

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

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

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Section

City of Falfurrias, Texas

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

JOHN L. WOMACK, CPA

JOHN R. WOMACK, CPA
MARGARET KELLY, CPA

P. O. BOX 1147
KINGSVILLE, TEXAS 78364
(361) 592-2671
FAX (361) 592-1411

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 ("the City") as of and for the year ended December 31, 2013, 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 City'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 City'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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 required parts 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 October 25, 2014 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
October 25, 2014

City of Falfurrias, Texas
Annual Financial Report
For The Year Ended December 31, 2013

TABLE OF CONTENTS

	Page	Exhibit
FINANCIAL SECTION		
Independent Auditor's Report.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	14	A-1
Statement of Activities.....	15	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	17	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	19	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	20	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	22	A-6
Notes to the Financial Statements	23	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	37	B-1
Hotel/Motel Occupancy Tax Fund.....	38	B-2
Schedule of Funding Progress - Other Post Employment Benefits.....	39	
<u>Combining Statements as Supplementary Information:</u>		
Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	40	C-1
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	43	C-2
OTHER SUPPLEMENTARY INFORMATION SECTION		
Report on Internal Control over Financial Reporting and on Compliance and		
Other Matters Based on an Audit of Financial Statements Performed		
in Accordance with <i>Government Auditing Standards</i>	46	
Schedule of Findings and Questioned Costs	48	
Summary Schedule of Prior Audit Findings.....	51	
Corrective Action Plan.....	55	

City of Falfurrias, Texas

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, 2013. 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 \$4,002,458.
- The fund balance of the General Fund increased over the fiscal year by \$322,698 to \$1,454,949. This represents a 28.5% increase over the prior year's fund balance, or 10.9% of general fund expenditures.
- Total assets, excluding component units, were \$7,508,811; total liabilities, excluding component units, were \$3,290,146.
- The ratio of total assets to total liabilities for governmental activities was 2.3 to 1.
- The quick ratio (current assets to current liabilities) was 6.6 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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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

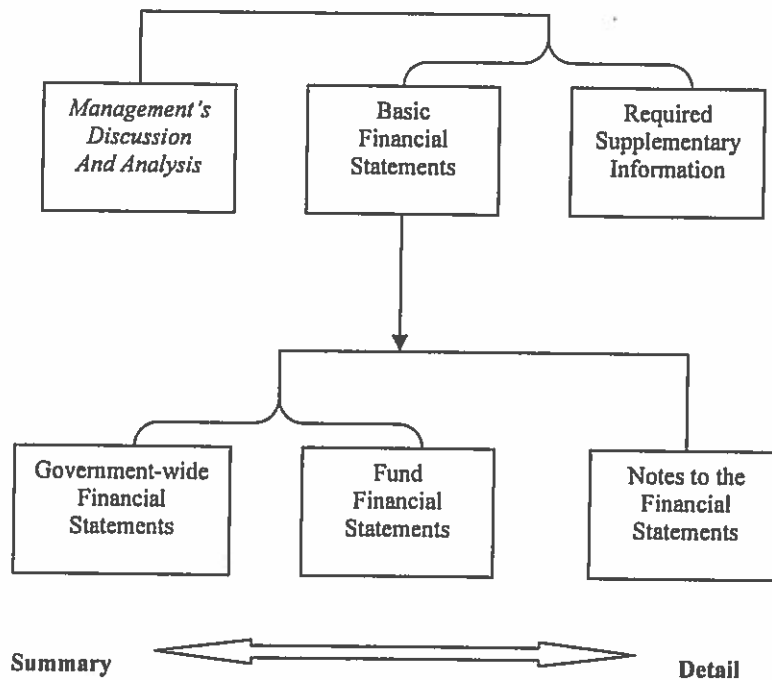


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

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, 2013, the net position, excluding the City's component unit, totaled \$4,002,458, which is a \$487,239 improvement over the prior year.

A large portion of the City's net position, 37.7%, 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 \$309,774. Cash and cash equivalents, increased approximately \$271,685, or 13.7%, while Homeland Security #2 and Due from Other Governmental Funds saw a combined increase of approximately \$157,417.

This part of the page was left blank intentionally

**Table A-1: Statement of Net Position for Governmental Activities
December 31, 2013 and 2012**

	Governmental Activities		
	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Current & Other Assets	\$ 3,065,211	\$ 2,717,770	12.8%
Capital Assets	<u>4,443,600</u>	<u>4,133,826</u>	7.5%
Total Assets	<u><u>7,508,811</u></u>	<u><u>6,851,596</u></u>	9.6%
Current Liabilities	580,146	290,080	100.0%
Long-Term Liabilities	<u>2,710,000</u>	<u>2,912,000</u>	-6.9%
Total Liabilities	<u><u>3,290,146</u></u>	<u><u>3,202,080</u></u>	2.8%
Unearned Revenue	<u>216,207</u>	<u>134,297</u>	61.0%
Total Deferred Inflows of Resources	<u><u>216,207</u></u>	<u><u>134,297</u></u>	61.0%
Net Investment in Capital Assets	1,508,600	1,221,826	23.5%
Restricted	1,146,361	900,747	27.3%
Unrestricted	<u>1,347,497</u>	<u>1,392,646</u>	-3.2%
Total Net Position	\$ <u><u>4,002,458</u></u>	\$ <u><u>3,515,219</u></u>	13.9%

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 Position

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, 2013 and 2012**

		Governmental Activities		
Revenue		<u>2013</u>	<u>2012</u>	<u>% Change</u>
Program Revenues				
Charges for Services	\$	1,969,804	\$ 1,438,816	36.9%
Operating Grants and Contributions		270,821	209,432	29.3%
General revenues:				
Property Taxes		315,577	385,857	-18.2%
Sales Taxes		809,149	796,414	1.6%
Other Taxes		297,640	282,490	5.4%
Investment Earnings		4,075	8,522	-52.2%
Miscellaneous		<u>70,284</u>	<u>75,041</u>	-6.3%
	Total Revenues	<u>3,737,350</u>	<u>3,196,572</u>	16.9%
Expenses				
General Government		473,819	362,418	30.7%
Public Safety		1,039,599	887,182	17.2%
Public Works		900,038	782,938	15.0%
Health & Other public services		438,530	411,497	6.6%
Tourism		95,431	121,008	-21.1%
Municipal Court		<u>302,694</u>	<u>240,436</u>	25.9%
	Total expenses	<u>3,250,111</u>	<u>2,805,479</u>	15.8%
Increase (Decrease) in Net Position		487,239	391,093	24.6%
Net Position, Beginning		<u>3,515,219</u>	<u>3,124,126</u>	12.5%
Net Position, Ending	\$	<u><u>4,002,458</u></u>	\$ <u><u>3,515,219</u></u>	13.9%

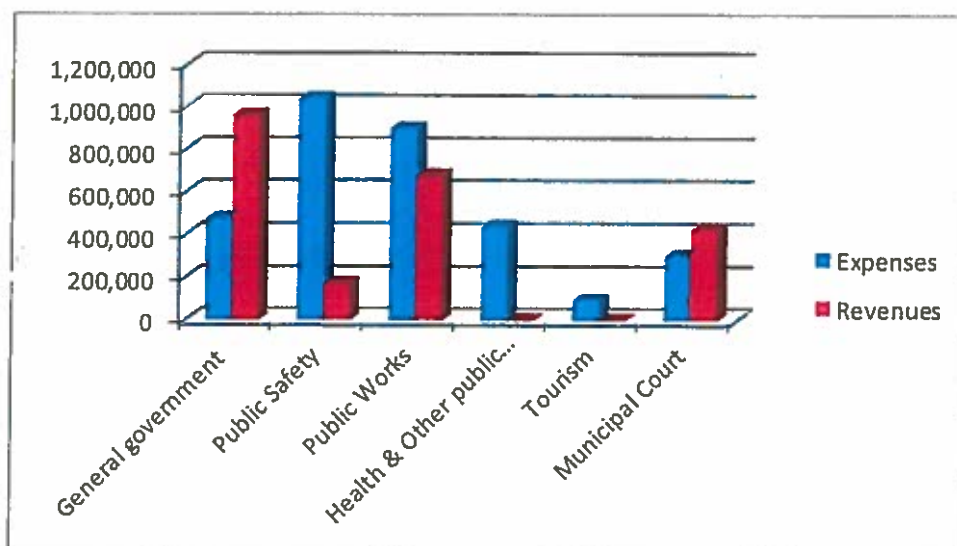
Governmental Activities

As shown in Table A-2, revenues for governmental activities of \$3,737,350 were more than expenses of \$3,250,111 for 2013 by \$487,239; furthermore, this increase in net position for the year ended in 2013 represents a 24.6% increase from the increase in net position in 2012.

- The cost of all *governmental* activities for 2013 was \$3,250,111.
 - The amount that taxpayers paid for these services through City taxes and business fees was \$1,426,441 or 38.2% of total revenues.
- Some of the cost was paid by:
- Those who directly benefited from the programs, totaling \$1,969,804 or 52.7% of total revenues.
 - All taxes contributed 39.9% of governmental activities' revenues. Investment earnings generated .11% of governmental activities' revenues.
 - Public Safety (including Police and Impounding) expenses accounted for 32.0% of governmental activities, while 27.7% 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.

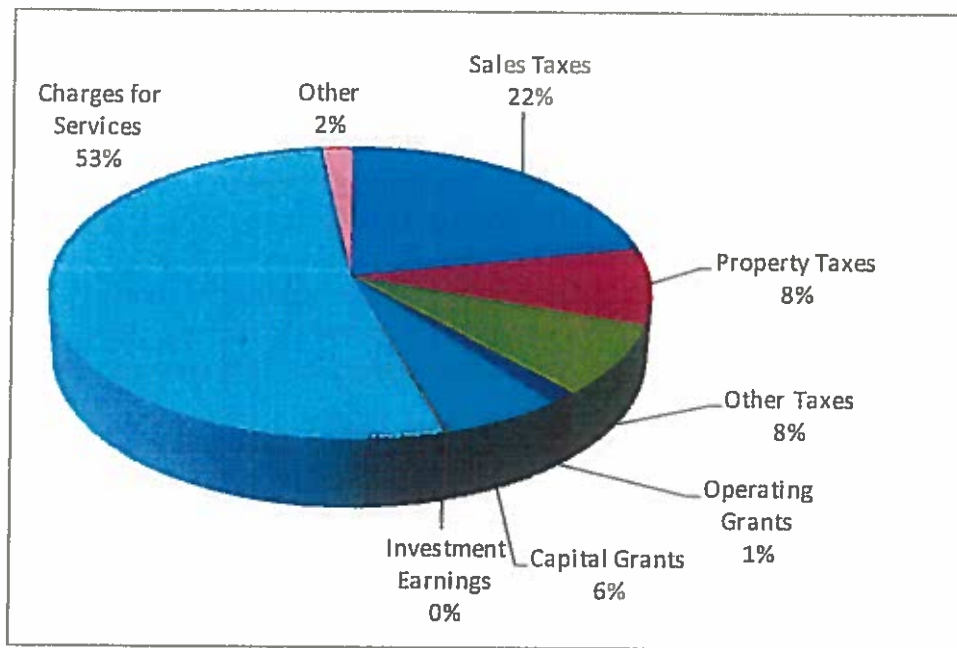
Graph 1: Program Revenues to Activity Expenditures



This part of the page was left blank intentionally.

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 \$1,861,687 to \$2,296,948 between 2012 and 2013, or 23.4%, primarily due to a \$176,336 increase in due from other funds and a \$311,339 increase in cash and cash equivalents from 2012.

Total liabilities of the General Fund increased by \$111,349 or 29.9%, from \$111,349. The \$469,861 of unearned revenue, which was reflected as Deferred Inflows of Resources, was up \$1,214, or .26%, over prior year of \$468,647, which was a direct result of taxes receivable going down by \$98,318.

The General Fund's unreserved and undesignated fund balance increased from \$1,132,221 to \$1,454,919 for an increase of 28.5% over fiscal year 2012 due to operations.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

The total assets decreased in 2012 by \$3,196 or .71% due to \$2,936 more in revenues over expenditures. Total liabilities were basically unchanged while total equity decreased.65% due to revenues exceeding expenditures by \$2,936.

Budgetary Results

General Fund

Overall, General Fund revenues were more than the final budget by \$461,727. General Fund taxes revenue were \$1,408,663 which was \$63,183 above the final budget. Fines and forfeitures accounted for a net increase of \$73,956 from the 2013 budget. Charges for services revenue were higher than the final budget by \$390,935. The main contributing revenue that came in over the budget was Garbage at \$54,022 and Amusement Fees at \$343,059 due to fee increase and increased participation. Licenses and permits revenue were under budgeted expected revenue by \$39,292.

General Fund expenditures were \$60,465 above the final budget. The General Government went over by \$35,736 or 9.99% due to an overage of \$34,817 in contracted Professional Services - Other. The Sanitation Department went over by \$46,950 or 8.94% as contracted services went up for this service as more revenue was generated. Public Safety Department went over by \$19,196 or 2.07% and the Street Department went over by \$35,651 or 12.66%. The overage in the Street Department was due to \$79,895 more being spent in excess of budget on Maintenance and Repair Supplies and \$23,288 less than budgeted being spent in Maintenance and Repair Equipment. Municipal Court expenditures were \$53,240 or 15.33% under the budgeted expenditures amount or .88% of the total \$60,465 unfavorable expenditure variance. Municipal Court Cost to be paid to the State of Texas was \$66,403 less than budgeted.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

HMOT Fund taxes were less than the final budget by \$15,604 due to major road construction that spanned several years resulting in less hotel/motel stays. Expenditures were \$18,835 under the final budget. HMOT revenue was \$2,936 over expenditures due to specific projects that were completed.

Non-major Governmental Funds

Two different fund types comprise this portion of the financial statements, including nine special revenue funds and one capital projects fund. Total assets for the combined funds were \$339,264; total liabilities were \$102,829 and the total fund balance was \$236,435 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, 2013 and 2012
Governmental Activities

	2013	2012	%
			Change
Land	\$ 12,200	\$ 12,200	0.0%
Construction in Progress	3,555,518	3,217,014	10.5%
Buildings and Improvements	901,906	901,906	0.0%
Infrastructure	93,615	93,615	0.0%
Equipment	502,751	445,138	12.9%
Vehicles	641,836	606,201	5.9%
Total Capital Assets	5,707,826	5,276,074	8.2%
Accumulated Depreciation	(1,264,224)	(1,142,248)	10.7%
Capital Assets - Net	\$ 4,443,602	\$ 4,133,826	7.5%

As shown in Table A-3, at December 31, 2013, the City had an increase in construction in progress of \$338,504. The Building and Improvement portion had no increase during 2013. Total Capital Assets had a net increase, before depreciation, of \$431,752 from 2012 to 2013.

Long-term Debt

On December 16, 2013, the City refunded \$2,873,000 in USDA Cash Advance revenue bonds by issuing \$2,935,000 in Limited Tax Refunding Bonds Series 2013 with a fixed interest of 3.6%. The net proceeds of \$2,873,000 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result the liability for that debt has been removed from the City's financial statements. The City refunded the Cash Advances to gain a net present value savings of \$119,747 and a gross savings to the City of \$1,732,195. See Note F on page 31 for more information.

Table A-4: Long-Term Liabilities at December 31, 2013 and 2012

	Governmental Activities		%
	2013	2012	Change
Limited Tax Refunding Bonds	\$ 2,935,000	\$ -	100.0%
USDA Cash Advances	-	2,912,000	-100.0%
Total Long-Term Debt	\$ 2,935,000	\$ 2,912,000	0.8%

CALENDAR YEAR 2014 ADOPTED OPERATING BUDGET

The adopted budget for 2014 sets general fund revenues from all sources (including inter-fund transfers) at \$3,130,111. This budget is \$299,296 or 9.56% more than the prior year's final budget. The greatest cause of this increase in revenues from 2013 to 2014 is due to an increase in fines and fees, of which the amusement machine fees have increased from \$225,000 to \$529,823.

Property taxes revenue was budgeted to decrease \$21,027 or 6.16% compared to the prior year's actual property taxes. With a slight increase in assessed valuation for the 2014 tax year compared to 2013, and coupled with a stable property tax rate, the total 2014 revenue forecast was conservatively cast by management. City sales tax, which comprises 20.3% of general fund revenues, was also conservatively forecast at \$635,000, which is 15.3% less than the 2013 actual sales revenue of \$809,149. The franchise fee categories are budgeted at \$203,000, the same as the 2013 year.

General fund expenditures, including transfers for the 2014 budget, were set at \$3,130,111 which is \$237,482 or 7.6% more than the prior year budget. Increases in the budgeted expenditures for police, street and public works departments comprise the majority of the increase in total expenditures from the prior budget. If the budgeted revenues and expenses are achieved, the fund balance will be unchanged with the budgeted \$3,130,111 revenue equal to the budgeted \$3,130,111.

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)

Basic Financial Statements

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	Primary Government Governmental Activities	Component Unit
ASSETS:		
<i>Cash and cash equivalents</i>	\$ 2,259,571	1,596,057
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	236,032	--
<i>Accounts</i>	119,993	748,830
<i>Other</i>	211,285	--
<i>Accrued Interest Receivable</i>	1,043	--
<i>Internal Balances</i>	--	--
<i>Due from other governments</i>	237,287	162,347
<i>Inventories</i>	--	170,617
Restricted assets:		
<i>Cash and cash equivalents</i>	--	1,282,790
<i>Capital assets</i>	4,443,600	9,792,456
Total Assets	7,568,311	13,753,097
LIABILITIES:		
<i>Accounts payable</i>	231,047	311,171
<i>Accrued expenses</i>	4,229	--
<i>Due to other governments</i>	5,991	--
<i>Other current liabilities</i>	--	200,020
<i>Meter deposits</i>	113,879	180,137
Liabilities due within one year:		
<i>Current portion of bonds payable</i>	225,000	--
Liabilities due in more than one year:		
<i>General obligation bonds payable</i>	2,710,000	--
Total Liabilities	3,290,146	691,328
DEFERRED INFLOWS OF RESOURCES:		
<i>Unearned revenue</i>	216,207	--
Total Deferred Inflows of Resources	216,207	--
NET POSITION		
Net Investment in Capital Assets	1,508,600	9,792,456
Restricted For:		
Federal and State Programs	459,804	--
Capital Projects	30	--
Law Enforcement	188,111	--
Tourism	452,000	--
Municipal Court Building Security	35,044	--
Municipal Court Technology	4,354	--
Other Purposes	7,018	--
Unrestricted	1,347,497	3,269,313
Total Net Position	4,002,458	13,061,769

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
<i>General government</i>	\$ 473,819	\$ 745,594	\$ --	\$ 215,258
<i>Sanitation</i>	593,379	679,022	--	--
<i>Municipal Court</i>	302,694	428,021	--	--
<i>Public Safety</i>	1,039,599	117,167	55,563	--
<i>Streets</i>	306,659	--	--	--
<i>Health and welfare</i>	114,969	--	--	--
<i>Parks and recreation</i>	323,561	--	--	--
<i>Tourism</i>	95,431	--	--	--
Total governmental activities	<u>3,250,111</u>	<u>1,969,804</u>	<u>55,563</u>	<u>215,258</u>
Total Primary Government	<u>\$ 3,250,111</u>	<u>\$ 1,969,804</u>	<u>\$ 55,563</u>	<u>\$ 215,258</u>
COMPONENT UNIT:				
Enterprise	<u>\$ 2,545,081</u>	<u>\$ 2,960,152</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

Prior Period Adjustment

Net Position - Ending

The accompanying notes are an integral part of this statement.

EXHIBIT A-2

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	Component Unit
\$ 487,033	
85,643	
125,327	
(866,869)	
(306,659)	
(114,969)	
(323,561)	
(95,431)	
<u>(1,009,486)</u>	
<u>(1,009,486)</u>	
	\$ <u>415,071</u>
315,577	--
809,149	--
203,004	--
94,396	--
240	--
70,284	--
4,075	4,458
--	--
<u>1,496,725</u>	<u>4,458</u>
487,033	419,529
3,515,219	12,467,526
--	174,714
<u>\$ 4,002,458</u>	<u>\$ 13,061,769</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	<u>General Fund</u>	<u>Hotel/Motel Occupancy Tax Fund</u>
ASSETS:		
<i>Cash and cash equivalents</i>	\$ 1,445,930	\$ 407,985
<i>Receivables (net of allowances for uncollectibles):</i>		
<i>Taxes</i>	236,032	--
<i>Accounts</i>	119,993	--
<i>Other</i>	184,089	22,779
<i>Accrued Interest Receivable</i>	197	847
<i>Due from other funds</i>	288,917	21,292
<i>Due from other governments</i>	21,790	--
Total Assets	\$ 2,296,948	\$ 452,903
LIABILITIES:		
<i>Accounts payable</i>	\$ 230,145	\$ 903
<i>Accrued expenses</i>	4,229	--
<i>Due to other funds</i>	23,872	--
<i>Due to other governments</i>	17	--
<i>Meter deposits</i>	113,875	--
Total Liabilities	\$ 372,138	\$ 903
DEFERRED INFLOWS OF RESOURCES:		
<i>Unearned revenue</i>	469,861	--
Total Deferred Inflows of Resources	469,861	--
FUND BALANCES:		
<i>Restricted:</i>		
<i>Restricted for Tourism</i>	--	452,000
<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>	1,454,919	--
Total equity	1,454,949	452,000
Total Liabilities And Equity	\$ 2,296,948	\$ 452,903

The accompanying notes are an integral part of this statement.

EXHIBIT A-3

<u>Water System Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 92,407	\$ 313,249	\$ 2,259,571
--	--	236,032
--	--	119,993
4,417	--	211,285
--	--	1,044
--	10,538	320,747
200,020	15,477	237,287
<u>296,844</u>	<u>339,264</u>	<u>3,385,959</u>
\$ --	\$ --	\$ 231,048
--	--	4,229
200,025	96,851	320,748
--	5,974	5,991
--	4	113,879
<u>200,025</u>	<u>102,829</u>	<u>675,895</u>
--	--	469,861
--	--	469,861
--	--	452,000
96,819	1,908	98,727
--	7,018	7,018
--	188,111	188,111
--	35,044	35,044
--	4,354	4,354
--	--	30
--	--	1,454,919
<u>96,819</u>	<u>236,435</u>	<u>2,240,203</u>
<u>296,844</u>	<u>339,264</u>	<u>3,385,959</u>

CITY OF FALFURRIAS, TEXAS
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013*

Total fund balances - governmental funds balance sheet	\$ 2,240,203
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.	4,443,600
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	253,654
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,935,000)
Rounding difference	<u>1</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 4,002,458</u>

The accompanying notes are an integral part of this statement.

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	General Fund	Hotel/Motel Occupancy Tax Fund
Revenue:		
<i>Taxes</i>	\$ 1,408,663	\$ 94,396
<i>Licenses and permits</i>	25,908	--
<i>Federal and state grants</i>	--	--
<i>Charges for services</i>	1,359,030	--
<i>Fines & forfeitures</i>	424,456	--
<i>Interest</i>	3,523	205
<i>Miscellaneous</i>	70,962	--
Total revenues	3,292,542	94,601
Expenditures:		
<i>General government</i>	393,476	--
<i>Sanitation</i>	571,950	--
<i>Municipal Court</i>	294,055	--
<i>Public Safety</i>	944,691	--
<i>Streets</i>	317,275	--
<i>Health and welfare</i>	110,483	--
<i>Parks and recreation</i>	337,914	--
<i>Tourism</i>	--	91,665
<i>Capital outlay</i>	--	--
Total expenditures	2,969,844	91,665
Excess (deficiency) of revenues (under) expenditures	322,698	2,936
Other financing sources (uses):		
<i>Proceeds from bonds</i>	--	--
<i>Payment to refunded bond escrow agent</i>	--	--
Total other financing sources (uses)	--	--
Excess of revenues and other financing sources over (under) expenditures and other financing uses	322,698	2,936
Fund balances/equity, January 1	1,132,251	449,064
Fund balances/equity, December 31	1,454,949	452,000

The accompanying notes are an integral part of this statement.

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, 2013

Net change in fund balances - total governmental funds	\$ 281,158
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	431,752
The depreciation of capital assets used in governmental activities is not reported in the funds.	(121,978)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(80,694)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	39,000
Payment for refinance of USDA Cash Advances is an expenditure in the funds but is not an expense in the SC	2,873,000
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(2,935,000)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 487,239</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, 2013

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. 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, 2013

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.

Water System Improvements. This fund is used to account for USDA cash advances and related expenditures for improvements to the water system.

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, 2013

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 2012 tax rate was \$.50000 on assessed value of \$79,178,407 and was distributed to the General Fund. The 2013 tax rate is \$.50000 on an assessed value of \$78,606,214 with collections of \$216,207 which is deferred to 2014.

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, 2013

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 2013.

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. **Deferred Outflows and Inflows of Resources**

In addition to liabilities, the statements of financial position and balance sheet - governmental funds will sometimes report a separate section for deferred inflows or deferred outflows of resources. The separate financial statement element reflected in these financial statements, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as inflow of resources (revenue) until that time.

f. **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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

g. 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.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. 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. Commitments are typically done through adoption and amendment of 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.

h. 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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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:

Fund Name	Deficit Amount	Remarks
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.

1. Cash Deposits

At December 31, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,259,571 and the bank balance was \$2,284,478. The City's cash deposits at December 31, 2013 and during the year ended December 31, 2013, 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 \$2,878,849 and a bank balance of \$2,977,791 at December 31, 2013, 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

- 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, 2013.

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, 2013

D. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,200	\$ --	\$ --	\$ 12,200
Construction in progress	3,217,014	338,504	--	3,555,518
Total capital assets not being depreciated	<u>3,229,214</u>	<u>338,504</u>	<u>--</u>	<u>3,567,718</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	901,906	--	--	901,906
Infrastructure	93,615	--	--	93,615
Equipment	445,138	57,613	--	502,751
Vehicles	606,201	35,635	--	641,836
Total capital assets being depreciated	<u>2,046,860</u>	<u>93,248</u>	<u>--</u>	<u>2,140,108</u>
Less accumulated depreciation for:				
Buildings and improvements	(359,732)	(29,221)	--	(388,953)
Infrastructure	(39,788)	(4,681)	--	(44,469)
Equipment	(245,692)	(45,757)	--	(291,449)
Vehicles	(497,034)	(42,319)	--	(539,353)
Total accumulated depreciation	<u>(1,142,246)</u>	<u>(121,978)</u>	<u>--</u>	<u>(1,264,224)</u>
Total capital assets being depreciated, net	<u>904,614</u>	<u>(28,730)</u>	<u>--</u>	<u>875,884</u>
Governmental activities capital assets, net	<u>\$ 4,133,828</u>	<u>\$ 309,774</u>	<u>\$ --</u>	<u>\$ 4,443,602</u>

Depreciation was charged to functions as follows:

General Government	\$ 19,281
Sanitation	21,429
Municipal Court	8,639
Public Safety	41,671
Streets	9,384
Health & Welfare	4,486
Parks & Recreation	13,322
Tourism	3,766
	<u>\$ 121,978</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2013, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 288,917	Short-term loans
Other Governmental Funds	Other Governmental Funds	10,538	Short-term loans
Hotel Motel Fund	General Fund	21,292	Short-term loans
	Total	<u>\$ 320,747</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, 2013

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, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Limited Tax Refunding Bonds \$	--	\$ 2,935,000	\$ --	\$ 2,935,000	225,000
USDA cash advances	2,912,000	--	2,912,000	--	--
Total governmental activities	<u>\$ 2,923,403</u>	<u>\$ 2,935,000</u>	<u>\$ 2,923,403</u>	<u>\$ 2,935,000</u>	<u>\$ 225,000</u>
				2013	2012
Limited Tax Refunding Bonds, Series 2013, payable in annual installments of \$304,597 to \$244,320 including interest at 3.6%, secured by ad valorem taxes and maturing April 1, 2028				<u>\$ 2,935,000</u>	<u>\$ --</u>

The City was the recipient of \$3,052,000 in revenue bonds from the USDA for utility improvements. During the construction phase, draws were being accounted for as "USDA Cash Advances". At the completion of the project, the advances were to be converted to revenue bonds 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 were to 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.

On December 16, 2013, the City refunded the \$2,873,000 USDA Cash Advances by issuing \$2,935,000 in Limited Tax Refunding Bonds Series 2013 with a fixed interest rate of 3.6%. The net proceeds of \$2,873,043 was deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the USDA Advances. As a result the liability for that debt has been removed from the City's financial statements. The City refunded the Cash Advances to gain a net present value savings of \$119,747 and a gross savings to the City of \$1,732,195.

It is the City's intent to move this debt (Series 2013) to the Utility Board of the City and the related assets completed by the City with the USDA Cash Advances. The Utility Board has always paid off all debt service related to this debt from its inception and will continue to pay it from its waterworks and sewer system revenue.

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 2013, 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

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:

	2011	2012	2013
<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	0%	0%	0%
annually repeating (Y/N)	N	N	N
Annuity increase to retirees	0%	0%	0%
annually repeating (Y/N)	N	N	N

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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:

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

Fiscal Year Ending:	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
12/31/11	\$ 37,104	\$ 37,104	100.0%	\$ --
12/31/12	\$ 17,031	\$ 17,031	100.0%	\$ --
12/31/13	\$ 16,893	\$ 16,893	100.0%	\$ --

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date:	12/31/11	12/31/12	12/31/13
<u>Actuarial Information</u>			
Actuarial cost method	Projected Unit credit	Projected Unit credit	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization period	24.8 years - closed period	24.7 years - closed period	9.0 years - closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset valuation method	10 year Smoothed Market	10 year Smoothed Market	10 year Smoothed Market
<u>Assumptions</u>			
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%

In October 2013, the TMRS Board approved actuarial changes in (a) the finding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, 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
12/31/13	1,213,344	1,232,790	98.4%	19,446	1,045,625	1.9%

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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

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 2013	Plan Year 2012
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 2013, 2012, and 2011 were \$0, \$0, and \$0, 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
2011	0.04%	0.04%	100.0%
2012	0.04%	0.04%	100.0%
2013	0.04%	0.04%	100.0%

I. Health Care Coverage

During the year ended December 31, 2013, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$467 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

The contract between the City and the licensed insurer is renewable October 1, 2014, 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, 2013, 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.

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. Subsequent Events

The City of Falfurrias City Council voted on July 17, 2013 to refund the Utility Board's Bond Debt. The new debt does 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 was approved as of January 1, 2014.

On June 23, 2014, the City issued \$600,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014. The Bonds are payable over five years, and mature on March 1, 2019, with interest at 1.73%. The total annual payments range from \$124,385 to \$126,081 including interest.

The bond amortization is as follows:

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
9/30/2014	\$ -	\$ 6,286	\$ 6,286
9/30/2015	115,000	9,385	124,385
9/30/2016	120,000	7,353	127,353
9/30/2017	120,000	5,277	125,277
9/30/2018	120,000	3,200	123,200
9/30/2019	125,000	1,081	126,081
	<u>\$ 600,000</u>	<u>\$ 32,582</u>	<u>\$ 632,582</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

M. Accounts Receivable

Accounts receivable at December 31, 2013, consist of the following:

	Account Balance	Allowance for Uncollectibles	Net
Taxes	\$ 400,996	\$ (164,964)	236,032
Accounts	164,760	(44,767)	119,993
Other	211,284	--	211,284
	<u>\$ 777,040</u>	<u>\$ (209,731)</u>	<u>567,309</u>

The component unit had accounts receivable of \$870,518, less allowance for uncollectibles of \$125,429, for a net of \$745,089.

N. Deferred Revenue

Deferred revenue at year end consisted of the following:

Revenue Description	Fund	Deferred Amount
Property tax revenue	General	\$ 253,655
2013 Property taxes deferred to 2014	General	216,207
Total Deferred Revenue		<u>\$ 469,862</u>

O. Excess Expenditures Over Appropriations

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

Fund Type	Department	Amount
General Fund	General Government	\$ 35,736
General Fund	Sanitation	46,950
General Fund	Public Safety	19,196
General Fund	Streets	35,651

P. 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.

Q. Free Water Service

Franchise Fees:

The Utility Board is under contract to pay the City of Falfurrias, Texas, a 4.7% operational tax on its gross water and sewer revenues. For 2013 and 2012, this amount was \$150,794 and \$136,723, respectively. The 2013 and 2012 payments included the \$39,000 and \$37,000, 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 2013 and 2012, the City used 33,574,040 and 37,602,200 gallons, respectively, or \$117,612 and \$131,382 value of free service, respectively.

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,345,480	\$ 1,345,480	\$ 1,408,683	\$ 63,183
<i>Licenses and permits</i>	65,200	65,200	25,968	(39,292)
<i>Charges for services</i>	968,095	968,095	1,359,030	390,935
<i>Fines & forfeitures</i>	350,500	350,500	424,436	73,956
<i>Interest</i>	5,000	5,000	3,523	(1,477)
<i>Miscellaneous</i>	96,540	96,540	70,962	(25,578)
Total revenues	<u>2,830,815</u>	<u>2,830,815</u>	<u>3,292,542</u>	<u>461,727</u>
Expenditures:				
<i>General government</i>	357,740	357,740	395,476	(35,736)
<i>Sanitation</i>	525,000	525,000	571,950	(46,950)
<i>Municipal Court</i>	347,295	347,295	294,055	53,240
<i>Public Safety</i>	925,495	925,495	944,691	(19,196)
<i>Streets</i>	281,624	281,624	317,275	(35,651)
<i>Health and welfare</i>	116,285	116,285	110,483	5,802
<i>Parks and recreation</i>	355,940	355,940	337,314	18,026
Total expenditures	<u>2,909,379</u>	<u>2,909,379</u>	<u>2,969,844</u>	<u>(60,465)</u>
Excess (deficiency) of revenues (under) expenditures	(78,564)	(78,564)	322,698	401,262
Fund balances/equity, January 1	1,132,251	1,132,251	1,132,251	-
Fund balances/equity, December 31	<u>1,053,687</u>	<u>1,053,687</u>	<u>1,454,949</u>	<u>401,262</u>

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
HOTEL/MOTEL OCCUPANCY TAX FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2013

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 110,000	\$ 110,000	\$ 94,388	\$ (15,604)
<i>Interest</i>	500	500	265	(235)
Total revenues	<u>110,500</u>	<u>110,500</u>	<u>94,653</u>	<u>(15,847)</u>
Expenditures:				
<i>Tourism</i>	110,500	110,500	91,665	18,835
<i>Advance refunding escrow</i>				
Total expenditures	<u>110,500</u>	<u>110,500</u>	<u>91,665</u>	<u>18,835</u>
Excess (deficiency) of revenues (under) expenditures	--	--	2,988	2,988
Fund balances/equity, January 1	449,064	449,064	449,064	--
Fund balances/equity, December 31	<u>449,064</u>	<u>449,064</u>	<u>452,052</u>	<u>2,988</u>

CITY OF FALFURRIAS, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 YEAR ENDED DECEMBER 31, 2013

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)
12/31/11	\$ 1,038,939	\$ 1,031,664	\$ (7,275)	100.7%	\$ 888,449	-0.8%
12/31/12	1,109,469	1,087,775	(21,694)	102.0%	925,631	-2.3%
12/31/13	1,213,344	1,232,790	19,446	98.4%	1,045,685	1.9%

*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 SPECIAL REVENUE FUNDS
DECEMBER 31, 2013

	Gifts and Bequests	Seizure Fund	JAG Grant
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 9,998	\$ 4,719	\$ 1,499
<i>Receivables (net of allowances for uncollectibles):</i>			
<i>Due from other funds</i>	--	3,300	--
<i>Due from other governments</i>	--	--	--
Total Assets	\$ 9,998	\$ 8,019	\$ 1,499
LIABILITIES:			
<i>Due to other funds</i>	\$ 2,980	\$ 4,659	\$ --
<i>Due to other governments</i>	--	--	--
<i>Deposits</i>	--	--	--
Total Liabilities	2,980	4,659	--
DEFERRED INFLOWS OF RESOURCES:			
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for State and Federal Grants</i>	--	--	1,499
<i>Restricted for Donor Intent</i>	7,018	--	--
<i>Restricted for Law Enforcement</i>	--	3,360	--
<i>Restricted for Municipal Court Building Security</i>	--	--	--
<i>Restricted for Municipal Court Technology</i>	--	--	--
Total equity	7,018	3,360	1,499
Total Liabilities And Equity	\$ 9,998	\$ 8,019	\$ 1,499

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Homeland Security #2
\$ 380	\$ 88	\$ 181,004	\$ 35,044	\$ 76,442
--	--	4,659	--	--
<u>380</u>	<u>88</u>	<u>185,663</u>	<u>35,044</u>	<u>91,919</u>
\$ --	\$ --	\$ 1,000	\$ --	\$ 85,912
--	--	--	--	5,974
<u>--</u>	<u>--</u>	<u>1,000</u>	<u>--</u>	<u>4</u>
<u>--</u>	<u>--</u>	<u>1,000</u>	<u>--</u>	<u>91,890</u>
380	--	--	--	29
--	--	--	--	--
--	88	184,663	--	--
--	--	--	35,044	--
<u>380</u>	<u>88</u>	<u>184,663</u>	<u>35,044</u>	<u>29</u>
<u>380</u>	<u>88</u>	<u>185,663</u>	<u>35,044</u>	<u>91,919</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2013

	<u>Water & Sewer Replacement Grant #711189</u>	<u>Technology</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit A-3)</u>
ASSETS:			
<i>Cash and cash equivalents</i>	\$ --	\$ 4,075	\$ 313,249
<i>Receivables (net of allowances for uncollectibles):</i>			
<i>Due from other funds</i>	--	2,579	10,538
<i>Due from other governments</i>	--	-	15,477
Total Assets	<u>\$ --</u>	<u>\$ 6,654</u>	<u>\$ 339,264</u>
LIABILITIES:			
<i>Due to other funds</i>	\$ --	\$ 2,300	\$ 96,851
<i>Due to other governments</i>	-	-	5,974
<i>Deposits</i>	-	-	4
Total Liabilities	<u>--</u>	<u>2,300</u>	<u>102,829</u>
DEFERRED INFLOWS OF RESOURCES:			
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for State and Federal Grants</i>	--	--	1,908
<i>Restricted for Donor Intent</i>	-	-	7,018
<i>Restricted for Law Enforcement</i>	--	--	188,111
<i>Restricted for Municipal Court Building Security</i>	--	--	35,044
<i>Restricted for Municipal Court Technology</i>	--	4,354	4,354
Total equity	<u>--</u>	<u>4,354</u>	<u>236,435</u>
Total Liabilities And Equity	<u>\$ --</u>	<u>\$ 6,654</u>	<u>\$ 339,264</u>

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Gifts and Bequests	Seizure Fund	JAG Grant
Revenue:			
<i>Federal and state grants</i>	\$ --	\$ --	\$ 1,499
<i>Fines & forfeitures</i>	--	--	--
<i>Interest</i>	--	30	--
Total revenues	<u> --</u>	<u> 30</u>	<u> 1,499</u>
Expenditures:			
<i>General government</i>	--	--	--
<i>Public Safety</i>	--	155	--
<i>Capital outlay</i>	--	--	--
Total expenditures	<u> --</u>	<u> 155</u>	<u> --</u>
Excess (deficiency) of revenues (under) expenditures	--	(125)	1,499
Fund balances/equity, January 1	7,018	3,485	--
Fund balances/equity, December 31	<u>\$ 7,018</u>	<u>\$ 3,360</u>	<u>\$ 1,499</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Homeland Security #2
\$ --	\$ --	\$ --	\$ --	\$ 54,064
--	--	113,050	3,280	--
1	--	249	63	--
<u>1</u>	<u>--</u>	<u>113,299</u>	<u>3,343</u>	<u>54,064</u>
--	--	--	--	--
--	--	44,591	--	54,064
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>44,591</u>	<u>--</u>	<u>54,064</u>
1	--	68,708	3,343	--
379	88	115,955	31,701	29
<u>380</u>	<u>88</u>	<u>116,663</u>	<u>35,044</u>	<u>29</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, 2013

	Water & Sewer Replacement Grant #711189	Technology	Total Nonmajor Special Revenue Funds (See Exhibit A-5)
Revenue:			
<i>Federal and state grants</i>	\$ 215,258	\$ --	\$ 270,821
<i>Fines & forfeitures</i>	--	4,402	120,732
<i>Interest</i>	--	4	347
Total revenues	<u>215,258</u>	<u>4,406</u>	<u>391,900</u>
Expenditures:			
<i>General government</i>	--	3,479	3,479
<i>Public Safety</i>	--	--	98,810
<i>Capital outlay</i>	215,258	--	215,258
Total expenditures	<u>215,258</u>	<u>3,479</u>	<u>317,547</u>
Excess (deficiency) of revenues (under) expenditures	--	927	74,353
Fund balances/equity, January 1	--	3,427	162,082
Fund balances/equity, December 31	<u>\$ 4,354</u>	<u>\$ 4,354</u>	<u>\$ 236,435</u>

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.

City of Falfurrias, Texas

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

JOHN L. WOMACK, CPA

JOHN R. WOMACK, CPA
MARGARET KELLY, CPA

P. O. BOX 1147
KINGSVILLE, TEXAS 78364
(361) 592-2671
FAX (361) 592-1411

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 Mayor and City Council:

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, 2013, and the related notes to the financial statements, which collectively comprise City of Falfurrias, Texas' basic financial statements, and have issued our report thereon dated October 25, 2014.

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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-7 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-4 to 2013-6 to be significant deficiencies.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

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) 2013-1 to 2013-3.

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
October 25, 2014

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
One or more material weaknesses identified?	<u> X </u> Yes	<u> </u> No	
One or more significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </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

2013-1 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.

2013-2 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, 2013

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.

2013-3 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. In addition, we recommend that the City establish a system of internal controls over funds provided and goods purchased with the Hotel/Motel tax monies for City events.

2013-4 Internal Control - Municipal Court Reconciliations

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 provided 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.

2013-5 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.

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>2012-1 State Compliance - Excess Expenditures over Appropriations (Budgeting)</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>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to ensure compliance with budgeting requirements.</p>
<p>2012-2 State Compliance - Public Funds 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>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>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to ensure compliance with the Public Funds Investment Act.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>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.</p>		
<p>2012-3 State Compliance - Hotel/Motel Tax Expenditures</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to ensure that proper documentation is developed and maintained for all expenditure of Hotel/Motel tax funds.</p>
<p>Condition: There was insufficient documentation to support certain expenditures of Hotel/Motel Tax funds.</p>		
<p>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.</p>		
<p>Cause: This account was relatively new to the City and there was new personnel overseeing this area.</p>		
<p>Effect: Lack of documentation could lead to disallowed expenditures, causing the General Fund to absorb excess costs.</p>		
<p>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.</p>		
<p>2012-4 Internal Control - Municipal Court Reconciliations</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to ensure that court records are reconciled to the general ledger on a timely basis.</p>
<p>Condition: The City is not properly reconciling revenues from the Court Records to the General Ledger.</p>		
<p>Criteria: For proper internal control, Court Records should be reconciled to the General Ledger on a timely basis.</p>		
<p>Cause: The way credit card payments are provided from the bank make the reconciliation process difficult.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Effect: Lack of a reconciliation process increases the possibility of error or fraud.</p> <p>Recommendation: We recommend that the City implement procedures that involve more accurate reconciliations between the General Ledger and Court Records.</p>		
<p>2012-5 Internal Controls - Deposits</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to ensure that controls over cash are in place and functioning properly.</p>
<p>Condition: The City is not performing sufficient segregation of duties. The same individual prepares deposits and reconciles the monthly bank statements.</p>		
<p>Criteria: For stronger internal controls, the person who prepares and makes the deposits should not be the individual responsible for the bank reconciliations.</p>		
<p>Cause: The City has a very small number of employees in the accounting office.</p>		
<p>Effect: The effect of lack of segregation of duties is an increased susceptibility to error or fraud.</p>		
<p>Recommendation: We recommend a better segregation 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.</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing a purchase order system.</p>
<p>2012-6 Internal Control - Purchase Orders</p>		
<p>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.</p>		
<p>Criteria: A formal purchase order system is required for proper encumbrance accounting and documentation of approval and receiving, to strengthen internal controls and accountability.</p>		
<p>Cause: The City has not adopted a formal purchase order system and related policies.</p>		

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>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.</p> <p>Recommendation: We recommend that the City establish a formal purchase order system in order to better document approval of purchases and receipt of goods.</p>		

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2013

2013-1 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. Mark Rushing, CFO, will coordinate these efforts.

2013-2 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. Mark Rushing, CFO, will coordinate these efforts.

2013-3 State Compliance - Hotel/Motel Tax Expenditures

The City will provide supporting documentation on certain Hotel/Motel Tax expenditures. Mark Rushing, CFO, will coordinate these efforts.

2013-4 Internal Control - Municipal Court Reconciliations

The City will implement procedures for reconciliations between the General Ledger and Court Records. Mark Rushing, CFO, will coordinate these efforts.

2013-5 Internal Control - Deposits

The City will work on implementing a system to improve approval process for deposits. Mark Rushing, CFO, will coordinate these efforts.

2013-6 Internal Control - Purchase Orders

A formal purchase order system will be implemented. Mark Rushing, CFO, will coordinate these efforts.

2013-7 Internal Control - Asset and Liability Reconciliations

The City has begun and will further implement policies and procedures to ensure that asset and liability accounts are properly reconciled on a timely basis. Mark Rushing, CFO, will coordinate these efforts.