

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2008

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

CITY OF FALFURRIAS, TEXAS

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FOR THE YEAR ENDED DECEMBER 31, 2008

Introductory Section

City of Falfurrias, Texas
 Annual Financial Report
 For The Year Ended December 31, 2008

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Financial Section

JOHN WOMACK & CO., P.C.
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Independent Auditor's Report on Financial Statements

Board of Trustees
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Falfurrias, Texas's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Falfurrias, Texas's basic financial statements. The accompanying combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,


John Womack & Company, P.C.
July 7, 2009

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, 2008. 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 \$2,731,115.
- The fund balance of the General Fund increased from \$997,641 to \$1,278,025. This represents a 28% increase over the prior year's fund balance. The increase represents 13% of the expenditures.
- Total assets, excluding component units, were \$5,789,857; total liabilities, excluding component units, were \$3,058,742.
- The ratio of total assets to total liabilities for governmental activities was 1.89 times.
- The quick ratio (current assets to current liabilities) was 4.8 times for governmental activities.
- The City began a \$3,052,000 new bond project for the Utility Board (component unit.)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements are comprised of three components:

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

change occurs, regardless of the timing of related cash flows. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges .

- The *fund financial statements* focus on individual parts of the City, reporting the City's operations in greater detail than the government-wide statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.
 - The *governmental funds* 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 funds* 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

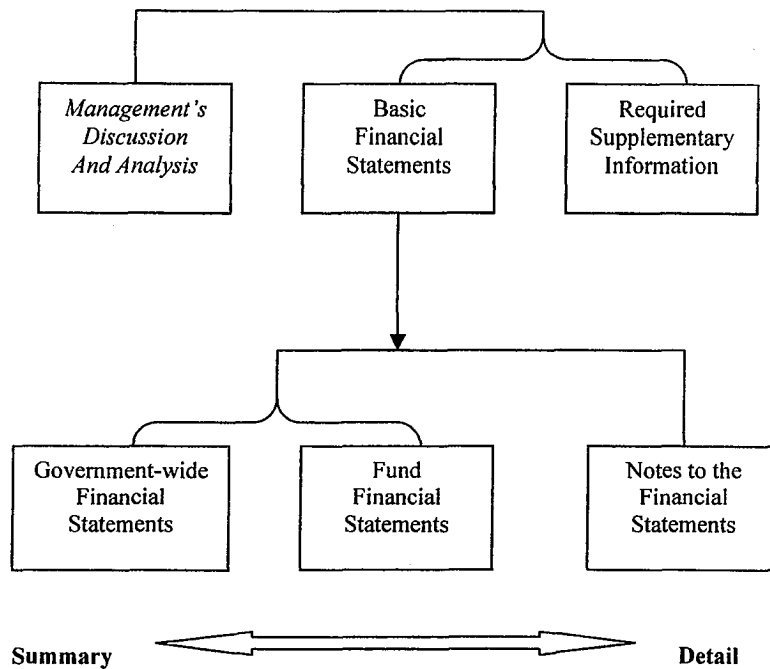


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

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 Assets

Net assets serve over time as a useful indicator of the City's financial position. At December 31, 2008, the net assets totaled \$2.73 million, which is \$273,000 more than the previous year.

A large portion of the City's net assets, 15%, 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 is 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 \$2,223,248 when the City began a water systems improvement capital project for the Utility Board (component unit). Cash and investments also increased \$383,693 or 63% due to surplus revenues over expenses for 2008.

**Table A-1: Net Assets for Governmental Activities
December 31, 2008 and 2007**

	<u>Governmental Activities</u>		
	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Current & other assets	\$ 2,937,818	\$ 2,247,831	31 %
Capital assets	2,852,039	682,387	318 %
Total assets	<u>5,789,857</u>	<u>2,930,218</u>	<u>98 %</u>
Current liabilities	613,055	259,746	136 %
Long-term liabilities	2,445,687	212,711	1,050 %
Total liabilities	<u>3,058,742</u>	<u>472,457</u>	<u>547 %</u>
Net assets	<u>\$ 2,731,115</u>	<u>\$ 2,457,761</u>	<u>11 %</u>
Net assets			
Invested in capital assets			
net of related debt	413,258	480,932	(14) %
Restricted	163,705	159,264	3 %
Unrestricted	2,154,152	1,817,565	19 %
Total net assets	<u>\$ 2,731,115</u>	<u>\$ 2,457,761</u>	<u>11 %</u>

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 any reduction in fund balances or net assets.

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Changes in Net Assets

Table A-2 details the City's change in net assets from the prior year.

Table A-2: Changes in Net Assets at December 31, 2008

<u>Governmental Activities</u>			
	2008	2007	% Change
Revenue			
Program revenues:			
Charges for services	\$ 1,170,808	\$ 1,519,134	(23) %
Operating grants and contributions	10,000	171,549	(94) %
General revenues:			
Property taxes	287,232	292,991	(2) %
Sales taxes	754,510	688,802	10 %
Other taxes	272,347	250,311	8.8 %
Investment earnings	47,188	50,482	(7) %
Other	12,968	24,740	(48) %
Total revenues	2,555,053	2,998,009	(15) %
Expenses:			
General government	269,606	469,867	(43) %
Public safety	754,710	793,304	(5) %
Public works	890,135	802,322	10.9 %
Health & other public services	106,738	98,535	8 %
Tourism	24,083	22,175	9 %
Interest and financial charges	192	51	276 %
Municipal Court	236,235	157,425	50 %
Total expenses	2,281,699	2,343,679	(0) %
Increase (decrease) in net assets	273,354	654,330	(58) %
Net assets, beginning	2,457,760	1,803,430	36 %
Net assets, ending	\$ 2,731,114	\$ 2,457,760	11 %

Governmental Activities

As shown in Table A-2, revenues for governmental activities of \$2,555,053 were more than expenses of \$2,281,699 for 2008 by \$273,354. Net assets increased approximately \$273,354 from the prior period for governmental activities.

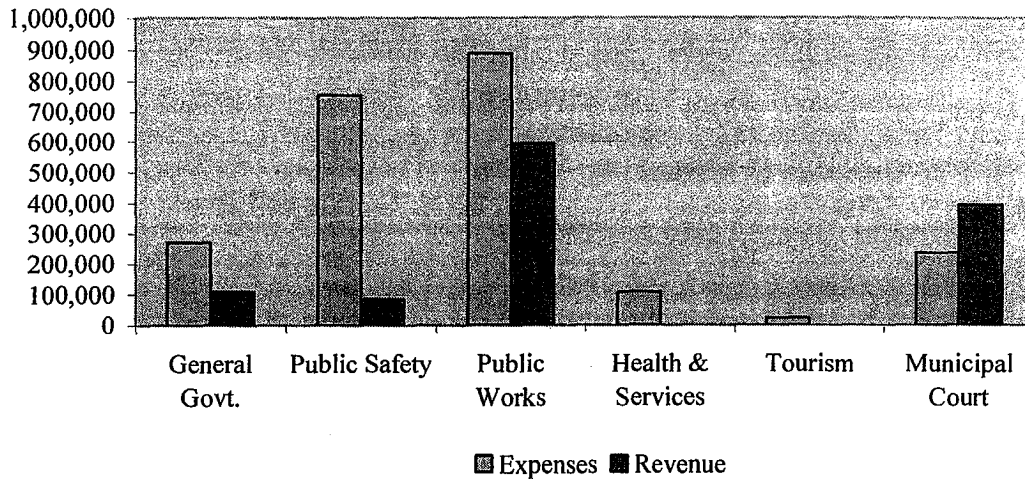
- The cost of all *governmental* activities for 2008 was \$2,281,699.
- The amount that taxpayers paid for these services through City taxes and business fees was \$1,314,089 or 58%.

Some of the cost was paid by:

- Those who directly benefited from the programs \$1,170,808 or 51%, and
- other governments and organizations that subsidized certain programs with grants and contributions \$10,000 or .4%.
- All taxes contributed 51% of governmental activities' revenues. Investment earnings generated less than 2% for governmental activities' revenues.
- Public Safety (including Police and Impounding) expenses accounted for 33% of governmental activities and 39% of the expenses are for public works.
- Public Safety required the largest net amount of public funds after deducting program revenue, grants, and contributions. The total was \$670,732.

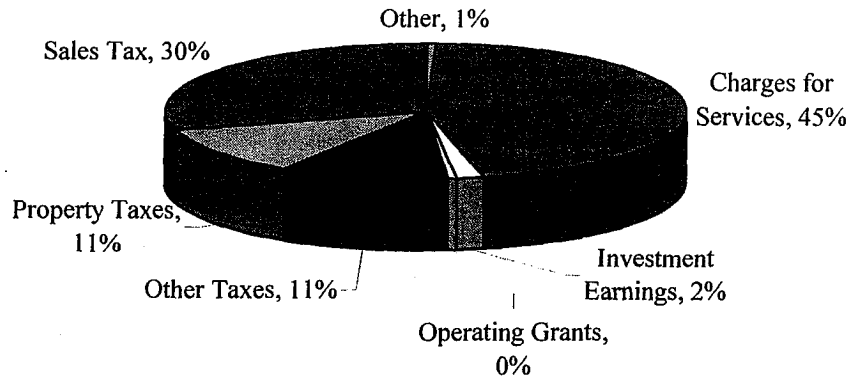
Graph 1 presents the cost of each of the City's major governmental functions, as well as the associated program revenues. As expected in governmental activities, the subsidy required from taxpayers provides the majority of support for these core services.

Graph 1: Program Revenues to Activity Expenditures



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

- Total assets of the General Fund increased from \$1,523,729 to \$1,840,893 between 2007 and 2008.
- Total liabilities of the General Fund increased slightly, from \$526,088 to \$562,868, a 7% increase. This brings the quick ratio (current assets to current liabilities) up to 3.27 times in 2008 from 2.89 times in 2007.
- The General Fund's unreserved and undesignated fund balance increased from \$838,377 to \$1,114,320 for an increase of 33% from fiscal year 2007.

Budgetary Results of the General Fund

General fund taxes were approximately \$1,226,309, which was \$98,203 above the final budget. Charges for services, including licenses and permits, and other fees were higher than the final budget by \$121,746. Overall, General Fund revenues were more than the final budget by \$300,990.

General Fund expenditures were \$13,456 below the final budget with the municipal court contributing \$74,463 of the negative variance, or 48% above the final budget estimate. General government came in at \$96,722 below the final budget or 28% lower to offset some of the municipal court overage.

Non-major Governmental Funds

Two different funds comprise this portion of the financial statements, and both are special revenue funds. Total assets for the combined funds were approximately \$789,599; total liabilities were about \$299,935, and the total fund balance was \$489,664, with none classified as undesignated or unreserved fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Table A-3: Capital Assets (net of depreciation) at December 31, 2008 and 2007

<u>Governmental Activities</u>			
	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Land	\$ 12,200	12,200	- %
Construction in progress	2,223,248	-	100.0 %
Buildings and improvements	563,250	563,250	- %
Infrastructure	93,615	93,615	-
Equipment	253,938	253,938	- %
Vehicles	501,435	480,164	4 %
Total Capital Assets	3,647,686	1,403,167	160 %
Accumulated depreciation	<u>(795,647)</u>	<u>(720,780)</u>	10 %
Capital Assets - Net	<u>\$ 2,852,039</u>	<u>\$ 682,387</u>	<u>318 %</u>

As shown in Table A-3, at December 31, 2008, the City had an increase in construction in progress due to new water systems improvement project. The vehicle increase of \$21,271 was the result of the purchase of a truck for the public works department.

Long-term Debt

The City has a small bank note of \$12,101 and a \$80,243 note to the component unit, City of Falfurrias Utility Board. The City acquired a new street sweeper in 2007 through a capital lease with a balance of \$64,663 at year end.

Table A-4: Long-Term Liabilities at December 31, 2008 and 2007

	<u>Governmental Activities</u>		<u>% Change</u>
	<u>2008</u>	<u>2007</u>	<u>06-07</u>
Note payable to Component Unit	\$ 80,243	\$ 113,577	(29) %
Notes	12,101	18,563	(35) %
Capital Leases	64,663	80,571	(20) %
USDA cash advances	<u>2,288,680</u>	<u>-</u>	100 %
Total long-term debt	<u>\$ 2,445,687</u>	<u>\$ 212,711</u>	<u>1,050 %</u>

CALENDAR YEAR 2009 ADOPTED OPERATING BUDGET

The adopted budget for 2009 sets general fund revenues from all sources (including interfund transfers) at \$2,538,796, which is \$433,552 or 17% more than the prior year's final budget. The greatest cause of this increase in revenues from 2008 to 2009 is due to an increase in fines and fees of \$439,000. Property taxes were estimated to increase 1.23% when compared to the prior years actual. With a slight increase in assessed values for the 2009 tax year over 2008, coupled with the general fund's steady property tax rate, the 2009 revenue forecast was conservatively cast by management, reflecting collection results similar to those experienced in the latest 2008 fiscal year.

City sales tax, which comprises 26.78% of general fund revenues, is forecast for 2009 at \$680,000, which is stable compared to 2008. The franchise fee categories are budgeted at \$168,300, which is also stable compared to the 2008 year.

General fund expenditures, including transfers for the 2009 budget were set at \$2,626,662, which is \$521,418 or 24.76%, more than the prior year budget. Increases in budgeted expenditures for the police, street department, and municipal court comprise virtually the entire increase in total expenditures from the prior year budget. If the budgeted revenues and expenses are achieved, fund balance will remain unchanged.

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
Director of Finance
P.O. Drawer E
Falfurrias, Texas 78355

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

Basic Financial Statements

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Primary Government Governmental Activities	Component Unit
ASSETS		
Assets:		
<i>Cash and cash equivalents</i>	\$ 1,105,160	\$ 171,234
<i>Investments</i>	956,994	1,000,000
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	257,445	--
<i>Accounts</i>	104,683	443,714
<i>Other</i>	190,414	--
<i>Accrued Interest Receivable</i>	15,442	--
<i>Due from other governments</i>	307,680	34,400
<i>Inventories</i>	--	175,829
<i>Other current assets</i>	--	6,203
<i>Advances to other governments</i>	--	80,233
Restricted assets:		
<i>Cash and cash equivalents</i>	--	487,181
<i>Capital assets</i>	2,852,039	9,916,395
<i>Unamortized Bond Issuance Costs</i>	--	15,751
Total Assets	5,789,857	12,330,940
LIABILITIES		
Liabilities:		
<i>Accounts payable</i>	419,085	260,967
<i>Accrued expenses</i>	4,113	--
<i>Other current liabilities</i>	--	28,916
<i>Meter deposits</i>	76,782	119,855
<i>Unearned revenue</i>	113,074	--
Liabilities due within one year:		
<i>Current portion of bonds payable</i>	--	120,000
<i>Current portion of note payable</i>	38,528	--
<i>Current portion of lease payable</i>	16,797	--
Liabilities due in more than one year:		
<i>USDA cash advances</i>	2,288,680	--
<i>Notes payable</i>	53,817	--
<i>Revenue bonds payable</i>	--	681,892
<i>Capital leases payable</i>	47,866	--
Total Liabilities	3,058,742	1,211,630
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	413,258	9,114,503
Restricted For:		
Capital Projects	163,705	--
Unrestricted	2,154,152	2,004,807
Total Net Assets	\$ 2,731,115	\$ 11,119,310

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
General government	\$ 269,606	\$ 108,724	\$ --	\$ --
Sanitation	526,381	593,722	--	--
Municipal Court	236,235	394,384	--	--
Public Safety	754,710	73,978	10,000	--
Streets	130,121	--	--	--
Health and welfare	106,738	--	--	--
Parks and recreation	233,633	--	--	--
Tourism	24,083	--	--	--
Interest and fiscal charges	192	--	--	--
Total governmental activities	<u>2,281,699</u>	<u>1,170,808</u>	<u>10,000</u>	<u>--</u>
Total Primary Government	<u>\$ 2,281,699</u>	<u>\$ 1,170,808</u>	<u>\$ 10,000</u>	<u>\$ --</u>
 COMPONENT UNIT:				
Enterprise	<u>\$ 2,658,980</u>	<u>\$ 2,576,740</u>	<u>\$ --</u>	<u>\$ 50,308</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Occupancy Taxes
Alcoholic Beverage Taxes
Miscellaneous
Unrestricted Investment Earnings
Gain (Loss) on Sale of Capital Assets
Transfers
 Total General Revenues
 Change in Net Assets
 Net Assets - Beginning
 Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets	
Governmental Activities	Component Unit
\$ (160,882)	
67,341	
158,149	
(670,732)	
(130,121)	
(106,738)	
(233,633)	
(24,083)	
(192)	
<u>(1,100,891)</u>	
<u>(1,100,891)</u>	
	\$ <u>(31,932)</u>
287,232	--
754,510	--
175,360	--
96,629	--
358	--
10,419	--
47,188	30,732
2,549	--
--	--
<u>1,374,245</u>	<u>30,732</u>
<u>273,354</u>	<u>(1,200)</u>
2,457,761	11,120,510
<u>\$ 2,731,115</u>	<u>\$ 11,119,310</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	<u>General Fund</u>	<u>Hotel/Motel Occupancy Tax Fund</u>
ASSETS AND OTHER DEBITS		
Assets:		
<i>Cash and cash equivalents</i>	\$ 636,504	\$ 106,874
<i>Investments</i>	670,357	286,637
Receivables (net of allowances for uncollectibles):		
<i>Taxes</i>	257,445	--
<i>Accounts</i>	104,683	--
<i>Other</i>	167,633	22,781
<i>Accrued Interest Receivable</i>	3,466	10,190
<i>Due from other funds</i>	805	--
<i>Due from other governments</i>	--	--
Total Assets and Other Debits	\$ 1,840,893	\$ 426,482
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
<i>Accounts payable</i>	\$ 108,876	\$ 2,250
<i>Accrued expenses</i>	4,113	--
<i>Due to other funds</i>	2,579	--
<i>Meter deposits</i>	76,782	--
<i>Unearned revenue</i>	370,518	--
Total Liabilities	562,868	2,250
Equity and other credits:		
Fund balances:		
<i>Designated for specific fund purpose</i>	<u>163,705</u>	424,232
<i>Unreserved, undesignated</i>	1,114,320	--
Total equity and other credits	1,278,025	424,232
Total Liabilities, Equity & Other Credits	\$ 1,840,893	\$ 426,482

The accompanying notes are an integral part of this statement.

<u>Water System Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 65,437	\$ 296,345	\$ 1,105,160
--	--	956,994
--	--	257,445
--	--	104,683
--	--	190,414
--	1,785	15,441
--	5,880	6,685
297,680	10,000	307,680
<u>\$ 363,117</u>	<u>\$ 314,010</u>	<u>\$ 2,944,502</u>
\$ 297,680	\$ 10,279	\$ 419,085
--	--	4,113
5	4,100	6,684
--	--	76,782
--	--	370,518
<u>297,685</u>	<u>14,379</u>	<u>877,182</u>
65,432	299,631	953,000
--	--	1,114,320
<u>65,432</u>	<u>299,631</u>	<u>2,067,320</u>
<u>\$ 363,117</u>	<u>\$ 314,010</u>	<u>\$ 2,944,502</u>

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**TO THE STATEMENT OF NET ASSETS**DECEMBER 31, 2008*

Total fund balances - governmental funds balance sheet	\$ 2,067,320
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	2,852,039
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	257,444
Payables for capital leases which are not due in the current period are not reported in the funds.	(64,662)
Payables for notes which are not due in the current period are not reported in the funds.	(92,345)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	<u>(2,288,680)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 2,731,115</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Hotel/Motel Occupancy Tax Fund
Revenue:		
Taxes	\$ 1,226,309	\$ 96,629
Licenses and permits	10,468	--
Federal grants	--	--
Charges for services	691,978	--
Fines & forfeitures	388,073	--
Interest	23,987	15,742
Miscellaneous	10,419	--
Total revenues	<u>2,351,234</u>	<u>112,371</u>
Expenditures:		
General government	253,916	--
Sanitation	509,887	--
Municipal Court	228,602	--
Public Safety	610,651	--
Streets	141,311	--
Health and welfare	123,872	--
Parks and recreation	230,843	--
Tourism	--	23,305
Capital outlay	--	--
Debt service:		
Principal	33,333	--
Interest and fiscal charges	--	--
Total expenditures	<u>2,132,415</u>	<u>23,305</u>
Excess (deficiency) of revenues (under) expenditures	218,819	89,066
Other financing sources (uses):		
Transfers in	59,014	--
Transfers out	--	--
USDA cash advances	--	--
Proceeds from sale of assets	2,550	--
Total other financing sources (uses)	<u>61,564</u>	<u>--</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	280,383	89,066
Fund balances/equity, January 1	997,642	335,166
Fund balances/equity, December 31	<u>\$ 1,278,025</u>	<u>\$ 424,232</u>

✓

60,000.

The accompanying notes are an integral part of this statement.

Water System Improvements	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 1,322,938
--	--	10,468
--	10,000	10,000
--	--	691,978
--	80,289	468,362
--	7,459	47,188
--	--	10,419
<u> --</u>	<u> 97,748</u>	<u> 2,561,353</u>
--	6,674	260,590
--	--	509,887
--	--	228,602
--	119,675	730,326
--	--	141,311
--	--	123,872
--	--	230,843
--	--	23,305
2,223,248	--	2,223,248
--	1,545	34,878
--	192	192
<u> 2,223,248</u>	<u> 128,086</u>	<u> 4,507,054</u>
(2,223,248)	(30,338)	(1,945,701)
--	--	59,014
--	(59,015)	(59,015)
2,288,680	--	2,288,680
--	--	2,550
<u> 2,288,680</u>	<u> (59,015)</u>	<u> 2,291,229</u>
65,432	(89,353)	345,528
--	388,984	1,721,792
<u> \$ 65,432</u>	<u> \$ 299,631</u>	<u> \$ 2,067,320</u>

CITY OF FALFURRIAS, TEXAS

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008*

Net change in fund balances - total governmental funds	\$ 345,528
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,244,519
The depreciation of capital assets used in governmental activities is not reported in the funds.	(74,867)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(8,849)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	15,908
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	39,795
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	<u>(2,288,680)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 273,354</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, 2008

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: 1) 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; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) 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 Board is composed of the current Mayor of the City and four citizens of Brooks County who are nominated by the Utility System's Board of Trustees for four-year terms, with final approval made by the City Council.

The Utility Board provides monthly transfers of 3-1/2% 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, 2008

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 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 (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, 2008

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 2007 tax rate was \$.42687 on assessed value of \$74,347,664, and was distributed to the General Fund.

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, 2008

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

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.

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.

g. Use of Estimates

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

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,062,153 and the bank balance was \$2,088,132. The City's cash deposits at December 31, 2008 and during the year ended December 31, 2008, 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 \$1,658,415 and a bank balance of \$1,729,601 at December 31, 2008, 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 adhered 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, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

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

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

The City's investments at December 31, 2008 are shown below.

<u>Investment</u>	<u>Maturity</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Certificates of Deposit - City	Over 90 Days	\$ 956,994	\$ 956,994
Certificates of Deposit - Component Unit	Over 90 Days	1,000,000	1,000,000
		<u>\$ 1,956,994</u>	<u>\$ 1,956,994</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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:

1. 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.

2. 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.

3. 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.

4. 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 perid, the City was not significantly exposed to interest rate risk.

5. 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, 2008

D. Capital Assets

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,200	\$ --	\$ --	\$ 12,200
Construction in progress	--	2,223,248	--	2,223,248
Total capital assets not being depreciated	<u>12,200</u>	<u>2,223,248</u>	<u>--</u>	<u>2,235,448</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	563,250	--	--	563,250
Infrastructure	93,615	--	--	93,615
Equipment	253,938	--	--	253,938
Vehicles	480,164	21,271	--	501,435
Total capital assets being depreciated	<u>1,390,967</u>	<u>21,271</u>	<u>--</u>	<u>1,412,238</u>
Less accumulated depreciation for:				
Buildings and improvements	(224,621)	(16,995)	--	(241,616)
Infrastructure	(16,383)	(4,681)	--	(21,064)
Equipment	(86,925)	(21,734)	--	(108,659)
Vehicles	(392,851)	(31,457)	--	(424,308)
Total accumulated depreciation	<u>(720,780)</u>	<u>(74,867)</u>	<u>--</u>	<u>(795,647)</u>
Total capital assets being depreciated, net	<u>670,187</u>	<u>(53,596)</u>	<u>--</u>	<u>616,591</u>
Governmental activities capital assets, net	<u>\$ 682,387</u>	<u>\$ 2,169,652</u>	<u>\$ --</u>	<u>\$ 2,852,039</u>

Depreciation was charged to functions as follows:

General Government	\$ 9,017
Sanitation	16,494
Municipal Court	7,633
Public Safety	24,384
Streets	4,718
Health & Welfare	4,136
Parks & Recreation	7,707
Tourism	778
	<u>\$ 74,867</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2008, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 801	Short-term loans
Other Governmental Funds	Other Governmental Funds	3,300	Short-term loans
General Fund	Water System Improvements	5	Short-term loans
Other Governmental Funds	General Fund	2,579	Short-term loans
	Total	<u>\$ 6,685</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, 2008

2. Transfers To and From Other Funds

Transfers to and from other funds at December 31, 2008, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Other Governmental Funds	General fund	\$ 59,104	Supplement other funds sources
	Total	\$ 59,104	

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, 2008, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Note payable - bank	\$ 1,545	\$ --	\$ 1,545	\$ --	\$ --
Note payable - Utility Board	113,577	--	33,334	80,243	33,333
Note payable - bank	17,018	--	4,917	12,101	5,195
Capital leases	80,571	--	15,908	64,663	16,797
USDA cash advances	--	2,288,680	--	2,288,680	--
Total governmental activities	\$ 212,711	\$ 2,288,680	\$ 55,704	\$ 2,445,687	\$ 55,325

	2008	2007
Unsecured note payable to bank with monthly payments of \$134, including interest at 2%, with final payment on 1/8/09.	\$ --	\$ 1,545
Unsecured note payable to bank with monthly payments of \$478, including interest at 5.5%, with final payment on 3/20/11.	12,102	17,018
Unsecured and non-interest bearing note payable to the Utility Board of Falfurrias, Texas, due in monthly payments of \$2,778 with final payment 2/1/17.	\$ 80,243	\$ 113,577
Total	\$ 92,345	\$ 132,140

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

2008	2007
\$ 2,288,680	\$ --

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2008, are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 38,575	\$ 489	\$ 39,064
2010	38,871	193	39,064
2011	14,899	2	14,901
Totals	<u>\$ 92,345</u>	<u>\$ 684</u>	<u>\$ 93,029</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of December 31, 2008, as follows:

<u>Year Ending December 31:</u>	
2009	\$ 19,906
2010	19,906
2011	19,906
2012	11,610
Total Minimum Lease Payments	<u>\$ 71,328</u>
Less amount representing interest	<u>(6,665)</u>
Present value of net minimum lease payments	<u>\$ 64,663</u>

The effective interest rate on capital leases is 5.450%.

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 2008, the City obtained general liability and major medical coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plan

Plan Description

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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:

	2006	2007	2008
<u>Plan Provisions</u>			
1 Total # of participating entities	821	827	827
<u>City Specific:</u>			
2 Employee deposit rate	5%	5%	5%
3 Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
4 Years required for vesting	5	5	5
5 Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
6 Updated service credit annually repeating (Y/N)	0% N	0% N	0% N
7 Annuity increase to retirees annually repeating (Y/N)	0% N	0% N	0% N
8 Supplemental death benefit for active employees (Y/N) for retirees (Y/N)	Y N	Y N	Y N

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

Fiscal Year Ending:	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
12/31/06	\$ 30,058	\$ 30,058	100.0%	\$.
12/31/07	\$ 30,442	\$ 30,442	100.0%	\$.
12/31/08	\$ 35,041	\$ 35,041	100.0%	\$.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date:	12/31/06	12/31/07	12/31/08
<u>Actuarial Information</u>			
1 Actuarial cost method	Unit credit	Projected Unit credit	Projected Unit credit
2 Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
3 Amortization period	25 years - open period	25 years - closed period	24 years - closed period
4 Asset valuation method	Amortized cost	Amortized cost	Amortized cost
5 Assumptions			
Investment return	7.0%	7.0%	7.5%
Projected salary increases	None	varies by age and service	varies by age and service
Inflation	3.5%	3.0%	3.0%
Cost of living adjustments	None	0.0%	0.0%
6 City-specific assumptions			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female (low, mid/low, mid, mid/high, or high)	Low/Low	Low/Low	Low/Low

The funded status as of December 31, 2008, the most recent actuarial valuation date, 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
12/31/08	\$ 691,593	\$ 806,112	85.8%	\$ 114,519	\$ 625,547	18.3%

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

TMRS also administers a cost sharing multiple-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF).

Contributions are made by the participating municipalities and are recognized when due. The contribution rate is determined annually for each municipality. The rate is based on the mortality and service experience of all employees covered by the fund and the demographics specific to the workforce of the municipality. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. Contributions are made monthly based on the covered payroll of employee members of the participating municipality. Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees, considered OPEB, is a fixed amount of \$7,500. Contributions are utilized to fund active members deaths on a pay-as-you-go basis. Any excess contributions over payments then become net assets available for OPEB. The contributions to this fund are pooled for investment purposes with those of the Pension Trust Fund.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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.

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 for benefits. At transition to the new accounting standard (GASB Statement No. 43), the schedule includes results for a many valuations as have been performed based on the parameters of the new standard.

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.

GASB Statement No. 43 requires the investment return (discount rate) assumption to take into account the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits. Benefits are expected to be provided partially from accumulated plan assets (including accumulated investment earnings) and partially from direct employer contributions. While assets invested in the Supplemental Death Benefit Fund are expected to earn 5% interest annually, employer contributions will be made from working funds held in cash or short-term investments. Based on the expected blend of the source of these funds, the investment return assumption has been set at 3.25%.

SUPPLEMENTAL DEATH BENEFITS PLAN

The Supplemental Death Benefits Fund (SDBF) is a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS); this is a separate trust administered by the TMRS Board of Trustees. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

<u>Plan Provisions</u>	2007	2008
City Specific:		
The City offers supplemental death to:		
active employees (yes/no)	Yes	Yes
retirees (yes/no)	Yes	No
 <u>Actuarial Information</u>		
1 Valuation Date	12/31/2007	12/31/08
2 Actuarial cost method	Projected Unit Credit	Projected Unit Credit
3 Amortization method	Level percent of payroll	Level percent of payroll
4 Amortization period	25 years - open period	24 years - open period
5 Asset valuable method	Fund value	Fund value
6 Assumptions		
Investment return	4.25%	4.25%
Projected salary increases	None	None
Inflation	3.00%	3.00%
Cost-of-living adjustments	None	None

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Changes in Actuarial Cost Method and Assumptions

In December 2007, the TMRS Board of Trustees approved changes in the actuarial assumptions and funding methodology for all TMRS plans. These changes are reflected in the determination of the 2009 contribution rates as part of the December 31, 2007 Actuarial Valuation. The funding impact of the respective changes is described below.

Change in the Actuarial Cost Method from Traditional Unit Credit (UC) to Projected Unit Credit (PUC)

For both methods, the annual cost equals the normal cost (NC) plus amortization of the Unfunded Actuarial Accrued Liability (UAAL). Under the UC method, the portion of the benefit allocated to each year of service is the increase in the accrued benefit during the year. The NC is the present value of the change in the accrued benefit, while the Accrued Liability represents the present value of benefits accrued to date. Increases in benefits are recognized only as they accrue each year with no allowance for the effect of future Updated Service Credits (USC), or Annuity Increases (COLAS). Over time, the effect of recognizing USC and COLAs only when accrued creates an upward pressure on contribution requirements and a downward trend in funded ratios.

The PUC method is very similar to the UC method except that under the PUC method an equal portion of each active member's projected benefit is allocated to each year of service in determining the annual NC. The accrued liability represents the present value of future benefits not funded by the present value of future normal costs. The assignment of an equal portion of the projected benefit reflecting assumptions for increases in benefits due to future salary increases, annually repeating USC, and COLA's, produces a contribution rate that is fairly stable over the long term as compared to UC. More importantly, for a new employee, the advance funding of projected benefits over the working lifetime of that employee accumulates sufficient assets at retirement to fully fund the promised benefits, provided that no new benefits are granted or actuarial losses occur. Liabilities that arise from new benefits and actuarial gains or losses will be amortized over a 25- or 30-year closed period depending on the city, as part of the valuation process.

Changes from a 25-Year Open Amortization Period to a 25-Year Closed Amortization Period

The UAAL has been amortized over a new 25-year amortization period each year. By closing the amortization period, funding progress will be accelerated and funded ratios will improve sooner. Pursuant to TMRS Board of Trustees' action, liabilities for cities that see an increase in their 2009 contribution rate greater than 0.5% based on changes in actuarial cost methods or assumptions, will be amortized over a 30-year, closed period, unless the city requests liabilities be amortized over a 25-year period. Funded ratios will improve under a 30-year closed period, although not as quickly as plans that are funding under a 25-year closed period.

Updated Service Credit (USC) and Annuity Increases (COLAs)

Cities that have granted annually repeating USC and COLAs will see significantly higher contribution rates to advance-fund future years' benefits. If a city decides to "turn off" these repeating benefits and adopt them year-to-year on an ad hoc basis, it is important to note that ad hoc adoption does not reduce the cost of these benefits and that a city that chooses this option will see its liabilities continue to rise and its funding ratio decline from year to year. The TMRS Board may consider adopting additional measures, such as amortizing these additional liabilities over a shorter period of time, for example 15 years, to ensure that the city's plan remains actuarially sound and that liabilities are amortized over an appropriate time period.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

Investment Return Assumption

In December 2007, the TMRS Board adopted a 7% investment return assumption, based on a change in investment policy that will result in a portfolio diversified at approximately 60% equities and 40% fixed income at the end of a 5-year period. Under the prior investment policy (100% fixed income), the assumption would have been 5.5%. Diversification of the fund after 2008 will require passage of legislation by the Texas Legislature in 2009. If that legislation is not enacted, the TMRS Board will need to revisit this assumption and potentially reduce the interest rate assumption below 7%. With a lower assumption, higher liabilities and higher contribution rates are likely in the future. For example, if the investment return assumption is lowered at the time of the 12/31/09 actuarial valuation - due to a non-diversified portfolio - employer contribution rates are likely to be higher in 2011.

I. Health Care Coverage

During the year ended December 31, 2008, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$365 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, 2009, 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, 2008, 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

L. Accounts Receivable

Accounts receivable at December 31, 2007, consist of the following:

	Account Balance	Allowance for Uncollectibles	Net
Taxes	\$ 370,387	\$ (112,942)	257,445
Accounts	137,501	(32,998)	104,503
Other	190,415	--	190,415
	<u>\$ 698,303</u>	<u>\$ (145,940)</u>	<u>552,363</u>

The component unit had accounts receivable of \$533,096, less allowance for uncollectibles of \$89,382, for a net of \$443,714.

M. Deferred Revenue

Deferred revenue at year end consisted of the following:

Revenue Description	Fund	Deferred Amount
Property tax revenue	General	\$ 257,444
2007 Property taxes deferred to 2008	General	113,074
Total Deferred Revenue		<u>\$ 370,518</u>

N. Excess Expenditures Over Appropriations

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

Fund Type	Department	Amount
General Fund	Sanitation	\$ 65,887
General Fund	Municipal Court	74,463
General Fund	Streets	3,960
General Fund	Health & Welfare	5,138
General Fund	Debt Service - Principal	33,333
Hotel/Motel Occupancy Tax Fund	Tourism	8,980

O. Non-Budgeted Funds

The City did not adopt a budget for the Gifts and Bequests Fund, as any gift is budgeted by specific action. There were no gifts or bequests, and expenditures totaled \$2,180 in the current year.

P. Fund Designations

In the General Fund, \$163,705 has been designated by the City Council for construction. The Special Revenue Funds have been established for various purposes, and the fund balance of each fund is designated for its particular purpose.

Q. Free Water Service

The Utility Board of Falfurrias, Texas, provides free water to the City for all of its operational needs. In 2008, the City used 38,852,400 gallons, or \$106,632 value of free service.

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

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,128,106	\$ 1,128,106	\$ 1,226,309	\$ 98,203
<i>Licenses and permits</i>	6,460	6,460	10,468	4,008
<i>Charges for services</i>	570,232	570,232	691,978	121,746
<i>Fines & forfeitures</i>	221,058	221,058	388,073	167,015
<i>Interest</i>	45,000	45,000	23,987	(21,013)
<i>Miscellaneous</i>	79,388	79,388	10,419	(68,969)
Total revenues	<u>2,050,244</u>	<u>2,050,244</u>	<u>2,351,234</u>	<u>300,990</u>
Expenditures:				
<i>General government</i>	350,588	350,638	253,916	96,722
<i>Sanitation</i>	444,000	444,000	509,887	(65,887)
<i>Municipal Court</i>	149,839	154,139	228,602	(74,463)
<i>Public Safety</i>	649,884	661,884	610,651	51,233
<i>Streets</i>	138,351	137,351	141,311	(3,960)
<i>Health and welfare</i>	118,834	118,734	123,872	(5,138)
<i>Parks and recreation</i>	254,898	252,213	230,843	21,370
Debt service:				
<i>Principal</i>	--	--	33,333	(33,333)
Total expenditures	<u>2,106,394</u>	<u>2,118,959</u>	<u>2,132,415</u>	<u>(13,456)</u>
Excess (deficiency) of revenues (under) expenditures	(56,150)	(68,715)	218,819	287,534
Other financing sources (uses):				
<i>Transfers in</i>	47,000	47,000	59,014	12,014
<i>Proceeds from sale of assets</i>	8,000	8,000	2,550	(5,450)
Total other financing sources (uses)	<u>55,000</u>	<u>55,000</u>	<u>61,564</u>	<u>6,564</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,150)	(13,715)	280,383	294,098
Fund balances/equity, January 1	754,846	754,846	997,642	242,796
Fund balances/equity, December 31	<u>\$ 753,696</u>	<u>\$ 741,131</u>	<u>\$ 1,278,025</u>	<u>\$ 536,894</u>

CITY OF FALFURRIAS, TEXAS
HOTEL/MOTEL OCCUPANCY TAX FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 90,500	\$ 90,500	\$ 96,629	\$ 6,129
<i>Interest</i>	7,500	7,500	15,742	8,242
Total revenues	<u>98,000</u>	<u>98,000</u>	<u>112,371</u>	<u>14,371</u>
Expenditures:				
<i>Tourism</i>	14,325	14,325	23,305	(8,980)
Total expenditures	<u>14,325</u>	<u>14,325</u>	<u>23,305</u>	<u>(8,980)</u>
Excess (deficiency) of revenues (under) expenditures	83,675	83,675	89,066	5,391
Fund balances/equity, January 1	98,455	98,455	335,166	236,711
Fund balances/equity, December 31	<u>\$ 182,130</u>	<u>\$ 182,130</u>	<u>\$ 424,232</u>	<u>\$ 242,102</u>

City of Falfurrias, Texas

***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
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 YEAR ENDED DECEMBER 31, 2008

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)
12/31/06	\$ 533,206	\$ 682,003	\$ 148,797	78.2%	\$ 588,367	25.3%
12/31/07	609,379	741,460	132,081	82.2%	653,102	20.2%
12/31/08	691,593	806,112	114,519	85.8%	625,547	18.3%

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2008

ASSETS	<u>Gifts and Bequests</u>	<u>Insurance Proceeds Fund</u>	<u>Seizure Fund</u>
Assets:			
<i>Cash and cash equivalents</i>	\$ 6,068	\$ 34,368	\$ 22,678
<i>Receivables (net of allowances for uncollectibles):</i>			
<i>Accrued Interest Receivable</i>	--	--	--
<i>Due from other funds</i>	--	--	3,300
<i>Due from other governments</i>	--	--	--
Total Assets	<u>\$ 6,068</u>	<u>\$ 34,368</u>	<u>\$ 25,978</u>
LIABILITIES AND EQUITY			
Liabilities:			
<i>Accounts payable</i>	\$ --	\$ --	\$ --
<i>Due to other funds</i>	800	--	--
Total Liabilities	<u>800</u>	<u>--</u>	<u>--</u>
Equity and other credits:			
<i>Designated for specific fund purpose</i>	5,268	34,368	25,978
Total equity	<u>5,268</u>	<u>34,368</u>	<u>25,978</u>
Total Liabilities and Equity	<u>\$ 6,068</u>	<u>\$ 34,368</u>	<u>\$ 25,978</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Volunteer Fire Dept. Grant
\$ 2,518	\$ 209,022	\$ 3,421	\$ 16,046	\$ --
--	1,785	--	--	--
--	--	--	--	--
<u>\$ 2,518</u>	<u>\$ 210,807</u>	<u>\$ 3,421</u>	<u>\$ 16,046</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	1,000	--	--
--	--	1,000	--	--
2,518	210,807	2,421	16,046	--
<u>2,518</u>	<u>210,807</u>	<u>2,421</u>	<u>16,046</u>	<u>--</u>
<u>\$ 2,518</u>	<u>\$ 210,807</u>	<u>\$ 3,421</u>	<u>\$ 16,046</u>	<u>\$ --</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2008

	Homeland Security Grant	Technology	Total Nonmajor Special Revenue Funds (See Exhibit A-3)
ASSETS			
Assets:			
<i>Cash and cash equivalents</i>	\$ --	\$ 2,224	\$ 296,345
Receivables (net of allowances for uncollectibles):			
<i>Accrued Interest Receivable</i>	--	--	1,785
<i>Due from other funds</i>	--	2,580	5,880
<i>Due from other governments</i>	10,000	--	10,000
Total Assets	\$ 10,000	\$ 4,804	\$ 314,010
LIABILITIES AND EQUITY			
Liabilities:			
<i>Accounts payable</i>	\$ 10,000	\$ 279	\$ 10,279
<i>Due to other funds</i>	--	2,300	4,100
Total Liabilities	10,000	2,579	14,379
Equity and other credits:			
<i>Designated for specific fund purpose</i>	--	2,225	299,631
Total equity	--	2,225	299,631
Total Liabilities and Equity	\$ 10,000	\$ 4,804	\$ 314,010

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Gifts and Bequests	Insurance Proceeds Fund	Seizure Fund
Revenue:			
<i>Federal grants</i>	\$ --	\$ --	\$ --
<i>Fines & forfeitures</i>	--	--	56,182
<i>Interest</i>	--	--	250
Total revenues	<u>--</u>	<u>--</u>	<u>56,432</u>
Expenditures:			
<i>General government</i>	2,180	--	--
<i>Public Safety</i>	--	--	61,136
Debt service:			
<i>Principal</i>	--	--	--
<i>Interest and fiscal charges</i>	--	--	--
Total expenditures	<u>2,180</u>	<u>--</u>	<u>61,136</u>
Excess (deficiency) of revenues (under) expenditures	(2,180)	--	(4,704)
Other financing sources (uses):			
<i>Transfers out</i>	--	--	(8,893)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(8,893)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(2,180)	--	(13,597)
Fund balances/equity, January 1	7,448	34,368	39,575
Fund balances/equity, December 31	<u>\$ 5,268</u>	<u>\$ 34,368</u>	<u>\$ 25,978</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Volunteer Fire Dept. Grant
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	12,440	4,959	--
47	6,925	38	175	--
<u>47</u>	<u>6,925</u>	<u>12,478</u>	<u>5,134</u>	<u>--</u>
--	--	--	241	--
1,878	34,295	12,365	--	1
--	--	--	--	--
<u>1,878</u>	<u>34,295</u>	<u>12,365</u>	<u>241</u>	<u>1</u>
(1,831)	(27,370)	113	4,893	(1)
(622)	(50,000)	500	--	--
<u>(622)</u>	<u>(50,000)</u>	<u>500</u>	<u>--</u>	<u>--</u>
(2,453)	(77,370)	613	4,893	(1)
4,971	288,177	1,808	11,153	1
<u>\$ 2,518</u>	<u>\$ 210,807</u>	<u>\$ 2,421</u>	<u>\$ 16,046</u>	<u>\$ --</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, 2008

	Homeland Security Grant	Technology	Total Nonmajor Special Revenue Funds (See Exhibit A-5)
Revenue:			
<i>Federal grants</i>	\$ 10,000	\$ --	\$ 10,000
<i>Fines & forfeitures</i>	--	6,708	80,289
<i>Interest</i>	--	24	7,459
Total revenues	<u>10,000</u>	<u>6,732</u>	<u>97,748</u>
Expenditures:			
<i>General government</i>	--	4,253	6,674
<i>Public Safety</i>	10,000	--	119,675
Debt service:			
<i>Principal</i>	--	1,545	1,545
<i>Interest and fiscal charges</i>	--	192	192
Total expenditures	<u>10,000</u>	<u>5,990</u>	<u>128,086</u>
Excess (deficiency) of revenues (under) expenditures	--	742	(30,338)
Other financing sources (uses):			
<i>Transfers out</i>	--	--	(59,015)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(59,015)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	742	(89,353)
Fund balances/equity, January 1	--	1,483	388,984
Fund balances/equity, December 31	<u>\$ --</u>	<u>\$ 2,225</u>	<u>\$ 299,631</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.

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

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Independent Auditor's Report

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

Board of Trustees
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Members of the Board of Trustees:

We have audited 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, 2008, which collectively comprise the City of Falfurrias, Texas's basic financial statements and have issued our report thereon dated July 7, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Falfurrias, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Falfurrias, Texas's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Falfurrias, Texas's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the previous paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Falfurrias, Texas's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Falfurrias, Texas's financial statements that is more than inconsequential will not be prevented by the City of Falfurrias, Texas's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 08-1 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Falfurrias, Texas's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

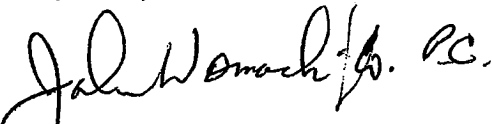
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Falfurrias, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 08-2.

We also noted other matters that we reported to management of City of Falfurrias, Texas in a separate letter dated July 7, 2009.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



John Womack & Company, P.C.
July 7, 2009

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

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Independent Auditor's Report

Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133

Board of Trustees
City of Falfurrias, Texas
205 E. Allen
Falfurrias, Texas 78355

Members of the Board of Trustees:

Compliance

We have audited the compliance of City of Falfurrias, Texas with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. City of Falfurrias, Texas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Falfurrias, Texas's management. Our responsibility is to express an opinion on City of Falfurrias, Texas's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Falfurrias, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Falfurrias, Texas's compliance with those requirements.

In our opinion, City of Falfurrias, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of City of Falfurrias, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Falfurrias, Texas's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Falfurrias, Texas's internal control over compliance.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

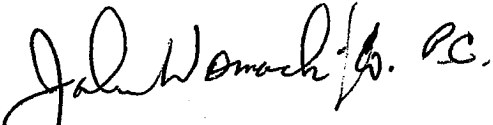
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



John Womack & Company, P.C.
July 7, 2009

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

08-1 Internal Control - Purchase Orders

Purchase orders are not being issued on a consistent basis. In addition, receiving reports and invoices are not always matched to purchase orders prior to payment. We recommend that policies and procedures be implemented as necessary to ensure that purchase orders are issued consistently, and are matched to both invoices and receiving reports prior to payment. Receiving reports that are initialed and dated by the person who received the merchandise should be submitted to accounting along with the purchase order to facilitate this process.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008

08-2 State Compliance - Budgeting

The State requires that the City adopt a budget and amend it as necessary throughout the year. The City's Budgetary Comparison Schedule - General Fund and Hotel/Motel Fund show several instances of excess expenditures over appropriations. This condition creates a violation of state laws regarding budgeting. 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.

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p data-bbox="151 358 786 420">07-1 Internal Control - Chapter 59 Purchases of Goods and Capital Assets</p> <p data-bbox="151 457 786 1156">Under Chapter 59, the law requires that funds awarded to cities for seized assets be spent on very specific types of items related to drug awareness or prevention. These purchases must be clearly documented as to their compliance with Chapter 59 regulations. Certain goods purchased under Chapter 59 in the Seizure Fund were not supported with clear documentation as to how the purchase related to drug awareness or prevention. In addition, certain capital assets purchased under Chapter 59 were not properly included in inventory of the City, nor were they readily available to be utilized by City employees. These conditions were caused by a lack of formal policies and procedures over the expenditure of Chapter 59 funds, and this leaves the Chapter 59 funds susceptible to misuse or misappropriation. We recommend that the City establish clear and comprehensive policies and procedures over the use and expenditure of Chapter 59 funds in order to ensure full compliance with state laws.</p>	Implemented	N/A
<p data-bbox="151 1224 786 1255">07-2 State Compliance - Budgeting</p> <p data-bbox="151 1286 786 1694">The State requires that the City adopt a budget and amend it as necessary throughout the year. The City's Budgetary Comparison Schedule - General Fund and Hotel/Motel Fund show several instances of excess expenditures over appropriations. This condition creates a violation of state laws regarding budgeting. In addition, the City did not adopt a budget for its Federal Forfeiture Fund, as required. 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>	Not Implemented	Management is continuing to work toward improving the budgeting process.

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
07-3 State Compliance - Bidding	Implemented	N/A

State requires that bidding procedures be performed for purchases of goods and services over certain thresholds. The City did not perform proper bidding procedures for two vehicles purchased. The City did not run the required advertisement for two consecutive weeks. Without bidding procedures, the City may not have obtained the best price for goods and services. We recommend that the City review state purchasing laws to ensure that all necessary procedures are performed for proper competitive bidding.

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2008

08-1 Internal Controls - Purchase Orders

The City will implement policies and procedures to ensure that purchase orders are issued on a consistent basis and are matched to both invoice and receiving reports prior to payments. Idolina Perez, City Secretary, will coordinate these efforts.

08-2 State Compliance - Excess Expenditures over Appropriations

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

CITY OF FALFURRIAS, TEXAS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Direct Program:			
Water System Improvements	10.760	N/A	\$ 2,223,248
Total U. S. Department of Agriculture			<u>2,223,248</u>
<u>DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Texas Department of Public Safety:			
Homeland Security Grant	97.073	174 6000 3980	10,000
Total Department of Homeland Security			<u>10,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,233,248</u>

The accompanying notes are an integral part of this schedule.

CITY OF FALFURRIAS, TEXAS

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Falfurrias, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.