

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

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

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

Introductory Section

City of Falfurrias, Texas
 Annual Financial Report
 For The Year Ended December 31, 2010

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Financial Section

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

JOHN L. WOMACK, CPA

JOHN R. WOMACK, CPA
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Independent Auditor's Report on Financial Statements

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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, 2010, 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' 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 the 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, 2010, 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 August 22, 2011, on our consideration of City of Falfurrias, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Falfurrias, Texas' financial statements as a whole.

The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Respectfully submitted,



John Womack & Company, P.C.

August 22, 2011

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, 2010. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$3,109,025.
- The fund balance of the General Fund increased by \$14,521 to \$1,163,594. This represents a 1.3% increase over the prior year's fund balance. This increase only represents 0.58% of the general fund expenditures.
- Total assets, excluding component units, were \$6,393,188; total liabilities, excluding component units, were \$3,284,163.
- The ratio of total assets to total liabilities for governmental activities was 1.95 to 1.
- The quick ratio (current assets to current liabilities) was 5.15 to 1.

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

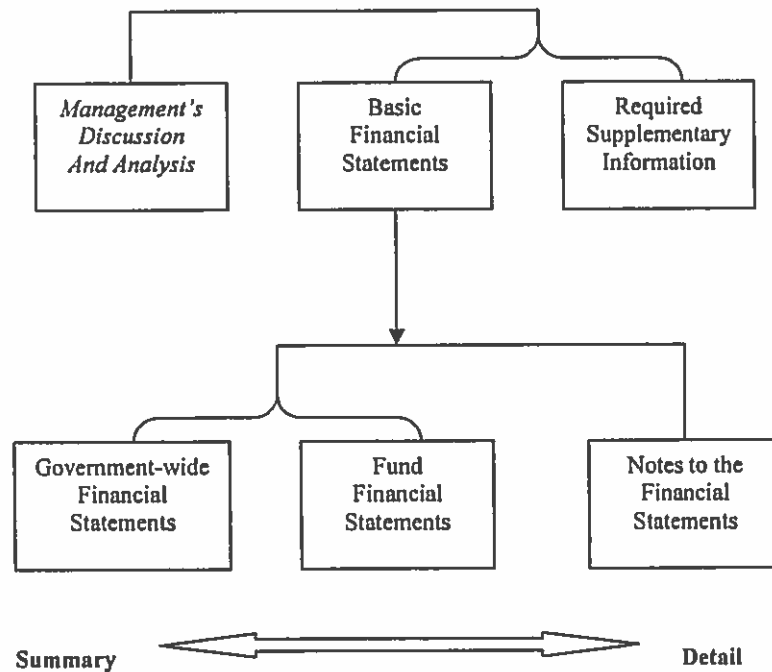


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

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, 2010, the net assets, excluding the City's component unit, totaled \$3,109,025, which is \$370,293 more than the previous year.

A large portion of the City's net assets, 33.9%, are invested in capital assets (e.g., land, utility system infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Capital assets were increased by \$521,270 from continued work on a water systems improvement capital project for the Utility Board (component unit) that began in 2008 and several new vehicles. Cash and investments decreased by \$79,650, or 4.3% due to operations.

**Table A-1: Net Assets for Governmental Activities
December 31, 2010 and 2009**

Governmental Activities			
	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Current & other assets	\$ 2,505,903	\$ 2,577,600	-2.80%
Capital assets	<u>3,887,285</u>	<u>3,470,382</u>	<u>12%</u>
Total assets	<u>6,393,188</u>	<u>6,047,982</u>	<u>5.70%</u>
Current liabilities	486,139	549,093	-11.50%
Long-term liabilities	2,798,024	2,760,157	1.40%
Total liabilities	<u>3,284,163</u>	<u>3,309,250</u>	<u>-0.80%</u>
Net assets	<u>\$ 3,109,025</u>	<u>\$ 2,738,732</u>	<u>13.50%</u>
Net assets			
Invested in capital assets			
net of related debt	1,055,587	654,987	61.20%
Restricted	167,483	166,000	0.90%
Unrestricted	<u>1,885,955</u>	<u>1,917,745</u>	<u>-1.70%</u>
Total net assets	<u>\$ 3,109,025</u>	<u>\$ 2,738,732</u>	<u>13.50%</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 substantial reductions in fund balances or net assets.

Changes in Net Assets

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

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Table A-2: Changes in Net Assets at December 31, 2010

Governmental Activities			
Revenue	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Program Revenues	\$ 1,329,428	\$ 1,238,179	7%
Charges for services			
Operating grants and contributions	357,522	16,784	2030.1%
General revenues:			
Property taxes	364,154	363,065	0.3%
Sales taxes	705,276	694,201	1.6%
Other taxes	225,108	240,718	-6.5%
Investment earnings	16,002	23,547	-32.0%
Other taxes	<u>56,078</u>	<u>25,156</u>	<u>122.9%</u>
Total Revenues	<u>3,053,568</u>	<u>2,601,650</u>	<u>17.4%</u>
Expenses			
General government	288,696	326,833	-11.7%
Public Safety	907,468	902,959	0.5%
Public works	718,974	907,239	-20.8%
Health & Other public services	343,885	104,496	229.1%
Tourism	84,669	27,868	203.8%
Interest and financial charges	0	0	%
Municipal Court	<u>339,583</u>	<u>291,629</u>	<u>16.4%</u>
Total expenses	<u>2,683,275</u>	<u>2,561,024</u>	<u>4.8%</u>
Increase (decrease) in net assets	370,293	40,626	656.4%
Net assets, beginning	2,738,732	2,731,116	-100.0%
Prior period adjustment	<u>0</u>	<u>(33,010)</u>	<u>N/A</u>
Net assets, ending	<u>\$ 3,109,025</u>	<u>\$ 2,738,732</u>	<u>\$ 11.2%</u>

Governmental Activities

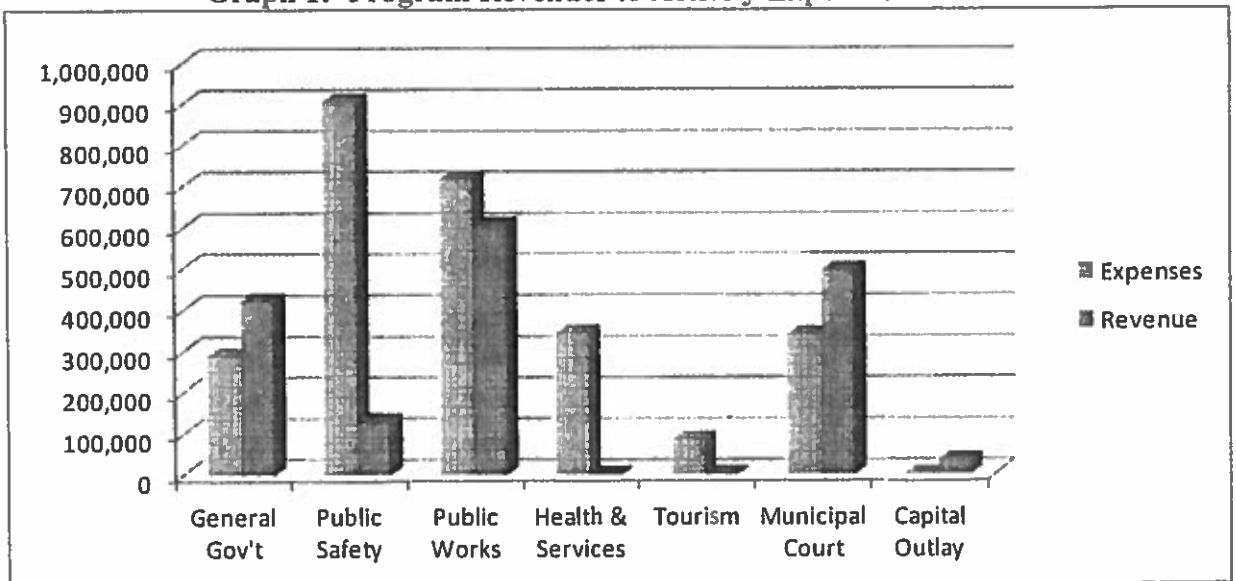
As shown in Table A-2, revenues for governmental activities of \$3,053,568 were more than expenses of \$2,683,275 for 2010 by \$307,293; furthermore, this increase in net assets for the year ended in 2010 represents an 811.5% increase from 2009.

- The cost of all *governmental* activities for 2010 was \$2,683,275.
- The amount that taxpayers paid for these services through City taxes and business fees was \$1,294,538, or 43% of total revenues.
 - Some of the cost was paid by:
 - Those who directly benefited from the programs, totaling \$1,329,428, or 44% of total revenues.

- All taxes contributed 42% of governmental activities' revenues. Investment earnings generated less than 1% of governmental activities' revenues.
- Public Safety (including Police and Impounding) expenses accounted for 33.8% of governmental activities, while 26.8% 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 \$778,201 or 78%.

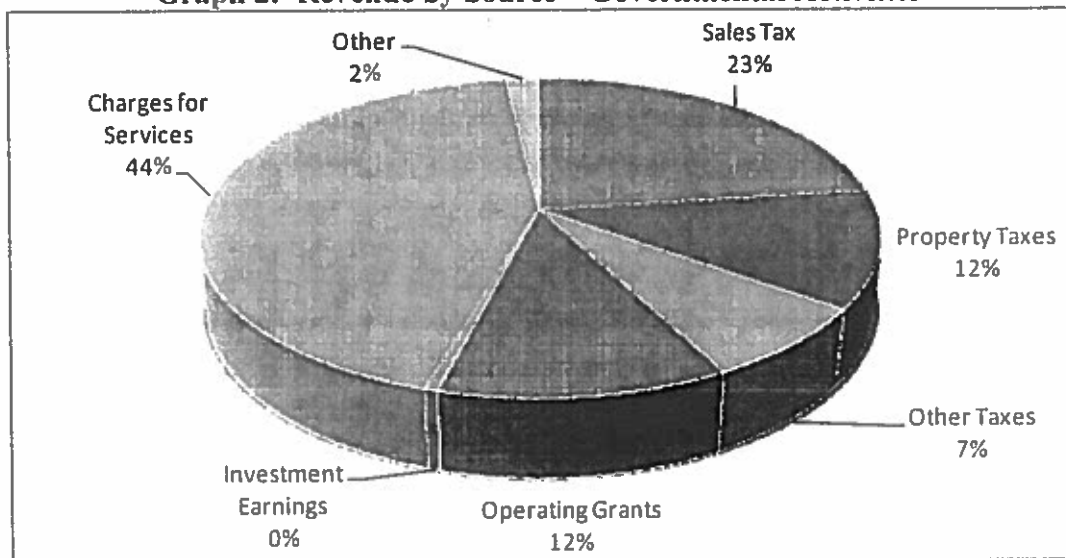
Graph 1 presents the cost of each of the City's major governmental functions, as well as the associated program revenues. As expected in governmental activities, the subsidy required from taxpayers provides the majority of support for these core services.

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

General Fund

Total assets of the General Fund increased slightly, from \$1,819,678 to \$1,931,441 between 2009 and 2010, or 6.1%, primarily due to a \$102,929 increase in interfund receivables over 2009.

Total liabilities of the General Fund increased by 15%, from \$670,605 to \$767,847. This drops the quick ratio (current assets to current liabilities) down to 2.51 times in 2010 from 2.71 times in 2009.

The General Fund's unreserved and undesignated fund balance increased from \$983,073 to \$996,111 for an increase of 1.3% over fiscal year 2009 due to operations.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

The total assets decreased in 2010 by \$32,213 or 6.9% due to \$24,672 in expenditures over revenues. Total liabilities were basically unchanged while total equity decreased 5.5% due to expenses exceeding revenues by \$24,672.

Budgetary Results

General Fund

General fund taxes were \$1,210,647, which was \$218 below the final budget. Charges for services, including licenses and permits, and other fees were higher than the final budget by \$121,932. Overall, General Fund revenues were more than the final budget by \$60,889, with fines & forfeitures accounting for the majority of this net positive variance at \$85,591 above the final budget.

General Fund expenditures were \$131,100 below the final budget with the streets department contributing \$58,381 of the positive variance, or 44.5% below the final budget estimate. General government came in at \$83,742 below the final budget or 63.8% lower.

Hotel/Motel Occupancy Tax Fund (HMOT Fund)

HMOT Fund taxes were less than the final budget by \$68,298 due to major road construction that will span several years resulting in less hotel/motel stays. Expenditures were \$12,419 above the final budget due to an \$18,000 Capital Project. HMOT Fund expenditures come in at \$78,372 over revenue due to a slower economy and the above Capital Project.

Non-major Governmental Funds

Two different fund types comprise this portion of the financial statements, including eleven special revenue funds and one capital projects fund. Total assets for the combined funds were \$252,439; total liabilities were \$100,997, and the total fund balance was \$151,442, with none classified as undesignated or unreserved fund balances.

CAPITAL ASSET AND DEBT ADMINISTRATION

Table A-3: Capital Assets (net of depreciation) at December 31, 2010 and 2009

Governmental Activities			
	2010	2009	% Change
Land	\$ 12,200	\$ 12,200	-
Construction in progress	3,085,089	2,691,949	14.6%
Buildings and improvements	696,855	678,855	2.7%
Infrastructure	93,615	93,615	-
Equipment	416,494	344,561	20.9%
Vehicles	496,377	458,180	8.3%
Total Capital Assets	4,800,630	4,279,360	12.2%
Accumulated Depreciation	(913,346)	(808,979)	12.9%
Capital Assets - Net	\$ 3,887,284	\$ 3,470,381	12.0%

As shown in Table A-3, at December 31, 2010, the City had an increase in construction in progress of \$393,140, which was due to the water systems improvement project. The equipment increase of \$128,130 was the result of the purchases of a John Deere tractor for \$38,355, two police cars for \$38,197 and other equipment for \$51,578.

Long-term Debt

The City has a small bank note of \$1,420 and a \$13,577 note to the component unit, City of Falfurrias Utility Board. The City acquired a new street sweeper in 2008 through a capital lease with a balance of \$18,727 at year end. The USDA cash advances were revenue bonds received from the USDA. These advances increased by \$71,540, or 2.6%, due to draw downs for utility improvements. See Note F on page 28 for more information.

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Table A-4: Long-Term Liabilities at December 31, 2010 and 2009

	Governmental		% Change 2009 to 2010
	Activities		
	2010	2009	
Note payable to Component Unit	\$ 13,577	\$ 46,910	-71.1%
Notes	1,420	6,907	-79.4%
Capital Leases	18,727	47,866	-60.9%
USDA cash advances	2,786,621	2,715,081	2.6%
Total long-term debt	\$ 2,820,345	\$ 2,816,764	0.1%

CALENDAR YEAR 2011 ADOPTED OPERATING BUDGET

The adopted budget for 2011 sets general fund revenues from all sources (including interfund transfers) at \$2,554,953. This budget is \$186,701 or 7.88% more than the prior year's final budget. The greatest cause of this increase in revenues from 2010 to 2011 is due to an increase in fines and fees, which are being increased by \$178,072, due mainly to fines set at \$105,000 and amusement machine fees set at \$49,000.

Property taxes were estimated to remain stable when compared to the prior year's actual property taxes. With a 9% increase in assessed values for the 2010 tax year over 2009, coupled with a 5.4% increase in the property tax rate, the 2011 revenue forecast was conservatively cast by management, reflecting collection results 4% higher than those budgeted in the latest 2010 fiscal year. City sales tax, which comprises 27% of general fund revenues, is forecast for 2011 at \$700,500, which is up \$15,000 compared to 2010. The franchise fee categories are budgeted at \$169,000, which is also stable compared to the 2010 year.

General fund expenditures, including transfers for the 2011 budget, were set at \$2,696,177, which is \$141,921, or 7.9%, less than the prior year budget. Increases in the budgeted expenditures for the administration, police, fire marshal, and garbage departments comprise virtually the entire increase in total expenditures from the prior budget. If the budgeted revenues and expenses are achieved, the fund balance will decrease by \$141,224.

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)

City of Falfurrias, Texas

Basic Financial Statements

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Primary Government Governmental Activities	Component Unit
ASSETS AND OTHER DEBITS		
Assets:		
Cash and cash equivalents	\$ 1,779,213	1,630,684
Receivables (net of allowances for uncollectibles):		
Taxes	317,785	--
Accounts	106,350	461,687
Other	188,823	--
Accrued Interest Receivable	1,320	--
Internal Balances	--	--
Due from other governments	114,322	443,237
Inventories	--	184,201
Other current assets	90	--
Advances to other governments	--	13,587
Restricted assets:		
Cash and cash equivalents	--	523,894
Capital assets	3,887,285	9,573,294
Unamortized Bond Issuance Costs	--	5,881
Total Assets and Other Debits	<u>6,393,188</u>	<u>12,836,445</u>
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
Accounts payable	236,553	377,197
Accrued expenses	7,172	--
Other current liabilities	4	33,959
Meter deposits	92,853	143,199
Unearned revenue	115,883	--
Liabilities due within one year:		
Current portion of bonds payable	--	130,000
Current portion of note payable	14,947	--
Current portion of lease payable	18,727	--
Liabilities due in more than one year:		
USDA cash advances	2,786,621	--
Revenue bonds payable	--	430,000
Capital leases payable	11,403	--
Total Liabilities	<u>3,284,163</u>	<u>1,114,355</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,055,587	9,013,294
Restricted For:		
Debt Service	--	359,935
Capital Projects	167,483	--
Unrestricted	1,885,955	2,348,861
Total Net Assets	<u>\$ 3,109,025</u>	<u>11,722,090</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
General government	\$ 288,698	\$ 134,674	\$ 287,600	\$ --
Sanitation	535,595	606,167	--	--
Municipal Court	339,583	495,242	--	--
Public Safety	907,468	59,345	69,922	--
Streets	183,379	--	--	--
Health and welfare	100,368	--	--	--
Parks and recreation	243,517	--	--	--
Tourism	84,669	--	--	--
Capital outlay	--	34,000	--	--
Total governmental activities	<u>2,683,275</u>	<u>1,329,428</u>	<u>357,522</u>	<u>--</u>
Total Primary Government	<u>\$ 2,683,275</u>	<u>\$ 1,329,428</u>	<u>\$ 357,522</u>	<u>\$ --</u>
 COMPONENT UNIT:				
Enterprise	\$ 2,791,033	\$ 2,910,223	\$ --	\$ 64,634

General Revenues:
 Property Taxes
 Sales Taxes
 Franchise Taxes
 Occupancy Taxes
 Alcoholic Beverage Taxes
 Miscellaneous
 Unrestricted Investment Earnings
 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
\$ 133,578	
70,572	
155,659	
(778,201)	
(183,379)	
(100,368)	
(243,517)	
(84,669)	
34,000	
<u>(996,325)</u>	
<u>(996,325)</u>	
	\$ <u>183,824</u>
364,154	—
705,276	—
155,111	—
69,702	—
295	—
56,078	—
16,002	17,891
—	—
<u>1,366,618</u>	<u>17,891</u>
370,293	201,715
2,738,732	11,520,375
<u>\$ 3,109,025</u>	<u>\$ 11,722,090</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund	Hotel/Motel Occupancy Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,231,279	\$ 410,746	\$ 137,189	\$ 1,779,214
Receivables (net of allowances for uncollectibles):				
Taxes	317,785	--	--	317,785
Accounts	106,350	--	--	106,350
Other	164,950	21,873	--	186,823
Accrued Interest Receivable	123	1,197	--	1,320
Due from other funds	105,914	--	5,879	111,793
Due from other governments	4,951	--	109,371	114,322
Other current assets	89	--	--	89
Total Assets	\$ 1,931,441	\$ 433,816	\$ 252,439	\$ 2,617,696
LIABILITIES AND EQUITY				
Liabilities:				
Accounts payable	\$ 153,575	\$ 13,199	\$ 69,780	\$ 236,554
Accrued expenses	7,172	--	--	7,172
Due to other funds	80,579	--	31,213	111,792
Other current liabilities	--	--	4	4
Meter deposits	92,853	--	--	92,853
Unearned revenue	433,668	--	--	433,668
Total Liabilities	767,847	13,199	100,997	882,043
Equity and other credits:				
Fund balances:				
Designated for specific fund purpose	167,483	420,617	151,442	739,542
Unreserved, undesignated	996,111	--	--	996,111
Total equity	1,163,594	420,617	151,442	1,735,653
Total Liabilities and Equity	\$ 1,931,441	\$ 433,816	\$ 252,439	\$ 2,617,696

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2010

Total fund balances - governmental funds balance sheet	\$ 1,735,653
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.	3,887,285
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	317,785
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,786,621)
Payables for capital leases which are not due in the current period are not reported in the funds.	(30,130)
Payables for notes which are not due in the current period are not reported in the funds.	<u>(14,947)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 3,109,025</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, 2010

	General Fund	Hotel/Motel Occupancy Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenue:				
Taxes	\$ 1,210,647	\$ 69,702	\$ --	\$ 1,280,349
Licenses and permits	6,191	--	--	6,191
Federal grants	--	--	357,522	357,522
Charges for services	734,650	--	34,000	768,650
Fines & forfeitures	488,091	--	68,496	554,587
Interest	11,548	4,045	410	16,003
Miscellaneous	56,078	--	--	56,078
Total revenues	<u>2,505,205</u>	<u>73,747</u>	<u>460,428</u>	<u>3,039,380</u>
Expenditures:				
General government	269,283	--	9,172	278,455
Sanitation	515,959	--	--	515,959
Municipal Court	327,958	--	--	327,958
Public Safety	751,063	--	159,461	910,524
Streets	262,770	--	--	262,770
Health and welfare	96,465	--	--	96,465
Parks and recreation	239,762	--	--	239,762
Tourism	--	98,419	--	98,419
Capital outlay	--	--	393,140	393,140
Debt service:				
Principal	33,333	--	--	33,333
Total expenditures	<u>2,496,593</u>	<u>98,419</u>	<u>561,773</u>	<u>3,156,785</u>
Excess (deficiency) of revenues (under) expenditures	8,612	(24,672)	(101,345)	(117,405)
Other financing sources (uses):				
Transfers in	39,970	--	--	39,970
Transfers out	(34,061)	--	(5,910)	(39,971)
USDA cash advances	--	--	71,540	71,540
Total other financing sources (uses)	<u>5,909</u>	<u>--</u>	<u>65,630</u>	<u>71,539</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	14,521	(24,672)	(35,715)	(45,866)
Fund balances/equity, January 1	1,149,073	445,289	187,157	1,781,519
Fund balances/equity, December 31	<u>\$ 1,163,594</u>	<u>\$ 420,617</u>	<u>\$ 151,442</u>	<u>\$ 1,735,653</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010**

Net change in fund balances - total governmental funds	\$ (45,866)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	521,270
The depreciation of capital assets used in governmental activities is not reported in the funds.	(104,367)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	14,189
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	34,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	17,736
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	38,871
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(105,540)</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 370,293</u>

The accompanying notes are an integral part of this statement.

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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 4% 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, 2010

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, 2010

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 2009 tax rate was \$.45000 on assessed value of \$78,774,657, and was distributed to the General Fund. The 2010 tax rate is \$.47000 on an assessed value of \$77,559,277 with collections of \$115,883 which is deferred to 2011.

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, 2010

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

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

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors ; technological developments, or other evidence of obsolescence; changes in the manner of duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal 2010.

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At December 31, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,779,212 and the bank balance was \$1,817,874. The City's cash deposits at December 31, 2010 and during the year ended December 31, 2010, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. In addition, the component unit had deposits with a carrying value of \$2,154,578 and a bank balance of \$2,214,885 at December 31, 2010, 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the City's name.

The City had no investments at December 31, 2010.

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 other 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 period, 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, 2010

D. Capital Assets

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,200	\$ -	\$ -	\$ 12,200
Construction in progress	2,691,949	393,140	--	3,085,089
Total capital assets not being depreciated	<u>2,704,149</u>	<u>393,140</u>	<u>--</u>	<u>3,097,289</u>
Capital assets being depreciated:				
Buildings and improvements	678,855	18,000	--	696,855
Infrastructure	93,615	--	--	93,615
Equipment	344,561	71,933	--	416,494
Vehicles	458,180	38,197	--	496,377
Total capital assets being depreciated	<u>1,575,211</u>	<u>128,130</u>	<u>--</u>	<u>1,703,341</u>
Less accumulated depreciation for:				
Buildings and improvements	(265,885)	(25,169)	--	(291,054)
Infrastructure	(25,745)	(4,681)	--	(30,426)
Equipment	(135,211)	(35,305)	--	(170,516)
Vehicles	(382,138)	(39,212)	--	(421,350)
Total accumulated depreciation	<u>(808,979)</u>	<u>(104,367)</u>	<u>--</u>	<u>(913,346)</u>
Total capital assets being depreciated, net	<u>766,232</u>	<u>23,763</u>	<u>--</u>	<u>789,995</u>
Governmental activities capital assets, net	<u>\$ 3,470,381</u>	<u>\$ 416,903</u>	<u>\$ --</u>	<u>\$ 3,887,284</u>

Depreciation was charged to functions as follows:

General Government	\$ 10,242
Sanitation	19,636
Municipal Court	11,625
Public Safety	35,141
Streets	10,277
Health & Welfare	3,903
Parks & Recreation	9,293
Tourism	4,250
	<u>\$ 104,367</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2010, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 27,914	Short-term loans
Other Governmental Funds	Other Governmental Funds	3,300	Short-term loans
Other Governmental Funds	General Fund	80,579	Short-term loans
	Total	<u>\$ 111,793</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, 2010

2. Transfers To and From Other Funds

Transfers to and from other funds at December 31, 2010, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Other Governmental Funds	General fund	\$ 6,392	Supplement other funds sources
General fund	Capital Projects Fund	33,578	Supplement other funds sources
	Total	<u>\$ 39,970</u>	

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, 2010, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Note payable - Utility Board	\$ 46,911	\$ -	\$ 33,334	\$ 13,577	\$ 13,577
Note payable - bank	6,907	-	5,487	1,420	1,420
Capital leases	47,866	-	17,736	30,130	18,727
USDA cash advances	2,715,081	105,540	34,000	2,786,621	-
Total governmental activities	<u>\$ 2,816,765</u>	<u>\$ 105,540</u>	<u>\$ 90,557</u>	<u>\$ 2,831,748</u>	<u>\$ 33,724</u>
				<u>2010</u>	<u>2009</u>
Unsecured note payable to bank with monthly payments of \$478, including interest at 5.5%, with final payment on 3/20/11.				\$ 1,420	\$ 6,907
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.				\$ 13,577	\$ 46,911
Total				<u>\$ 14,997</u>	<u>\$ 53,818</u>

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

	<u>2010</u>	<u>2009</u>
	<u>\$ 2,786,621</u>	<u>\$ 2,715,081</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2010, are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 14,947	\$ 2	\$ 14,949
Totals	<u>\$ 14,947</u>	<u>\$ 2</u>	<u>\$ 14,949</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of December 31, 2010, as follows:

Year Ending December 31:

2011	\$	19,906
2012		<u>11,610</u>
Total Minimum Lease Payments	\$	31,516
Less amount representing interest		<u>(1,386)</u>
Present value of net minimum lease payments	\$	<u><u>30,130</u></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 2010, 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.

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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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:

	2008	2009	2010
<u>Plan Provisions</u>			
Total # of participating entities	827	830	837
<u>City Specific:</u>			
Employee deposit rate	5%	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
Updated service credit annually repeating (Y/N)	0% N	0% N	0% N
Annuity increase to retirees annually repeating (Y/N)	0% N	0% N	0% N
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)
12/31/08	\$ 34,717	\$ 34,717	100.0%	\$.
12/31/09	\$ 31,905	\$ 31,905	100.0%	\$.
12/31/10	\$ 42,240	\$ 42,240	100.0%	\$.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date:	12/31/08	12/31/09	12/31/10-prior to restructuring	12/31/10- restructured
Actuarial Information				
Actuarial cost method	Projected Unit credit	Projected Unit credit	Projected Unit credit	Projected Unit credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization period	24 years - closed period	23 years - closed period	20.9 years - closed period	16.7 years - closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years	25 years
Asset valuation method	Amortized cost	10 year Smoothed Market	10 year Smoothed Market	10 year Smoothed Market
Assumptions				
investment return	7.5%	7.5%	7.5%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%	3.0%
Cost of living adjustments	0.0%	0.0%	0.0%	0.0%

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 21, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a % of Covered Payroll
12/31/10, original	\$866,554	\$943,579	91.8%	\$77,025	\$891,141	8.6%
12/31/10, restructured	\$910,607	\$926,992	98.2%	\$16,385	\$891,141	1.8%

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

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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Supplemental Death Benefits Fund.

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death.

The city offers supplemental death benefits to:	Plan Year 2010	Plan Year 2009
Active Employees	Yes	Yes
Retirees	No	No

I. Health Care Coverage

During the year ended December 31, 2010, 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, 2011, 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, 2010, 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, 2010

L. Accounts Receivable

Accounts receivable at December 31, 2010, consist of the following:

	<u>Account Balance</u>	<u>Allowance for Uncollectibles</u>	<u>Net</u>
Taxes	\$ 437,974	\$ (120,189)	317,785
Accounts	140,323	(33,973)	106,350
Other	164,551	—	164,551
	<u>\$ 742,848</u>	<u>\$ (154,162)</u>	<u>588,686</u>

The component unit had accounts receivable of \$443,715, less allowance for uncollectibles of \$89,382, for a net of \$354,333.

M. Deferred Revenue

Deferred revenue at year end consisted of the following:

<u>Revenue Description</u>	<u>Fund</u>	<u>Deferred Amount</u>
Property tax revenue	General	\$ 317,785
2009 Property taxes deferred to 2010	General	115,883
Total Deferred Revenue		<u>\$ 433,668</u>

N. Excess Expenditures Over Appropriations

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

<u>Fund Type</u>	<u>Department</u>	<u>Amount</u>
General Fund	Sanitation	\$ 5,959
General Fund	Streets	28,292
General Fund	Debt Service - Principal	33,333
Hotel/Motel Occupancy Tax Fund	Tourism	12,419

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 \$0 in the current year.

P. Fund Designations

In the General Fund, \$167,546 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Q. Related Party Transactions - Utility Board of Falfurrias, Texas

Franchise Fees:

The Utility Board is under contract to pay the City of Falfurrias, Texas, a 4.7% franchise tax on its gross water and sewer revenues. For 2010 and 2009, this amount was \$91,766 and \$124,675, respectively. The 2010 and 2009 payments were higher than the 2008 payment as a result, in part, of the \$34,000 and \$33,000 payments by the Utility Board to the City for its scheduled USDA Cash Advance reduction for the years 2010 and 2009, respectively.

Free Water Service:

The Utility Board of Falfurrias, Texas, provides free water to the City for all of its operational needs. In 2010 and 2009, the City used 22,593,950 and 47,651,300 gallons, respectively, or \$78,959 and \$124,370 value of free service, respectively.

Required Supplementary Information

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

CITY OF FALFURRIAS, TEXAS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes	\$ 1,210,865	\$ 1,210,865	\$ 1,210,647	\$ (218)
Licenses and permits	10,400	10,400	8,191	(4,209)
Charges for services	694,100	694,100	734,650	40,550
Fines & forfeitures	400,500	400,500	486,091	85,591
Interest	20,150	20,150	11,548	(8,602)
Miscellaneous	12,578	108,301	56,078	(52,223)
Total revenues	<u>2,348,593</u>	<u>2,444,316</u>	<u>2,505,205</u>	<u>60,889</u>
Expenditures:				
General government	363,450	353,025	269,283	83,742
Sanitation	510,000	510,000	515,959	(5,959)
Municipal Court	343,149	343,149	327,958	15,191
Public Safety	731,043	809,444	751,083	58,381
Streets	227,806	234,478	262,770	(28,292)
Health and welfare	113,765	113,765	96,465	17,300
Parks and recreation	261,832	263,832	239,762	24,070
Debt service:				
Principal	—	—	33,333	(33,333)
Total expenditures	<u>2,551,045</u>	<u>2,627,693</u>	<u>2,498,593</u>	<u>131,100</u>
Excess (deficiency) of revenues (under) expenditures	(202,452)	(183,377)	8,612	191,989
Other financing sources (uses):				
Transfers In	—	—	39,970	39,970
Transfers out	(85,000)	(85,000)	(34,061)	50,939
Proceeds from sale of assets	2,000	2,000	—	(2,000)
Total other financing sources (uses)	<u>(83,000)</u>	<u>(83,000)</u>	<u>5,909</u>	<u>88,909</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(285,452)	(266,377)	14,521	280,898
Fund balances/equity, January 1	1,149,073	1,149,073	1,149,073	—
Fund balances/equity, December 31	<u>\$ 863,621</u>	<u>\$ 882,696</u>	<u>\$ 1,163,594</u>	<u>\$ 280,898</u>

CITY OF FALFURRIAS, TEXAS
HOTEL/MOTEL OCCUPANCY TAX FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2010

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes	\$ 138,000	\$ 138,000	\$ 69,702	\$ (68,298)
Interest	1,700	1,700	4,045	2,345
Total revenues	<u>139,700</u>	<u>139,700</u>	<u>73,747</u>	<u>(65,953)</u>
Expenditures:				
Tourism	<u>86,000</u>	<u>86,000</u>	<u>98,419</u>	<u>(12,419)</u>
Total expenditures	<u>86,000</u>	<u>86,000</u>	<u>98,419</u>	<u>(12,419)</u>
Excess (deficiency) of revenues (under) expenditures	53,700	53,700	(24,672)	(78,372)
Fund balances/equity, January 1	445,289	445,289	445,289	-
Fund balances/equity, December 31	<u>\$ 498,989</u>	<u>\$ 498,989</u>	<u>\$ 420,617</u>	<u>\$ (78,372)</u>

CITY OF FALFURRIAS, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED DECEMBER 31, 2010

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)
12/31/08	\$ 691,593	\$ 806,112	\$ 114,519	85.8%	\$ 825,547	18.3%
12/31/09	784,725	892,161	107,436	88.0%	799,574	13.4%
12/31/10 (1)	866,554	943,579	77,025	91.8%	891,141	8.6%
12/31/10 (2)	910,607	926,992	16,385	98.2%	891,141	1.8%

- (1) Actuarial valuation performed under the original fund structure.
(2) Actuarial valuation performed under the new fund structure.

Combining Statements and Budget Comparisons as Supplementary Information

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

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	<u>Special Revenue Funds</u>	<u>Capital Projects Fund Water System Improvements</u>	<u>Total Nonmajor Governmental Funds (See Exhibit A-3)</u>
ASSETS			
Assets:			
Cash and cash equivalents	\$ 113,683	\$ 23,508	\$ 137,189
Receivables (net of allowances for uncollectibles):			
Due from other funds	5,879	-	5,879
Due from other governments	12,750	96,621	109,371
Total Assets	<u>\$ 132,312</u>	<u>\$ 120,127</u>	<u>\$ 252,439</u>
LIABILITIES AND EQUITY			
Liabilities:			
Accounts payable	\$ 15,090	\$ 54,690	\$ 69,780
Due to other funds	31,208	5	31,213
Other current liabilities	4	-	4
Total Liabilities	<u>46,302</u>	<u>54,695</u>	<u>100,997</u>
Equity:			
Designated for specific fund purpose	86,010	65,432	151,442
Total equity	<u>86,010</u>	<u>65,432</u>	<u>151,442</u>
Total Liabilities and Equity	<u>\$ 132,312</u>	<u>\$ 120,127</u>	<u>\$ 252,439</u>

CITY OF FALFURRIAS, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Special Revenue Funds	Capital Projects Fund Water System Improvements	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
Federal grants	\$ 357,522	\$ --	\$ 357,522
Charges for services	--	34,000	34,000
Fines & forfeitures	68,496	--	68,496
Interest	410	--	410
Total revenues	<u>426,428</u>	<u>34,000</u>	<u>460,428</u>
Expenditures:			
General government	9,172	--	9,172
Public Safety	159,461	--	159,461
Capital outlay	287,800	105,540	393,140
Total expenditures	<u>456,233</u>	<u>105,540</u>	<u>561,773</u>
Excess (deficiency) of revenues (under) expenditures	(29,805)	(71,540)	(101,345)
Other financing sources (uses):			
Transfers out	(5,910)	--	(5,910)
USDA cash advances	--	71,540	71,540
Total other financing sources (uses)	<u>(5,910)</u>	<u>71,540</u>	<u>65,630</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(35,715)	--	(35,715)
Fund balances/equity, January 1	121,725	65,432	187,157
Fund balances/equity, December 31	<u>\$ 86,010</u>	<u>\$ 65,432</u>	<u>\$ 151,442</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2010

	<u>Gifts and Bequests</u>	<u>Insurance Proceeds Fund</u>	<u>Seizure Fund</u>	<u>Ed Byrne Mem JAG Grant</u>
ASSETS AND OTHER DEBITS				
Assets:				
Cash and cash equivalents	\$ 8,248	\$ --	\$ 13,723	\$ 24,928
Receivables (net of allowances for uncollectibles):				
Due from other funds	--	--	3,300	--
Due from other governments	--	--	--	--
Total Assets and Other Debits	<u>\$ 8,248</u>	<u>\$ --</u>	<u>\$ 17,023</u>	<u>\$ 24,928</u>
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ 2,115	\$ --
Due to other funds	2,980	--	--	24,928
Other current liabilities	--	--	--	--
Total Liabilities	<u>2,980</u>	<u>--</u>	<u>2,115</u>	<u>24,928</u>
Equity and other credits:				
Designated for specific fund purpose	5,268	--	14,908	--
Total equity and other credits	<u>5,268</u>	<u>--</u>	<u>14,908</u>	<u>--</u>
Total Liabilities, Equity & Other Credits	<u>\$ 8,248</u>	<u>\$ --</u>	<u>\$ 17,023</u>	<u>\$ 24,928</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund	Homeland Security #2
\$ 911	\$ 22,195	\$ 11,775	\$ 25,545	\$ 4
--	--	--	--	--
\$ 911	\$ 22,195	\$ 11,775	\$ 25,545	\$ 4
\$ --	\$ 100	\$ 125	\$ --	\$ --
--	--	1,000	--	--
--	--	--	--	4
--	100	1,125	--	4
911	22,095	10,650	25,545	--
911	22,095	10,650	25,545	--
\$ 911	\$ 22,195	\$ 11,775	\$ 25,545	\$ 4

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2010

	<u>CDBG #729329 Sewer</u>	<u>Technology</u>	<u>Total Nonmajor Special Revenue Funds (See Exhibit C-1)</u>
ASSETS AND OTHER DEBITS			
Assets:			
Cash and cash equivalents	\$ --	\$ 6,354	\$ 113,683
Receivables (net of allowances for uncollectibles):			
Due from other funds	--	2,579	5,879
Due from other governments	12,750	--	12,750
Total Assets and Other Debits	<u>\$ 12,750</u>	<u>\$ 8,933</u>	<u>\$ 132,312</u>
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts payable	\$ 12,750	\$ --	\$ 15,090
Due to other funds	--	2,300	31,208
Other current liabilities	--	--	4
Total Liabilities	<u>12,750</u>	<u>2,300</u>	<u>46,302</u>
Equity and other credits:			
Designated for specific fund purpose	--	6,633	86,010
Total equity and other credits	<u>--</u>	<u>6,633</u>	<u>86,010</u>
Total Liabilities, Equity & Other Credits	<u>\$ 12,750</u>	<u>\$ 8,933</u>	<u>\$ 132,312</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, 2010**

	Gifts and Bequests	Seizure Fund	Ed Byrne Mem JAG Grant
Revenue:			
Federal grants	\$ -	\$ -	\$ 68,673
Fines & forfeitures	--	41,531	-
Interest	--	48	-
Total revenues	<u>-</u>	<u>41,579</u>	<u>68,673</u>
Expenditures:			
General government	-	-	-
Public Safety	--	34,038	68,673
Capital outlay	-	--	-
Total expenditures	<u>-</u>	<u>34,038</u>	<u>68,673</u>
Excess (deficiency) of revenues (under) expenditures	--	7,541	-
Other financing sources (uses):			
Transfers out	--	--	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	7,541	-
Fund balances/equity, January 1	5,268	7,367	-
Fund balances/equity, December 31	<u>\$ 5,268</u>	<u>\$ 14,908</u>	<u>\$ -</u>

Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund
\$ 1,249	\$ -	\$ -	\$ -
-	1,408	8,700	7,184
6	164	55	110
<u>1,255</u>	<u>1,572</u>	<u>8,755</u>	<u>7,294</u>
-	-	-	-
1,880	48,276	6,594	-
-	-	-	-
<u>1,880</u>	<u>48,276</u>	<u>6,594</u>	<u>-</u>
(625)	(46,704)	2,161	7,294
-	(5,910)	-	-
-	<u>(5,910)</u>	-	-
(625)	(52,614)	2,161	7,294
1,536	74,709	8,489	18,251
<u>\$ 911</u>	<u>\$ 22,095</u>	<u>\$ 10,650</u>	<u>\$ 25,545</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, 2010**

	CDBG #729329 Sewer	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:			
Federal grants	\$ 287,600	\$ --	\$ 357,522
Fines & forfeitures	--	9,673	68,496
Interest	--	27	410
Total revenues	<u>287,600</u>	<u>9,700</u>	<u>426,428</u>
Expenditures:			
General government	--	9,172	9,172
Public Safety	--	--	159,461
Capital outlay	287,600	--	287,600
Total expenditures	<u>287,600</u>	<u>9,172</u>	<u>456,233</u>
Excess (deficiency) of revenues (under) expenditures	--	528	(29,805)
Other financing sources (uses):			
Transfers out	--	--	(5,910)
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(5,910)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	528	(35,715)
Fund balances/equity, January 1	--	6,105	121,725
Fund balances/equity, December 31	<u>\$ --</u>	<u>\$ 6,633</u>	<u>\$ 86,010</u>

Other Supplementary Information

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

City of Falfurrias, Texas

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

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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, 2010, which collectively comprise the City of Falfurrias, Texas' basic financial statements and have issued our report thereon dated August 22, 2011. 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' 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' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Falfurrias, Texas' internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item(s) 2010-1 and 2010-2, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Falfurrias, Texas' 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* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2010-3 and 2010-4.

This report is intended solely for the information and use of management, others within the entity and the Board of Trustees 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.

August 22, 2011

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

A. Summary of Auditor's Results

1. Financial Statements

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

2. Federal Awards

A Single Audit was not required in the current year.

B. Financial Statement Findings

2010-1 Internal Control - Receiving

Condition: During a test of 25 expenditures, it was noted that several of the items selected for testing did not indicate confirmation of receipt prior to payment of the invoice.

Criteria: Internal control procedures call for confirmation of receipts of goods prior to payment of the related invoice.

Cause: Employees receiving goods should be further educated regarding internal control procedures.

Effect/Potential Effect: Payment for goods could take place without ever receiving the merchandise.

Recommendation: We recommend that procedures be implemented as necessary to ensure that purchase orders are matched to 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.

2010-2 Internal Control - Deposits

Condition: The same individual prepares deposits and reconciles the monthly bank statements.

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

Cause: The small number of employees in the city offices.

Effect/Potential Effect: Increased susceptibility to error or fraud.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Recommendation: As true segregation of duties is not feasible, we recommend that a supervisor verify the deposits, initialing to indicate approval, and still another employee be responsible for making the deposit.

2010-3 State Compliance - Excess Expenditures over Appropriations (Budgeting)

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

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

Cause: The lack of oversight in the budgetary process.

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

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

2010-4 State Compliance - Public Funds Investment Act

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

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

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

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

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

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Findng/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>09-1 Internal Control - Receiving</p> <p>Condition: During a test of 25 expenditures, it was noted that two of the items selected for testing did not indicate confirmation of receipt prior to payment of the invoice.</p> <p>Criteria: Internal control procedures call for confirmation of receipts of goods prior to payment of the related invoice.</p> <p>Cause: Employees receiving goods should be further educated regarding internal control procedures</p> <p>Effect/Potential Effect: Payment for goods could take place without ever receiving the merchandise.</p> <p>Recommendation: We recommend that procedures be implemented as necessary to ensure that purchase orders are matched to 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.</p>	<p>Not Implemented</p>	<p>The City is in the process of implementing procedures to ensure that purchase orders are matched to both invoice and receiving reports prior to payment.</p>
<p>09-2 Internal Control - Special Revenue Funds</p> <p>Condition: Manual checks are used for certain special revenue funds, and the related activity booked to the general ledger through journal entry.</p> <p>Criteria: Activity of the City should all run through the general ledger software system on a timely basis.</p> <p>Cause: The special revenue funds are not set up in the accounting software to pay vendors through the accounts payable system.</p> <p>Effect/Potential Effect: Possible lack of timely financial information regarding these special revenue funds, increased susceptibility to fraud.</p>	<p>Implemented</p>	<p>N/A</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Recommendation: We recommend that the accounting system be set up such that all checks are paid through the accounts payable system and posted to the general ledger on a timely basis.</p>		
<p>09-3 Internal Control - Deposits</p> <p>Condition: The same individual prepares deposits and reconciles the monthly bank statements.</p> <p>Criteria: For strong internal controls, the person who prepares and makes the deposits should not be the individual responsible for reconciling the bank statements.</p> <p>Cause: The small number of employees in the city offices.</p> <p>Effect/Potential Effect: Increased susceptibility to error or fraud.</p> <p>Recommendation: As true segregation of duties is not feasible, we recommend that a supervisor verify the deposits, initialing to indicate approval, and still another employee be responsible for making the deposit.</p>	<p>Not Implemented</p>	<p>The City is in the process of developing stronger controls over cash and cash deposits.</p>
<p>09-4 State Compliance - Excess Expenditures over Appropriations (Budgeting)</p> <p>Condition: The City's Budgetary Comparison Schedule - General Fund show several instances of excess expenditures over appropriations.</p> <p>Criteria: The State requires that the City adopt a budget and amend it as necessary throughout the year.</p> <p>Cause: The lack of oversight in the budgetary process.</p> <p>Effect/Potential Effect: A lack on controls in the expenditure process, creating an increased risk of error or fraud.</p>	<p>Not Implemented</p>	<p>Management is continuing to improve its budgeting procedures.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Recommendation: We recommend that the City review its policies and procedures surrounding the budget process to ensure that necessary amendments are made on a timely basis, and a budget is adopted for all required funds.</p>		
<p>09-5 State Compliance - Public Funds Investment Act</p>	<p>Not Implemented</p>	<p>Management is in the process of developing written system of internal controls over investments and documentation of City Council's approval of annual reviews.</p>
<p>Condition: The City did not comply with certain requirements of the Public Funds Investment Act. The City does not have a written system of internal controls over investments. In addition, the City does not have written documentation of the City Council's approval of the Investment Officer's and Auditor's annual review of the investment policy and any changes resulting from that review.</p>		
<p>Criteria: The Public Funds Investment Act requires a written system of internal controls over investment, and annual review and approval of the investment policy by the City Council.</p>		
<p>Cause: Lack of oversight over the Public Funds Investment Act requirements.</p>		
<p>Effect/Potential Effect: Violation of the Public Funds Investment Act.</p>		
<p>Recommendation: We recommend that the City develop a written system of internal controls over investments. In addition, we recommend that the City adopt a written instrument which would document the City Council's approval of the Investment Officer's and Auditor's review of the investment policy, as stated in the City's investment policy.</p>		

**CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2010**

2010-1 Internal Controls - Receiving

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

2010-2 Internal Controls - Deposits

The City will implement policies and procedures to ensure stronger controls over cash and cash deposits. Idolina Perez, City Secretary, will coordinate these efforts.

2010-3 State Compliance - Excess Expenditures over Appropriations (Budgeting)

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

2010-4 State Compliance - Public Funds Investment Act

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