

CITY OF FALFURRIAS, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014

City of Falfurrias, Texas

City of Falfurrias, Texas
Annual Financial Report
For The Year Ended December 31, 2014

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Financial Section

City of Falfurrias, Texas

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Falfurrias, Texas ("the City") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas as of December 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2014, City of Falfurrias, Texas adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2015 on our consideration of City of Falfurrias, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Falfurrias, Texas's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "John Womack & Co., P.C." The signature is written in a cursive, flowing style.

John Womack & Company, P.C.
Kingsville, Texas
October 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Falfurrias's (City) annual financial report presents management's discussion and analysis (MD&A) of the City's financial performance during the fiscal year ended December 31, 2014. 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 \$17,272,405.
- The fund balance of the General Fund increased from \$1,454,949 to \$1,869,038. This represents a 28.46% increase over the prior year's fund balance, and furthermore, represents 57.3% of the \$3,261,160 in expenditures. The General Fund's Unassigned Fund Balance was \$1,551,738, or 47.6% of general fund expenditures.
- Total assets, were \$21,772,807; total liabilities were \$4,281,447.
- The ratio of total assets to total liabilities for governmental activities was 4.26 times; for business-type activities the ratio was 5.38 times.
- The quick ratio (current assets to current liabilities) was 5.59 times for governmental activities and 5.99 times for business-type activities.
- Total net position was \$17,272,405, which was a decrease from \$17,064,228 for the prior year, or about 1.22%. There was a prior period adjustment of \$58,957 for Homeland Security expenditures under the Stone-garden Grant in FY 2014. Governmental activities' net position decreased by 13.06%, while business-type activities' net position increased by 5.59%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of: *management discussion and analysis* (this section), the *basic financial statements*, and *supplementary information*. Figure A-1 demonstrate 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. A legally separate *component unit* (Falfurrias Convention and Visitors Bureau) are also shown in these statements.
 - The *statement of net position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
 - The *statement of activities* presents information to show how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

- 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 Homeland Security Fund.
 - *Proprietary fund* statements offer short-term and long-term financial information about the activities the City operates like a business: *enterprise funds* and *internal service funds*. The major proprietary fund is the combined Utility System 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 because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary fund.

- *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

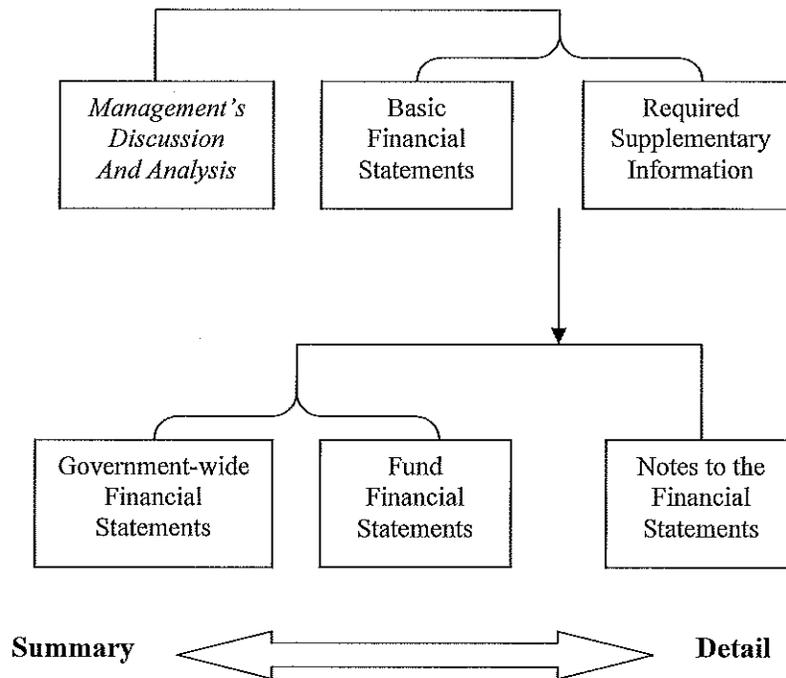


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

More about the City's Fund Financial Statements:

Governmental funds are used to account for essentially the same functions reported as *governmental activities* except that the Solid Waste Activity is reported as a business-type activity in the government-wide financial statements. 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 debt service fund are presented separately along with the aggregated *other governmental funds*. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* following the presentation of the major funds. There are four non-major governmental funds.

The City adopts an annual operating budget for governmental funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

More about the City's Proprietary Funds:

Two types of *proprietary funds* are used by the City:

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements, excluding Solid Waste which is recorded in the General Fund. The City 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.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for risk management activities, including insurance for general liabilities, workers' compensation, and health benefits. Because this coverage predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Net position serves over time as a useful indicator of the City's financial position. At December 31, 2014, the net position totaled \$17,272,405, \$208,178 more than the prior year. The composition of this net position is \$3,479,830 for governmental activities and \$13,792,575 for business-type activities, which is comprised primarily of the Combined Utility System.

A large portion of the City's net position, 60.9%, are invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities, and the City has none of its net position set aside for the retirement of debt. Approximately 71.6% of the City's governmental activities' net position is unrestricted in their use for City activities.

**Table A-1: Net Position for Governmental and Business-type Activities
December 31, 2014 and 2013**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current & other assets	\$3,657,754	\$3,065,211	\$3,514,103	\$3,444,144	\$7,171,857	\$6,509,355
Restricted Assets			500,363	516,499	500,363	516,499
Capital assets	1,175,689	4,443,600	12,924,898	9,792,454	14,100,587	14,236,054
Total assets	4,833,443	7,508,811	16,939,364	13,753,097	21,772,807	21,261,908
Current Liabilities	434,954	580,146	404,509	511,191	839,463	1,091,337
Restricted Liabilities	-	-	182,280	180,137	182,280	180,137
Long-Term Liabilities	699,704	2,710,000	2,560,000	-	3,259,704	2,710,000
Total liabilities	1,134,658	3,290,146	3,146,789	691,328	4,281,447	3,981,474
Deferred Inflows of Resources	218,955	216,207	-	-	218,955	216,207
Net Investment in capital assets	298,096	1,508,600	10,214,898	9,792,454	10,512,994	11,301,054
Restricted fund balance	690,254	1,146,361	-	211,901	690,254	1,358,262
Unrestricted fund balance	2,491,480	1,347,497	3,577,677	3,057,414	6,069,157	4,404,911
Total net position	\$3,479,830	\$4,002,458	\$13,792,575	\$13,061,769	\$17,272,405	\$17,064,227

TABLE A-1 Governmental-Type Activities

Current & Other Assets increased \$592,543 from \$3,065,211 in FY13 to \$3,657,754 in FY14 or 19.33%. The majority of this increase is due to the City's lower capital and construction in progress expenditures. Capital assets, net of accumulated depreciation, decreased \$3,267,911 from \$4,443,600 in FY13 to \$1,175,689 in FY14 or 73.54%. This reduction in General Fund Assets, net of accumulated depreciation was the result of consolidating the City and Utility Board in FY14. These transferred net assets reduced the General Fund and increased in the Utility Fund. Current liabilities decreased \$145,192 from \$580,146 in FY13 to \$434,954 in FY14 or 25.03%. This was due to decreased accounts payable of \$109,424. Long-term liabilities decreased \$2,010,296 from \$2,710,000 in FY13 to \$699,704 in FY14 or 74.18%. This is also the result of the consolidation of the City and Utility Board.

Investment in Capital Assets decreased by \$1,210,504 from \$1,508,600 in FY13 to \$298,096 in FY14 or 80.24%. Also as a result of more accurately reflecting the restriction on fund balance, Restricted Net Position decreased by \$456,107 from \$1,146,361 in FY13 to \$690,254 in FY14 as follows:

(\$418,309)	decreased	Federal and State programs
(\$30)	decreased	Capital projects
\$6,030	increased	Municipal Court Building Security funds
(\$16,376)	decreased	Law Enforcement
\$68	increased	Municipal Court Technology fund
(\$27,491)	decreased	Tourism funds (previously a component unit)
\$0	no change	Other Purposes

Unrestricted Net Position decreased \$1,143,983 from \$1,347,497 in FY13 to \$2,491,480 in FY13 or 84.90%. Total net position decreased by \$522,628 from \$4,002,458 in FY13 to \$3,479,830 in FY14 or 13.06%.

TABLE A-1 **Business-Type Activities**

The Combined Utility System's net position was \$13,792,575, which is 79.85% of total net position and is \$39,478 more than the prior year. The Combined Utility System contributed all of the total unrestricted business-type net position.

Current & Other Assets increased \$69,959 from \$3,444,144 in FY13 to \$3,514,103 in FY14 or 2.03%. Restricted Cash decreased from \$516,499 to \$500,363 due to the decrease in funds available for meter deposits & bonds payable. Capital assets, net of accumulated depreciation, increased \$3,132,444 from \$9,792,454 in FY13 to \$12,924,898 in FY14 or 31.99% due to additional equipment purchases net of equipment and vehicle retirements, auction sales and annual straight-line depreciation costs.

Long-term liabilities increased from \$0 in FY13 to \$2,560,000 in FY14, due to the consolidation of the City and Utility Board. Investment in capital assets net of related debt increased \$422,444 from \$9,792,454 in FY13 to \$10,214,898 in FY14 or 4.31% due to FY14 retirements.

Restricted net position decreased \$211,901 from \$211,901 in FY13 to \$0 in FY14 or 100%. Fund balance was adjusted to more accurately reflect money set aside for capital assets. Fund balance did not meet the requirement for legally restricting fund balance for debt service. There were no Restricted Fund Balance amounts for Capital projects in either FY13 or FY14. The large change from FY 13 to FY 14 was due to the reasons stated throughout this section.

Unrestricted net position increased \$520,263 from \$3,057,414 in FY13 to \$3,577,677 in FY14 or 17.02%.

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.

Changes in Net Position

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

Table A-2: Changes in Net Position at December 31, 2014 and 2013

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2,014	2013
Revenue:						
Program revenue:						
Charges for services	\$2,001,875	\$1,969,804	\$2,951,311	\$2,856,254	\$4,953,186	\$4,826,058
Operating grants and contributions	126,379	55,563	-	-	126,379	55,563
Capital grants and contributions	3,200	215,258	-	-	3,200	215,258
General revenues:						
Property taxes	418,333	315,577	-	-	418,333	315,577
Sales taxes	767,178	809,149	-	-	767,178	809,149
Other taxes	318,187	297,640	-	-	318,187	297,640
Investment earnings	3,756	4,075	3,364	4,457	7,120	8,532
Other	40,203	70,284	11,022	103,899	51,225	174,183
Total revenues	3,679,111	3,737,350	2,965,697	2,964,610	6,644,808	6,701,960
Expenses:						
General government	721,148	473,819	-	-	721,148	473,819
Public safety	1,050,719	1,039,599	-	-	1,050,719	1,039,599
Public works	685,518	630,220	-	-	685,518	630,220
Health & other public svcs.	136,950	114,969	-	-	136,950	114,969
Tourism	142,049	95,431	-	-	142,049	95,431
Municipal Court	313,305	302,694	-	-	313,305	302,694
Principal	60,996	-	-	-	60,996	0
Interest on long-term debt	8,595	-	-	123,551.00	8,595	123,551
Water	0	-	1,000,655	968,808	1,000,655	968,808
Sewer	0	-	812,766	717,225	812,766	717,225
Gas	0	-	973,225	735,497	973,225	735,497
Solid waste	589,662	593,379	-	-	589,662	593,379
Total expenses	3,708,942	3,250,111	2,786,646	2,545,081	6,495,588	5,795,192
Increase in net position						
before transfers	(29,831)	487,239	179,051	419,529	149,220	906,768
Transfers	(551,755)		551,755		-	-
Increase (decrease) in net position	(581,586)	487,239	730,806	419,529	149,220	906,768
Net position, beginning	4,002,459	3,515,219	13,061,769	12,467,526		15,982,745
Prior period adjustment	58,957			174,714	58,957	174,714
Net position, ending	\$3,479,830	\$4,002,458	\$13,792,575	\$13,061,769	\$208,177	\$17,064,227

Governmental Activities

As shown in Table A-2, revenues were split between governmental activities and business-type activities 55.37% and 44.63%, respectively, with expenses for each at 57.41% and 42.59%. Net position decreased \$581,586 from the prior period for governmental activities, increased \$730,806 for business-type activities, and increased \$149,220 overall.

- The cost of all *governmental* activities for the fiscal year 2014 was \$3,708,942.
- However, the amount that taxpayers paid for these services through City taxes and business fees was \$1,503,698.

Some of the cost was paid by:

- Those who directly benefited from the programs (\$2,001,875), and
- Other governments and organizations that subsidized certain programs with grants and contributions (\$129,579).
- Charges for services comprised 54.41% of governmental activities revenues and 99.51% of business-type activities' revenues.
- Taxes contributed 40.87% of governmental activities revenues. Investment and other earnings, with interest rates, generated .10% and .11% of governmental activities revenues and business-type activities, respectively.
- General Government accounts for 19.44% of the total expenses.
- Public Safety and Municipal Court accounted for 36.78% of governmental activities expenses and 22.17% of total expenses were for public works and health services.
- Public Safety required the largest net amount of public funds after deducting program revenue, grants, and contributions. The total subsidy was \$886,175.

Charges for services revenue increased \$32,071 from \$1,969,804 in FY13 to \$2,001,875 in FY14 or 1.63%. General revenue sales tax decreased \$41,971 from \$809,149 in FY13 to \$767,178 in FY14 or 5.19%. In FY13, the City received reductions of \$22,576.23 in one-time comptroller audit adjustments. In FY14, the City received reductions of \$5,181.37 in one-time comptroller audit adjustments. These adjustments were the result of normal State Comptroller Sales Tax Payer audits and no fault of the City.

Other Revenues decreased \$30,081 from \$70,284 in FY13 to \$40,203 in FY14 or 42.80%.

General government expenses increased \$247,329 from \$473,819 in FY13 to \$721,148 in FY14 or 52.20%. Public Safety expenses increased \$11,120 from \$1,039,599 in FY13 to \$1,050,719 in FY14 or 1.07%. In FY14, Public Works which consist of Streets, and Parks and recreation expenses increased \$55,298 from \$630,220 in FY13 to \$685,518 in FY14 or 8.77%. Health and welfare increased \$21,981 from \$114,969 to \$136,950 or 19.12%. Municipal Court increased \$10,611 from \$302,694 to \$313,305 or 3.51%. Solid Waste expenses stayed about the same.

The change in net position before transfers decreased \$517,070 from \$487,239 in FY13 to negative \$29,831 in FY14. Transfers Out increased \$551,755 from \$0 in FY13 to \$551,755 in FY14 or 100%. Fund Balance was utilized to finance one-time purchases and this caused the draw-down in FY14.

TABLE A-2 Business-Type Activities

Charges for services revenue increased \$95,057 from \$2,856,254 in FY13 to \$2,951,311 in FY14 or 3.33%. Water and wastewater sales stabilized due to an increase in much needed rains. Water and wastewater rates remained at FY13 rates.

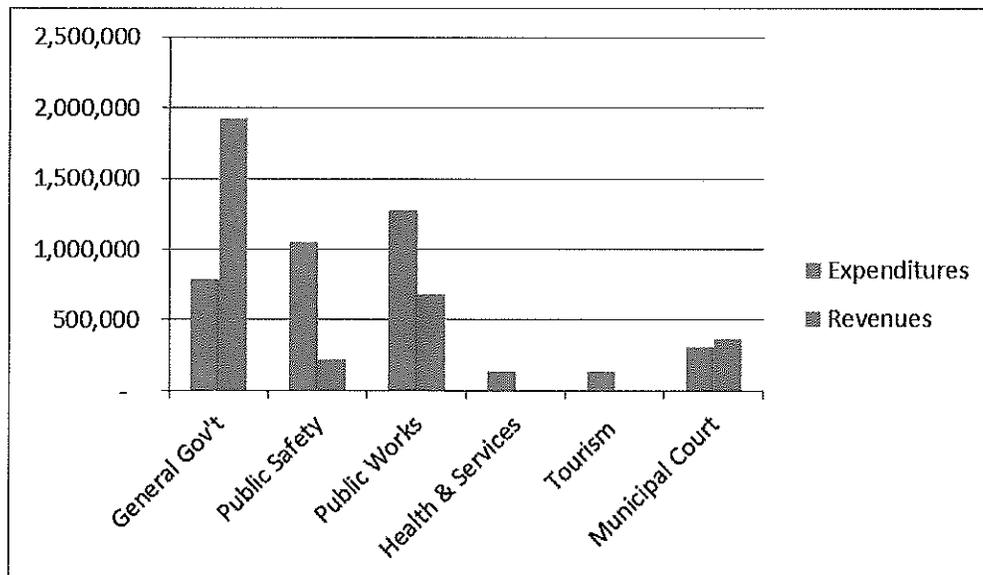
The change in net position before transfers decreased \$240,478 from \$419,529 in FY13 to \$179,051 in FY14 or 57.32%. In FY14, a rate study was developed to draw down of the excess months over the 3 to 4 months of operating expense in fund balance, which is the benchmark in the industry. The model is designed to implement smaller rate increases over a 5 year period, starting in FY15, to offset the increased infrastructure replacement and enhancement needs while drawing down the Fund Balance. At the end of FY14, the Fund Balance was at 96.16% of the FY15 total operating budget expenditures, or about 11 ½ months of the operating budget. Even though the rate model drafted in FY14 calls for a gradual increase in rates, the City chose not to increase water and wastewater rates in FY13 and FY14. In FY15, the model would be in review and a comprehensive multi-year capital outlay plan updated in the model.

Water expenses increased \$31,847 from \$968,808 in FY13 to \$1,000,655 in FY14 or 3.29%. Sewer expenses increased \$95,541 from \$717,225 in FY13 to \$812,766 in FY14. Gas expenses increased \$237,728 from \$735,497 in FY13 to \$973,225 in FY14 or 32.32%.

Transfers In increased \$551,755 from \$0 in FY13 to \$551,755 in FY14 or 100%.

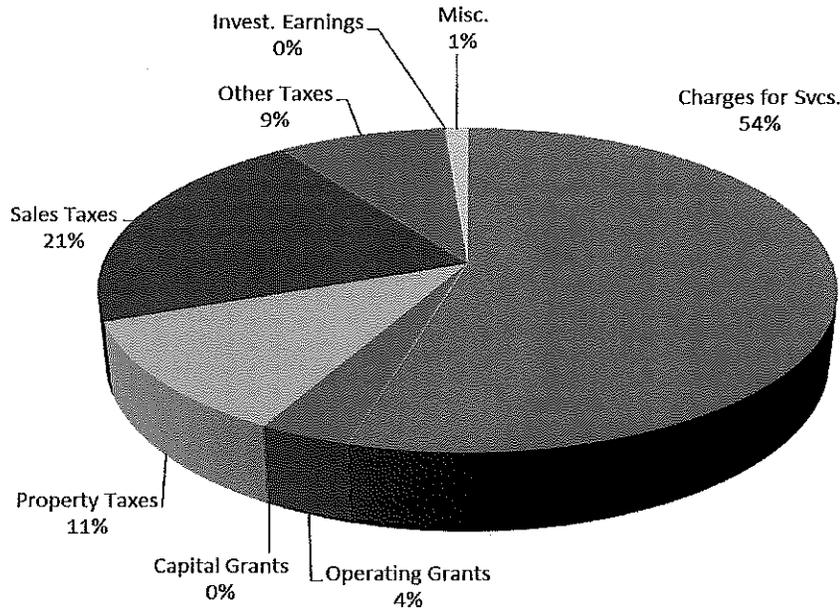
Graph 1 presents the cost of each of the City’s major governmental functions, as well as the associated program revenues.

Graph 1: Program Revenues to Activity Expenditures



Graph 2 indicates, in pie chart form, the sources of revenue for governmental activities. As expected in governmental activities, the subsidy required from taxpayers provides the majority support to these core services.

Graph 2: Revenue by Source – Governmental Activities



Revenues of the City's business-type activities are associated with operating activities accounted for in the Enterprise Funds. Solid Waste and Storm Water activities are recorded in the General Fund but are shown in the government-wide statement as a business-type activity.

The Combined Utilities System of water and wastewater accounted for 65.08% of the expenses generated for business-type activities, with gas accounting for an additional 34.92%. It had operating revenues of \$2,962,333, and income before transfers of \$179,051, with a profit after transfers of \$730,805 for the fiscal year. Compared to the 2013 fiscal year, the System's operating revenues were \$2,949,351, and income before transfers of \$419,529, with a profit after transfers of \$419,529. There were no inter-fund transfers in FY13. The City and Utility Board were separate entities. The Utility Board did pay \$150,794 in operating fees to the City in FY13 which was an operating expense.

The major causes of these results were:

- Increased operating revenues are the result of a slightly wetter spring and summer during 2014 over the previous year, which caused water revenues to decrease by \$5,181, or 0.35% more than the preceding year.
- Sewer fund operating revenue was down by \$27,847 or 4.05%. There are bulk water sale customers along with sewer only customers which would explain why there is not necessarily direct correlation with water sale increases/decreases.
- Gas operating revenue increased \$35,661 or 5.09% from \$700,218 in FY13 to \$735,879 in FY14.
- Other Utility Fund operating revenue increased \$10,349 or 11.12% from \$93,097 in FY13 to \$103,446 in FY14.

- The overall operating expenses increased by \$261,129, primarily due to an increase in Gas costs which increased \$237,728 or 32.32%. The Water Department had an increase in repairs and maintenance of \$31,847 or 3.18%. The Sewer Department repairs and maintenance account for an increase of \$95,541 or 13.32%.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

- Total assets of the General Fund increased \$316,841 from \$2,296,948 to \$2,613,789 between FY13 and FY14. Most of this overall increase in total assets is due to an increase in Cash and Cash Equivalents of \$277,235, an increase in Due from Other Funds of \$14,045, and a \$24,480 increase in Accounts Receivable.
- For FY14, Deferred Revenues decreased \$6,981. Total liabilities of the General Fund decreased by \$90,267 to \$281,871, a 24.26% decrease. The majority of the decrease is attributed to a \$116,854 decrease in Current Accounts Payable and accrued expenses, and a \$20,000 increase in Due to Other Funds. This brings the ratio of total assets to total liabilities to 3.51 times in 2014 which is up from the same 2.73 ratio in 2013.
- See page 53 for the Budgetary Results of the General Fund section for more details on the General Fund revenues and expenditures resulting in a General Fund Excess of revenues over expenditures before other financing sources.
- The General Fund Unassigned Fund balance increased \$96,819 in FY14 to \$1,551,738 from \$1,454,919 in FY13. The Assigned Fund Balance increased by \$317,270. The overall Fund Balance increased \$414,089 from \$1,454,949 in FY13 to \$1,869,038 in FY14.

Debt Service Fund

- There is no Debt Service Fund. General Fund and Utility Fund debt payments are paid from operating revenues in those funds. No Ad Valorem taxes are levied or used to pay the debt.

Capital Improvement Fund

- The Capital Improvement Funds are no longer showed separately as they have been rolled into Other Governmental Funds.

Other Governmental Funds

- Total assets of the Other Governmental Funds increased \$242,971 from \$1,089,011 to \$1,331,982 between FY13 and FY14. Assets are transferred out to the General Fund once assets are purchased. Once projects are completed or capital assets purchased, funds are no longer held open. Cash and Cash equivalents was up \$351,618 in FY14. Due from other Funds was up \$20,000 or 62.83%. Accounts Receivable decreased \$3,552 and Due from Other Governments decreased \$125,095 between FY13 and FY14.

- Total liabilities of the Other Governmental Funds decreased by \$49,531 to \$254,226, an 83.69% decrease. The decrease is attributed to a \$52,731 decrease in Due to Other Funds and Governments.

Budgetary Results of the General Fund

Prior Year Ad valorem Taxes revenue was \$49,773 which was \$17,105 or 52.36% more than the budget. The City usually budgets these estimated revenues conservatively low to adjust for possible anomalies that might occur in the collection process.

Sales Tax revenue was \$767,178 which was \$32,842 or 4.47% above the final budget. These revenues were also budgeted conservatively to adjust for possible State Comptroller audit adjustments or downturns in the economy.

Municipal Court Fines revenue was \$353,385 which was \$46,615 or 11.65% less than the final budget.

Utility Operating Fee revenue was \$205,406 below budget. But the Transfers from the Utility Fund was \$168,782 more than the final budget. This unfavorable budget variance was caused by the budget not reflecting the new account code after the merger of the City of Falfurrias and the Utility Board.

Game Room Amusement Machine Fees revenue was \$889,169 which was \$20,191 or 2.32% higher than the final budget.

Street Department Salaries & Wages expenditures was \$487,928, which exceeded the budget by \$16,639 or 3.53%. The Parks Department Salaries & Wages expenditures were \$146,507, which was \$16,628 or 10.19% less than the budget.

Police Department Overtime expenditures were \$31,971, which was lower by \$19,725 or 38.16% of the budget. This budget variance was caused by Homeland Security overtime reimbursement which reduces the General Fund Police Department overtime expenditures included both FY14 expenditures and a prior period adjustment from FY13.

Administration Department City Legal Consultant expenditures were \$41,250, which was \$23,600 or 36.39% lower than the final budget. This favorable budget variance was caused by the City Attorney not submitting invoices for his services rendered on a timely basis. At mid-year a budget amendment was approved to catch up for 2 previous years of legal services. The third year was for FY14. The City Attorney invoices for FY14 were not submitted until significantly after the three month fiscal year end cut-off.

Municipal Court Costs were \$114,308, which was \$21,692 or 15.95% below the budget amount. These expenditures came in under budget due to lower revenue being generated in FY14 and the State of Texas' share of the revenues based on the nature of the offense.

Game Room Fiesta expenditures were \$20,000 more than the final budget. The Fiesta expenditures were originally planned / budgeted to be paid out of the Motel / Hotel Occupancy taxes, but didn't qualify as an allowable expenditure.

General Fund total revenues came in \$5,332 or 0.16% above the final budget. The General Fund expenditures came in at \$129,440 or 3.82% below the final budget. Actual Revenues and other financing sources exceeded Expenditures by \$355,132.

Additional information on the City's Original Budget to Final Budget and Final Budget to Actual can be found on Exhibit B-1, page 53.

Budget Amendments of the General Fund

General Fund Revenues were amended with \$22,000 more for Ad Valorem Taxes, \$32,606 less in Building Permits and \$83,708 less in Garbage Collections. The increase in Ad Valorem Taxes was due to the City originally budgeting conservatively at an 88% collection rate and it was then readjusted later in the fiscal year to an anticipated 94% collection rate. The Building Permits and Garbage Collections were amended to reflect that the Council approved the waiving of permits, due to a downturn in the economy. The Garbage Collection revenue amendment was the result of closer examination of garbage revenue fees assessed and collected.

The General Fund Administration Department was amended \$7,000 more for Veteran Services Expenditures, \$39,215 more for Professional Services – other, \$45,850 more for Legal Consultant Services, and \$34,197 more for Property/Casualty and bonding insurance. The increase in Veteran's Services was the result of sharing half of the Brooks County cost in delivery of these services. The Professional Services –other increase was the result of studies for Zoning and Planning, and Salary Studies. The Property/Casualty and bonding insurance increase was due to more accurate insurance coverage and comprehensive coverage. The amendment for Legal Services was the result of the City Attorney not submitting invoices to the City for 2 previous fiscal years.

Police Department expenditures were amended \$20,639 more for Salary & Wages and \$40,446 less for Payroll Taxes. The budget amendments were the result of more accurate budgeting methods.

Street Department expenditures was amended \$24,123 less in Salary and Wages Expenditures resulting from unfilled positions at times in FY14.

Municipal Court Delinquent Attorney fees were amended \$24,761 more and the cost for the Municipal Court were reduced \$59,000. This was the result of realigning the budget with the projected annual expenditures.

Non-major Governmental Funds

The two Capital Project funds are the Water System Improvements and Certificate of Obligation 2014 funds. The Water System Improvements had a \$96,818 close-out Transfer to the Utility Fund. The 2014 Certificate of Obligations are solely dedicated to street repairs. Of the \$600,000 in street repairs funding available, \$173,663 was expended in FY14.

Ten special revenue funds comprise this portion of the financial statements. Total assets for the combined funds were \$676,975, total liabilities were \$25,585, and total fund balances were \$651,390, all of which were Restricted Fund Balances.

The Tourism Fund makes up 64.40% of the special revenue funds assets. The main source of funding for the Tourism Fund is from Hotel/Motel Occupancy Taxes. The Hotel / Motel Fund had \$27,491 more expenditures than revenues for the fiscal year. The remaining funds, 35.60%, of these special funds is the Federal and State Grants, Seizure Funds, Police Impound, and Municipal Court Building Security. Each of the special revenue funds are maintained separately because of special provisions for the receipt and expenditure of funds in compliance with Federal or State laws or regulations and the City's bond ordinances, or other City Council actions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Table A-3: Capital Assets (net of depreciation) at December 31, 2014 and 2013

	Governmental Activities			Business-type Activities		
			% Change			% Change
	2014	2013	13-14	2014	2013	13-14
Land	\$12,200	\$12,200	0.00%	\$138,326	\$138,326	0.00%
Building and improvements	480,544	512,953	-6.32%	8,533	-	100.00%
Machinery & Equipment	395,592	390,093	1.41%	529,696	426,863	24.09%
Vehicles	224,900	262,281	-14.25%	-	-	0.00%
Road network	57,955	49,146	17.92%	-	-	0.00%
Utility Plant, mains, meters, & extensions	-	-		12,248,343	8,652,759	41.55%
Construction in progress	4,500	3,555,518	0.00%	-	574,509	-100.00%
Total	\$1,175,691	\$4,782,191	-75.42%	\$12,924,898	\$9,792,457	31.99%

As shown in Table A-3, at December 31, 2014, the City had invested \$14,100,589 (net of depreciation) in a broad range of capital assets, including police, buildings, park facilities, vehicles, equipment, road networks, and its utility system.

TABLE A-3 Governmental Activities

Building and improvements decreased \$32,409 from \$512,953 in FY13 to \$480,544 in FY14 or 6.32% as the result of normal depreciation and retirements. Machinery and Equipment increased \$5,499 from \$390,093 in FY13 to \$395,592 in FY14 or 1.41%. Vehicles decreased \$37,381 from \$262,281 in FY13 to \$224,900 in FY14 or 14.25%. The road network increased \$8,809 from \$49,146 in FY13 to \$57,955 in FY14 or 17.92%.

Construction in progress decreased \$3,551,018 from \$3,555,518 in FY13 to \$4,500 in FY14 with the start of projects funded and with Certificate of Obligations. The decrease indicates that various projects incomplete at the end of FY13 were completed in FY14.

TABLE A-3 Business-type Activities

Building and improvements increased \$8,533 from \$0 in FY13 to \$8,533 in FY14 or 100% as the result of small purchases in the current year. Machinery and Equipment increased \$102,833 from \$426,863 in FY13 to \$529,696 in FY14 or 24.09%. Utility Plant, mains, meters and extensions increased \$3,595,584 from \$8,652,759 in FY13 to \$12,248,343 in FY14 or 41.55%.

Construction in progress decreased \$574,509 from \$574,509 in FY13 to \$0 in FY14. The decrease indicates that various projects incomplete at the end of FY13 were completed in FY14.

Additional information on the City's Capital Assets can be found on Note D, pages 40-41 of the Notes to the Financial Statements.

Table A-4: Long-Term Liabilities at December 31, 2014 and 2013

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Limited Tax Refunding Bonds	\$0	\$2,935,000	\$0	\$0	\$0	\$2,935,000
Certificates of obligation	600,000	-	-	-	600,000	-
Capital leases	277,599	338,595	-	-	277,599	338,595
Other post-employment benefits	-	-	-	-	-	-
Net pension obligation	-	-	-	-	-	-
Refunding Bonds	-	-	2,710,000	-	2,710,000	-
Total debt	877,599	3,273,595	2,710,000	-	3,587,599	3,273,595
Compensated absences	-	-	-	-	-	-
Total long-term debt	\$877,599	\$3,273,595	\$2,710,000	\$0	\$3,587,599	\$3,273,595

Long-term Debt

TABLE A-4 Governmental Activities

Table A-4 indicates that total long-term debt decreased by \$2,395,996 from FY13 to FY14 or 73.19%. In FY14, \$2,395,900 of USDA Cash Advances were refunded by issuing Utility Tax Refunding Bonds, the City issued Governmental Activities' certificate of obligations in the amount of \$600,000 to finance Street Projects. Capital Lease debt decreased \$60,996 in FY14 from the previous Fiscal Year through scheduled payments. There were no Other Post-Employment Benefits or Net Pension Obligation.

TABLE A-4 **Business-type Activities**

There was an overall net reduction of \$225,000 in Limited Tax Refunding bonds and Utility Board revenue bonds issued to refund USDA Cash Advances recorded in the previous year in the City of Falfurrias governmental activities funds (Combined Utility System) through scheduled principal payments. With the consolidation of the Utility Board and the City of Falfurrias \$2,710,000 in debt moved from Governmental-Type Activities debt to Business-Type Activities debt. Additional information on the City's Long-Term Obligations can be found on Note F Item # 1-3, and pages 42-43 of the Notes to the Financial Statements.

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 2014 tax rate is \$0.50000 per \$100 on an assessed valuation of \$80,466,798 and distributed to the General Fund. Therefore, the City's tax margin of \$1.00 per \$100 of assessed value could increase taxes \$804,688 each year based on this assessed value. A brief discussion of the ad valorem tax limitations of the Constitution of the State of Texas and the City Charter are found in Note A Item #4b, pages 34-35 of the Notes to the Financial Statements.

Bond Ratings

All of the City's existing General Obligation debt did not require a Bond Rating. So the City of Falfurrias, Texas does not have an outstanding Bond Rating with any of the three rating agencies.

FISCAL YEAR 2015 ADOPTED OPERATING BUDGET

Total Revenues and Expenditures budgeted for FY15 are \$7,542,210 and \$9,611,059, respectively. The \$2,068,849 difference between expenditures and revenues is due to drawing down fund balances to complete capital projects, the largest portion of which are for projects financed by Certificates of Obligation (C.O.'s).

BUDGET OVERVIEW

The management practices employed and the recommendations put forth in the Budget are intended to improve resident satisfaction with city services consistent with City Council goals. The City's General Fund is the largest and most diverse fund in terms of total budgeted dollars and scope of services to residents. The FY15 General Fund Budget contains a projected operating deficit of \$732,055 along with a savings from FY14 to be used for capital equipment and other items.

The net deficits for FY14 and FY15 are not generally attributed to the City's basic operations resulting instead from planned expenditures and draw down of bond proceeds (Certificates of Obligation) and accumulated operating surpluses from previous years.

General Discussion

The city's fiscal condition is stable due, in part, to relative consistency in two of the City's two largest revenues – sales and property taxes.

Other revenues should also be growing and are required in order to keep pace with general and specific inflation and to offset scheduled and discretionary employee compensation increases; employee professional, technical and safety training; street reconstruction and repairs; facility and office upgrades; equipment replacements; and various electronic and communication technologies. The City of Falfurrias has not been experiencing wide swings in sales and property taxes revenues, as other cities in the area, but has been stable in FY14. City staff must also keep a watchful eye on the cost of unfunded mandates imposed on cities by government and regulatory agencies.

Other Postemployment Benefits (OPEB)

Retirees can remain on the City's health plan until they reach the age of 65. Historically, the City has had only a minimum number of retirees at any time being covered.

Capital Outlays

City staff capital outlay requests for FY15 totaled \$2,448,411, all of which were approved. The capital outlay items approved promotes employee efficiency, effectiveness, and safety and is a combination of large and small items. It includes:

- \$1,000,000 General Land Office drainage grant.
- \$132,850 Street Sweeper
- \$500,548 Street projects
- \$78,327 Parks Department (1) backhoe
- \$120,000 Parks Department (4) vehicles
- \$24,533 Parks Department - Little League bleachers
- \$80,000 Parks Department - Little League lights
- \$40,000 Parks Department - Tennis Courts
- \$100,000 Parks Department - Splash Pad
- \$75,000 Golf Course - replace / upgrade greens
- \$51,955 Golf Course - electric golf carts
- \$10,545 Golf Course - pump with electric motor
- \$27,400 Golf Course - (2) tractors
- \$3,650 Golf Course - (1) loader
- \$7,000 Golf Course - (1) backhoe
- \$13,000 Golf Course - (1) greens mower
- \$37,617 Police Department - Intercept vehicle
- \$30,000 Utility Fund - AMR Software
- \$24,000 Utility Fund - 4" Water pump
- \$11,986 Utility Fund - GPS & mapping software
- \$70,000 Utility Fund - (2) Vehicles

Preserving Bonding Capacity

The FY15 Budget includes the draw down of some of the General Fund's fund balance and other operational resources to make small dollar capital outlays and other one-time or periodic expenditures. The Fund Balance is planned to be drawn down to minimum reserve levels to take care of necessary capital expenditures.

Although these assets constitute small dollars individually, over time they add up to large amounts that can consume large portions of the city's debt capacity. Paying for small dollar assets using the City's limited long-term bonding authority negatively impacts and reduces the City's ability to use those available bonds for major streets, sewer, water and other infrastructure projects. Efforts will be made in FY16 to increase the General Fund's Fund Balance to more than the minimum 3 months of budgeted expenditures requirement.

Proposed Street Improvements

City staff submitted street improvement project requests totaling \$500,548 which is part of the overall total of \$2,448,411 capital outlay requests, all of which were approved. Street improvement projects are budgeted and paid for from Certificate of Obligation bond proceeds, and some Utility Department Street Repair and Maintenance expenditures were budgeted.

Subsequent Events

Game Rooms located within the City limits of Falfurrias were shut down by federal agents May 31, 2015. The City of Falfurrias received \$900,548 annually in license fees in FY14. In FY15, the City collected \$525,988 before the Game Rooms were shut down. This was \$374,560 or 41.59% less than collections in FY14. Walmart closed in July 2015 which had an impact on Sales Tax for the latter part of FY15. The Game Rooms and Walmart closures combined along with the downturn in the Oil & Gas industry has created a projected shortfall in Sales Tax Revenue for FY15 of about 25% or about \$105,647 less than FY14. As a result, the City may be experiencing a \$480,247 loss of revenue in FY15 and about \$1,092,342 loss of revenue in FY16.

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:

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Director of Finance
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(361) 325-2420 (phone) (361) 325-9784 (fax)
Or visit our web site at: www.cityofFalfurrias.com

City of Falfurrias, Texas

Basic Financial Statements

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS

STATEMENT OF NET POSITION

DECEMBER 31, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 2,888,424	\$ 2,848,264	\$ 5,736,688
Receivables (net of allowances for uncollectibles):			
<i>Taxes</i>	243,924	--	243,924
<i>Accounts</i>	152,711	445,551	598,262
<i>Other</i>	191,603	3,741	195,344
<i>Accrued Interest Receivable</i>	1,022	--	1,022
<i>Internal Balances</i>	66,775	(66,775)	--
<i>Due from other governments</i>	113,295	162,346	275,641
<i>Inventories</i>	--	120,976	120,976
Restricted assets:			
<i>Cash and cash equivalents</i>	--	500,363	500,363
<i>Capital assets</i>	1,175,689	12,924,898	14,100,587
Total Assets	<u>4,833,443</u>	<u>16,939,364</u>	<u>21,772,807</u>
LIABILITIES:			
<i>Accounts payable</i>	121,623	223,871	345,494
<i>Accrued wages payable</i>	--	6,248	6,248
<i>Due to other governments</i>	5,991	--	5,991
<i>Meter deposits</i>	120,466	182,280	302,746
<i>Accrued interest payable</i>	8,985	24,390	33,375
Liabilities due within one year:			
<i>Current portion of bonds payable</i>	115,000	150,000	265,000
<i>Current portion of lease payable</i>	62,889	--	62,889
Liabilities due in more than one year:			
<i>General obligation bonds payable</i>	485,000	2,560,000	3,045,000
<i>Capital leases payable</i>	214,704	--	214,704
Total Liabilities	<u>1,134,658</u>	<u>3,146,789</u>	<u>4,281,447</u>
DEFERRED INFLOWS OF RESOURCES:			
<i>Unearned revenue</i>	218,955	--	218,955
Total Deferred Inflows of Resources	<u>218,955</u>	<u>--</u>	<u>218,955</u>
NET POSITION:			
Net Investment in Capital Assets	298,096	10,214,898	10,512,994
Restricted For:			
Federal and State Programs	41,496	--	41,496
Law Enforcement	171,735	--	171,735
Tourism	424,509	--	424,509
Municipal Court Building Security	41,074	--	41,074
Municipal Court Technology	4,422	--	4,422
Other Purposes	7,018	--	7,018
Unrestricted	2,491,480	3,577,677	6,069,157
Total Net Position	<u>\$ 3,479,830</u>	<u>\$ 13,792,575</u>	<u>\$ 17,272,405</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Expenditures:				
<i>General government</i>	\$ 721,148	\$ 924,999	\$ --	\$ 3,200
<i>Sanitation</i>	589,662	677,327	--	--
<i>Municipal Court</i>	313,305	361,384	--	--
<i>Public Safety</i>	1,050,719	38,165	126,379	--
<i>Streets</i>	359,794	--	--	--
<i>Health and welfare</i>	136,950	--	--	--
<i>Parks and recreation</i>	325,724	--	--	--
<i>Tourism</i>	142,049	--	--	--
<i>Principal</i>	60,996	--	--	--
<i>Interest and fiscal charges</i>	8,595	--	--	--
Total governmental activities	<u>3,708,942</u>	<u>2,001,875</u>	<u>126,379</u>	<u>3,200</u>
Business-type Activities:				
Utility	1,000,655	1,525,825	--	--
Sewer	812,766	672,687	--	--
Gas	973,225	752,798	--	--
Total Business-type Activities	<u>2,786,646</u>	<u>2,951,310</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 6,495,588</u>	<u>\$ 4,953,185</u>	<u>\$ 126,379</u>	<u>\$ 3,200</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Occupancy Taxes
Alcoholic Beverage Taxes
Miscellaneous
Unrestricted Investment Earnings
Transfers
Total General Revenues and Transfers
Change in Net Assets
Net Position - Beginning
Prior Period Adjustment
Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 207,051		\$ 207,051
87,665		87,665
48,079		48,079
(886,175)		(886,175)
(359,794)		(359,794)
(136,950)		(136,950)
(325,724)		(325,724)
(142,049)		(142,049)
(60,996)		(60,996)
(8,595)		(8,595)
<u>(1,577,488)</u>		<u>(1,577,488)</u>
--	\$ 525,170	525,170
--	(140,079)	(140,079)
--	(220,427)	(220,427)
--	164,664	164,664
<u>(1,577,488)</u>	<u>164,664</u>	<u>(1,412,824)</u>
418,333	--	418,333
767,178	--	767,178
212,398	--	212,398
105,110	--	105,110
679	--	679
40,203	11,022	51,225
3,756	3,365	7,121
(551,755)	551,754	(1)
<u>995,902</u>	<u>566,141</u>	<u>1,562,043</u>
(581,586)	730,805	149,219
4,002,459	13,061,770	17,064,229
58,957	--	58,957
<u>\$ 3,479,830</u>	<u>\$ 13,792,575</u>	<u>\$ 17,272,405</u>

CITY OF FALFURRIAS, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General Fund	Homeland Security #2	Other Governmental Funds	Total Governmental Funds
ASSETS:				
<i>Cash and cash equivalents</i>	\$ 1,723,165	\$ 138,268	\$ 1,026,991	\$ 2,888,424
Receivables (net of allowances for uncollectibles):				
<i>Taxes</i>	243,924	--	--	243,924
<i>Accounts</i>	152,711	--	--	152,711
<i>Other</i>	167,959	--	23,644	191,603
<i>Accrued Interest Receivable</i>	175	--	847	1,022
<i>Due from other funds</i>	302,962	--	51,830	354,792
<i>Due from other governments</i>	22,893	90,402	--	113,295
Total Assets	<u>\$ 2,613,789</u>	<u>\$ 228,670</u>	<u>\$ 1,103,312</u>	<u>\$ 3,945,771</u>
LIABILITIES:				
<i>Accounts payable</i>	\$ 117,520	\$ --	\$ 4,103	\$ 121,623
<i>Due to other funds</i>	43,872	222,663	21,482	288,017
<i>Due to other governments</i>	17	5,974	--	5,991
<i>Meter deposits</i>	120,462	4	--	120,466
Total Liabilities	<u>281,871</u>	<u>228,641</u>	<u>25,585</u>	<u>536,097</u>
DEFERRED INFLOWS OF RESOURCES:				
<i>Unearned revenue</i>	462,880	--	--	462,880
Total Deferred Inflows of Resources	<u>462,880</u>	<u>--</u>	<u>--</u>	<u>462,880</u>
FUND BALANCES:				
<i>Restricted:</i>				
<i>Restricted for Tourism</i>	--	--	424,509	424,509
<i>Restricted for State and Federal Grants</i>	--	29	2,632	2,661
<i>Restricted for Capital Projects</i>	--	--	426,337	426,337
<i>Restricted for Donor Intent</i>	--	--	7,018	7,018
<i>Restricted for Law Enforcement</i>	--	--	171,735	171,735
<i>Restricted for Municipal Court Building Security</i>	--	--	41,074	41,074
<i>Restricted for Municipal Court Technology</i>	--	--	4,422	4,422
<i>Assigned</i>	317,300	--	--	317,300
<i>Unassigned</i>	1,551,738	--	--	1,551,738
Total equity	<u>1,869,038</u>	<u>29</u>	<u>1,077,727</u>	<u>2,946,794</u>
Total Liabilities And Equity	<u>\$ 2,613,789</u>	<u>\$ 228,670</u>	<u>\$ 1,103,312</u>	<u>\$ 3,945,771</u>

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 POSITION
 DECEMBER 31, 2014

Total fund balances - governmental funds balance sheet	\$ 2,946,794
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	1,110,233
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	243,925
Payables for bond principal which are not due in the current period are not reported in the funds.	(600,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(212,137)
Payables for bond interest which are not due in the current period are not reported in the funds.	<u>(8,985)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 3,479,830</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXASSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	General Fund	Homeland Security #2	Other Governmental Funds	Total Governmental Funds
Revenue:				
Taxes	\$ 1,408,321	\$ --	\$ 105,110	\$ 1,513,431
Licenses and permits	22,519	--	--	22,519
Federal and state grants	6,997	117,895	4,687	129,579
Charges for services	1,579,103	--	--	1,579,103
Fines & forfeitures	354,156	--	45,393	399,549
Interest	2,507	--	1,249	3,756
Miscellaneous	40,907	--	--	40,907
Total revenues	<u>3,414,510</u>	<u>117,895</u>	<u>156,439</u>	<u>3,688,844</u>
Expenditures:				
Current:				
General government	681,258	--	7,934	689,192
Sanitation	561,575	--	--	561,575
Municipal Court	301,734	--	--	301,734
Public Safety	917,633	117,895	15,707	1,051,235
Streets	257,577	--	173,663	431,240
Health and welfare	129,891	--	--	129,891
Parks and recreation	341,901	--	--	341,901
Tourism	--	--	133,613	133,613
Capital outlay	--	--	3,200	3,200
Debt service:				
Principal	60,996	--	--	60,996
Interest and fiscal charges	8,595	--	--	8,595
Total expenditures	<u>3,261,160</u>	<u>117,895</u>	<u>334,117</u>	<u>3,713,172</u>
Excess (deficiency) of revenues (under) expenditures	153,350	--	(177,678)	(24,328)
Other financing sources (uses):				
Transfers in	639,105	--	--	639,105
Transfers out	(437,323)	--	(129,818)	(567,141)
Proceeds from bonds	--	--	600,000	600,000
Total other financing sources (uses)	<u>201,782</u>	<u>--</u>	<u>470,182</u>	<u>671,964</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	355,132	--	292,504	647,636
Fund balances/equity, January 1	1,454,949	29	785,223	2,240,201
Prior period adjustment	58,957	--	--	58,957
Fund balances/equity, December 31	<u>\$ 1,869,038</u>	<u>\$ 29</u>	<u>\$ 1,077,727</u>	<u>\$ 2,946,794</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, 2014*

Net change in fund balances - total governmental funds	\$ 647,636
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	128,816
The depreciation of capital assets used in governmental activities is not reported in the funds.	(176,598)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(9,732)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	60,996
(Increase) decrease in accrued interest from beginning of period to end of period.	(8,985)
Transfer of capital assets out of governmental activities into business type activities	(3,558,719)
Transfer of long-term liabilities out of governmental activities into business type activities	2,935,000
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(600,000)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (581,586)</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

STATEMENT OF NET POSITION

ENTERPRISE FUNDS

DECEMBER 31, 2014

	Enterprise Fund
	Utility Fund
ASSETS	
Current Assets:	
<i>Cash and cash equivalents</i>	\$ 2,848,264
<i>Accounts</i>	445,551
<i>Other</i>	3,741
<i>Due from other funds</i>	4,437
<i>Due from other governments</i>	162,347
<i>Inventories</i>	120,976
<i>Total current assets</i>	<u>3,585,316</u>
Restricted assets:	
<i>Cash and cash equivalents</i>	500,363
<i>Total restricted assets</i>	<u>500,363</u>
Long-term assets:	
<i>Fixed assets (net, where applicable, of accumulated depreciation)</i>	12,924,898
<i>Total long-term assets</i>	<u>12,924,898</u>
Total Assets	<u><u>\$ 17,010,577</u></u>
LIABILITIES	
Current liabilities:	
<i>Accounts payable</i>	\$ 223,871
<i>Accrued wages</i>	6,248
<i>Due to other funds</i>	71,213
<i>Total current liabilities</i>	<u>301,332</u>
<i>Payable from restricted assets:</i>	
<i>Current portion of bonds payable</i>	150,000
<i>Meter deposits</i>	182,280
<i>Accrued interest payable</i>	24,390
<i>Total payable from restricted assets</i>	<u>356,670</u>
<i>General obligation bonds payable</i>	2,560,000
<i>Total current liabilities</i>	<u>2,560,000</u>
Total Liabilities	<u>3,218,002</u>
Equity and other credits:	
<i>Investment in general fixed assets</i>	10,214,898
<i>Restricted for debt service</i>	211,901
<i>Unrestricted</i>	3,365,776
Total equity and other credits	<u>13,792,575</u>
Total Liabilities, Equity & Other Credits	<u><u>\$ 17,010,577</u></u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Enterprise Fund
	Utility Fund
OPERATING REVENUES:	
<i>Service revenue</i>	
<i>Water revenue</i>	\$ 1,463,328
<i>Sewer revenue</i>	659,680
<i>Gas revenue</i>	735,879
<i>Other income</i>	103,446
Total Operating Revenues	<u>2,962,333</u>
OPERATING EXPENSES:	
<i>Salaries</i>	482,506
<i>Production costs</i>	463,100
<i>Repairs and maintenance</i>	631,840
<i>Supplies</i>	23,791
<i>Employee benefits and taxes</i>	158,716
<i>Office expense</i>	53,960
<i>Insurance</i>	36,560
<i>Utilities and telephone</i>	20,245
<i>Professional fees</i>	124,057
<i>Bad debts</i>	12,464
<i>Depreciation</i>	639,233
<i>Other expense</i>	36,187
Total Operating Expenses	<u>2,682,659</u>
Operating Income (Loss)	<u>279,674</u>
NON-OPERATING REVENUES (EXPENSES):	
<i>Interest revenue</i>	3,365
<i>Interest expense</i>	(103,988)
Total Non-operating Revenues (Expenses)	<u>(100,623)</u>
Net Income (Loss) before Operating Transfers	<u>179,051</u>
TRANSFERS:	
<i>Interfund transfers in</i>	720,537
<i>Interfund transfers out</i>	(168,782)
Total Transfers	<u>551,755</u>
Net income	730,806
Retained earnings/fund balances, January 1	13,061,769
Retained earnings/fund balances, December 31	<u>\$ 13,792,575</u>

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Utility Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 3,252,011
<i>Cash Payments to Employees for Services</i>	(482,506)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,580,328)
Net Cash Provided (Used) by Operating Activities	<u>1,189,177</u>
Cash Flows from Non-capital Financing Activities:	
<i>Proceeds (Payments) from (for) Borrowings with other funds</i>	66,776
<i>Payments to Other Governments</i>	(200,020)
<i>Transfers From (To) Other Funds</i>	(71,964)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(205,208)</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Principal and Interest Paid</i>	(304,598)
<i>Acquisition or Construction of Capital Assets</i>	(212,958)
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(517,556)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	3,365
Net Cash Provided (Used) for Investing Activities	<u>3,365</u>
Net Increase (Decrease) in Cash and Cash Equivalents	469,778
Cash and Cash Equivalents at Beginning of Year	2,878,849
Cash and Cash Equivalents at End of Year	<u>\$ 3,348,627</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ 279,674
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	639,233
<i>Provision for Uncollectible Accounts</i>	12,003
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	287,535
<i>Decrease (Increase) in Inventories</i>	49,641
<i>Increase (Decrease) in Accounts Payable</i>	(77,939)
<i>Increase (Decrease) in Accrued Expenses</i>	(3,113)
<i>Increase (Decrease) in Customer Deposits</i>	2,143
Total Adjustments	<u>909,503</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,189,177</u>
Cash and cash equivalents	\$ 2,848,264
Cash and cash equivalents - restricted	500,363
Total cash and cash equivalents	<u>\$ 3,348,627</u>

Non-cash Transactions:

The Utility Fund assumed a \$2,935,000 USDA Bond Liability and received \$3,558,719 in capital assets from the City, resulting in a net non-cash transfer from the General Fund of \$623,719.

The accompanying notes are an integral part of this statement.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

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

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

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

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 position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and 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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

of activities. Program revenues include (1) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

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.

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

The City reports the following major enterprise funds:

Enterprise Fund - is used to account for revenues and expenses related to goods or services sold to parties outside the City. This fund is used to account for utility operations that are financed and operated in a manner similar to private business enterprises where the costs of providing water, sewer, and natural gas services to the general public, on a continuing basis, are financed through user charges.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues available if they are collected within 120 days for revenue accruals, except property taxes, for which subsequent collections are not accrued as they are immaterial. Expenditures are recorded when the related liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences, are recorded only when payment has matured and will be payable shortly after year-end. 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Revenues susceptible to accrual are franchise fees, licenses, charges for services, interest income, and intergovernmental revenues. Sales taxes collected and held by the state and year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

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.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

3. Implementation of New Standards

The City has adopted all current GASB pronouncements that are applicable to its operations and activities. The following are new GASB Pronouncements:

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years being completed after June 15, 2015.

New pronouncements not yet in effect as of December 31, 2014, are expected to have a significant impact on the City's financial position, results of operations, or cash flows. The City is currently studying these new pronouncements and will adopt them, as applicable, in subsequent fiscal years.

4. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of one year or less when purchased.

b. 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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 2013 tax rate was \$.50000 on assessed value of \$78,606,214 and was distributed to the General Fund. The 2014 tax rate is \$.50000 on an assessed value of \$80,466,798 with collections of \$218,955 which is deferred to 2015.

c. Inventories and Prepaid Items

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

Business-type inventories on the balance sheet are stated at the lower of cost (first-in, first-out method) or market. 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.

d. 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.

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

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

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors; technological developments, or other evidence of obsolescence; changes in the manner of duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal year 2014.

e. 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.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

f. Customer Meter Deposits

The Utility Fund requires a deposit when new service is initiated for a customer. These deposits are usually refunded after being held for more than one year. An active program is underway to timely reimburse all old deposits. Interest is paid on the deposits, but no accrual is made. Interest paid on these deposits is accounted for on the cash basis, as the amounts are immaterial to the financial statements as a whole.

g. Due to Volunteer Fire Department

Beginning July, 1986, the Utility Fund included on each monthly utility bill a \$1 charge for voluntary donations to the Falfurrias Emergency Medical Service and the Volunteer Fire Department. Effective October 1, 1995, the voluntary donations were limited to the Volunteer Fire Department. It is strictly a voluntary charge and can be ignored by the customer. All funds received each month as donations are then remitted the following month to the Volunteer Fire Department.

h. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary Statements of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/penditure) until then.

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

i. Pension Fund Liability

The employees of the City are presently participating in a nontraditional, joint contributory, defined contribution pension plan in the state-wide Texas Municipal Retirement System.

j. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for any unused vacation leave accumulated during the year. Sick leave is not paid at retirement or termination. The City has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation and sick pay is charged to departments when taken by the employee.

k. Bond Issuance Costs

Bond issuance costs are expensed in the year incurred.

l. 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

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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 position.

m. Fund Equity

Fund balances of the governmental funds are classified as follows:

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

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

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

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

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

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

f. Use of Estimates

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

5. Changes in Accounting Policies

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

CITY OF FALFURRIAS, TEXAS
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Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The City has implemented the provisions of this Statement for the year ended December 31, 2014.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

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

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

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

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

C. Deposits and Investments

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

1. Cash Deposits

At December 31, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$6,237,051 and the bank balance was \$6,482,232. The City's cash deposits at December 31, 2014 and during the year ended December 31, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

CITY OF FALFURRIAS, TEXAS
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FOR THE YEAR ENDED DECEMBER 31, 2014

2. Investments

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

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

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

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

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

The City had no investments at December 31, 2014.

Investment Accounting Policy

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

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risks

Credit risk is the risk that an issuer or 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.

CITY OF FALFURRIAS, TEXAS
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b. Custodial Credit Risk

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

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

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

c. Concentration of Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

D. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,200	\$ --	\$ --	\$ 12,200
Construction in progress	3,555,518	7,700	3,558,718 **	4,500
Total capital assets not being depreciated	<u>3,567,718</u>	<u>7,700</u>	<u>3,558,718</u>	<u>16,700</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	901,906	--	--	901,906
Infrastructure	93,615	14,200	--	107,815
Equipment	681,542	71,281	--	752,823
Vehicles	801,634	35,635	--	837,269
Total capital assets being depreciated	<u>2,478,697</u>	<u>121,116</u>	<u>--</u>	<u>2,599,813</u>
Less accumulated depreciation for:				
Buildings and improvements	(388,953)	(32,409)	--	(421,362)
Infrastructure	(44,469)	(5,391)	--	(49,860)
Equipment	(291,449)	(65,782)	--	(357,231)
Vehicles	(539,353)	(73,016)	--	(612,369)
Total accumulated depreciation	<u>(1,264,224)</u>	<u>(176,598)</u>	<u>--</u>	<u>(1,440,822)</u>
Total capital assets being depreciated, net	<u>1,214,473</u>	<u>(55,482)</u>	<u>--</u>	<u>1,158,991</u>
Governmental activities capital assets, net	<u>\$ 4,782,191</u>	<u>\$ (47,782)</u>	<u>\$ 3,558,718</u>	<u>\$ 1,175,691</u>

** See Note Q.

CITY OF FALFURRIAS, TEXAS
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	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 138,326	\$ --	\$ --	\$ 138,326
Construction in progress	574,509	20,263	594,772	--
Total capital assets not being depreciated	<u>712,835</u>	<u>20,263</u>	<u>594,772</u>	<u>138,326</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	17,276	8,983	--	26,259
Machinery and equipment	1,472,986	183,710	--	1,656,696
Office equipment	136,186	--	--	136,186
Mains, meters, & extensions	14,536,791	4,153,491	--	18,690,282
Sewer Plant	2,203,000	--	--	2,203,000
Total capital assets being depreciated	<u>18,366,239</u>	<u>4,346,184</u>	<u>--</u>	<u>22,712,423</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,276)	(450)	--	(17,726)
Machinery and equipment	(1,069,355)	(66,580)	--	(1,135,935)
Office equipment	(112,954)	(14,297)	--	(127,251)
Mains, meters, & extensions	(7,568,407)	(502,832)	--	(8,071,239)
Sewer Plant	(518,625)	(55,075)	--	(573,700)
Total accumulated depreciation	<u>(9,286,617)</u>	<u>(639,234)</u>	<u>--</u>	<u>(9,925,851)</u>
Total capital assets being depreciated, net	9,079,622	3,706,950	--	12,786,572
Business-type activities capital assets, net	<u>\$ 9,792,457</u>	<u>\$ 3,727,213</u>	<u>\$ 594,772</u>	<u>\$ 12,924,898</u>

Depreciation was charged to functions as follows:

General Government	\$ 31,957
Sanitation	28,087
Municipal Court	11,571
Public Safety	60,265
Streets	10,064
Health & Welfare	7,059
Parks & Recreation	19,159
Tourism	8,436
	<u>\$ 176,598</u>

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at December 31, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
<u>Governmental Funds:</u>			
General Fund	Other Governmental Funds	\$ 10,944	Short-term loans
Other Governmental Funds	General Fund	51,830	Short-term loans
General Fund	Utility Fund	66,775	Short-term loans
General Fund	Other General Fund	2,580	Short-term loans
General Fund	Homeland Security Fund	222,663	Short-term loans
	Subtotal	<u>354,792</u>	
<u>Enterprise Funds:</u>			
Utility Fund	Other Enterprise Funds	4,438	Short-term loans
	Total	<u>\$ 359,230</u>	

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

CITY OF FALFURRIAS, TEXAS
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FOR THE YEAR ENDED DECEMBER 31, 2014

2. Transfers To and From Other Funds

Transfers to and from other funds at December 31, 2014, consisted of the following:

Transfers To	Transfers From	Amount	Reason
General Fund	Other Governmental Funds	\$ 437,323	Supplement other funds sources
General Fund	Utility Fund	168,782	Supplement other funds sources
General Fund	Other General Fund	33,000	Supplement other funds sources
	Subtotal	639,105	
Utility Fund	Other Utility Fund	96,818	Supplement other funds sources
Utility Fund	Governmental Account Groups	623,719	(1)
	Subtotal	720,537	
	Total	\$ 1,359,642	

(1) The General Fund transferred \$3,558,719 in Capital Assets and \$2,935,000 in Refunding Bond debt to the Utility Fund as of January 1, 2014. See also Note Q for additional information.

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, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Limited Tax Refunding Bonds	\$ 2,935,000	\$ --	\$ 2,935,000	\$ --	\$ --
Certificates of Obligation	--	600,000	--	600,000	115,000
Capital leases	338,595	--	60,996	277,599	62,889
Total governmental activities	\$ 3,273,595	\$ 600,000	\$ 2,995,996	\$ 877,599	\$ 177,889
<u>Business-type activities:</u>					
2013 Refunding Bonds	\$ --	\$ 2,935,000	\$ 225,000	\$ 2,710,000	\$ 150,000
Total business-type activities	\$ --	\$ 2,935,000	\$ 225,000	\$ 2,710,000	\$ 150,000

	2014	2013
<u>Governmental Activities:</u>		
Limited Tax Refunding Bonds, Series 2013, payable in annual installments of \$304,597 to \$244,320 including interest at 3.6%, secured by ad valorem taxes and maturing April 1, 2028 (1)	\$ --	\$ 2,935,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014, payable over five years, maturing March 1, 2019, with interest at 1.73%, total annual payments ranging from \$124,385 to \$126,081, secured by ad valorem taxes and limited revenue	600,000	--
<u>Business Type Activities:</u>		
Limited Tax Refunding Bonds, Series 2013, payable in annual installments of \$304,597 to \$244,320 including interest at 3.6%, secured by ad valorem taxes and maturing April 1, 2028 (1)	2,710,000	--
Total	\$ 3,310,000	\$ 2,935,000

(1) See also Note Q

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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2. Debt Service Requirements

Debt service requirements on long-term debt at December 31, 2014, are as follows:

<u>Year Ending December 31,</u>	Governmental Activities		
	Principal	Interest	Total
2015	\$ 115,000	\$ 9,385	\$ 124,385
2016	120,000	7,353	127,353
2017	120,000	5,277	125,277
2018	120,000	3,200	123,200
2019	125,000	1,081	126,081
Totals	<u>\$ 600,000</u>	<u>\$ 26,296</u>	<u>\$ 626,296</u>

<u>Year Ending December 31,</u>	Business-type Activities		
	Principal	Interest	Total
2015	\$ 150,000	\$ 94,860	\$ 244,860
2016	155,000	89,370	244,370
2017	165,000	83,610	248,610
2018	170,000	77,580	247,580
2019	175,000	71,370	246,370
2020-2024	975,000	255,870	1,230,870
2025-2028	920,000	67,500	987,500
Totals	<u>\$ 2,710,000</u>	<u>\$ 740,160</u>	<u>\$ 3,450,160</u>

3. Advance Refunding of Debt

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

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of December 31, 2014, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

<u>Bond Issue</u>	Original Amount	Defeased Balance at 12/31/14
Series 1999	\$ 3,052,000	\$ 2,833,000
Total	<u>\$ 3,052,000</u>	<u>\$ 2,833,000</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of December 31, 2014, as follows:

<u>Year Ending December 31:</u>	
2015	\$ 69,591
2016	69,591
2017	69,591
2018	69,591
2019	9,266
2020	9,267
Total Minimum Lease Payments	<u>296,897</u>
Less amount representing interest	<u>(19,298)</u>
Present value of net minimum lease payments	<u>\$ 277,599</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 2014, 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

As of December 31, 2014, the City and the Utility Fund (formerly The Utility Board of Falfurrias prior to January 1, 2014) were still utilizing separate pension plans. The Utility Fund employees were brought into the City's plan subsequent to year-end. These plans are as follows:

CITY PLAN (other than Utility Fund Employees):

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
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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:

	2012	2013	2014
<u>City Specific:</u>			
Employee deposit rate	5%	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
Years required for vesting	5	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
Updated service credit annually repeating (Y/N)	0% N	0% N	0% N
Annuity increase to retirees annually repeating (Y/N)	0% N	0% N	0% N

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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

Fiscal Year Ending:	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
12/31/12	\$ 17,031	\$ 17,031	100.0%	\$ --
12/31/13	\$ 16,893	\$ 16,893	100.0%	\$ --
12/31/14	\$ 19,855	\$ 19,855	100.0%	\$ --

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date:	12/31/11	12/31/12	12/31/13
<u>Actuarial Information</u>			
Actuarial cost method	Projected Unit credit	Projected Unit credit	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization period	24.8 years - closed period	24.7 years - closed period	9.0 years - closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset valuation method	10 year Smoothed Market	10 year Smoothed Market	10 year Smoothed Market
<u>Assumptions</u>			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost of living adjustments	0.0%	0.0%	0.0%

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

The funded status as of December 31, 2013, under the two separate actuarial valuations, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a % of Covered Payroll
12/31/13	1,213,344	1,232,790	98.4%	19,446	1,045,625	1.9%

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

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
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B. Supplemental Death Benefits Fund

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

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

The city offers supplemental death to:	Plan Year 2014	Plan Year 2013
Active Employees	Yes	Yes
Retirees	Yes	Yes

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

The City's contributions to the TMRS SDBF for the years ended 2014, 2013, and 2012 were \$993, \$2,533, and \$2,384, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.04%	0.04%	100.0%
2013	0.04%	0.04%	100.0%
2014	0.05%	0.05%	100.0%

UTILITY FUND PLAN:

Plan Description

The Utility Fund 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 Utility Fund 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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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:

	2012	2013	2014
Plan Provisions (City Specific):			
2. Employee deposit rate	5%	5%	5%
3. Matching ratio (city to employee)	1 to 1	1 to 1	1 to 1
4. Years required for vesting	5	5	5
5. Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25	60/5, 0/25
6. Updated service credit annually repeating (Y/N)	-- N	-- N	-- N
7. Annuity increase to retirees annually repeating (Y/N)	-- N	-- N	-- N

Contributions

Under the state law governing TMRS, the contribution rate for each member is determined annually by the actuary, using the Entry Age Normal (EAN) cost method. (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Cost actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that member. 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 Utility Fund 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 the 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)
12/31/12	\$ 23,499	\$ 23,499	100.0%	\$ --
12/31/13	\$ 21,937	\$ 21,937	100.0%	\$ --
12/31/14	\$ 17,891	\$ 17,891	100.0%	\$ --

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date:	12/31/11	12/31/12	12/31/13
Actuarial Information			
Actuarial cost method	Projected Unit credit	Projected Unit credit	Entry Age Normal
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	20.7 years - closed period	19.6 years - closed period	24.0 years - closed period
Amortization period for new Gains/Losses	17 years	16 years	15 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Assumptions			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	--	--	--

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

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a % of Covered Payroll
12/31/13	\$ 721,374	\$ 877,224	82.2%	\$ 155,850	\$ 454,647	34.3%

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, 2014

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

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

	2014	2013
The Utility Fund offers supplemental death to:		
active employees	Yes	Yes
retirees	Yes	Yes

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

The City's contributions to the TMRS SDBF for the years ended 2014, 2013, and 2012 were \$895, \$3,290, and \$3,290, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2012	0.04%	0.04%	100.0%
2013	0.04%	0.04%	100.0%
2014	0.05%	0.05%	100.0%

I. Health Care Coverage

During the year ended December 31, 2014, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$529 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, 2015, 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, 2014, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records. See also Risk Management footnote.

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

J. Commitments and Contingencies

1. Contingencies

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

2. Litigation

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

K. Closure and Postclosure Care Cost

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

L. Accounts Receivable

Accounts receivable at December 31, 2014, consisted of the following:

	<u>General</u>	<u>Other Funds</u>	<u>Enterprise</u>	<u>Total</u>
Accounts	\$ 202,055	23,644	\$ 582,983	\$ 808,682
Taxes-Property	421,049	--	--	421,049
Taxes-Franchise & Sales	167,958	--	--	167,958
Other	--	--	3,741	3,741
Gross Receivables	791,062	23,644	586,724	1,401,430
Less: Allowance for Uncollectible	<u>(226,468)</u>	<u>--</u>	<u>(137,432)</u>	<u>(363,900)</u>
Net Receivables	<u>\$ 564,594</u>	<u>\$ 23,644</u>	<u>\$ 449,292</u>	<u>\$ 1,037,530</u>

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	\$ 243,925
2014 Property taxes deferred to 2015	General	218,955
Total Deferred Revenue		<u>\$ 462,880</u>

CITY OF FALFURRIAS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

N. Excess Expenditures Over Appropriations

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

Fund Type	Department	Amount
General Fund	Sanitation	\$ 5,058
General Fund	Health and Welfare	297
General Fund	Debt Service - Principal	60,996
General Fund	Debt Service - Interest	8,595

O. Accumulated Unpaid Vacation and Sick Leave Benefits

At December 31, 2014, the City had no liability for accrued sick leave or vacation leave.

P. Prior Period Adjustments

In the prior year, certain overtime expenditures were submitted to Homeland Security under the Stonegarden Grant. However, these expenditures were not properly reflected in the grant fund, but were inadvertently left in the General Fund. A prior period adjustment was made to move these prior year grant expenditures from the General Fund to the proper grant fund, with related adjustments to the grant fund. As a result, the grant fund had a zero net change to the fund balance, and the General Fund had a net increase of \$58,957 to its fund balance.

Q. Transfer of Capital Assets and Long-Term Debt

With the refunding of the USDA Bonds the requirement that the Utility Board of Falfurrias remain a separate legal entity was eliminated. This allowed the City to pass an ordinance to incorporate the Utility Board into the City. As of January 1, 2014, the Utility Board was brought under the control of the City Commission.

In prior years, the City obtained certain grants and other funding that were utilized to finance and construct water, sewer, and gas lines, meters, and other utility fund type assets. With the completion of these projects, the City transferred \$3,558,719 of capital assets and the related \$2,935,000 of long-term debt from the General Fund (governmental fund type) to the Utility Fund (business-type). This resulted in a net transfer in to the Utility Fund of \$623,719.

City of Falfurrias, Texas

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, 2014

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
<i>Taxes</i>	\$ 1,209,453	\$ 1,348,371	\$ 1,408,321	\$ 59,950
<i>Licenses and permits</i>	65,200	22,954	22,519	(435)
<i>Federal and state grants</i>	--	--	6,997	6,997
<i>Charges for services</i>	1,295,418	1,561,326	1,579,103	17,777
<i>Fines & forfeitures</i>	400,500	400,865	354,156	(46,709)
<i>Interest</i>	5,000	3,522	2,507	(1,015)
<i>Miscellaneous</i>	96,040	72,140	40,907	(31,233)
Total revenues	<u>3,071,611</u>	<u>3,409,178</u>	<u>3,414,510</u>	<u>5,332</u>
Expenditures:				
<i>General government</i>	961,818	702,874	681,258	21,616
<i>Sanitation</i>	540,540	556,517	561,575	(5,058)
<i>Municipal Court</i>	347,295	332,182	301,734	30,448
<i>Public Safety</i>	982,705	987,235	917,633	69,602
<i>Streets</i>	286,124	281,182	257,577	23,605
<i>Health and welfare</i>	130,012	129,594	129,891	(297)
<i>Parks and recreation</i>	411,440	401,016	341,901	59,115
Debt service:				
<i>Principal</i>	--	--	60,996	(60,996)
<i>Interest and fiscal charges</i>	--	--	8,595	(8,595)
Total expenditures	<u>3,659,934</u>	<u>3,390,600</u>	<u>3,261,160</u>	<u>129,440</u>
Excess (deficiency) of revenues (under) expenditures	(588,323)	18,578	153,350	134,772
Other financing sources (uses):				
<i>Transfers in</i>	588,323	675,729	639,105	(36,624)
<i>Transfers out</i>	--	(437,323)	(437,323)	--
Total other financing sources (uses)	<u>588,323</u>	<u>238,406</u>	<u>201,782</u>	<u>36,624</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	256,984	355,132	98,148
Fund balances/equity, January 1	1,454,919	1,454,919	1,454,949	30
Prior period adjustment	--	--	58,957	58,957
Fund balances/equity, December 31	<u>\$ 1,454,919</u>	<u>\$ 1,711,903</u>	<u>\$ 1,869,038</u>	<u>\$ 157,135</u>

CITY OF FALFURRIAS, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 YEAR ENDED DECEMBER 31, 2014

City (Other than Utility Fund)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 1,038,939	\$ 1,031,664	\$ (7,275)	100.7%	\$ 888,449	-0.8%
12/31/12	1,109,469	1,087,775	(21,694)	102.0%	925,631	-2.3%
12/31/13	1,213,344	1,232,790	19,446	98.4%	1,045,685	1.9%

Utility Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 651,645	\$ 790,621	\$ 138,976	82.4%	\$ 747,218	18.6%
12/31/12	697,314	838,510	141,196	83.2%	470,501	30.0%
12/31/13	721,374	877,224	155,850	82.2%	454,647	34.3%

City of Falfurrias, Texas

*Combining Statements and Budget Comparisons
as Supplementary Information*

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

CITY OF FALFURRIAS, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2014

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 600,654	\$ 426,337	\$ 1,026,991
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	23,644	--	23,644
<i>Accrued Interest Receivable</i>	847	--	847
<i>Due from other funds</i>	51,830	--	51,830
Total Assets	<u>\$ 676,975</u>	<u>\$ 426,337</u>	<u>\$ 1,103,312</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 4,103	\$ --	\$ 4,103
<i>Due to other funds</i>	21,482	--	21,482
Total Liabilities	<u>25,585</u>	<u>--</u>	<u>25,585</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	424,509	--	424,509
<i>Restricted for State and Federal Grants</i>	2,632	--	2,632
<i>Restricted for Capital Projects</i>	--	426,337	426,337
<i>Restricted for Donor Intent</i>	7,018	--	7,018
<i>Restricted for Law Enforcement</i>	171,735	--	171,735
<i>Restricted for Municipal Court Building Security</i>	41,074	--	41,074
<i>Restricted for Municipal Court Technology</i>	4,422	--	4,422
Total equity	<u>651,390</u>	<u>426,337</u>	<u>1,077,727</u>
Total Liabilities And Equity	<u>\$ 676,975</u>	<u>\$ 426,337</u>	<u>\$ 1,103,312</u>

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
<i>Taxes</i>	\$ 105,110	\$ --	\$ 105,110
<i>Federal and state grants</i>	4,687	--	4,687
<i>Fines & forfeitures</i>	45,393	--	45,393
<i>Interest</i>	1,249	--	1,249
Total revenues	<u>156,439</u>	<u>--</u>	<u>156,439</u>
Expenditures:			
<i>General government</i>	7,934	--	7,934
<i>Public Safety</i>	15,707	--	15,707
<i>Streets</i>	--	173,663	173,663
<i>Tourism</i>	133,613	--	133,613
<i>Capital outlay</i>	3,200	--	3,200
Total expenditures	<u>160,454</u>	<u>173,663</u>	<u>334,117</u>
Excess (deficiency) of revenues (under) expenditures	(4,015)	(173,663)	(177,678)
Other financing sources (uses):			
<i>Transfers out</i>	(33,000)	(96,818)	(129,818)
<i>Proceeds from bonds</i>	--	600,000	600,000
Total other financing sources (uses)	<u>(33,000)</u>	<u>503,182</u>	<u>470,182</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(37,015)	329,519	292,504
Fund balances/equity, January 1	688,405	96,818	785,223
Fund balances/equity, December 31	<u>\$ 651,390</u>	<u>\$ 426,337</u>	<u>\$ 1,077,727</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2014

	<u>Gifts and Bequests</u>	<u>Hotel/Motel Occupancy Tax Fund</u>	<u>Seizure Fund</u>
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 9,998	\$ 370,167	\$ 3,678
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	--	23,644	--
<i>Accrued Interest Receivable</i>	--	847	--
<i>Due from other funds</i>	--	41,292	3,300
Total Assets	<u>\$ 9,998</u>	<u>\$ 435,950</u>	<u>\$ 6,978</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ --	\$ 903	\$ --
<i>Due to other funds</i>	2,980	10,538	4,659
Total Liabilities	<u>2,980</u>	<u>11,441</u>	<u>4,659</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	--	424,509	--
<i>Restricted for State and Federal Grants</i>	--	--	--
<i>Restricted for Donor Intent</i>	7,018	--	--
<i>Restricted for Law Enforcement</i>	--	--	2,319
<i>Restricted for Municipal Court Building Security</i>	--	--	--
<i>Restricted for Municipal Court Technology</i>	--	--	--
Total equity	<u>7,018</u>	<u>424,509</u>	<u>2,319</u>
Total Liabilities And Equity	<u>\$ 9,998</u>	<u>\$ 435,950</u>	<u>\$ 6,978</u>

JAG Grant	Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund
\$ 1,504	\$ 1,133	\$ 88	\$ 165,669	\$ 41,074
--	--	--	--	--
--	--	--	--	--
--	--	--	4,659	--
<u>\$ 1,504</u>	<u>\$ 1,133</u>	<u>\$ 88</u>	<u>\$ 170,328</u>	<u>\$ 41,074</u>
\$ --	\$ --	\$ --	\$ --	\$ --
5	--	--	1,000	--
<u>5</u>	<u>--</u>	<u>--</u>	<u>1,000</u>	<u>--</u>
--	--	--	--	--
1,499	1,133	--	--	--
--	--	--	--	--
--	--	88	169,328	--
--	--	--	--	41,074
--	--	--	--	--
<u>1,499</u>	<u>1,133</u>	<u>88</u>	<u>169,328</u>	<u>41,074</u>
<u>\$ 1,504</u>	<u>\$ 1,133</u>	<u>\$ 88</u>	<u>\$ 170,328</u>	<u>\$ 41,074</u>

CITY OF FALFURRIAS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
DECEMBER 31, 2014

	Water & Sewer Replacement Grant #711189	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ 3,200	\$ 4,143	\$ 600,654
Receivables (net of allowances for uncollectibles):			
<i>Other</i>	--	--	23,644
<i>Accrued Interest Receivable</i>	--	--	847
<i>Due from other funds</i>	--	2,579	51,830
Total Assets	<u>\$ 3,200</u>	<u>\$ 6,722</u>	<u>\$ 676,975</u>
LIABILITIES:			
<i>Accounts payable</i>	\$ 3,200	\$ --	\$ 4,103
<i>Due to other funds</i>	--	2,300	21,482
Total Liabilities	<u>3,200</u>	<u>2,300</u>	<u>25,585</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Tourism</i>	--	--	424,509
<i>Restricted for State and Federal Grants</i>	--	--	2,632
<i>Restricted for Donor Intent</i>	--	--	7,018
<i>Restricted for Law Enforcement</i>	--	--	171,735
<i>Restricted for Municipal Court Building Security</i>	--	--	41,074
<i>Restricted for Municipal Court Technology</i>	--	4,422	4,422
Total equity	<u>--</u>	<u>4,422</u>	<u>651,390</u>
Total Liabilities And Equity	<u>\$ 3,200</u>	<u>\$ 6,722</u>	<u>\$ 676,975</u>

City of Falfurrias, Texas

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Gifts and Bequests	Hotel/Motel Occupancy Tax Fund	Seizure Fund
Revenue:			
<i>Taxes</i>	\$ --	\$ 105,110	\$ --
<i>Federal and state grants</i>	--	--	--
<i>Fines & forfeitures</i>	--	--	--
<i>Interest</i>	--	1,012	4
Total revenues	<u> --</u>	<u> 106,122</u>	<u> 4</u>
Expenditures:			
<i>General government</i>	--	--	--
<i>Public Safety</i>	--	--	1,045
<i>Tourism</i>	--	133,613	--
<i>Capital outlay</i>	--	--	--
Total expenditures	<u> --</u>	<u> 133,613</u>	<u> 1,045</u>
Excess (deficiency) of revenues (under) expenditures	--	(27,491)	(1,041)
Other financing sources (uses):			
<i>Transfers out</i>	--	--	--
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	--	(27,491)	(1,041)
Fund balances/equity, January 1	7,018	452,000	3,360
Fund balances/equity, December 31	<u>\$ 7,018</u>	<u>\$ 424,509</u>	<u>\$ 2,319</u>

JAG Grant	Law Enforcement Training Grant	Federal Forfeiture Fund	Police Impound Fund	Security Fund
\$ --	\$ --	\$ --	\$ --	\$ --
--	1,487	--	--	--
--	--	--	31,403	5,991
--	1	--	190	39
<u>--</u>	<u>1,488</u>	<u>--</u>	<u>31,593</u>	<u>6,030</u>
--	--	--	--	--
--	734	--	13,928	--
--	--	--	--	--
<u>--</u>	<u>734</u>	<u>--</u>	<u>13,928</u>	<u>--</u>
--	754	--	17,665	6,030
--	--	--	(33,000)	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>(33,000)</u>	<u>--</u>
--	754	--	(15,335)	6,030
1,499	379	88	184,663	35,044
<u>\$ 1,499</u>	<u>\$ 1,133</u>	<u>\$ 88</u>	<u>\$ 169,328</u>	<u>\$ 41,074</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, 2014

	Water & Sewer Replacement Grant #711189	Technology	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenue:			
<i>Taxes</i>	\$ --	\$ --	\$ 105,110
<i>Federal and state grants</i>	3,200	--	4,687
<i>Fines & forfeitures</i>	--	7,999	45,393
<i>Interest</i>	--	3	1,249
Total revenues	<u>3,200</u>	<u>8,002</u>	<u>156,439</u>
Expenditures:			
<i>General government</i>	--	7,934	7,934
<i>Public Safety</i>	--	--	15,707
<i>Tourism</i>	--	--	133,613
<i>Capital outlay</i>	3,200	--	3,200
Total expenditures	<u>3,200</u>	<u>7,934</u>	<u>160,454</u>
Excess (deficiency) of revenues (under) expenditures	--	68	(4,015)
Other financing sources (uses):			
<i>Transfers out</i>	---	---	(33,000)
Total other financing sources (uses)	<u>---</u>	<u>---</u>	<u>(33,000)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	--	68	(37,015)
Fund balances/equity, January 1	--	4,354	688,405
Fund balances/equity, December 31	<u>\$ --</u>	<u>\$ 4,422</u>	<u>\$ 651,390</u>

CITY OF FALFURRIAS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 DECEMBER 31, 2014

	Water System Improvements	Certificate of Obligation	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
ASSETS:			
<i>Cash and cash equivalents</i>	\$ --	\$ 426,337	\$ 426,337
Total Assets	<u>\$ --</u>	<u>\$ 426,337</u>	<u>\$ 426,337</u>
FUND BALANCES:			
<i>Restricted:</i>			
<i>Restricted for Capital Projects</i>	\$ --	\$ 426,337	\$ 426,337
Total equity	<u>--</u>	<u>426,337</u>	<u>426,337</u>
Total Liabilities And Equity	<u>\$ --</u>	<u>\$ 426,337</u>	<u>\$ 426,337</u>

CITY OF FALFURRIAS, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Water System Improvements	Certificate of Obligation	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenue:	--	--	--
Total revenues	\$ --	\$ --	\$ --
Expenditures:			
Streets	--	173,663	173,663
Total expenditures	--	173,663	173,663
Excess (deficiency) of revenues (under) expenditures	--	(173,663)	(173,663)
Other financing sources (uses):			
Transfers out	(96,818)	--	(96,818)
Proceeds from bonds	--	600,000	600,000
Total other financing sources (uses)	(96,818)	600,000	503,182
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(96,818)	426,337	329,519
Fund balances/equity, January 1	96,818	--	96,818
Fund balances/equity, December 31	\$ --	\$ 426,337	\$ 426,337

Other Supplementary Information

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

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

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Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

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

Members of the Mayor and City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falfurrias, Texas, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City of Falfurrias, Texas's basic financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-7 and 2014-8 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-5 through 2014-6 to be significant deficiencies.



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Falfurrias, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2014-1 through 2014-4.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in cursive script that reads "John Womack & Co., P.C.".

John Womack & Company, P.C.
Kingsville, Texas
October 16, 2015

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

A. Summary of Auditor's Results

1. Financial Statements

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

2. Federal Awards

A Single Audit was not required in the current year.

B. Financial Statement Findings

2014-1 State Compliance - Excess Expenditures over Appropriations (Budgeting) [Repeat Finding]

Condition: The City's Budgetary Comparison Schedule - General Fund reflects two material 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.

2014-2 State Compliance - Public Funds Investment Act [Repeat Finding]

Condition: The City did not comply with certain requirements of the Public Funds Investment Act. The City Investment Officers did not provide written quarterly investment reports to the Investment Committee. In addition, the City did not officially designate the Director of Finance as the Investment Officer. The Director of Finance also did not have the required continuing education hours. Finally, the City's investment policy is contradictory regarding the positions that will serve as the Investment Officer.

Criteria: The Public Funds Investment Act requires written quarterly investment reports, official designation of the Investment Officer(s), and minimum hours of continuing professional education by the Investment Officer. The Investment Policy should clearly state the position to serve as the Investment Officer.

CITY OF FALFURRIAS, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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 policies and procedures to ensure full compliance with the Public Funds Investment Act.

2014-3 State Compliance - Hotel/Motel Tax Expenditures [Repeat Finding]

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

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

Cause: This account was relatively new to the City and there was still a lack of oversight in this area.

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

Recommendation: We recommend that the City personnel review state laws regarding the expenditure of Hotel/Motel Tax funds and provide adequate documentation for each expenditures. In addition, we recommend that the City establish a system of internal controls over funds provided and goods purchased with the Hotel/Motel tax monies for City events.

2014-4 State Compliance - Bidding

Condition: The City has accumulated over \$50,000 in expenditures with a vendor that is not an approved vendor through a purchasing cooperative or state contract, and did not use a competitive bidding process.

Criteria: State law requires that contracts and purchases greater than \$50,000 be obtained through competitive bidding procedures.

Cause: Management did not understand that expenditures for this vendor would accumulate past the bidding threshold. It was believed that bidding requirements applied on a "per job" basis, rather than on a cumulative basis for the year.

Effect: The effect is a violation of state law and an increase in the risk of legal liability.

Recommendation: We recommend the City more carefully monitor expenditures in order to enable identification of situations where bidding will be required. We also recommend management obtain further education regarding State procurement laws.

2014-5 Internal Control - Billing Adjustments

Condition: Billing adjustments are performed by the collections clerk without regular documented supervision.

Criteria: In order for internal controls to be effective, the billing adjustments should not be performed by the collections clerk.

Cause: This condition is caused by the small number of personnel in the business office.

CITY OF FALFURRIAS, TEXAS

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014*

Effect: The potential effect of this lack of controls is a higher risk of error or fraud due to lack of oversight.

Recommendation: We recommend that the billing adjustments performed by the collections clerk be reviewed regularly by the Superintendent or another supervisor who does not perform any cash collections.

2014-6 Internal Control - Purchase Orders [Repeat Finding]

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

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

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

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

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

2014-7 Internal Control - Account Coding and Journal Entry Approval

Condition: The City's daily activity and journal entries contained numerous coding and classification errors.

Criteria: Daily activity (deposits, accounts payable, etc) and general journal entries should be reviewed for appropriate coding and classification on a timely basis, with written evidence of review and approval.

Cause: Lack of an appropriate system of internal controls which would provide for review and approval of daily activity and journal entries on a timely basis.

Effect: The effect of these miscodings is a lack of accurate and timely information provided to the City Council and management upon which to base financial decisions.

Recommendation: We recommend that the City develop policies and procedures to strengthen controls over coding and classification of daily activity and journal entries.

2014-8 Internal Control - Account Reconciliations [Repeat Finding]

Condition: The City has not reconciled certain asset and liability accounts, including taxes receivable, accounts payable, and long term debt, on a timely basis during the year or at year end. In addition, federal program revenue and expenditures were not reconciled to grant reporting.

Criteria: Asset and liability accounts should be reconciled timely and all related journal entries made on a timely basis. Federal grant funds should be reconciled to reports filed with grantor agencies.

Cause: The City has experienced staffing changes in the accounting department, and are working toward training and crosstraining personnel.

CITY OF FALFURRIAS, TEXAS

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014*

Effect: The effect is the possibility of inaccuracy in monthly reporting, and , potentially, an inability to recognize fraud or other inaccuracies in a timely manner.

Recommendation: We recommend that the City implement procedures to ensure personnel are provided proper training, asset and liability accounts as well as federal program revenues and expenditures are reconciled, and related journal entries are posted on a timely basis.

C. Federal Award Findings and Questioned Costs

NONE

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>2013-1 State Compliance - Excess Expenditures over Appropriations (Budgeting)</p> <p>Condition: The City's Budgetary Comparison Schedule - General Fund reflects several instances of excess expenditures over appropriations.</p> <p>Criteria: The State requires that the City adopt a budget and amend it as necessary throughout the year.</p> <p>Cause: The lack of oversight in the budgetary process.</p> <p>Effect/Potential Effect: A lack of controls in the expenditure process, creating an increased risk of error or fraud.</p> <p>Recommendation: We recommend that the City review its policies and procedures surrounding the budget process to ensure that necessary amendments are made on a timely basis, and a budget is adopted for all required funds.</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to assist in complying with budgeting requirements.</p>
<p>2013-2 State Compliance - Public Funds Investment Act</p> <p>Condition: The City did not comply with certain requirements of the Public Funds Investment Act. The City does not have a written system of internal controls over investments. In addition, the City does not have written documentation of the City Council's approval of the Investment Officer's and Auditor's annual review of the investment policy and any changes resulting from that review.</p> <p>Criteria: The Public Funds Investment Act requires a written system of internal controls over investment, and annual review and approval of the investment policy by the City Council.</p> <p>Cause: Lack of oversight over the Public Funds Investment Act requirements.</p> <p>Effect/Potential Effect: Violation of the Public Funds Investment Act.</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to assist in complying with the Public Funds Investment Act.</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Recommendation: We recommend that the City develop a written system of internal controls over investments. In addition, we recommend that the City adopt a written instrument which would document the City Council's approval of the Investment Officer's and Auditor's review of the investment policy, as stated in the City's investment policy.</p> <p>2013-3 State Compliance - Hotel/Motel Tax Expenditures</p> <p>Condition: There was insufficient documentation to support certain expenditures of Hotel/Motel Tax funds. funds.</p> <p>Criteria: The State requires that Hotel/Motel Tax funds be spent for the promotion of tourism. Proper documentation must be maintained to support these expenditures.</p> <p>Cause: This account was relatively new to the City and there was new personnel overseeing this area.</p> <p>Effect: Lack of documentation could lead to disallowed expenditures, causing the General Fund to absorb excess costs.</p> <p>Recommendation: We recommend that the City personnel review state laws regarding the expenditure of Hotel/Motel Tax funds and provide adequate documentation for each expenditures. In addition, we recommend that the City establish a system of internal controls over funds provided and goods purchased with the Hotel/Motel tax monies for City events.</p>	<p>Not Implemented</p>	<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to assist in complying with developing proper documentation and maintenance for expenditures of the Hotel/Motel tax funds.</p>
<p>2013-4 Internal Control - Municipal Court Reconciliations</p> <p>Condition: The City is not properly reconciling revenues from the Court Records to the General Ledger.</p> <p>Criteria: For proper internal control, Court Records should be reconciled to the General Ledger on a timely basis.</p>	<p>Implemented</p>	<p>N/A</p>

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Cause: The way credit card payments are provided from the bank make the reconciliation process difficult.</p> <p>Effect: Lack of a reconciliation process increases the possibility of error or fraud.</p> <p>Recommendation: We recommend that the City implement procedures that involve more accurate reconciliations between the General Ledger and Court Records.</p>		
2013-5 Internal Control - Deposits	Implemented	N/A
<p>Condition: The City is not performing sufficient segregation of duties. The same individual prepares deposits and reconciles the monthly bank statements.</p> <p>Criteria: For stronger internal controls, the person who prepares and makes the deposits should not be the individual responsible for the bank reconciliations.</p> <p>Cause: The City has a very small number of employees in the accounting office.</p> <p>Effect: The effect of lack of segregation of duties is an increased susceptibility to error or fraud.</p> <p>Recommendation: We recommend a better segregation of duties. However, if this is not possible due to the number of employees, we recommend that a supervisor verify the prepared deposits, initialing to indicate approval, with another employee responsible for making the deposit.</p>		
2013-6 Internal Control - Purchase Orders	Not Implemented	The City has hired an experienced CFO, who will work toward implementing new policies and procedures to assist in developing a modified purchase order system with the necessary internal controls.

CITY OF FALFURRIAS, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Criteria: A formal purchase order system is required for proper encumbrance accounting and documentation of approval and receiving, to strengthen internal controls and accountability.</p> <p>Cause: The City has not adopted a formal purchase order system and related policies.</p> <p>Effect: The effect of no formal purchase order system is a weakness in internal control over purchases and related expenditures, and an increased susceptibility to error or fraud.</p> <p>Recommendation: We recommend that the City establish a formal purchase order system in order to better document approval of purchases and receipt of goods.</p>		
<p>2013-7 Internal Control - Asset and Liability Reconciliations</p>	<p>Not Impemented</p>	
<p>Condition: The City has not reconciled certain asset and liability accounts on a timely basis during the year or at year end.</p>		<p>The City has hired an experienced CFO, who will work toward implementing new policies and procedures to assist in reconciling accounts.</p>
<p>Criteria: Asset and liability accounts should be reconciled timely and all related journal entries made on a timely basis.</p>		
<p>Cause: The City has experienced staffing changes in the accounting department, and are working toward training and crosstraining personnel.</p>		
<p>Effect: The effect is the possibility of inaccuracy in monthly reporting, and , potentially, an inability to recognize fraud or other inaccuracies in a timely manner.</p>		
<p>Recommendation: We recommend that the City implement procedures to ensure personnel are provided proper training, asset and liability accounts are reconciled, and related journal entries are posted on a timely basis.</p>		

CITY OF FALFURRIAS, TEXAS
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-1 State Compliance - Excess Expenditures over Appropriations (Budgeting)

The City concurs with this finding. Policies and procedures surrounding the budget process will be reviewed and when/where necessary implemented. Mark Rushing, CFO, will coordinate these efforts.

2014-2 State Compliance - Public Funds Investment Act

The City concurs with this finding, and in fiscal year 2015 all investment reports will be presented to the Investment Committee. The Director of Finance received the necessary investment training in April, 2015. The new City Administrator is aware of the training requirements and will take the necessary classes. The wording on Page 16 of the Investment Policy has already been corrected on the August 5, 2015 updated Investment Policy.

2014-3 State Compliance - Hotel/Motel Expenditures

The City concurs with this finding, and in fiscal year 2015 the staff created and performed more extensive survey of attendants at some events funded by Hotel/Motel taxes. In fiscal year 2015, the newly appointed City Administrator is conferring with outside legal counsel when a questionable expenditure is being considered.

2014-4 State Compliance - Bidding

The City concurs with this finding. Staff will review state purchasing law requirements and implement the proper procedures. This issue has already occurred in 2015, but it will be addressed and restructured to comply with state laws in the future. Mark Rushing, CFO, will coordinate these efforts.

2014-5 Internal Control - Billing Adjustments

The City concurs with this finding. The only individual that does billing adjustments is the Utility Department Supervisor. The collections clerks can do account transfers which can move the history from an old account to a new account. Even though the Utility Department Supervisor is the only one posting the adjustments and saw no need to initial and date her work in fiscal year 2014, she will start initialing and dating adjustments in fiscal year 2015. Mark Rushing, CFO, will coordinate these efforts.

2014-6 Internal Control - Purchase Orders

The City concurs with this finding, and the Business Office is working with the departments to initiate procedures where the P.O. will be approved by Department Heads when goods and services are ordered. Because the accounting software does not facilitate efficient and effective methods of posting Purchase Orders, the Accounts Payable Clerks will test the available balances in the Departments line item based on a City Administrator designated dollar amount threshold to verify the availability of funds. Mark Rushing, CFO, will coordinate these efforts.

2014-7 Internal Control - Account Coding and Journal Entry Approval

The City concurs with this finding. With the turnover in the Accounts Payable Clerk position, the account coding in the later part of fiscal year 2015 should improve. Also, the Director of Finance came in mid-year 2014 and will make an asserted effort in 2015 to clean up the account coding.

2014-8 Internal Control - Account Reconciliations

The City concurs with this finding, and has made improvements in this area. There are still accounts that need attention and will be handled in fiscal year 2015. The City has taken an aggressive strategy in attracting and retaining the financial personnel necessary. Additional training is being provided from internal and external sources in order to improve the necessary knowledge and skills. Fiscal year 2015 starts with the Business Office fully staffed with a focus in this area. But mid-way through fiscal year 2015, the City Accounts Payable Clerk position turned over and there will need to be some initial gear-up time to get the system on track. Processes and Procedures are being implemented to strengthen this aspect of our business. Mark Rushing, CFO, will coordinate these efforts.