	\$ -	\$ 905,904
Landfill System	892,094	-	-	892,094
Sewer System	713,303	18,633	-	731,936
Machinery & Equipment	39,248	-	-	39,248
Totals at Historical Cost	<u>2,528,381</u>	<u>40,801</u>	<u>-</u>	<u>2,569,182</u>
Less Accumulated Depreciation				
Accumulated Depreciation	(1,429,227)	(127,996)	-	(1,557,223)
Total Accumulated Depreciation	<u>(1,429,227)</u>	<u>(127,996)</u>	<u>-</u>	<u>(1,557,223)</u>
Business-type Activities Capital Assets, Net	\$ <u>1,099,154</u>	\$ <u>(87,196)</u>	\$ <u>-</u>	\$ <u>1,011,953</u>

Depreciation expense for the year was \$325,558 of which \$197,561 was charged to the Water and Sewer Fund and the remainder of \$127,996 was charged to General Government.

5. Accounts Payable

Accounts payable at the balance sheet date totaled \$30,521 due to various vendors and was recorded in the General Fund in the amount of \$14,067 with the remaining portion of \$16,454 belonging to the Water and Sewer Enterprise Fund.

6. Long-Term Debt

Bonds and General Debt Issuance

During a prior year the City issued Certificates of Obligation in the amount of \$1,200,000.00 for interim financing. Terms of the issue called for bi-annual payments with a variable interest rate of 1.25 – 3.75%. The issue with payments which started on March 25, 2012 will mature on September 30, 2022.

Loan	Certificate of Obligation - Series 2012
Start Date	03/25/12
Original Amount	\$ 1,200,000
Payments	variable
Interest Rate	1.25% - 3.75%
Maturity Date	09/30/22

Year	Principal	Interest	Total
2016	\$ 115,000	\$ 25,475	\$ 140,475
2017	120,000	22,781	142,781
2018	125,000	19,647	144,647
2019	125,000	16,110	141,110
2020	130,000	12,135	142,135
thereafter	275,000	10,258	285,258
	<u>\$ 890,000</u>	<u>\$ 106,404</u>	<u>\$ 996,404</u>

During a prior year the City incurred debt in the amount of \$291,037 for waste disposal containers. Terms of the debt instrument called for monthly payments with an interest rate of 5.15%. The debt with payments which started on February 15, 2010 will mature on January 15, 2017.

Loan	Government Capital Corp. Acct 5414
Start Date	02/15/10
Original Amount	\$ 291,037
Payments	\$ 4,134.76 per month
Interest Rate	5.15%
Maturity Date	01/15/17

Year	Principal	Interest	Total
2016	\$ 47,440	\$ 2,177	\$ 49,617
2017	19,288	176	19,464
2018	-	-	-
2019	-	-	-
2020	-	-	-
thereafter	-	-	-
	<u>\$ 66,729</u>	<u>\$ 2,353</u>	<u>\$ 69,081</u>

During a prior year the City incurred debt in the amount of \$220,000 for interim financing. Terms of the debt instrument called for annual payments with an interest rate of 5.00%. The debt with payments which started on January 1, 2012 will mature on July 1, 2024.

Start Date 01/01/12
 Original Amount \$ 220,000
 Payments \$ 12,928.22
 Interest Rate 5.00%
 Maturity Date 07/01/24

Year	Principal	Interest	Total
2016	\$ 7,937	\$ 4,991	\$ 12,928
2017	8,334	4,595	12,928
2018	8,750	4,178	12,928
2019	9,188	3,740	12,928
2020	9,647	3,281	12,928
thereafter	55,972	8,053	64,025
	<u>\$ 99,828</u>	<u>\$ 28,838</u>	<u>\$ 128,667</u>

During a prior year the City incurred debt in the amount of \$100,000 for the building of a library. Terms of the debt instrument called for annual payments with an interest rate of 4.25%. The debt with payments started on September 15, 2006 and will mature on September 15, 2025.

Loan USDA - Library
 Start Date 09/15/06
 Original Amount \$ 100,000
 Payments \$ 7,521.98
 Interest Rate 4.25%
 Maturity Date 09/15/25

Year	Principal	Interest	Total
2016	\$ 4,961	\$ 2,561	\$ 7,522
2017	5,172	2,350	7,522
2018	5,392	2,130	7,522
2019	5,621	1,901	7,522
2020	5,860	1,662	7,522
thereafter	33,253	4,051	37,303
	<u>\$ 60,258</u>	<u>\$ 14,655</u>	<u>\$ 74,913</u>

An ordinance dated July 1, 1985 authorized the City to sell \$420,000 of revenue bonds for the Water and Sewer Department. The bonds carry an interest rate of 5% with principal and interest payments due July 1st and interest only payments due January 1st. The bonds mature in 2024.

Start Date 08/27/85
 Original Amount \$ 420,000
 Payments \$ 24,681.14
 Interest Rate 5.00%
 Maturity Date 07/01/24

Year	Principal	Interest	Total
2016	\$ 15,910	\$ 8,771	\$ 24,681
2017	16,705	7,976	24,681
2018	17,540	7,141	24,681
2019	18,417	6,264	24,681
2020	19,338	5,343	24,681
thereafter	87,518	10,031	97,549
	<u>\$ 175,429</u>	<u>\$ 45,526</u>	<u>\$ 220,955</u>

During a prior year the City incurred debt in the amount of \$395,000 for interim financing. Terms of the debt instrument called for annual payments with an interest rate of 2.4%. The debt with payments started on April 8, 2013 and will mature on April 8, 2022.

Start Date 04/08/13
 Original Amount \$ 395,000
 Payments \$ 49,321.97
 Interest Rate 2.40%
 Maturity Date 04/08/22

Year	Principal	Interest	Total
2016	\$ 41,777	\$ 7,545	\$ 49,322
2017	42,780	6,542	49,322
2018	43,807	5,515	49,322
2019	44,858	4,464	49,322
2020	45,935	3,387	49,322
thereafter	95,203	2,285	97,488
	<u>\$ 314,360</u>	<u>\$ 29,738</u>	<u>\$ 344,098</u>

During a prior year the City incurred debt in the amount of \$85,000 for the building of a fire station. Terms of the debt instrument called for annual payments with an interest rate of 4.25%. The debt with payments started on December 2, 2004 and will mature on December 22, 2024.

Loan	USDA - Fire Station
Start Date	12/02/04
Original Amount	\$ 85,000
Payments	\$ 6,393.69
Interest Rate	4.25%
Maturity Date	12/02/24

Year	Principal	Interest	Total
2016	\$ 4,217	\$ 2,177	\$ 6,394
2017	4,396	1,998	6,394
2018	4,583	1,811	6,394
2019	4,778	1,616	6,394
2020	4,981	1,413	6,394
thereafter	28,265	3,443	31,708
	<u>\$ 51,219</u>	<u>\$ 12,457</u>	<u>\$ 63,676</u>

Capital Leases

During a prior year the City entered into a Municipal Lease Purchase Agreement for the acquisition of water meters, a Caterpillar D7 bulldozer with a trailer and a sheep foot roller. The total lease was in the amount of \$265,000.00. Terms of the issue called for 15 annual payments of \$25,444.49 at an interest rate of 4.995%. The agreement started on October 23, 2012 and will mature on October 15, 2018.

Start Date	10/23/12
Original Amount	\$ 265,000
Payments	\$ 25,444.49
Interest Rate	4.995%
Maturity Date	10/15/18

Year	Principal	Interest	Total
2016	\$ 20,937	\$ 4,507	\$ 25,444
2017	21,983	3,461	25,444
2018	23,081	2,363	25,444
2019	24,234	1,210	25,444
2020	-	-	-
thereafter	-	-	-
	<u>\$ 90,235</u>	<u>\$ 11,543</u>	<u>\$ 101,778</u>

During a prior year the City entered into a Municipal Lease Purchase Agreement for the acquisition of a Caterpillar 420E Loader/Backhoe. The total lease was in the amount of \$84,169. Terms of the lease called for monthly payments of \$4,013 at an interest rate of 3.75%. The agreement started on October 13, 2013 and will mature on February 28, 2016

	Start Date	12/02/11		
	Original Amount	\$ 84,169		
	Payments	\$ 4,013.35	per month	
	Interest Rate	3.75%		
	Maturity Date	02/28/16		
Year	Principal	Interest	Total	
2016	\$ 20,068	\$ 244	\$ 20,312	
2017	-	-	-	
2018	-	-	-	
2019	-	-	-	
2020	-	-	-	
thereafter	-	-	-	
	<u>\$ 20,068</u>	<u>\$ 244</u>	<u>\$ 20,312</u>	

Total Long-term Debt

The total indebtedness the City has incurred for bonds, general debt and capital leases is as follows:

Year	Principal	Interest	Total
2016	\$ 432,833	\$ 100,224	\$ 533,057
2017	358,658	87,423	446,081
2018	353,153	76,941	430,094
2019	357,096	65,996	423,092
2020	345,761	54,373	400,134
thereafter	1,445,211	136,030	1,581,241
	<u>\$ 3,292,712</u>	<u>\$ 520,986</u>	<u>\$ 3,813,698</u>

7. Employee Retirement Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows (as of 4/4/07): *

** To ensure the most accurate future rates are determined for the City, TMRS provided plan provisions as of 4/4/07 to the actuary in calculating the 12/31/06 valuation.*

Deposit Rate: 5.00%

Matching Ratio (City to Employee): 1 to 1

A member is vested after 5 Years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city (expressed as years of service/age) are:

- **5 years / age 60 ;**
- **25 years / any age**

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances

the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2009 valuation is effective for rates beginning January 2010)

8. Commitments and Contingent Liabilities

Litigation

In the normal course of providing services to the public the City from time to time is subjected to litigation claims. The City defends itself against such claims based on internal assessment of liability and risk. Litigation expenses and damages are recorded as expense in the period when services are rendered. No liabilities have been accrued in the financial statements relative to litigation in process since all claims are expected to be within insurance coverage of the City.

Federal Grants

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Historically these audits have not resulted in identification of material disallowed costs. . Any liability for reimbursement, which may arise, as the result of these audits is not believed to be material.

9. Landfill

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post closure care costs will be paid only near or after the date the landfill stops accepting waste, the City has begun reporting these costs. As of September 30, 2011 the City had \$239,898 in designated funds to meet these cost. Per a permit from the Texas Commission on environmental Quality issued September 23, 2008 the City needs an additional \$210,708 to meet the \$450,606 financial assurance requirement of the permit.

10. Risk Management

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The City maintains insurance policies acquired from independent insurance carriers covering structural property, dishonesty, errors, and omissions, personal property and general liability. There have been no significant reductions in insurance coverage from prior years and settlements did not exceed insurance coverage for each of the past three years.

11. Related Party Transactions

From time to time the City may enter into transactions with related parties through the normal course of business. If a member of the City Council has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter. Management is not aware of any material related party transactions that occurred for the year ended September 30, 2015.

12. Restatements

In order for net position and specific fund balances to roll forward year over year various restatements were made in the course of the fiscal year as a result of fiscal year 2014 ending fund balances not rolling forward to the fiscal year 2015 beginning fund balances.

13. Subsequent Events

In preparing the financial statements the management of the City of Presidio, Texas has evaluated events and transactions for potential recognition or disclosure through December 8, 2017 the date the financial statements were issued. No events, including instances of noncompliance, have occurred subsequent to the statement of financial position date that would require adjustment to or further disclosure in the financial statements.

THE CITY OF PRESIDIO, TEXAS
Individual Grants
for the Year Ended September 30, 2015

COMMUNITY DEVELOPMENT BLOCK GRANT

FEDERAL FINANCIAL ASSISTANCE

FEDERAL GRANTOR: U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PASS-THROUGH GRANTOR: TEXAS DEPARTMENT OF RURAL AFFAIRS

CONTRACT NUMBER: 711381

	BUDGET	PRIOR YEARS	CURRENT YEAR	CUMMULATIVE TO DATE
REVENUES				
Grant	\$ 261,368	\$ 314,067	\$ 95,865	\$ 409,932
Local Revenues	43,706	-	-	-
TOTAL REVENUES	<u>305,074</u>	<u>314,067</u>	<u>95,865</u>	<u>409,932</u>
EXPENDITURES				
Administration	30,000	25,572	14,970	40,542
Construction	221,368	248,146	63,695	311,841
Engineering	40,000	47,800	17,200	65,000
Local Match	13,706	72	88	160
TOTAL EXPENDITURES	<u>305,074</u>	<u>321,590</u>	<u>95,953</u>	<u>417,543</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ (7,523)</u>	<u>\$ (88)</u>	<u>\$ (7,611)</u>

Painter and Associates, P.C.

Certified Public Accountants

836 King George Lane
Savannah, Texas 76227-7854

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 Mayor and City Council
City of Presidio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Presidio, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Presidio, Texas' basic financial statements and have issued our report thereon dated December 8, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. The findings are listed as 2-2012, 4-2012, 1-2013 and 3-13.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by

those charged with governance. We consider the deficiencies described in the accompany schedule of findings to be significant deficiencies. The findings are listed as 5-2012 and 2-2013.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Presidio, Texas' 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 4-2012 and 2-2013.

City of Presidio, Texas' Response to Findings

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

Purpose of this Report

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

Painter and Associates, P.C.

Savannah, Texas
December 8, 2017

The City of Presidio, Texas
Schedule of Finding
Year Ended September 30, 2015

Section I Summary of Auditor's Results

Financial Statements:

Type of audit report issued:	Adverse
Internal control over financial reporting:	
* Material weaknesses identified?	2-2012, 4-2012, 1-2013, 3-2013
* Significant deficiencies That are not considered to be material weaknesses?	5-2012, 2-2013
Noncompliance material to financial statements noted?	2-2012

Section II Financial Statement Findings

2-2012 – Material Weakness – Bank reconciliations for all bank accounts held by the City of Presidio.

Finding – Repeat Finding - the City's bank reconciliation procedures were deemed to be ineffective.

Reason Improvement is needed – failure to reconcile bank accounts to the general ledger on a timely basis results in unrecorded transactions and accounting errors not being identified and resolved on a timely basis which leads to financial statement misstatements.

Recommendation - we recommend procedures be resumed requiring performance and documentation of bank reconciliation procedures for all bank accounts to the general ledger within 30 days of receiving the bank statement.

Corrective Action Plan - the City has included in its current period end close schedule and identified the necessary dates for completing bank reconciliations.

4-2012 – Material Weakness – The City is not in compliance with the bond ordinances for both the library and the fire station.

Finding – Repeat Finding - we were contacted by a grantor stating that the bond ordinances for both the library and the fire station were out of compliance due to repeated unanswered requests for items associated with the bond covenants.

Reason Improvement is needed – accountability to the agency that backs financial instruments ensures the stakeholders the City has a solid financial standing and there are no issues with its ability to operate as a going concern.

Recommendation - we recommend the City review its bond covenants and develop a policy to ensure it reports all required information in a timely manner to the requesting agencies.

Corrective Action Plan – the City has included in its current period end close schedule and identified the necessary dates for submitting required reports with federal agencies.

5-2012 – Significant Deficiency – No reconciliation as to what is owed between the City and the Presidio Municipal Development District

Finding – Repeat Finding - no reconciliation has been done to determine what is owed between the City of Presidio and the Presidio Municipal Development District.

Reason Improvement is needed – failure to reconcile amounts owed between the two entities can create shortfalls in funding and cause balances in the financial statements to be misstated.

Recommendation – we recommend procedures to be put in to place to reconcile amounts owed between the two entities on a monthly basis.

Corrective Action Plan – the City has included in its current period end close schedule a control to ensure a monthly reconciliation is performed between the City of Presidio and the Presidio Municipal Development District.

1-2013 – Material Weakness – No reconciliation to and inclusion of the enterprise fund revenue, generated in a third party software, into the primary accounting information system used in the generation of the financial statements

Finding – Repeat Finding - the enterprise fund revenue that is accounted for and maintained in a separate accounting software system other than the primary accounting software system is not imported or reconciled to the associated accounts receivable and enterprise revenue fund accounts in the primary accounting system.

Reason Improvement is needed – failure to input and reconcile the two accounting systems leads to improper revenue recognition and misstatement of the accounts receivable in the financial statements.

Recommendation – we recommend procedures to be put in to place to reconcile the two accounting systems so accounts receivable and enterprise fund revenues are properly accounted for.

Corrective Action Plan – the City has included in its current period end close schedule a control to ensure enterprise fund revenue is recognized properly and a reconciliation is performed between the two accounting software systems.

2-2013 – Significant Deficiency – No quarterly filing of the Form 941 or annual filing of Form 940 with the Internal Revenue Service

Finding – Repeat Finding - no filing of the employment tax Form 941 and Form 940 with the internal revenue service.

Reason Improvement is needed – failure to file the required quarterly and annual reports with the Internal Revenue Service can subject the City to fines and penalties.

Recommendation – we recommend procedures to be put in to place to ensure the required quarterly and annual reports are filed with the Internal Revenue Service.

Corrective Action Plan – the City has included in its current period end close schedule and identified the necessary dates for filing quarterly and annual reports to the Internal Revenue Service.

3-2013 – Material Weakness – Inadequate Controls associated with the City's Document Retention Plan

Finding – Repeat Finding – during the course of the audit we were not provided the accounting records necessary to verify disbursement transactions selected in the random sample. We were also not provided with supporting documentation for receipts transactions selected in the random sample as well.

Reason Improvement is needed – the records of the City are important to retain for reference and future use. Federal and state laws require an organization to maintain certain types of records for particular periods of time.

Recommendation – we recommend the City to establish a record retention policy in order to preserve the necessary documents for their corresponding allotted time periods.

Corrective Action Plan – the City will establish a record retention policy and will implement it upon approval by the City Council.

Section III Federal and State Award Finding and Questioned Costs

2-2012 – Material Weakness – Bank reconciliations for all bank accounts held by the City of Presidio.

Repeat finding - see details of finding in Section II

4-2012 – Material Weakness – The City is not in compliance with the bond ordinances for both the library and the fire station.

Repeat Finding - see details of finding in Section II