

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by actuary, using the Projected Unit Credit actuarial 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 the 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:

Accounting Year Ending	Annual Pension Cost(APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/2010	\$ 75,360	100%	0.00
09/30/2011	85,020	100%	0.00
09/30/2012	102,158	100%	0.00

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest valuation, December 31, 2011, also follows:

VALUATION DATE	12/31/2009	12/31/2010	12/31/2011
ACTUARIAL COST METHOD	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 EQUIVALENT PERIOD	28.1 years; closed period	27.2 years; closed period	26.2 years; closed period
ASSET VALUATION METHOD	10-year smoothed market	10-year smoothed market	10-year smoothed market
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.5%	7.0%	7.0%
PROJECTED SALARY INCREASES	Varies by age and service	Varies by age and service	Varies by age and service
INCLUDES INFLATION AT	3.00%	3.00%	3.00%
A COST-OF-LIVING ADJUSTMENTS	2.1	2.1%	2.1%
AMORTIZATION PERIOD FOR NEW GAINS/LOSES	30 YEARS	30 YEARS	30 YEARS

The funded status as of December 31, 2011, the most actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2/31/2011	\$2,977,483	\$3,217,150	\$239,667	92.6%	\$1,316,348	18.2%

The schedule of funding progress presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information

ANALYSIS OF FUNDING PROGRESS

EMPLOYEE RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2009	\$2,272,095	\$2,751,480	\$479,385	82.6%	\$1,221,042	39.3%
2010	2,703,469	2,951,527	248,058	91.6%	1,250,516	19.8%
2011	2,977,483	3,217,150	239,667	92.6%	1,316,348	18.2%

Funded Status and funding Progress – In June, 2012, SB 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 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial study that was adopted by the TMRS Board at their May, 2012 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 refer to the December 31, 2010 TMRS Comprehensive Annual financial Report (CAFR).

SUPPLEMENTAL SECTION

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**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**

the City Council
City of Three Rivers, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Three Rivers, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of Three Rivers, Texas' basic financial statements and have issued our report thereon dated April 25, 2013. 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

Management of the City of Three Rivers, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Three Rivers, 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 Three Rivers, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Three Rivers, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

2012-1 Financial Statement Preparation

Criteria: Internal controls should be in place that provides reasonable assurance that the City has an individual on staff that is familiar with GAAP and who can apply Generally Accepted Accounting Principles to the City's financial statements.

Effect: Because the City does not have an individual on staff that is familiar with GAAP the City's governing body cannot adequately evaluate the City's financial position and results of operations on an ongoing basis.

Cause of Condition: This condition exists because it would be impracticable and expensive for the City to have someone on staff who is familiar with Generally Accepted Accounting Principles because that individual would have to be a Certified Public Accountant as a minimum.

Recommendation: We recommend that the City look into the possibility of obtaining someone who is familiar with Generally Accepted Accounting Principles.

Response: The City is not large enough to have a person on staff that is well versed in the GASB statements.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below.

2012-2 Segregation of Duties/ Review and Initialing

Condition: Segregation of Duties - due to the limited number of people working in the office, many critical duties are combined and given to the available employees. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Criteria: Internal controls should be in place that provides reasonable assurance that to the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible.

Effect: Because the City does not have proper segregation of duties the possibility exists that the financial statements can be materially misstated either through mistake, error, or fraud.

Cause of Condition: This condition exists because it would be impracticable and expensive for the City to have a proper segregation of duties.

Recommendation: We recommend that the City look into the possibility of dividing up the accounting, bookkeeping/cash duties and/or to institute more oversight by management so as to avoid the possibility of financial statements being materially misstated either through mistake, error, or fraud.

Response: The City is not large enough to effectuate segregation of duties; therefore, the City will implement more oversight by the City Council and by City management.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Three Rivers, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of the City of Three Rivers, Texas in a separate letter dated April 7, 2013.

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

Respectfully submitted,



BEYER & COMPANY
Certified Public Accountants
Pleasanton, Texas
April 25, 2013