

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

JOHN WOMACK & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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For The Year Ended December 31, 2012

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Financial Section

City of Falfurrias, Texas

City of Falfurrias, Texas

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Independent Auditor's Report

To the Mayor and City Council
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas as of December 31, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

City of Falfurrias, Texas

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Falfurrias, Texas's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2013, on our consideration of City of Falfurrias, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falfurrias, Texas's internal control over financial reporting and compliance.

Respectfully submitted,



John Womack & Company, P.C.

Kingsville, Texas
August 16, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Falfurrias (City) annual financial report presents management's discussion and analysis (MD&A) of the City's financial performance during the year ended December 31, 2012. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$3,515,219.
- The fund balance of the General Fund increased over the fiscal year by \$124,701 to \$1,132,251. This represents a 12.37% increase over the prior year's fund balance, or 4.74% of general fund expenditures.
- Total assets, excluding component units, were \$6,851,596; total liabilities, excluding component units, were \$3,202,080.
- The ratio of total assets to total liabilities for governmental activities was 2.13 to 1.
- The quick ratio (current assets to current liabilities) was 9.36 to 1.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of: MD&A, the *basic financial statements*, and *supplementary information*. Figure A-1 (see pg. 5) demonstrates the relationships among the components of this annual report.

The basic financial statements are comprised of three components:

- The *government-wide financial statements* provide both long-term and short-term information about the City's overall financial status. These statements are presented for both *governmental activities* and *business-type activities*. They are designed to provide readers with a broad overview of the City's finances, similar to a private-sector business.
 - The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

- The *statement of activities* presents information to show how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges .
- The *fund financial statements* focus on individual parts of the City, reporting the City's operations in greater detail than the government-wide statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.
 - The *governmental fund* statements show how general government services were financed in the short-term as well as what remains for future spending. The two major governmental funds are the General Fund and the Debt Service Fund.
 - *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources belong. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements.

Notes to the financial statements provide essential additional information to provide a clear picture of the particular assets, liabilities, or inherent risks. The notes to the financial statements follow the basic financial statements.

The financial statements are followed by a section of *required supplementary information (RSI)* that further explains and supports the information in the financial statements. RSI information follows the notes to the financial statements.

Figure A-1: Required Components of the City's Annual Financial Report

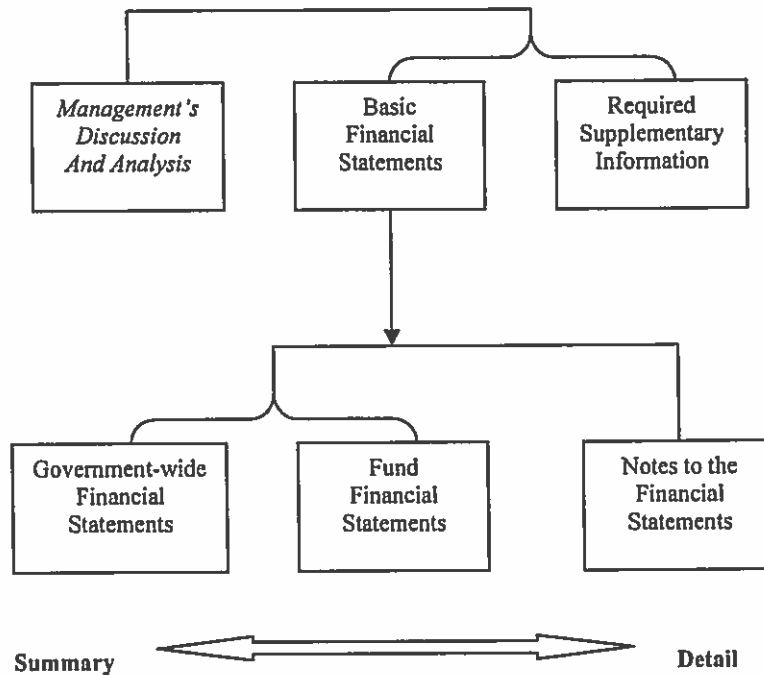


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

More about the City's Fund Financial Statements:

Governmental funds are used to account for essentially the same functions reported as *governmental activities*. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Major and non-major funds are presented separately in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. The general fund and the HOME Grant Fund are presented separately along with the aggregated *other governmental funds*.

The City adopts an annual operating budget for governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

More about the City's Proprietary Funds:

One type of *proprietary fund* is used by the City:

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The city does not have an enterprise fund since water, gas, and sewer are accounted for in the component unit. Garbage fees are collected by the component unit and passed on to the collection company. The City keeps a processing fee that is accounted for in the General Fund. The City's component unit uses enterprise funds to account for its utility system, which provides water, sewer and garbage services. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Net Position serves over time as a useful indicator of the City's financial position. At December 31, 2012, the net position, excluding the City's component unit, totaled \$3,515,219, which is a \$391,093 improvement over the prior year.

A large portion of the City's net position, 34.8%, are invested in capital assets (e.g., land, utility system infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Capital assets were increased by \$163,082. Cash and cash equivalents, increased approximately \$290,000, or 17.5%, while Homeland Security #2 and Due from Other Governmental Funds saw a combined increase of approximately \$132,000.

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**Table A-1: Statement of Net Position for Governmental Activities
December 31, 2012 and 2011**

	Governmental Activities		%
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Current & Other Assets	\$ 2,717,770	\$ 2,307,742	17.8%
Capital Assets	<u>4,133,826</u>	<u>3,970,744</u>	4.1%
Total Assets	<u>6,851,596</u>	<u>6,278,486</u>	9.1%
Current Liabilities	290,080	224,858	29.0%
Long-Term Liabilities	<u>2,912,000</u>	<u>2,801,000</u>	4.0%
Total Liabilities	<u>3,202,080</u>	<u>3,025,858</u>	5.8%
Unearned Revenue	<u>134,297</u>	<u>128,502</u>	4.5%
Total Deferred Inflows of Resources	<u>134,297</u>	<u>128,502</u>	4.5%
Net Investment in Capital Assets	1,221,826	1,158,341	5.5%
Restricted	900,747	167,921	436.4%
Unrestricted	<u>1,392,646</u>	<u>1,797,864</u>	-22.5%
Total Net Position	\$ <u><u>3,515,219</u></u>	\$ <u><u>3,124,126</u></u>	12.5%

The City has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations, without substantial reductions in fund balances or net position.

Changes in Net Assets

Table A-2, on the following page, details the City's change in net position from the prior year.

**Table A-2: Changes in Net Position
December 31, 2012 and 2011**

Governmental Activities			
Revenue	<u>2012</u>	<u>2011</u>	<u>% Change</u>
Program Revenues			
Charges for Services	\$ 1,438,816	\$ 1,206,736	19.2%
Operating Grants and Contributions	209,432	3,589	5735.4%
General revenues:			
Property Taxes	385,857	372,841	3.5%
Sales Taxes	796,414	727,439	9.5%
Other Taxes	282,490	250,633	12.7%
Investment Earnings	8,522	10,047	-15.2%
Miscellaneous	<u>75,041</u>	<u>57,362</u>	30.8%
Total Revenues	<u>3,196,572</u>	<u>2,628,647</u>	21.6%
Expenses			
General Government	362,418	321,493	12.7%
Public Safety	887,182	862,278	2.9%
Public Works	782,938	739,820	5.8%
Health & Other public services	411,497	363,821	13.1%
Tourism	121,008	50,728	138.5%
Municipal Court	<u>240,436</u>	<u>275,406</u>	-12.7%
Total expenses	<u>2,805,479</u>	<u>2,613,546</u>	7.3%
Increase (Decrease) in Net Position	391,093	15,101	2489.8%
Net Position, Beginning	3,124,126	3,109,025	0.5%
Net Position, Ending	\$ <u>3,515,219</u>	\$ <u>3,124,126</u>	12.5%

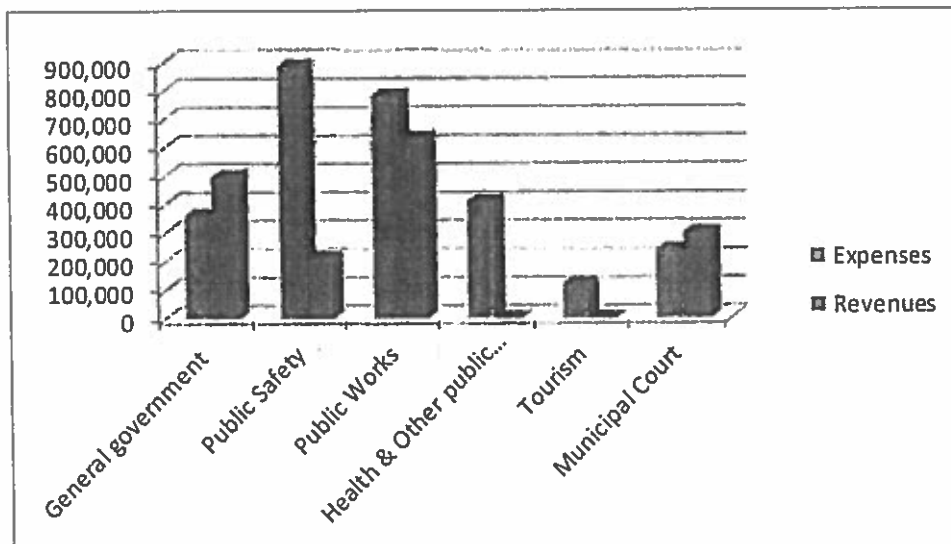
Governmental Activities

As shown in Table A-2, revenues for governmental activities of \$3,196,572 were more than expenses of \$2,805,479 for 2012 by \$391,093; furthermore, this increase in net position for the year ended in 2012 represents a 2489.8% increase from the increase in net position in 2011.

- The cost of all *governmental* activities for 2012 was \$2,805,479.
 - The amount that taxpayers paid for these services through City taxes and business fees was \$1,473,283 or 46.09% of total revenues.
- Some of the cost was paid by:
- Those who directly benefited from the programs, totaling \$1,438,816 or 45% of total revenues.
 - All taxes contributed 48.17% of governmental activities' revenues. Investment earnings generated 0.26% of governmental activities' revenues.
 - Public Safety (including Police and Impounding) expenses accounted for 31.62% of governmental activities, while 27.9% of the expenses are for Public Works.

Graph 1 presents the cost of each of the City's major governmental functions, as well as the associated program revenues. As expected in governmental activities, the subsidy required from taxpayers provides the majority of support for these core services.

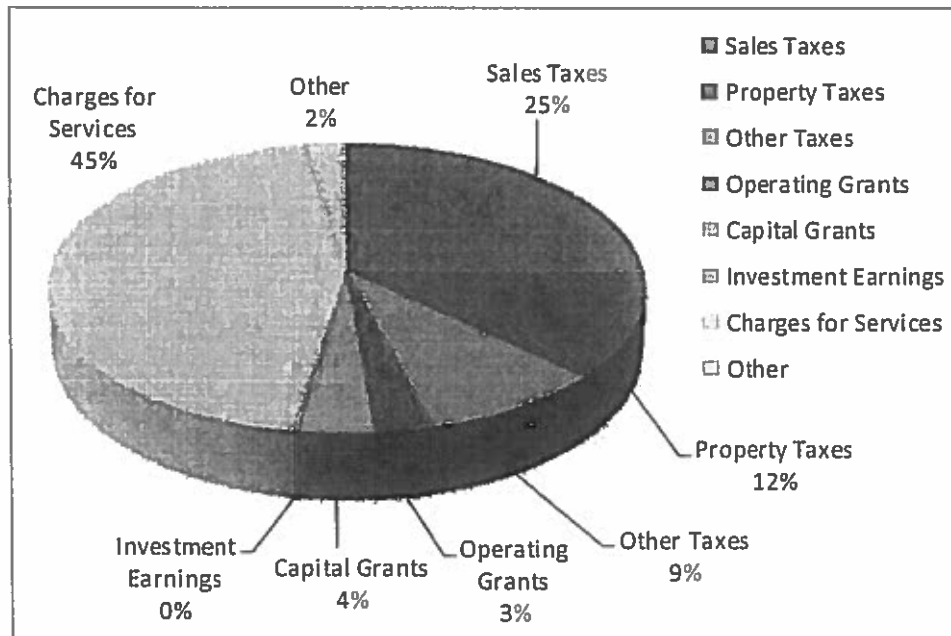
Graph 1: Program Revenues to Activity Expenditures



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In pie chart form, Graph 2 indicates the sources of revenue for governmental activities.

Graph 2: Revenue by Source – Governmental Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

General Fund

Total assets of the General Fund increased from \$1,673,427 to \$1,861,687 between 2011 and 2012, or 11.24%, primarily due to a \$129,563 increase in due from other funds and a \$58,697 increase in cash and cash equivalents from 2011.

Total liabilities of the General Fund decreased by \$50,000 or 24%, from \$260,789. The \$468,647 of unearned revenue, which was reflected as Deferred Inflows of Resources, was up \$13,061, or 2.87%, over prior year of \$455,596, which was a direct result of taxes receivable going up by \$13,000.

The General Fund's unreserved and undesignated fund balance increased from \$1,007,550 to \$1,132,261 for an increase of 12.37% over fiscal year 2011 due to operations.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

The total assets decreased in 2012 by \$23,940 or 4.88% due to \$17,933 in expenditures being in excess of revenues. Total liabilities were basically unchanged while total equity decreased 3.84% due to expenditures exceeding revenues by \$17,933.

Budgetary Results

General Fund

General fund taxes were \$1,375,925 which was \$48,639 above the final budget. Charges for services were higher than the final budget by \$62,796, while licenses and permits accounted for a positive variance of \$70,600. Overall, General Fund revenues were more than the final budget by \$36,110, but fines and forfeitures accounted for a net negative decrease of \$102,600 from the 2012 budget.

General Fund expenditures were \$248,064 below the final budget with the municipal court contributing \$112,685 of the positive variance, or 45.43% of the positive budget estimate for expenditures.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

HMOT Fund taxes were less than the final budget by \$48,416 due to major road construction that will span several years resulting in less hotel/motel stays. Expenditures were \$10,619 below the final budget and HMOT Revenue was \$17,933 under expenditures due to specific projects that were completed.

Non-major Governmental Funds

Two different fund types comprise this portion of the financial statements, including eleven special revenue funds and one capital projects fund. Total assets for the combined funds were \$215,653; total liabilities were \$5, and the total fund balance was \$215,648 with none classified as undesignated or unreserved fund balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Table A-3: Capital Assets (net of depreciation) at December 31, 2012 and 2011

	Governmental Activities		% Change
	2012	2011	
Land	\$ 12,200	\$ 12,200	0.0%
Construction in Progress	3,217,014	3,105,129	3.6%
Buildings and Improvements	901,906	848,637	6.3%
Infrastructure	93,615	93,615	0.0%
Equipment	445,138	429,488	3.6%
Vehicles	606,201	509,377	19.0%
Total Capital Assets	5,276,074	4,998,446	5.6%
Accumulated Depreciation	(1,142,248)	(1,027,703)	11.1%
Capital Assets - Net	\$ 4,133,826	\$ 3,970,743	4.1%

As shown in Table A-3, at December 31, 2012, the City had an increase in construction in progress of \$111,885. The Building and Improvement portion saw an increase of \$53,269. Total Capital Assets had a net increase, before depreciation, of \$277,628 from 2011 to 2012.

Long-term Debt

The City paid off a small bank note and a note to the component unit, City of Falfurrias Utility Board. The USDA cash advances were revenue bonds received from the USDA. These advances increased slightly by \$111,000 or 4.0%, due to draw downs for utility improvements. See Note F on page 29 for more information.

Table A-4: Long-Term Liabilities at December 31, 2012 and 2011

	Governmental Activities		% Change
	2012	2011	
Capital Leases	\$ -	\$ 11,403	-100.0%
USDA Cash Advances	2,912,000	2,801,000	4.0%
Total Long-Term Debt	\$ 2,912,000	\$ 2,812,403	3.5%

CALENDAR YEAR 2013 ADOPTED OPERATING BUDGET

The adopted budget for 2013 sets general fund revenues from all sources (including interfund transfers) at \$2,830,815. This budget is \$118,574 or 4.37% more than the prior year's final budget. The greatest cause of this increase in revenues from 2012 to 2013 is due to an increase in fines and fees, of which the amusement machines fees has increased from \$90,000 to \$225,000.

Property taxes were estimated to decrease 7.1% compared to the prior year's actual property taxes. With a lower assessed valuation for the 2013 tax year compared to 2012, and coupled with a stable property tax rate, the total 2013 revenue forecast was conservatively cast by management, reflecting collection results higher than those budgeted in the latest 2012 fiscal year. City sales tax, which comprises 26.5% of general fund revenues, is forecast for 2013 at \$750,000, which is the same compared to 2012. The franchise fee categories are budgeted at \$203,000 which is down 4.9% compared to the 2012 year.

General fund expenditures, including transfers for the 2013 budget, were set at \$2,909,379 which is \$37,623 or 1.31% more than the prior year budget. Increases in the budgeted expenditures for police, and streets departments comprise virtually the entire increase in total expenditures from the prior budget. If the budgeted revenues and expenses are achieved, the fund balance will decrease by \$78,564.

CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City Council, citizens, taxpayers, customers, bondholders, creditors, and other governmental sectors with a general overview of the City's financial condition and to demonstrate the City's accountability for the funds it receives.

If you have any questions about this report or need additional information, contact:

The City of Falfurrias
City Administrator
P.O. Drawer E
Falfurrias, Texas 78355

(361) 325-2420
(361) 325-9784 (fax)

City of Falfurrias, Texas

Basic Financial Statements

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government Governmental Activities	Component Unit
ASSETS:		
<i>Cash and cash equivalents</i>	\$ 1,987,886	870,097
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	334,350	--
<i>Accounts</i>	112,185	498,103
<i>Other</i>	202,435	--
<i>Accrued Interest Receivable</i>	1,044	--
<i>Internal Balances</i>	--	--
<i>Due from other governments</i>	79,870	162,347
<i>Inventories</i>	--	170,617
Restricted assets:		
<i>Cash and cash equivalents</i>	--	1,524,069
<i>Capital assets</i>	4,133,826	9,989,681
Total Assets	6,851,596	13,214,914
LIABILITIES:		
<i>Accounts payable</i>	172,104	253,798
<i>Accrued expenses</i>	6,088	--
<i>Due to other governments</i>	5,996	--
<i>Other current liabilities</i>	--	33,638
<i>Meter deposits</i>	105,892	164,956
Liabilities due within one year:		
<i>Current portion of bonds payable</i>	--	145,000
Liabilities due in more than one year:		
<i>USDA cash advances</i>	2,912,000	--
<i>Revenue bonds payable</i>	--	150,000
Total Liabilities	3,202,080	747,392
DEFERRED INFLOWS OF RESOURCES:		
<i>Unearned revenue</i>	134,297	--
Total Deferred Inflows of Resources	134,297	--
NET POSITION		
Net Investment in Capital Assets	1,221,826	9,694,681
Restricted For:		
Federal and State Programs	258,891	--
Capital Projects	31,120	--
Law Enforcement	119,527	--
Tourism	449,064	--
Municipal Court Building Security	31,700	--
Municipal Court Technology	3,427	--
Other Purposes	7,018	--
Unrestricted	1,392,646	2,772,841
Total Net Position	3,515,219	12,467,522

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
<i>General government</i>	\$ 362,418	\$ 380,635	\$ --	\$ 118,542
<i>Sanitation</i>	569,680	634,381	--	--
<i>Municipal Court</i>	240,436	300,454	--	--
<i>Public Safety</i>	887,182	123,346	90,890	--
<i>Streets</i>	213,258	--	--	--
<i>Health and welfare</i>	106,319	--	--	--
<i>Parks and recreation</i>	305,178	--	--	--
<i>Tourism</i>	121,008	--	--	--
Total governmental activities	<u>2,805,479</u>	<u>1,438,816</u>	<u>90,890</u>	<u>118,542</u>
Total Primary Government	<u>\$ 2,805,479</u>	<u>\$ 1,438,816</u>	<u>\$ 90,890</u>	<u>\$ 118,542</u>
 COMPONENT UNIT:				
Enterprise	<u>\$ 2,640,330</u>	<u>\$ 3,073,470</u>	<u>\$ --</u>	<u>\$ --</u>

General Revenues:

Property Taxes
Sales Taxes
Franchise Taxes
Occupancy Taxes
Alcoholic Beverage Taxes
Miscellaneous
Unrestricted Investment Earnings

Transfers

Total General Revenues and Transfers

Change in Net Assets
 Net Position - Beginning
 Net Position - Ending

The accompanying notes are an integral part of this statement.

<u>Net (Expense) Revenue and Changes in Net Position</u>	
<u>Governmental Activities</u>	<u>Component Unit</u>
\$ 136,759	
64,701	
60,018	
(672,946)	
(213,258)	
(106,319)	
(305,178)	
(121,008)	
<u>(1,157,231)</u>	
<u>(1,157,231)</u>	
	\$ <u>433,140</u>
385,857	--
796,414	--
200,355	--
81,584	--
551	--
75,041	--
8,522	6,681
--	--
<u>1,548,324</u>	<u>6,681</u>
<u>391,093</u>	<u>439,821</u>
<u>3,124,126</u>	<u>12,027,701</u>
<u>\$ 3,515,219</u>	<u>\$ 12,467,522</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Hotel/Motel Occupancy Tax Fund
	<u> </u>	<u> </u>
ASSETS:		
<i>Cash and cash equivalents</i>	\$ 1,134,591	\$ 409,107
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	334,350	--
<i>Accounts</i>	112,185	--
<i>Other</i>	183,974	18,461
<i>Accrued Interest Receivable</i>	197	847
<i>Due from other funds</i>	88,897	21,292
<i>Due from other governments</i>	7,493	--
Total Assets	<u>\$ 1,861,687</u>	<u>\$ 449,707</u>
 LIABILITIES:		
<i>Accounts payable</i>	\$ 124,919	\$ 643
<i>Accrued expenses</i>	6,088	--
<i>Due to other funds</i>	23,872	--
<i>Due to other governments</i>	22	--
<i>Meter deposits</i>	105,888	--
Total Liabilities	<u>260,789</u>	<u>643</u>
 DEFERRED INFLOWS OF RESOURCES:		
<i>Unearned revenue</i>	468,647	--
Total Deferred Inflows of Resources	<u>468,647</u>	<u>--</u>
 FUND BALANCES:		
<i>Restricted:</i>		
<i>Restricted for Tourism</i>	--	449,064
<i>Restricted for State and Federal Grants</i>	--	--
<i>Restricted for Donor Intent</i>	--	--
<i>Restricted for Law Enforcement</i>	--	--
<i>Restricted for Municipal Court Building Security</i>	--	--
<i>Restricted for Municipal Court Technology</i>	--	--
<i>Assigned</i>	30	--
<i>Unassigned</i>	1,132,221	--
Total equity	<u>1,132,251</u>	<u>449,064</u>
Total Liabilities And Equity	<u>\$ 1,861,687</u>	<u>\$ 449,707</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-3

Homeland Security #2	Other Governmental Funds	Total Governmental Funds
\$ 66,084	\$ 378,104	\$ 1,987,886
--	--	334,350
--	--	112,185
--	--	202,435
--	--	1,044
--	34,222	144,411
25,835	46,542	79,870
<u>\$ 91,919</u>	<u>\$ 458,868</u>	<u>\$ 2,862,181</u>
\$ --	\$ 46,542	\$ 172,104
--	--	6,088
85,912	34,627	144,411
5,974	--	5,996
4	--	105,892
<u>91,890</u>	<u>81,169</u>	<u>434,491</u>
--	--	468,647
--	--	468,647
--	--	449,064
29	216,027	216,056
--	7,018	7,018
--	119,527	119,527
--	31,700	31,700
--	3,427	3,427
--	--	30
--	--	1,132,221
<u>29</u>	<u>377,699</u>	<u>1,959,043</u>
<u>\$ 91,919</u>	<u>\$ 458,868</u>	<u>\$ 2,862,181</u>

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012*

Total fund balances - governmental funds balance sheet	\$ 1,959,043
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	4,133,826
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	334,350
Payables for bond principal which are not due in the current period are not reported in the funds.	<u>(2,912,000)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 3,515,219</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Fund	Hotel/Motel Occupancy Tax Fund
Revenue:		
<i>Taxes</i>	\$ 1,375,925	\$ 81,584
<i>Licenses and permits</i>	78,000	--
<i>Federal and state grants</i>	--	--
<i>Charges for services</i>	937,016	--
<i>Fines & forfeitures</i>	297,900	--
<i>Interest</i>	6,003	2,237
<i>Miscellaneous</i>	53,507	14,127
Total revenues	<u>2,748,351</u>	<u>97,948</u>
Expenditures:		
<i>General government</i>	340,654	--
<i>Sanitation</i>	547,219	--
<i>Municipal Court</i>	232,330	--
<i>Public Safety</i>	821,936	--
<i>Streets</i>	223,277	--
<i>Health and welfare</i>	102,104	--
<i>Parks and recreation</i>	331,317	--
<i>Tourism</i>	--	115,881
<i>Capital outlay</i>	31,145	--
Total expenditures	<u>2,629,982</u>	<u>115,881</u>
Excess (deficiency) of revenues (under) expenditures	118,369	(17,933)
Other financing sources (uses):		
<i>Insurance proceeds</i>	6,332	--
<i>USDA cash advances</i>	--	--
Total other financing sources (uses)	<u>6,332</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	124,701	(17,933)
Fund balances/equity, January 1	1,007,550	466,997
Fund balances/equity, December 31	<u>\$ 1,132,251</u>	<u>\$ 449,064</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-5

Homeland Security #2	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 1,457,509
--	--	78,000
90,890	81,542	172,432
--	37,000	974,016
--	125,900	423,800
29	253	8,522
--	1,075	68,709
<u>90,919</u>	<u>245,770</u>	<u>3,182,988</u>
--	8,165	348,819
--	--	547,219
--	--	232,330
90,890	23,163	935,989
--	--	223,277
--	--	102,104
--	--	331,317
--	--	115,881
--	111,885	143,030
<u>90,890</u>	<u>143,213</u>	<u>2,979,966</u>
29	102,557	203,022
--	--	6,332
--	111,000	111,000
<u>--</u>	<u>111,000</u>	<u>117,332</u>
29	213,557	320,354
--	164,142	1,638,689
<u>29</u>	<u>377,699</u>	<u>1,959,043</u>

CITY OF FALFURRIAS, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds	\$ 320,354
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	277,629
The depreciation of capital assets used in governmental activities is not reported in the funds.	(114,545)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	7,252
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	37,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	11,403
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(148,000)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 391,093</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

A. Summary of Significant Accounting Policies

The combined financial statements of the City of Falfurrias, Texas, (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

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

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: a) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; b) The City or its component units are entitled to, or have the ability to otherwise access, a majority of the economic resources received or held by the organization; and c) Such economic resources are significant to the City.

Based on these criteria, the City has one discretely presented component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement. The following is a brief review of the potential component unit addressed in defining the government's reporting entity.

Utility Board of Falfurrias

The Utility Board is a separately functioning enterprise fund of the City of Falfurrias, Texas. It was formed in accordance with a bond ordinance whereby \$1,300,000 of utility revenue bonds were authorized on September 7, 1949, for the City to acquire the local utility system, specifically, the water, sewer, and natural gas systems. The bond ordinance (Section 38) generally provides that management and control of the Utility System and the expenditure and application of the revenues of the System shall be placed in the hands of a Board of Trustees during such time as any bonds secured by a pledge of revenues of the System are outstanding. This ordinance has been part of the Utility Board's debt instruments since then and is still in effect. See Subsequent Event Note Q. The Utility System's Board of Trustees is composed of the current Mayor of the City and four citizens of Brooks County who are nominated by the Board for four-year terms, with final approval made by the City Council.

The Utility Board provides monthly transfers of 4.7% of utility system revenues as an operational fee to the City. Furthermore, the City does not subsidize any utility function through general tax revenues nor does it have oversight over the Utility Board's budget. The City, however, does have ultimate authority over rate increases and the issuance of bonded indebtedness. The Utility Board performs certain services for the City at no charge, such as the collection of garbage fees with utility bills, maintenance of all fire hydrants in the City, and the installation, maintenance and provision of water to the irrigation system at the golf course. Consequently, the Utility Board is a component unit of the City of Falfurrias, Texas. Complete financial statements of the component unit may be obtained at the entity's administrative office:

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

The Utility Board of Falfurrias
P.O. Box 518
Falfurrias, TX 78355

Related Organizations and Jointly Governed Organizations

Related organizations and jointly governed organizations that are administered by separate boards or commissions provide services within the City, but the City is not financially accountable, and such organizations are therefore not component units of the City, even though the City Council may appoint a voting majority of an organization's board. Consequently, financial information for the Falfurrias Housing Authority is not included in these financial statements.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (1) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Hotel/Motel Occupancy Fund. This fund is used to account for taxes assessed by the City on hotel/motel occupancy and the related expenditures for advertising, promotion, or tourism.

Homeland Security #2. This fund is used to account for monies received from the Department of Homeland Security to provide for certain overtime and other costs of the police department.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

3. Financial Statement Amounts

a. 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 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 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon 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.

The City operates under the laws of the State of Texas as a Type A General Law City, and is limited to a maximum annual rate of 1-1/2% of taxable property of the City. Neither the state law nor the city charter limits the proportion of this total tax rate that may be applied to debt service. The 2011 tax rate was \$.50000 on assessed value of \$77,220,804 and was distributed to the General Fund. The 2012 tax rate is \$.50000 on an assessed value of \$79,178,407 with collections of \$134,297 which is deferred to 2013.

b. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	40
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors; technological developments, or other evidence of obsolescence; changes in the manner of duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal year 2012.

d. Receivable and Payable Balances

Current earnings are charged with bad debts for accounts to be set aside in an allowance for doubtful accounts. Receivables are reflected in the balance sheet net of these accounts. Accounts deemed uncollectible are charged off to this allowance account.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

f. Fund Equity

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Committed Fund Balance - represents amounts that can only be used for a specific purpose pursuant to constraints imposed by City ordinance or resolution no later than the close of the fiscal year. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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 amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

The following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. Cash Deposits

At December 31, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,987,886 and the bank balance was \$2,099,242. The City's cash deposits at December 31, 2012 and during the year ended December 31, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. In addition, the component unit had deposits with a carrying value of \$2,394,170 and a bank balance of \$2,486,788 at December 31, 2012, which were entirely covered by FDIC insurance or pledged collateral held by the component unit's agent bank in the component unit's name.

2. Investments

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City did not adhere to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (a) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (b) certificates of deposit, (c) certain municipal securities, (d) money market savings accounts, (e) repurchase agreements, (f) bankers acceptances, (g) mutual funds, (h) investment pools, (i) guaranteed investment contracts, and (j) common trust funds.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. These custodial risk categories are as follows:

- Category 1 - Investments that are insured, registered or held by the City or by its agent in the City's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the City's name.

The City had no investments at December 31, 2012.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Investment Accounting Policy

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

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risks

Credit risk is the risk that an issuer or tother counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At the end of the period, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

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

At the end of the period, the City was not exposed to custodial credit risk.

c. Concentration of Risk

This risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. At the end of the period, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At the end of the period, the City was not significantly exposed to interest rate risk.

e. Foreign Currency Risk

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

D. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,200	\$ --	\$ --	\$ 12,200
Construction in progress	3,105,129	111,885	--	3,217,014
Total capital assets not being depreciated	<u>3,117,329</u>	<u>111,885</u>	<u>--</u>	<u>3,229,214</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	848,637	53,269	--	901,906
Infrastructure	93,615	--	--	93,615
Equipment	429,488	15,650	--	445,138
Vehicles	509,377	96,824	--	606,201
Total capital assets being depreciated	<u>1,881,117</u>	<u>165,743</u>	<u>--</u>	<u>2,046,860</u>
Less accumulated depreciation for:				
Buildings and improvements	(324,061)	(35,671)	--	(359,732)
Infrastructure	(35,107)	(4,681)	--	(39,788)
Equipment	(206,691)	(39,001)	--	(245,692)
Vehicles	(461,843)	(35,193)	--	(497,036)
Total accumulated depreciation	<u>(1,027,702)</u>	<u>(114,546)</u>	<u>--</u>	<u>(1,142,248)</u>
Total capital assets being depreciated, net	853,415	51,197	--	904,612
Governmental activities capital assets, net	<u>\$ 3,970,744</u>	<u>\$ 163,082</u>	<u>\$ --</u>	<u>\$ 4,133,826</u>

Depreciation was charged to functions as follows:

General Government	\$ 13,599
Sanitation	22,461
Municipal Court	8,106
Public Safety	38,558
Streets	9,184
Health & Welfare	4,215
Parks & Recreation	13,296
Tourism	5,127
	<u>\$ 114,546</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2012, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 88,897	Short-term loans
Other Governmental Funds	Other Governmental Funds	34,222	Short-term loans
Hotel Motel Fund	General Fund	21,292	Short-term loans
	Total	<u>\$ 144,411</u>	

All amounts due are scheduled to be repaid within one year.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2. Transfers To and From Other Funds

There were no Transfers To and From Other Funds in the current year.

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended December 31, 2012, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital leases	11,403	--	11,403	--	--
USDA cash advances	2,801,000	148,000	37,000	2,912,000	--
Total governmental activities	<u>\$ 2,812,403</u>	<u>\$ 148,000</u>	<u>\$ 48,403</u>	<u>\$ 2,912,000</u>	<u>\$ --</u>

The City is the recipient of \$3,052,000 in revenue bonds from the USDA for utility improvements. During the construction phase, draws are being accounted for as "USDA Cash Advances". At the completion of the project, the advances will be converted to revenue bonds and will be certified by the Attorney General's office of the State of Texas, paying 4.125%, maturing in 2048, with an average payment of \$157,883 per year, including interest. Also at completion of the project, the bond and these related assets will be conveyed to the Utility Board of Falfurrias (discretely presented component unity of the City of Falfurrias) for their use and operation. The Utility Board of Falfurrias has pledged all of its net revenue to pay the revenue bonded debt and will assume the full obligation for its payments. The cash advances to the City of Falfurrias are:

	2012	2011
Cash Advances	<u>\$ 2,912,000</u>	<u>\$ 2,801,000</u>

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2012, the City obtained general liability and major medical coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plan

Plan Description

The City provides pension benefits for all of its eligible 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available in TMRS' website at www.TMRS.com.

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:

	2010	2011	2012
<u>City Specific:</u>			
Employee deposit rate	5%	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
Updated service credit annually repeating (Y/N)	0% N	0% N	0% N
Annuity increase to retirees annually repeating (Y/N)	0% N	0% N	0% N

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined 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. The annual pension cost and net pension obligation/(asset) are as follows:

Fiscal Year Ending:	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
12/31/10	\$ 42,240	\$ 42,240	100.0%	\$ --
12/31/11	\$ 37,104	\$ 37,104	100.0%	\$ --
12/31/12	\$ 17,031	\$ 17,031	100.0%	\$ --

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date:	12/31/10	12/31/11	12/31/12
Actuarial Information			
Actuarial cost method	Projected Unit credit	Projected Unit credit	Projected Unit credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization period	21.6 years - closed period	20.7 years - closed period	19.6 years - closed period
Amortization Period for new Gains/Losses	16 years	17 years	16 years
Asset valuation method	10 year Smoothed Market	10 year Smoothed Market	10 year Smoothed Market
Assumptions			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost of living adjustments	0.0%	0.0%	0.0%

The funded status as of December 31, 2012, under the two separate actuarial valuations, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a % of Covered Payroll
12/31/12	\$ 697,314	\$ 838,510	83.2%	\$ 141,196	\$ 470,501	30.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

B. Supplemental Death Benefits Fund

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

The city offers supplemental death to:	Plan Year 2012	Plan Year 2011
Active Employees	Yes	Yes
Retirees	Yes	Yes

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$0, \$0, and \$445, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:
 (RETIREE-only portion of the rate)

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2010	0.05%	0.05%	100.0%
2011	--	--	100.0%
2012	--	--	100.0%

I. Health Care Coverage

During the year ended December 31, 2012, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$392 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2013, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2012, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records. See also Risk Management footnote.

J. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2. Litigation

The City is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

K. Closure and Postclosure Care Cost

The City does not maintain any landfill facilities, and therefore no accrual for these care costs is necessary.

L. Accounts Receivable

Accounts receivable at December 31, 2012, consist of the following:

	<u>Account Balance</u>	<u>Allowance for Uncollectibles</u>	<u>Net</u>
Taxes	\$ 487,488	\$ (153,138)	\$ 334,350
Accounts	152,435	(40,250)	112,185
Other	<u>202,435</u>	<u>--</u>	<u>202,435</u>
	<u>\$ 842,358</u>	<u>\$ (193,388)</u>	<u>\$ 648,970</u>

The component unit had accounts receivable of \$613,559, less allowance for uncollectibles of \$115,451, for a net of \$498,108.

M. Deferred Revenue

Deferred revenue at year end consisted of the following:

<u>Revenue Description</u>	<u>Fund</u>	<u>Deferred Amount</u>
Property tax revenue	General	\$ 334,350
2012 Property taxes deferred to 2013	General	134,297
Total Deferred Revenue		<u>\$ 468,647</u>

N. Excess Expenditures Over Appropriations

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund:

<u>Fund Type</u>	<u>Department</u>	<u>Amount</u>
General Fund	Sanitation	\$ 22,219
General Fund	Capital Outlay	31,145

O. Non-Budgeted Funds

The City did not adopt a budget for the Gifts and Bequests Fund, as any gift is budgeted by specific action. Donations totaled \$0, and expenditures totaled \$0 in the current year.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

P. Free Water Service

Franchise Fees:

The Utility Board is under contract to pay the City of Falfurrias, Texas, a 4.7% franchise tax on its gross water and sewer revenues. For 2012 and 2011, this amount was \$136,723 and \$141,268, respectively. The 2012 and 2011 payments included the \$37,000 and \$36,000, respectively, by the Utility Board to the City for its scheduled USDA Cash Advance reduction.

Free Water Service:

The Utility Board of Falfurrias, Texas, provides free water to the City for all of its operational needs. In 2012 and 2011, the City used 37,602,200 and 67,458,200 gallons, respectively, or \$131,382 and \$235,699 value of free service, respectively.

Q. Subsequent Event

The City of Falfurrias City Council voted on July 17, 2013 to refund the Utility Board's Bond Debt. This action will shorten the debt's current payout term from 35 years to 20 years, with a net future value savings from cash flow of \$1,190,502 and a net present value savings from cash flow of \$106,535. The new debt will not have a stipulation keeping the City and the Utility Board from merging into one entity, thus allowing the City Council to have control over both entities and the ability to dissolve the Utility Board as it now stands. The final consolidation is in process and has not been finalized with its finalization subject to future council action.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,327,286	\$ 1,327,286	\$ 1,375,925	\$ 48,639
<i>Licenses and permits</i>	7,400	7,400	78,000	70,600
<i>Charges for services</i>	874,220	874,220	937,018	62,796
<i>Fines & forfeitures</i>	400,500	400,500	297,900	(102,600)
<i>Interest</i>	5,000	5,000	6,003	1,003
<i>Miscellaneous</i>	97,835	97,835	53,507	(44,328)
Total revenues	<u>2,712,241</u>	<u>2,712,241</u>	<u>2,748,351</u>	<u>36,110</u>
Expenditures:				
<i>General government</i>	382,480	378,320	340,654	37,666
<i>Sanitation</i>	525,000	525,000	547,219	(22,219)
<i>Municipal Court</i>	345,015	345,015	232,330	112,685
<i>Public Safety</i>	919,772	926,062	821,836	104,126
<i>Streets</i>	243,264	243,264	223,277	19,987
<i>Health and welfare</i>	111,395	111,395	102,104	9,291
<i>Parks and recreation</i>	344,830	348,990	331,317	17,673
<i>Capital outlay</i>	--	--	31,145	(31,145)
Total expenditures	<u>2,871,756</u>	<u>2,878,046</u>	<u>2,629,882</u>	<u>248,064</u>
Excess (deficiency) of revenues (under) expenditures	(159,515)	(165,805)	118,369	284,174
Other financing sources (uses):				
<i>Insurance proceeds</i>	--	--	6,332	6,332
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>6,332</u>	<u>6,332</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(159,515)	(165,805)	124,701	290,506
Fund balances/equity, January 1	1,007,550	1,007,550	1,007,550	--
Fund balances/equity, December 31	<u>\$ 848,035</u>	<u>\$ 841,745</u>	<u>\$ 1,132,251</u>	<u>\$ 290,506</u>

CITY OF FALFURRIAS, TEXAS
HOTEL/MOTEL OCCUPANCY TAX FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 130,000	\$ 130,000	\$ 81,684	\$ (48,416)
<i>Interest</i>	1,000	1,000	2,237	1,237
<i>Miscellaneous</i>	--	--	14,127	14,127
Total revenues	<u>131,000</u>	<u>131,000</u>	<u>97,948</u>	<u>(33,052)</u>
Expenditures:				
<i>Tourism</i>	106,500	126,500	115,881	10,619
Total expenditures	<u>106,500</u>	<u>126,500</u>	<u>115,881</u>	<u>10,619</u>
Excess (deficiency) of revenues (under) expenditures	24,500	4,500	(17,933)	(22,433)
Fund balances/equity, January 1	466,997	466,997	466,997	--
Fund balances/equity, December 31	<u>\$ 491,497</u>	<u>\$ 471,497</u>	<u>\$ 449,064</u>	<u>\$ (22,433)</u>

CITY OF FALFURRIAS, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/10	\$ 574,453	\$ 732,205	\$ 157,752	78.5%	\$ 439,511	35.9%
12/31/11	651,645	790,621	138,976	82.4%	474,218	29.3%
12/31/12	697,314	838,510	141,196	83.2%	470,501	30.0%

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Special Revenue Funds	Capital Projects Fund Water System Improvements	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 162,451	\$ 215,653	\$ 378,104
<i>Receivables (net of allowances for uncollectibles):</i>			
<i>Due from other funds</i>	34,222	--	34,222
<i>Due from other governments</i>	46,542	--	46,542
Total Assets	\$ 243,215	\$ 215,653	\$ 458,868
LIABILITIES:			
<i>Accounts payable</i>	\$ 46,542	\$ --	\$ 46,542
<i>Due to other funds</i>	34,622	5	34,627
Total Liabilities	81,164	5	81,169
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for State and Federal Grants</i>	379	215,648	216,027
<i>Restricted for Donor Intent</i>	7,018	--	7,018
<i>Restricted for Law Enforcement</i>	119,527	--	119,527
<i>Restricted for Municipal Court Building Security</i>	31,700	--	31,700
<i>Restricted for Municipal Court Technology</i>	3,427	--	3,427
Total equity	162,051	215,648	377,699
Total Liabilities And Equity	\$ 243,215	\$ 215,653	\$ 458,868

CITY OF FALFURRIAS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds	Capital Projects Fund Water System Improvements	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Federal and state grants</i>	\$ 81,542	\$ --	\$ 81,542
<i>Charges for services</i>	--	37,000	37,000
<i>Fines & forfeitures</i>	125,900	--	125,900
<i>Interest</i>	253	--	253
<i>Miscellaneous</i>	1,075	--	1,075
Total revenues	<u>208,770</u>	<u>37,000</u>	<u>245,770</u>
Expenditures:			
<i>General government</i>	8,165	--	8,165
<i>Public Safety</i>	23,163	--	23,163
<i>Capital outlay</i>	81,542	30,343	111,885
Total expenditures	<u>112,870</u>	<u>30,343</u>	<u>143,213</u>
Excess (deficiency) of revenues (under) expenditures	95,900	6,657	102,557
Other financing sources (uses):			
<i>USDA cash advances</i>	--	111,000	111,000
Total other financing sources (uses)	<u>--</u>	<u>111,000</u>	<u>111,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	95,900	117,657	213,557
Fund balances/equity, January 1	66,151	97,991	164,142
Fund balances/equity, December 31	<u>\$ 162,051</u>	<u>\$ 215,648</u>	<u>\$ 377,699</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2012

	Gifts and Bequests	Seizure Fund	Law Enforcement Training Grant	Federal Forfeiture Fund
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 9,998	\$ 28,527	\$ 379	\$ 88
<i>Due from other funds</i>	--	3,300	--	--
<i>Due from other governments</i>	--	--	--	--
Total Assets	<u>\$ 9,998</u>	<u>\$ 31,827</u>	<u>\$ 379</u>	<u>\$ 88</u>
LIABILITIES:				
<i>Accounts payable</i>	\$ --	\$ --	\$ --	\$ --
<i>Due to other funds</i>	2,980	28,342	--	--
Total Liabilities	<u>2,980</u>	<u>28,342</u>	<u>--</u>	<u>--</u>
DEFERRED INFLOWS OF RESOURCES:				
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for State and Federal Grants</i>	--	--	379	--
<i>Restricted for Donor Intent</i>	7,018	--	--	--
<i>Restricted for Law Enforcement</i>	--	3,485	--	88
<i>Restricted for Municipal Court Building Security</i>	--	--	--	--
<i>Restricted for Municipal Court Technology</i>	--	--	--	--
Total equity	<u>7,018</u>	<u>3,485</u>	<u>379</u>	<u>88</u>
Total Liabilities And Equity	<u>\$ 9,998</u>	<u>\$ 31,827</u>	<u>\$ 379</u>	<u>\$ 88</u>

EXHIBIT C-3

<u>Police Impound Fund</u>	<u>Security Fund</u>	<u>Water & Sewer Replacement Grant #711189</u>	<u>Technology</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit C-1)</u>
\$ 88,612	\$ 31,700	\$ --	\$ 3,147	\$ 162,451
28,342	--	--	2,580	34,222
--	--	46,542	--	46,542
<u>116,954</u>	<u>31,700</u>	<u>46,542</u>	<u>5,727</u>	<u>243,215</u>
\$ --	\$ --	\$ 46,542	\$ --	\$ 46,542
1,000	--	--	2,300	34,622
<u>1,000</u>	<u>--</u>	<u>46,542</u>	<u>2,300</u>	<u>81,164</u>
--	--	--	--	379
--	--	--	--	7,018
115,954	--	--	--	119,527
--	31,700	--	--	31,700
--	--	--	3,427	3,427
<u>115,954</u>	<u>31,700</u>	<u>--</u>	<u>3,427</u>	<u>162,051</u>
<u>116,954</u>	<u>31,700</u>	<u>46,542</u>	<u>5,727</u>	<u>243,215</u>

CITY OF FALFURRIAS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Gifts and Bequests	Seizure Fund	Law Enforcement Training Grant	Federal Forfeiture Fund
Revenue:				
<i>Federal and state grants</i>	\$ --	\$ --	\$ --	\$ --
<i>Fines & forfeitures</i>	--	--	--	--
<i>Interest</i>	--	44	1	--
<i>Miscellaneous</i>	--	800	--	--
Total revenues	<u>--</u>	<u>844</u>	<u>1</u>	<u>--</u>
Expenditures:				
<i>General government</i>	--	--	--	--
<i>Public Safety</i>	--	9,442	--	--
<i>Capital outlay</i>	--	--	--	--
Total expenditures	<u>--</u>	<u>9,442</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of revenues (under) expenditures	--	(8,598)	1	--
Fund balances/equity, January 1	7,018	12,083	378	88
Fund balances/equity, December 31	<u>7,018</u>	<u>3,485</u>	<u>379</u>	<u>88</u>

EXHIBIT C-4

Police Impound Fund	Security Fund	Water & Sewer Replacement Grant #711189	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ 81,542	\$ --	\$ 81,542
120,172	2,438	--	3,290	125,900
122	77	--	9	253
275	--	--	--	1,075
<u>120,569</u>	<u>2,515</u>	<u>81,542</u>	<u>3,299</u>	<u>208,770</u>
--	--	--	8,165	8,165
13,721	--	--	--	23,163
--	--	81,542	--	81,542
<u>13,721</u>	<u>--</u>	<u>81,542</u>	<u>8,165</u>	<u>112,870</u>
106,848	2,515	--	(4,866)	95,900
9,106	29,185	--	8,293	66,151
<u>115,954</u>	<u>31,700</u>	<u>--</u>	<u>3,427</u>	<u>162,091</u>

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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

Mayor and City Council
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Members of the Board of Trustees:

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise City of Falfurrias, Texas's basic financial statements, and have issued our report thereon dated August 16, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item(s) 2012-4 to 2012-6, that we consider to be significant deficiencies.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Falfurrias, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 and questioned costs as item(s) 2012-1 to 2012-3.

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.

Respectfully submitted,



John Womack & Company, P.C.
Kingsville, Texas
August 16, 2013

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report Issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u> </u> Yes	<u> X </u> No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> None Reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

2. Federal Awards

A Single Audit was not required in the current year.

B. Financial Statement Findings

2012-1 State Compliance - Excess Expenditures over Appropriations (Budgeting)

Condition: The City's Budgetary Comparison Schedule - General Fund reflects several instances of excess expenditures over appropriations.

Criteria: The State requires that the City adopt a budget and amend it as necessary throughout the year.

Cause: The lack of oversight in the budgetary process.

Effect/Potential Effect: A lack of controls in the expenditure process, creating an increased risk of error or fraud.

Recommendation: We recommend that the City review its policies and procedures surrounding the budget process to ensure that necessary amendments are made on a timely basis, and a budget is adopted for all required funds.

2012-2 State Compliance - Public Funds Investment Act

Condition: The City did not comply with certain requirements of the Public Funds Investment Act. The City does not have a written system of internal controls over investments. In addition, the City does not have written documentation of the City Council's approval of the investment officer's and Auditor's annual review of the investment policy and any changes resulting from that review.

Criteria: The Public Funds Investment Act requires a written system of internal controls over investment, and annual review and approval of the investment policy by the City Council.

Cause: Lack of oversight over the Public Funds Investment Act requirements.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Effect/Potential Effect: Violation of the Public Funds Investment Act.

Recommendation: We recommend that the City develop a written system of internal controls over investments. In addition, we recommend that the City adopt a written Instrument which would document the City Council's approval of the Investment Officer's and Auditor's review of the Investment policy, as stated in the City's investment policy.

2012-3 State Compliance - Hotel/Motes Tax Expenditures

Condition: There was insufficient documentation to support certain expenditures of Hotel/Motel Tax funds.

Criteria: The State requires that Hotel/Motel Tax funds be spent for the promotion of tourism. Proper documentation must be maintained to support these expenditures.

Cause: This account was relatively new to the City and there was new personnel overseeing this area.

Effect: Lack of documentation could lead to disallowed expenditures, causing the General Fund to absorb excess costs.

Recommendation: We recommend that the City personnel review state laws regarding the expenditure of Hotel/Motel Tax funds and provide adequate documentation for each expenditures.

2012-4 Internal Control - Municipal Court Reconcillatfons

Condition: The City is not properly reconciling revenues from the Court Records to the General Ledger.

Criteria: For proper Internal control, Court Records should be reconciled to the General Ledger on a timely basis.

Cause: The way credit card payments are provled from the bank make the reconciliation process difficult.

Effect: Lack of a reconciliation process increases the possibility of error or fraud.

Recommendation: We recommend that the City Implement procedures that involve more accurate reconciliations between the General Ledger and Court Records.

2012-5 Internal Control - Deposits

Condition: The City is not performing sufficient segregation of duties. The same individual prepares deposits and reconciles the monthly bank statements.

Criteria: For stronger internal controls, the person who prepares and makes the deposits should not be the individual responsible for the bank reconciliations.

Cause: The City has a very small number of employees in the accounting office.

Effect: The effect of lack of segregation of duties is an increased susceptibility to error or fraud.

Recommendation: We recommend a better segregatoins of duties. However, if this is not possible due to the number of employees, we recommend that a supervisor verify the prepared deposits, initialing to indicate approval, with another employee responsible for making the deposit.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2012-6 Internal Control - Purchase Orders

Condition: There is currently no purchase order system in place in which department heads can indicate approval of purchases, or through which receipt of goods can be documented.

Criteria: A formal purchase order system is required for proper encumbrance accounting and documentation of approval and receiving, to strengthen internal controls and accountability.

Cause: The City has not adopted a formal purchase order system and related policies.

Effect: The effect of no formal purchase order system is a weakness in internal control over purchases and related expenditures, and an increased susceptibility to error or fraud.

Recommendation: We recommend that the City establish a formal purchase order system in order to better document approval of purchases and receipt of goods.

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>2011-1 State Compliance - Excess Expenditures Over Appropriations (Budget)</p> <p>Condition: The City's Budgetary Comparison Schedule - General Fund reflects several instances of excess expenditures over appropriations.</p> <p>Criteria: The State requires that the City adopt a budget and amend it as necessary throughout the year.</p> <p>Cause: The lack of oversight in the budgetary process.</p> <p>Effect/Potential Effect: A lack of controls in the expenditure process, creating an increased risk of error or fraud.</p> <p>Recommendation: We recommend that the City review its policies and procedures surrounding the budget process to ensure that necessary amendments are made on a timely basis, and a budget is adopted for all required funds.</p>	<p>Not Implemented</p>	<p>Management is continuing to work toward improvement of its budgeting process.</p>
<p>2011-2 State Compliance - Public Fund Investment Act</p> <p>Condition: The City did not comply with certain requirements of the Public Funds Investment Act. The City does not have a written system of internal controls over investments. In addition, the City does not have written documentation of the City Council's approval of the Investment Officer's and Auditor's annual review of the Investment policy and any changes resulting from that review.</p> <p>Criteria: The Public Funds Investment Act requires a written system of internal controls over investment, and annual review and approval of the investment policy by the City Council.</p> <p>Cause: Lack of oversight over the Public Funds Investment Act requirements.</p> <p>Effect/Potential Effect: Violation of the Public Funds investment Act.</p>	<p>Not Implemented</p>	<p>Management is still in the process of developing a written system of internal controls over investments and documentation of City Council's approval of annual reviews.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Recommendation: We recommend that the City develop a written system of internal controls over investments. In addition, we recommend that the City adopt a written instrument which would document the City Council's approval of the Investment Officer's and Auditor's review of the Investment policy, as stated in the City's investment policy.		

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2012

2012-1 State Compliance - Excess Expenditures over Appropriations (Budgeting)

The City will review policies and procedures regarding budgeting and expenditures, and take steps necessary to ensure compliance with state laws. Noel Bernal, City Administrator, will coordinate these efforts.

2012-2 State Compliance - Public Funds Investment Act

The City will implement policies and procedures necessary to ensure full compliance with the Public Funds Investment Act, and with the City's Investment Policy. Noel Bernal, City Administrator, will coordinate these efforts.

2012-3 State Compliance - Hotel/Motel Tax Expenditures

The City will provide supporting documentation on certain Hotel/Motel Tax expenditures. Noel Bernal, City Administrator, will coordinate these efforts.

2012-4 Internal Control - Municipal Court Reconciliations

The City will implement procedures for reconciliations between the General Ledger and Court Records. Noel Bernal, City Administrator, will coordinate these efforts.

2012-5 Internal Control - Deposits

The City will work on implementing a system to improve approval process for deposits. Noel Bernal, City Administrator, will coordinate these efforts.

2012-6 Internal Control - Purchase Orders

A formal purchase order system will be implemented. Noel Bernal, City Administrator, will coordinate these efforts.