

CITY OF FARMERSVILLE
CALIFORNIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2014

CITY OF FARMERSVILLE

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Farmersville, California

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 Farmersville, California (the City) as of and for the year ended June 30, 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 from 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 the City of Farmersville, California, as of June 30, 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.

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Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules of funding progress on pages 44-50 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 nonmajor fund financial statements are 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 February 20, 2015, on our consideration of the City'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's internal control over financial reporting and compliance.

Price Page & Company

Clovis, California
February 20, 2015

BASIC FINANCIAL STATEMENTS

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CITY OF FARMERSVILLE

**STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 4,574,053	\$ 3,153,003	\$ 7,727,056
Receivables (net of allowance for uncollectibles):			
Consumer	-	238,894	238,894
Intergovernmental	1,009,450	5,000	1,014,450
Other	13,973	-	13,973
Loans receivable	2,606,477	-	2,606,477
Prepaid expenses	14,803	13,932	28,735
Internal balances	31,286	(31,286)	-
Capital assets (net)	<u>9,253,479</u>	<u>5,177,592</u>	<u>14,431,071</u>
 Total assets	 <u>17,503,521</u>	 <u>8,557,135</u>	 <u>26,060,656</u>
LIABILITIES			
Accounts payable	198,965	471,854	670,819
Salaries and benefits payable	46,387	10,220	56,607
Deposits	150	-	150
Unearned revenue	308,871	-	308,871
Long-term liabilities -			
Portion due or payable within one year:			
Compensated absences	109,641	11,528	121,169
Portion due or payable after one year:			
Compensated absences	<u>438,563</u>	<u>46,112</u>	<u>484,675</u>
 Total liabilities	 <u>1,102,577</u>	 <u>539,714</u>	 <u>1,642,291</u>
NET POSITION			
Net investment in capital assets	9,253,479	5,177,592	14,431,071
Restricted for:			
Public safety	223,643	-	223,643
Buildings, grounds and parks	5,802	-	5,802
Street construction and maintenance	2,120,193	-	2,120,193
Community development	115,919	-	115,919
Capital maintenance	542,705	-	542,705
Unrestricted	<u>4,139,203</u>	<u>2,839,829</u>	<u>6,979,032</u>
 Total net position	 <u>\$ 16,400,944</u>	 <u>\$ 8,017,421</u>	 <u>\$ 24,418,365</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
City council	\$ 4,033	\$ -	\$ -	\$ -
Administration	340,869	45,151	-	-
Library	4,823	-	-	-
Public safety:				
Law enforcement	1,976,312	142,739	371,355	45,997
Fire services	392,625	75,581	-	29,535
Animal control	109,388	590	-	-
Building, grounds and parks	89,936	130	-	-
Recreation	28,151	-	-	-
Street construction and maintenance	520,922	-	417,519	1,925,376
Childcare center operations	24,694	-	43,826	-
Community development	734,208	22,314	679,125	-
Total governmental activities	4,225,961	286,505	1,511,825	2,000,908
Business-Type Activities:				
Water	658,682	600,579	-	-
Sewer	680,948	1,062,824	-	35,488
Refuse	538,727	555,092	-	-
Total business-type activities	1,878,357	2,218,495	-	35,488
Total City of Farmersville	\$ 6,104,318	\$ 2,505,000	\$ 1,511,825	\$ 2,036,396

General revenues:

Taxes:

Property taxes

Sales taxes

Franchise taxes

Other taxes

Motor vehicle in-lieu

Rental income

Earnings on investments

Miscellaneous

Total general revenues

Changes in net position

Net position - beginning

Prior period adjustments

Net position - beginning (as restated)

Net position - ending

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (4,033)	\$ -	\$ (4,033)
(295,718)	-	(295,718)
(4,823)	-	(4,823)
(1,416,221)	-	(1,416,221)
(287,509)	-	(287,509)
(108,798)	-	(108,798)
(89,806)	-	(89,806)
(28,151)	-	(28,151)
1,821,973	-	1,821,973
19,132	-	19,132
<u>(32,769)</u>	<u>-</u>	<u>(32,769)</u>
<u>(426,723)</u>	<u>-</u>	<u>(426,723)</u>
-	(58,103)	(58,103)
-	417,364	417,364
<u>-</u>	<u>16,365</u>	<u>16,365</u>
<u>-</u>	<u>375,626</u>	<u>375,626</u>
<u>(426,723)</u>	<u>375,626</u>	<u>(51,097)</u>
1,286,524	-	1,286,524
841,998	-	841,998
69,251	-	69,251
9,248	-	9,248
4,654	-	4,654
157,288	-	157,288
2,023	5,393	7,416
<u>42,284</u>	<u>-</u>	<u>42,284</u>
<u>2,413,270</u>	<u>5,393</u>	<u>2,418,663</u>
<u>1,986,547</u>	<u>381,019</u>	<u>2,367,566</u>
14,681,883	7,636,402	22,318,285
<u>(267,486)</u>	<u>-</u>	<u>(267,486)</u>
<u>14,414,397</u>	<u>7,636,402</u>	<u>22,050,799</u>
<u>\$ 16,400,944</u>	<u>\$ 8,017,421</u>	<u>\$ 24,418,365</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE

**BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General</u>	<u>Federal and State Grants Special Revenue Fund</u>	<u>Street Tax Special Revenue Fund</u>	<u>Child Care Special Revenue Fund</u>
ASSETS				
Cash and cash equivalents	\$ 1,262,979	\$ -	\$ 2,418,134	\$ 18,427
Receivables (net of allowance for uncollectibles):				
Intergovernmental	296,083	206,642	385,184	98,950
Other	13,973	-	-	-
Due from other funds	187,487	-	-	-
Prepaid expenses	14,803	-	-	-
Loans receivable	-	-	-	-
Advances to other funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,775,325</u>	<u>\$ 206,642</u>	<u>\$ 2,803,318</u>	<u>\$ 117,377</u>
LIABILITIES				
Accounts payable	\$ 99,941	\$ -	\$ 20,255	\$ 70,268
Salaries and benefits payable	42,824	-	3,030	-
Deposits	150	-	-	-
Due to other funds	-	98,827	-	49,993
Unearned revenue	-	-	308,871	-
Advances from other funds	91,950	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>234,865</u>	<u>98,827</u>	<u>332,156</u>	<u>120,261</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>-</u>	<u>206,642</u>	<u>350,969</u>	<u>96,950</u>
Total deferred inflows of resources	<u>-</u>	<u>206,642</u>	<u>350,969</u>	<u>96,950</u>
FUND BALANCES (DEFICITS)				
Nonspendable:				
Change funds	1,050	-	-	-
Prepaid expenses	14,803	-	-	-
Long-term receivables	-	-	-	-
Restricted for:				
Public safety	-	-	-	-
Buildings, grounds and parks	-	-	-	-
Street construction and maintenance	-	-	2,120,193	-
Community development	-	-	-	-
Capital maintenance	-	-	-	-
Unassigned	1,524,607	(98,827)	-	(99,834)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficits)	<u>1,540,460</u>	<u>(98,827)</u>	<u>2,120,193</u>	<u>(99,834)</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 1,775,325</u>	<u>\$ 206,642</u>	<u>\$ 2,803,318</u>	<u>\$ 117,377</u>

The notes to the basic financial statements are an integral part of this statement.

CDBG Program Income Special Revenue Fund	Low and Moderate Income Housing Asset Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
\$ 87,466	\$ 6,373	\$ 780,674	\$ 4,574,053
-	-	22,591	1,009,450
-	-	-	13,973
-	-	-	187,487
-	-	-	14,803
1,902,010	704,467	-	2,606,477
-	-	91,950	91,950
<u>\$ 1,989,476</u>	<u>\$ 710,840</u>	<u>\$ 895,215</u>	<u>\$ 8,498,193</u>
\$ -	\$ -	\$ 8,501	\$ 198,965
-	-	533	46,387
-	-	-	150
-	-	7,381	156,201
-	-	-	308,871
-	-	-	91,950
-	-	16,415	802,524
1,902,011	704,467	-	3,261,039
1,902,011	704,467	-	3,261,039
-	-	-	1,050
-	-	-	14,803
-	-	91,950	91,950
-	-	223,643	223,643
-	-	5,802	5,802
-	-	-	2,120,193
87,465	6,373	22,081	115,919
-	-	542,705	542,705
-	-	(7,381)	1,318,565
<u>87,465</u>	<u>6,373</u>	<u>878,800</u>	<u>4,434,630</u>
<u>\$ 1,989,476</u>	<u>\$ 710,840</u>	<u>\$ 895,215</u>	<u>\$ 8,498,193</u>

The notes to the basic financial statements are an integral part of this statement.

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CITY OF FARMERSVILLE

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2014**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds	\$ 4,434,630
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$12,992,803 and the accumulated depreciation is \$3,739,324.	9,253,479
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	3,261,039
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated absences	(548,204)
Total long-term liabilities	<u>(548,204)</u>
Net position of governmental activities	<u>\$ 16,400,944</u>

CITY OF FARMERSVILLE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>General</u>	<u>Federal and State Grants Special Revenue Fund</u>	<u>Street Tax Special Revenue Fund</u>	<u>Child Care Special Revenue Fund</u>
REVENUES				
Property taxes	\$ 1,186,025	\$ -	\$ -	\$ -
Sales taxes	841,998	-	-	-
Other taxes	116,020	-	-	-
Licenses and permits	51,589	-	-	-
Developer fees	-	-	-	-
Charges for services	204,110	-	-	-
Intergovernmental	334,713	927,879	1,893,945	-
Fines and penalties	31,007	-	-	-
Investment income	(4,677)	-	2,574	5
Rent	157,288	-	-	-
Miscellaneous revenues	<u>29,004</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
Total revenues	<u>2,947,077</u>	<u>927,879</u>	<u>1,896,519</u>	<u>10,005</u>
EXPENDITURES				
Current:				
City council	4,033	-	-	-
Administration	294,824	-	-	-
Library	4,823	-	-	-
Public safety:				
Law enforcement	1,725,343	-	-	-
Fire services	363,286	-	-	-
Animal control	109,388	-	-	-
Buildings, grounds and parks	86,328	-	-	-
Recreation	2,000	-	-	-
Street construction and maintenance	7,011	-	264,963	-
Childcare center operations	-	-	-	2,900
Community development	104,107	619,166	-	-
Capital outlay	<u>30,979</u>	<u>-</u>	<u>444,878</u>	<u>-</u>
Total expenditures	<u>2,732,122</u>	<u>619,166</u>	<u>709,841</u>	<u>2,900</u>
Excess (deficiency) of revenues over (under) expenditures	<u>214,955</u>	<u>308,713</u>	<u>1,186,678</u>	<u>7,105</u>
Other financing sources (uses):				
Transfers in	32,665	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>32,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>247,620</u>	<u>308,713</u>	<u>1,186,678</u>	<u>7,105</u>
Fund balances - beginning	1,317,065	(339,669)	1,078,589	(76,623)
Prior period adjustments	<u>(24,225)</u>	<u>(67,871)</u>	<u>(145,074)</u>	<u>(30,316)</u>
Fund balances (deficits) - beginning (as restated)	<u>1,292,840</u>	<u>(407,540)</u>	<u>933,515</u>	<u>(106,939)</u>
Fund balances (deficits) - ending	<u>\$ 1,540,460</u>	<u>\$ (98,827)</u>	<u>\$ 2,120,193</u>	<u>\$ (99,834)</u>

The notes to the basic financial statements are an integral part of this statement.

CDBG Program Income Special Revenue Fund	Low and Moderate Income Housing Asset Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 62,976	\$ 1,249,001
-	-	-	841,998
-	-	-	116,020
-	-	-	51,589
-	-	99,965	99,965
-	-	-	204,110
59,008	-	124,178	3,339,723
-	-	-	31,007
191	2,520	1,410	2,023
-	-	-	157,288
-	-	1,250	40,254
<u>59,199</u>	<u>2,520</u>	<u>289,779</u>	<u>6,132,978</u>
-	-	-	4,033
-	-	-	294,824
-	-	-	4,823
-	-	76,794	1,802,137
-	-	-	363,286
-	-	-	109,388
-	-	21,041	107,369
-	-	-	2,000
-	-	85,404	357,378
-	-	-	2,900
-	-	-	723,273
-	-	62,887	538,744
<u>-</u>	<u>-</u>	<u>246,126</u>	<u>4,310,155</u>
<u>59,199</u>	<u>2,520</u>	<u>43,653</u>	<u>1,822,823</u>
-	-	-	32,665
<u>(32,665)</u>	<u>-</u>	<u>-</u>	<u>(32,665)</u>
<u>(32,665)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>26,534</u>	<u>2,520</u>	<u>43,653</u>	<u>1,822,823</u>
60,931	3,853	835,147	2,879,293
-	-	-	(267,486)
<u>60,931</u>	<u>3,853</u>	<u>835,147</u>	<u>2,611,807</u>
<u>\$ 87,465</u>	<u>\$ 6,373</u>	<u>\$ 878,800</u>	<u>\$ 4,434,630</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 1,822,823

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. In the current period, the amounts below represent the capital outlay portion that was capitalized for the government-wide financial statements:

Capital outlay	525,197
Depreciation expense	(351,720)

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences	<u>(89,282)</u>	
Total additional expenditures		(89,282)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>79,529</u>
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Change in net position of governmental activities \$ 1,986,547

CITY OF FARMERSVILLE

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,487,280	\$ 1,665,723	\$ -	\$ 3,153,003
Receivables (net of allowance for uncollectibles):				
Consumer	53,137	120,636	65,121	238,894
Intergovernmental	-	-	5,000	5,000
Prepaid expenses	<u>6,966</u>	<u>6,966</u>	<u>-</u>	<u>13,932</u>
Total current assets	<u>1,547,383</u>	<u>1,793,325</u>	<u>70,121</u>	<u>3,410,829</u>
Noncurrent assets:				
Capital assets (net)	<u>1,540,674</u>	<u>3,636,918</u>	<u>-</u>	<u>5,177,592</u>
Total noncurrent assets	<u>1,540,674</u>	<u>3,636,918</u>	<u>-</u>	<u>5,177,592</u>
Total assets	<u>3,088,057</u>	<u>5,430,243</u>	<u>70,121</u>	<u>8,588,421</u>
LIABILITIES				
Current liabilities:				
Accounts payable	19,382	413,895	38,577	471,854
Salaries and benefits payable	4,059	5,166	995	10,220
Due to other funds	-	-	31,286	31,286
Compensated absences	<u>4,175</u>	<u>6,358</u>	<u>995</u>	<u>11,528</u>
Total current liabilities	<u>27,616</u>	<u>425,419</u>	<u>71,853</u>	<u>524,888</u>
Noncurrent liabilities:				
Compensated absences	<u>16,701</u>	<u>25,430</u>	<u>3,981</u>	<u>46,112</u>
Total noncurrent liabilities	<u>16,701</u>	<u>25,430</u>	<u>3,981</u>	<u>46,112</u>
Total liabilities	<u>44,317</u>	<u>450,849</u>	<u>75,834</u>	<u>571,000</u>
NET POSITION				
Net investment in capital assets	1,540,674	3,636,918	-	5,177,592
Unrestricted	<u>1,503,066</u>	<u>1,342,476</u>	<u>(5,713)</u>	<u>2,839,829</u>
Total net position	<u>\$ 3,043,740</u>	<u>\$ 4,979,394</u>	<u>\$ (5,713)</u>	<u>\$ 8,017,421</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
Operating Revenues:				
Charges for services	\$ 558,283	\$ 1,012,642	\$ 555,094	\$ 2,126,019
Operating Expenses:				
Personnel costs	190,641	208,073	34,610	433,324
Utilities	88,663	75,041	-	163,704
Contractual services	71,408	81,643	442,337	595,388
Operations and maintenance	201,416	225,787	61,780	488,983
Depreciation	106,554	90,404	-	196,958
Total operating expenses	<u>658,682</u>	<u>680,948</u>	<u>538,727</u>	<u>1,878,357</u>
Operating income (loss)	<u>(100,399)</u>	<u>331,694</u>	<u>16,367</u>	<u>247,662</u>
Nonoperating Revenue (Expenses):				
Connection fees	42,297	50,181	-	92,478
Developer fees	-	35,488	-	35,488
Investment income	2,642	2,722	27	5,391
Total nonoperating revenues (expenses)	<u>44,939</u>	<u>88,391</u>	<u>27</u>	<u>133,357</u>
Change in net position	(55,460)	420,085	16,394	381,019
Net position - beginning	<u>3,099,200</u>	<u>4,559,309</u>	<u>(22,107)</u>	<u>7,636,402</u>
Net position - ending	<u>\$ 3,043,740</u>	<u>\$ 4,979,394</u>	<u>\$ (5,713)</u>	<u>\$ 8,017,421</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Refuse Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 559,019	\$ 984,811	\$ 548,844	\$ 2,092,674
Cash payments to employees	(370,127)	(210,905)	(43,524)	(624,556)
Cash payments to suppliers	(199,035)	(121,654)	(634,992)	(955,681)
Net cash provided by (used in) operating activities	<u>(10,143)</u>	<u>652,252</u>	<u>(129,672)</u>	<u>512,437</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Cash received from connection fees	42,297	50,181	-	92,478
Cash received from developer fees	-	35,488	-	35,488
Cash received from grants	-	-	31,286	31,286
Acquisition of capital assets	-	(594,532)	-	(594,532)
Net cash provided by (used in) capital and related financing activities	<u>42,297</u>	<u>(508,863)</u>	<u>31,286</u>	<u>(435,280)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>2,642</u>	<u>2,722</u>	<u>27</u>	<u>5,391</u>
Net cash provided by (used in) investing activities	<u>2,642</u>	<u>2,722</u>	<u>27</u>	<u>5,391</u>
Net increase (decrease) in cash and cash equivalents	34,796	146,111	(98,359)	82,548
Cash and cash equivalents, July 1, 2013	<u>1,452,484</u>	<u>1,519,612</u>	<u>98,359</u>	<u>3,070,455</u>
Cash and cash equivalents, June 30, 2014	<u>\$ 1,487,280</u>	<u>\$ 1,665,723</u>	<u>\$ -</u>	<u>\$ 3,153,003</u>

**Reconciliation of Operating Income (Loss) to Net Cash
Provided (Used) by Operating Activities**

Operating income (loss)	\$ (100,399)	\$ 331,694	\$ 16,367	\$ 247,662
<i>Adjustments to reconcile operating income (loss) to net cash provided (used in) operating activities:</i>				
Depreciation	106,554	90,404	-	196,958
<i>Change in Assets and Liabilities:</i>				
(Increase) decrease in consumer receivables	736	(27,832)	(6,250)	(33,346)
Increase (decrease) in accounts payable	(8,640)	260,818	(130,875)	121,303
Increase (decrease) in salaries and benefits payable	(9,511)	(8,404)	(12,575)	(30,490)
Increase (decrease) in compensated absences	<u>1,117</u>	<u>5,572</u>	<u>3,661</u>	<u>10,350</u>
Net cash provided by (used in) operating activities	<u>\$ (10,143)</u>	<u>\$ 652,252</u>	<u>\$ (129,672)</u>	<u>\$ 512,437</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>Successor Agency Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 43,193
Cash and cash equivalents - restricted	219,000	-
Accounts receivable	-	703
Capital assets (net)	<u>4,143,195</u>	<u>-</u>
Total assets	<u>4,362,195</u>	<u>43,896</u>
LIABILITIES		
Cash overdraft	183,503	-
Accounts payable	-	349
Due to other agencies	-	1,409
Customer deposits	-	42,138
Interest payable	24,896	-
Loan payable - current	105,626	-
Loan payable	<u>2,255,675</u>	<u>-</u>
Total liabilities	<u>2,569,700</u>	<u>\$ 43,896</u>
NET POSITION		
Net position held in trust for redevelopment dissolution and other purposes	<u>\$ 1,792,495</u>	

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Successor Agency Trust Fund</u>
ADDITIONS	
Property taxes	\$ <u>197,805</u>
Total additions	<u>197,805</u>
DEDUCTIONS	
Debt payment - interest	97,431
Redevelopment expenses	3,578
Depreciation	<u>143,594</u>
Total deductions	<u>244,603</u>
Change in net position	(46,798)
Net position - beginning	1,564,682
Prior period adjustment	<u>274,611</u>
Net position - ending	<u>\$ 1,792,495</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF FARMERSVILLE

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES

The financial statements of City of Farmersville (the “City”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the government’s accounting principles are described below.

Reporting Entity

The City of Farmersville was incorporated in 1960 and is a general law city. The City operates under a Council-Manager form of government and provides the following services to the community: public safety (police, fire and animal control), water, sanitation (solid waste disposal and sanitary wastewater), parks and recreation, community development, childcare, public works, and general administrative services.

Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. 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. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City’s funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. 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. An accompanying schedule is presented to reconcile and explain the differences in funds and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

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. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

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 general government, except those required to be accounted for in another fund.

Federal and State Grants Special Revenue Fund: This fund accounts for the annual federal grant that provides for development of a viable urban community by providing suitable housing, principally for low- and moderate-income residents.

Street Tax Special Revenue Fund: The four street funds, Surface Transportation Fund, Gas Tax Fund, Transportation Tax Fund, and Traffic Congestion Fund are combined for reporting purposes. All the revenue received in these funds is for the repair and construction of roads within the cities.

Child Care Special Revenue Fund: This fund accounts for child care services provided for the community of Farmersville.

CDBG Program Income Special Revenue Fund: This fund accounts for the loans and repayments on CDBG housing loans to benefit low- and moderate-income people.

Low and Moderate Income Housing Asset Special Revenue Fund: This fund accounts for housing assets related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the Agency on February 1, 2012.

The City has three enterprise funds, the Water, Sewer and Refuse, which are used to account for operations that are financed and operated in a manner similar to a private business enterprise. In an Enterprise Fund, the intent of the City Council is that the costs (expenses, including depreciation) of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges.

The City reports the following major proprietary fund types:

Water Fund: Accounts for financial activity of the water utility.

Sewer Fund: Accounts for financial activity of the sewage collection and wastewater treatment utility.

Refuse Fund: Accounts for financial activity of the refuse collection and disposal utility.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The City reports the following fiduciary fund types:

The *Successor Agency Trust Fund* accounts for the assets and liabilities of the former Redevelopment Agency and its allocated revenue to pay estimated installment payments of the enforceable obligations until the obligations of the former Redevelopment Agency are paid in full and assets have been liquidated.

The Agency funds account for assets held by the City as an agent for individuals, private organizations and other governmental units. Agency funds are custodial in nature and do not involve measurement of results of operations.

Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements: The government-wide, proprietary, and fiduciary fund 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. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position

Cash and Cash Equivalents

Under the City's cash management program, cash in excess of operating requirements from all funds is pooled with the purpose of maximizing interest through investment activities. Interest income on pooled investments is allocated on the end-of-month balance in each fund included in the pools.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Property Tax Calendar

Revenue is recognized when measurable and available. The assessment, levy and collection of property taxes are the responsibility of the County of Tulare. The City records property taxes as revenue when received from the County, except at year-end, when property taxes received within 60 days after the end of the fiscal year are "available" and, therefore, recognized as revenue.

Secured and unsecured property taxes are levied based on the assessed value as of January 1, lien date, of the preceding fiscal year. Secured property tax is levied on July 1 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates. Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31, which is also the delinquent date.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund advances receivable/payable" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Proprietary Fund receivables are shown net of an allowance for uncollectible accounts. Allowances of uncollectibles were \$1,520 for Water utility charges, \$3,987 for Sewer utility charges, and \$3,228 for Refuse utility charges as of June 30, 2014. Utility customers are billed monthly.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., street system, landscaped area, etc.), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated capital assets are valued at estimated fair market value on the date received. Gains or losses on assets at retirement or disposal are recorded in the same fiscal year the asset is retired. Renewals and betterments are capitalized when purchased. Maintenance and repairs are charged to expense when the services are rendered. Depreciation is recorded on a straight-line basis over the useful lives of the asset as follows:

Buildings and Improvements	25-35 years
Equipment and Vehicles	7-20 years
Utility System	30-75 years
Infrastructure.....	40 years

CITY OF FARMERSVILLE

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Compensated Absences

City employees accumulate vacation pay in varying amounts as services are provided. All outstanding vacation pay is payable upon termination of employment. In the governmental funds, the amount of vacation pay recognized during the year is the amount liquidated with expendable available financial resources. In the Proprietary Funds, the amount of vacation pay recognized is the amount earned during the year.

City employees accrue sick leave in varying amounts as services are provided. Sick leave benefits do not vest with employees. However, employees who have worked for the City for more than five years are entitled to 20-30% of their accumulated sick leave at the time of termination. Unused sick leave is added to the creditable service period for calculation of retirement benefits when an employee retires. Accumulated vacation and compensated time are accrued, as appropriate, for all funds.

Unearned Revenue

Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records intergovernmental revenues (primary grants and subventions) received but not earned (qualifying expenditures not yet incurred).

Unavailable Revenue

In the fund financial statements, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable revenue for transactions for which revenues have been earned, but for which funds are not available to meet current financial obligations. Typical transactions for which unavailable revenue is recorded are grants when funding requirements have been met, but the related funding is not yet available.

Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is classified in the following categories:

- ***Net investment in capital assets*** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- ***Restricted net position*** – This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted net position*** – This category represents net amounts that do not meet the criteria for “restricted” or “net investment in capital assets”.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted first, and then unrestricted resources as they are needed.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Fund Balances

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in governmental fund financial statements are as follows:

Nonspendable Fund Balance

Amounts cannot be spent either because they are in nonspendable form (such as inventory or prepaid expense, and long-term loans and notes receivable) or because they are legally or contractually required to be maintained intact (such as principal of a permanent fund).

Restricted Fund Balance

Amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, contributors, or laws or regulations of other governments, etc.) or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by City Council, the City's highest level of decision-making authority, through an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified uses through the same type of formal action taken to establish the commitment.

Assigned Fund Balance

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. For all governmental funds other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed must be designated as assigned fund balance.

Unassigned Fund Balance

These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories, or negative balances in all other funds.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

Encumbrances

The City does not use encumbrance accounting.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures (expenses) during the reporting period. Actual results could differ from those estimates.

Pronouncements

New Accounting Pronouncements Adopted

Government Accounting Standards Board Statement No. 70

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014. As of July 1, 2013, the City adopted this standard; however, its adoption had no effect on the financial statements for the year ended June 30, 2014.

New Accounting Pronouncements Not Yet Adopted

Government Accounting Standards Board Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

Government Accounting Standards Board Statement No. 69

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Pronouncements (Continued)

New Accounting Pronouncements Not Yet Adopted (Continued)

Government Accounting Standards Board Statement No. 71

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

NOTE 2 – DEPOSITS AND INVESTMENTS

The City maintains a cash investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments. The City follows the practice of pooling cash and investments of all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the average daily cash and investment balances.

Summary of Deposits and Investments

Cash and investments at June 30, 2014 are classified in the accompanying financial statements as follows:

	<u>Government-Wide Statement of Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and investments	\$ 4,574,053	\$ 3,153,003	\$ 43,193	\$ 7,770,249
Cash overdraft	-	-	(183,503)	(183,503)
Restricted cash and investments	-	-	219,000	219,000
Total cash and investments	<u>\$ 4,574,053</u>	<u>\$ 3,153,003</u>	<u>\$ 78,690</u>	<u>\$ 7,805,746</u>

Cash and investments consist of the following as of June 30, 2014:

Cash on hand	\$ 1,699
Deposits with financial institutions	4,309,319
Investments	<u>3,494,728</u>
Total cash and investments	<u>\$ 7,805,746</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code and the City’s Investment Policy

The investment policy of the City is consistent with guidelines set forth under State of California Government Code Section 53601 and serves to maximize investment income consistent with safe and prudent investment practices. All surplus funds are managed by the City Manager in compliance with the Statement of Investment Policy adopted by the City Council, which delegates to the City Manager the authority to invest City funds and to deposit securities. All investments are carried at fair value in accordance with GASB Statement No. 31.

Under provision of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund Deposits (State Pool)
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Reverse Repurchase Agreements
- Small Business Administration Loans

All City investment activities were within State statutes and the City's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

Investment Type	Remaining Maturity (in Months)			
	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
State Investment Pool	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -
Money Market	20,870	20,870	-	-
Certificates of Deposits	1,233,465	-	1,233,465	-
Federal Agency Securities:				
Federal Farm Credit Banks	748,073	-	748,073	-
Federal National Mortgage Association	492,320	-	492,320	-
Total	\$ 3,494,728	\$ 1,020,870	\$ 2,473,858	\$ -

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type		Exempt from Disclosure	Rating as of Year-End	
			AAA	Not Rated
State Investment Pool	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Money Market	20,870	-	-	20,870
Certificates of Deposits	1,233,465	-	-	1,233,465
Federal Agency Securities:				
Federal Farm Credit Banks	748,073	-	748,073	-
Federal National Mortgage Association	492,320	-	492,320	-
Total	\$ 3,494,728	\$ -	\$ 1,240,393	\$ 2,254,335

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the concentration of the government's investment in a single issuer. The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investment in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total City's total investments are as follows:

Issuer	Investment Type	Reported Amount
Ally Bank in Midvale, Utah	Certificates of Deposits	\$ 247,596
BMW Bank of North America Salt Lake City, Utah	Certificates of Deposits	246,113
Barclays Bank Delaware	Certificates of Deposits	247,142
GE Cap Retail Bank Institutional	Certificates of Deposits	246,215
Goldman Sachs Bank USA New York	Certificates of Deposits	246,400
Federal Farm Credit Banks	Federal Agency Securities	748,073
Federal National Mortgage Association	Federal Agency Securities	492,320

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City may and has waived collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

The carrying amounts of the City's cash deposits totaled \$4,309,319 at June 30, 2014. Bank balances were \$4,576,103, the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the City's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2014, there were no investments that were required to be identified by GASB Statement No. 40 in relation to custodial credit risk.

Local Agency Investment Fund

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight to the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The City's investments with LAIF at June 30, 2014 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgaged-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2014, the City had \$1,000,000 invested in LAIF. Fair value of the City's LAIF investments was \$1,000,299 as of June 30, 2014. This is arrived at by multiplying the City's LAIF account balance by a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost, resulting in a factor of 1.00029875.

NOTE 3 – LOAN RECEIVABLE / UNAVAILABLE REVENUE

Forgivable Loans:

The grant funds expended for rehabilitation under the Community Development Block Grant Program are recorded as expenditures in the year the loans are made to participants, even though the amounts will be recovered as the loans are repaid. The City maintains detailed records of these loans and records loan principal and interest payments as program revenues in the year such payments are received. Loans recorded as receivable are "performing" loans with monthly/annual activity.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – LOAN RECEIVABLE / UNAVAILABLE REVENUE (Continued)

Forgivable Loans: (Continued)

Deferred payment loans receivable under the Community Development Block Grant, HOME Investment Program, and CalHOME Programs are not required to be paid back until the participating homeowner sells, transfers title to the rehabilitated property, or discontinues residence in the dwelling at which time the full amount of the deferred loan is due. Deferred payment loans are "non-performing loans" and are not recorded as receivable or unavailable revenue. Such loans totaled \$9,479,106 as of June 30, 2014.

Deferred payment loans receivable for the Community Redevelopment Agency Special Revenue Fund totaled \$404,467 as of June 30, 2014.

Loans receivable consisted of the following as of June 30, 2014:

Low and Moderate Income Housing Asset Special Revenue Fund

On October 1, 2004, Farmersville Redevelopment Agency loaned Farmersville Park Creek Associates the amount of \$100,000 for acquisition of real property and construction of forty-seven units of affordable housing for families and one unit for a resident manager. The agreement specified that the loan will be repaid in thirty years, with interest equal to 1% per annum. \$ 100,000

On August 20, 2009, Farmersville Redevelopment Agency loaned Farmersville Gateway Associates the amount of \$200,000 for acquisition of real property and construction of forty-seven units of affordable housing for families and one unit of a resident manager. The agreement specified that the loan will be repaid in thirty years, with interest equal to 1% per annum. 200,000

The City administers a housing rehabilitation loan program. Under this program, individuals with incomes below certain levels are eligible to receive low interest loans for rehabilitation work on their homes. These performing loans are secured by deeds of trust on the rehabilitated properties. 404,467

Community Development Block Grant Program Income Special Revenue Fund

The City administers a housing rehabilitation loan program funded with Community Development Block Grant funds. Under this program, individuals with incomes below certain levels are eligible to receive low interest loans for rehabilitation work on their homes. These performing loans are secured by deeds of trust on the rehabilitated properties. 2,010

On February 1, 2010, the City entered into a promissory note with Farmersville Senior Associates to provide a loan of \$1,900,000, which Farmersville Senior Associates can drawdown as needed. The loan is due in fifty-five years at 5% interest and will be repaid from residual receipts generated by the project. 1,900,000

Total loans receivable \$ 2,606,477

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 – INTERFUND TRANSACTIONS

Interfund loans receivable and payable

Interfund loans receivable and payable consisted of the following at June 30, 2014:

	Due		Advances	
	From	To	To	From
Major Funds:				
General Fund	\$ 187,487	\$ -	\$ -	\$ 91,950
Federal and State Grants Special Revenue Fund	-	98,827	-	-
Childcare Special Revenue Fund	-	49,993	-	-
Refuse Fund	-	31,286	-	-
Nonmajor Funds:				
Developer Fees Special Revenue Fund	-	-	91,950	-
Federal Grants Special Revenue Fund	-	7,381	-	-
	<u>\$ 187,487</u>	<u>\$ 187,487</u>	<u>\$ 91,950</u>	<u>\$ 91,950</u>

The balance of \$98,827 due to the General Fund from the Federal and State Grants Special Revenue Fund represents short-term borrowing resulting from temporary need for additional cash. This amount expected to be repaid shortly after the end of the fiscal year.

The balance of \$49,993 due to the General Fund from the Child Care Special Revenue Fund resulted from the time lag between the dates that interfund reimbursable expenditures occur.

The balance of \$31,286 due to the General Fund from the Refuse Fund represents short-term borrowing resulting from temporary need for additional cash. This amount expected to be repaid shortly after the end of the fiscal year.

The balance of \$7,381 due to the General Fund from the Federal Grants Special Revenue Fund represents short-term borrowing resulting from temporary need for additional cash. This amount expected to be repaid shortly after the end of the fiscal year.

The balance of \$91,950 for advances from other funds in the General Fund is for "Demand Notes" with unstated demand dates that consist of cash advances from the Developer Fees Special Revenue Fund. The loans were made in fiscal year 2011. The City has indicated that there are no plans to collect on the notes due to the Developer Fees Special Revenue Fund within the next year.

Transfers in/Transfers Out

The following schedules summarized the City's transfer activity for the year ended June 30, 2014:

	Transfers	
	In	Out
Major Funds:		
General Fund	\$ 32,665	\$ -
CDBG Program Income Special Revenue Fund	-	32,665
	<u>\$ 32,665</u>	<u>\$ 32,665</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – CAPITAL ASSETS

A summary of capital assets activity for governmental activities for the year ended June 30, 2014 is as follows:

	<u>Balances</u> <u>June 30, 2013</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Balances</u> <u>June 30, 2014</u>
Governmental Activities:				
<i>Non-depreciable assets:</i>				
Land	\$ 1,039,648	\$ 10,300	\$ -	\$ 1,049,948
Infrastructure in progress	<u>1,117,249</u>	<u>450,026</u>	<u>-</u>	<u>1,567,275</u>
Total non-depreciable assets	<u>2,156,897</u>	<u>460,326</u>	<u>-</u>	<u>2,617,223</u>
<i>Depreciable assets:</i>				
Buildings and improvements	2,452,454	13,984	-	2,466,438
Vehicles, machinery and equipment	2,121,643	50,887	-	2,172,530
Infrastructure	<u>5,736,612</u>	<u>-</u>	<u>-</u>	<u>5,736,612</u>
Total depreciable assets	<u>10,310,709</u>	<u>64,871</u>	<u>-</u>	<u>10,375,580</u>
Less accumulated depreciation for:				
Buildings and improvements	1,064,493	74,047	-	1,138,540
Vehicles, machinery and equipment	1,559,258	113,139	-	1,672,397
Infrastructure	<u>763,853</u>	<u>164,534</u>	<u>-</u>	<u>928,387</u>
Total accumulated depreciation	<u>3,387,604</u>	<u>351,720</u>	<u>-</u>	<u>3,739,324</u>
Depreciable assets, net	<u>6,923,105</u>	<u>(286,849)</u>	<u>-</u>	<u>6,636,256</u>
Government activities capital assets, net	<u>\$ 9,080,002</u>	<u>\$ 173,477</u>	<u>\$ -</u>	<u>\$ 9,253,479</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – CAPITAL ASSETS (Continued)

A summary of capital assets activity for business-type activities for the year ended June 30, 2014 is as follows:

	<u>Balances</u> <u>June 30, 2013</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Balances</u> <u>June 30, 2014</u>
Business-Type Activities:				
<i>Non-depreciable assets:</i>				
Land	\$ 948,183	\$ 5,752	\$ -	\$ 953,935
Construction in progress	<u>231,758</u>	<u>588,780</u>	<u>-</u>	<u>820,538</u>
Total non-depreciable assets	<u>1,179,941</u>	<u>594,532</u>	<u>-</u>	<u>1,774,473</u>
<i>Depreciable assets:</i>				
Buildings and improvements	152,061	-	-	152,061
Vehicles, machinery and equipment	1,264,059	-	-	1,264,059
Utility transmission structures	<u>5,518,039</u>	<u>-</u>	<u>-</u>	<u>5,518,039</u>
Total depreciable assets	<u>6,934,159</u>	<u>-</u>	<u>-</u>	<u>6,934,159</u>
Less accumulated depreciation for:				
Buildings and improvements	52,985	6,290	-	59,275
Vehicles, machinery and equipment	961,653	56,835	-	1,018,488
Utility transmission structures	<u>2,319,444</u>	<u>133,833</u>	<u>-</u>	<u>2,453,277</u>
Total accumulated depreciation	<u>3,334,082</u>	<u>196,958</u>	<u>-</u>	<u>3,531,040</u>
Depreciable assets, net	<u>3,600,077</u>	<u>(196,958)</u>	<u>-</u>	<u>3,403,119</u>
Business-type activities capital assets, net	<u>\$ 4,780,018</u>	<u>\$ 397,574</u>	<u>\$ -</u>	<u>\$ 5,177,592</u>

Depreciation expense was charged to the following functions on the statement of activities:

<i>Governmental Activities:</i>	
Administration	\$ 46,045
Public safety - law enforcement	56,299
Public safety - fire	26,953
Street construction and maintenance	163,544
Recreation and parks	26,151
Community development	10,934
Childcare center operation	21,794
<i>Business-Type Activities:</i>	
Water	106,554
Sewer	<u>90,404</u>
Total	<u>\$ 548,678</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2013.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65 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.

In addition to assets, the statement of net position 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 or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items to report as deferred outflows of resources.

In addition to liabilities, the statement of net 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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type, which is unavailable revenue. The unavailable revenues arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenues, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows:

	Federal and State Grants Special Revenue Fund	Street Tax Special Revenue Fund	Child Care Special Revenue Fund	CDBG Program Income Special Revenue Fund	Low and Moderate Income Housing Asset Special Revenue Fund	Total Governmental Funds
Intergovernmental Loans	\$ 206,642 -	\$ 350,969 -	\$ 96,950 -	\$ - 1,902,011	\$ - 704,467	\$ 654,561 2,606,478
Total	<u>\$ 206,642</u>	<u>\$ 350,969</u>	<u>\$ 96,950</u>	<u>\$ 1,902,011</u>	<u>\$ 704,467</u>	<u>\$ 3,261,039</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 – COMPENSATED ABSENCES

As described in Note 1, under certain circumstances and accordingly to the negotiated labor agreements, City employees are allowed to accumulate annual leave. The annual leave amount is accrued and accounted as compensated absences in the government-wide and proprietary fund statements.

As shown in the table below, the long-term portion of this debt amounts to \$438,563 for governmental activities and \$46,112 for business-type activities at June 30, 2014. These amounts are expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the General Fund and the proprietary funds. The total amount outstanding at June 30, 2014 was \$548,204 for governmental activities and \$57,640 for business-type activities.

	<u>Balances June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2014</u>	<u>Amount Due Within One Year</u>
Governmental Activities	\$ 458,922	\$ 89,282	\$ -	\$ 548,204	\$ 109,641
Business-Type Activities	\$ 47,290	\$ 10,350	\$ -	\$ 57,640	\$ 11,528

NOTE 8 – PENSION PLAN

Plan Description

The City's defined benefit pension plans, the Miscellaneous Plan and the Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous and Safety Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95814.

Funding Policy

CalPERS implemented a change for fiscal year 2012-2013, based on the passage of Assembly Bill (AB) 340. AB 340 created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA. The City will assign employees as either "Classic" or "PEPRA" which have different contribution rates reflected in the following paragraphs.

Active "Classic" plan members in the Miscellaneous and Safety plans are required to contribute 7.0% of their annual covered salary. At this time, the City makes the contribution on behalf of the employee. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 17.248% for miscellaneous employees and 15.603% for safety employees, of annual payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Active "PEPRA" plan members in the Miscellaneous and Safety plans are required to contribute 6.25% and 9.50%, respectively, of their annual covered salary. The City is required to match the same percentages for the employer contribution rate.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 8 – PENSION PLAN (Continued)

Annual Pension Cost

For fiscal year 2013/2014, the City's annual pension cost for Miscellaneous and Safety plans was \$106,904 and \$190,789, respectively. The actual contributions were equal to the City's required contributions. The required contribution for fiscal year 2013/2014 was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20% for members of both plans depending on age, service and type of employment; and (c) 2.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of CalPERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a 15-year period (smoothed market value).

The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 actuarial valuation date was 30 years for Miscellaneous Plan and 30 years for Safety Plan.

The City's contributions to CalPERS for Miscellaneous Plan and Safety Plan for the three years ending June 30, 2012, 2013, and 2014 are presented below:

Three-Year Trend Information for CalPERS Defined Benefit Pension Plans

<u>Fiscal Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Miscellaneous Plan</u>			
06/30/12	\$ 153,965	100%	\$ 0
06/30/13	\$ 147,142	100%	\$ 0
06/30/14	\$ 106,904	100%	\$ 0
<u>Safety Plan</u>			
06/30/12	\$ 174,986	100%	\$ 0
06/30/13	\$ 203,199	100%	\$ 0
06/30/14	\$ 190,789	100%	\$ 0

Funded Status and Funding Progress

The funded status of each plan as of the most recent actuarial valuation date presented below related to the plan as a whole, of which the City is one participating employer.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
<u>Miscellaneous:</u>						
6/30/2013	\$ 11,805,627,557	\$ 9,093,458,815	\$ 2,712,168,742	77.0%	\$ 1,909,639,449	142.0%
<u>Safety:</u>						
6/30/2013	\$ 16,086,316,273	\$ 12,092,373,658	\$ 3,993,942,615	75.2%	\$ 1,263,625,356	316.1%

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 9 – RISK MANAGEMENT

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and workers' compensation losses under \$25,000. The CSJVRMA participates in an excess pool that provides general liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool that provides workers' compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

The Central San Joaquin Valley Risk Management Authority is a consortium of fifty-four (54) cities in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et. Seq. The Central San Joaquin Valley Risk Management Authority is governed by a Board of Directors, which meets 3-4 times per year, and consists of one member appointed by each member city. A management group employed by CSJVRMA handles the day-to-day business.

The summary financial position and results of operations for CSJVRMA, as of June 30, 2014 is presented as follows:

Total assets	\$ 80,694,798
Total liabilities	<u>65,440,947</u>
Total net position	<u>\$ 15,253,851</u>
Revenues	\$ 32,108,146
Expenses	<u>32,739,704</u>
Change in net position	<u>\$ (631,558)</u>

At the terminations of the joint venture agreement and after all claims have been settled, any excess or deficit will be divided among the cities in proportion to the aggregate amount of contribution made by each.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

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 collectability 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 combined financial statements for such contingencies.

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 – SUCCESSOR AGENCY TRUST FUND

On January 17, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with Assembly Bill 1X26 (the Bill”) which dissolved all redevelopment agencies in the State of California.

Under the control of an oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution of the redevelopment agency (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are only allocated revenue in the amount that is necessary to pay estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

After the date of the dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Capital Assets

Capital assets activity of the Successor Agency Trust Fund as of June 30, 2014 is as follows:

	<u>Balances June 30, 2013</u>	<u>Acquisitions</u>	<u>Dispositions</u>	<u>Balances June 30, 2014</u>
Successor Agency Trust Fund:				
<i>Non-depreciable assets:</i>				
Land	\$ 525,457	\$ -	\$ -	\$ 525,457
Total non-depreciable assets	<u>525,457</u>	<u>-</u>	<u>-</u>	<u>525,457</u>
<i>Depreciable assets:</i>				
Buildings and improvements	3,772,399	-	-	3,772,399
Vehicles, machinery and equipment	<u>234,075</u>	<u>-</u>	<u>-</u>	<u>234,075</u>
Total depreciable assets	<u>4,006,474</u>	<u>-</u>	<u>-</u>	<u>4,006,474</u>
Less accumulated depreciation for:				
Buildings and improvements	175,526	125,747	-	301,273
Vehicles, machinery and equipment	<u>69,616</u>	<u>17,847</u>	<u>-</u>	<u>87,463</u>
Total accumulated depreciation	<u>245,142</u>	<u>143,594</u>	<u>-</u>	<u>388,736</u>
Depreciable assets, net	<u>3,761,332</u>	<u>(143,594)</u>	<u>-</u>	<u>3,617,738</u>
Capital assets, net	<u>\$ 4,286,789</u>	<u>\$ (143,594)</u>	<u>\$ -</u>	<u>\$ 4,143,195</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 11 – SUCCESSOR AGENCY TRUST FUND (Continued)

Long-term Debt

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2014 was comprised of the following:

	<u>Balances June 30, 2013</u>	<u>Issued</u>	<u>Retired</u>	<u>Balances June 30, 2014</u>	<u>Due Within One Year</u>
USDA Loan	\$ 2,462,420	\$ -	\$ (101,119)	\$ 2,361,301	\$ 105,626
Total Long-Term Debt	<u>\$ 2,462,420</u>	<u>\$ -</u>	<u>\$ (101,119)</u>	<u>\$ 2,361,301</u>	<u>\$ 105,626</u>

USDA Loan

On August 11, 2009, the Farmersville Redevelopment Agency entered into loan agreement with the United States Department of Agriculture (the "USDA") for construction of a community center. The loan not-to-exceed amount is \$2,971,200 and the loan will be repayable over a period not to exceed 30 years from the date of loan closing at the intermediate interest rate of 4.375%. The first interest installment is due no later than one full year from the date of loan closing. The outstanding loan balance as of June 30, 2014 is \$2,361,301.

Annual debt service requirements to maturity of the USDA Loan are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 105,626	\$ 92,340	\$ 197,966
2016	110,312	88,021	198,333
2017	115,186	83,511	198,697
2018	120,255	78,802	199,057
2019	125,527	73,886	199,413
2020-2024	714,393	287,858	1,002,251
2025-2029	881,668	128,779	1,010,447
2030	<u>188,334</u>	<u>3,767</u>	<u>192,101</u>
Total	<u>\$ 2,361,301</u>	<u>\$ 836,964</u>	<u>\$ 3,198,265</u>

CITY OF FARMERSVILLE

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 12 – DEFICIT FUND BALANCES

The following funds had deficit fund equity at June 30, 2014:

Major Funds:

Federal and State Grants Special Revenue Fund	\$	(98,827)
Child Care Special Revenue Fund	\$	(99,834)
Refuse Fund	\$	(5,713)

Nonmajor Funds:

Federal Grants Special Revenue Fund	\$	(7,381)
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These deficits will be eliminated through future revenues or transfers from other funds.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

Governmental Funds and Governmental Activities

The beginning fund balance of the governmental funds and net position of the governmental activities were overstated by \$267,486 as a result of the following items, all of which occurred during the 2012-2013 fiscal year:

- 1) The beginning fund balance of the General Fund was overstated by \$24,225 as a result of two adjustments. The first was related to the City understating expenditures by \$108,476 in the prior year due to not recording prior year expenditures until the current fiscal year. The second adjustment was related to the City understating revenue by \$84,251 in prior years due to not recognizing revenues earned on investments held by the City.
- 2) The beginning fund balance of the Federal and State Grants Special Revenue Fund was overstated by \$67,871 due to a prior year overstatement of revenue from the incorrect recognition of grant revenue that was not yet available.
- 3) The beginning fund balance of the Street Tax Special Revenue Fund was overstated by \$145,074 due to a prior year overstatement of revenue from the incorrect recognition of Measure R revenue that was not yet available.
- 4) The beginning fund balance of the Child Care Special Revenue Fund was overstated by \$30,316 as a result of two adjustments. The first was related to the City understating expenditures by \$23,510 in the prior year due to not recording prior year expenditures until the current fiscal year. The second adjustment was related to an overstatement of revenue in the prior year due to an incorrect recognition of revenue that was not yet available.

Fiduciary Funds

The net position of the Successor Agency Trust Fund was understated by \$274,611 to the overstatement of prior year expenses. The overstatement of expenses was due to many old outstanding accounts payable balances that should have previously been removed from the Successor Agency's accounting records.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 20, 2015, the date the financial statements were available to be issued. Except as described above, no other events requiring recognition or disclosure in the financial statements were identified.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FARMERSVILLE

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014**

Both of the City's defined benefit pension plans, the Miscellaneous Plan and the Safety Plan, are cost-sharing multiple-employer defined benefit pension plans that provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The information presented in below in the schedule of funding progress and employer contributions relates to the plan as a whole, of which the City is one participating employer.

Miscellaneous:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2011	\$ 682,375,804	\$ 639,237,247	\$ 43,138,557	93.7%	\$ 193,877,169	22.3%
6/30/2012	\$ 736,231,913	\$ 701,224,211	\$ 35,007,702	95.2%	\$ 208,517,122	16.8%
6/30/2013	\$ 11,805,627,557	\$ 9,093,458,815	\$ 2,712,168,742	77.0%	\$ 1,909,639,449	142.0%

Safety:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2011	\$ 87,234,077	\$ 74,508,206	\$ 12,725,871	85.4%	\$ 21,957,452	58.0%
6/30/2012	\$ 84,829,856	\$ 75,003,561	\$ 9,826,295	88.4%	\$ 21,079,631	46.6%
6/30/2013	\$ 16,086,316,273	\$ 12,092,373,658	\$ 3,993,942,615	75.2%	\$ 1,263,625,356	316.1%

CITY OF FARMERSVILLE

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,082,400	\$ 1,082,400	\$ 1,186,025	\$ 103,625
Sales taxes	715,000	715,000	841,998	126,998
Other taxes	147,535	147,535	116,020	(31,515)
Licenses and permits	58,750	58,750	51,589	(7,161)
Charges for services	138,714	138,714	204,110	65,396
Intergovernmental	216,123	216,123	334,713	118,590
Fines and penalties	23,773	23,773	31,007	7,234
Investment income	1,000	1,000	(4,677)	(5,677)
Rent	159,500	159,500	157,288	(2,212)
Miscellaneous revenue	<u>3,327</u>	<u>3,327</u>	<u>29,004</u>	<u>25,677</u>
Total revenues	<u>2,546,122</u>	<u>2,546,122</u>	<u>2,947,077</u>	<u>400,955</u>
EXPENDITURES				
Current:				
City council	3,850	3,850	4,033	(183)
Administration	218,222	218,222	294,824	(76,602)
Library	5,547	5,547	4,823	724
Public safety:				
Law enforcement	1,660,970	1,660,970	1,725,343	(64,373)
Fire services	304,054	304,054	363,286	(59,232)
Animal control	84,952	84,952	109,388	(24,436)
Buildings and grounds	55,385	55,385	86,328	(30,943)
Recreation and parks	7,200	7,200	2,000	5,200
Street construction and maintenance	5,700	5,700	7,011	(1,311)
Community development	95,122	95,122	104,107	(8,985)
Capital outlay	<u>(39,000)</u>	<u>(39,000)</u>	<u>30,979</u>	<u>(69,979)</u>
Total expenditures	<u>2,402,002</u>	<u>2,402,002</u>	<u>2,732,122</u>	<u>(330,120)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>144,120</u>	<u>144,120</u>	<u>214,955</u>	<u>70,835</u>
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>32,665</u>	<u>32,665</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>32,665</u>	<u>32,665</u>
Net change in fund balance	144,120	144,120	247,620	103,500
Fund balances - beginning	1,317,065	1,317,065	1,317,065	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(24,225)</u>	<u>(24,225)</u>
Fund balances - ending	<u>\$ 1,461,185</u>	<u>\$ 1,461,185</u>	<u>\$ 1,540,460</u>	<u>\$ 79,275</u>

CITY OF FARMERSVILLE

**BUDGETARY COMPARISON SCHEDULE
FEDERAL AND STATE GRANTS SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 927,879</u>	<u>\$ (72,121)</u>
Total revenues	<u>1,000,000</u>	<u>1,000,000</u>	<u>927,879</u>	<u>(72,121)</u>
EXPENDITURES				
Current:				
Community development	<u>1,000,000</u>	<u>1,000,000</u>	<u>619,166</u>	<u>380,834</u>
Total expenditures	<u>1,000,000</u>	<u>1,000,000</u>	<u>619,166</u>	<u>380,834</u>
Net change in fund balance	-	-	308,713	308,713
Fund balances - beginning	(339,669)	(339,669)	(339,669)	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(67,871)</u>	<u>-</u>
Fund balances - ending	<u>\$ (339,669)</u>	<u>\$ (339,669)</u>	<u>\$ (98,827)</u>	<u>\$ 308,713</u>

CITY OF FARMERSVILLE

**BUDGETARY COMPARISON SCHEDULE
STREET TAX SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental	\$ 539,000	\$ 539,000	\$ 1,893,945	\$ 1,354,945
Investment income	<u>-</u>	<u>-</u>	<u>2,574</u>	<u>2,574</u>
Total revenues	<u>539,000</u>	<u>539,000</u>	<u>1,896,519</u>	<u>1,357,519</u>
EXPENDITURES				
Current:				
Street construction and maintenance	234,894	234,894	264,963	(30,069)
Capital outlay	<u>131,000</u>	<u>131,000</u>	<u>444,878</u>	<u>(313,878)</u>
Total expenditures	<u>365,894</u>	<u>365,894</u>	<u>709,841</u>	<u>(343,947)</u>
Net change in fund balance	173,106	173,106	1,186,678	1,013,572
Fund balances - beginning	1,078,589	1,078,589	1,078,589	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(145,074)</u>	<u>145,074</u>
Fund balances - ending	<u>\$ 1,251,695</u>	<u>\$ 1,251,695</u>	<u>\$ 2,120,193</u>	<u>\$ 1,158,646</u>

CITY OF FARMERSVILLE

**BUDGETARY COMPARISON SCHEDULE
 CHILDCARE SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Investment income	\$ -	\$ -	\$ 5	\$ 5
Miscellaneous revenue	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
Total revenues	<u>-</u>	<u>-</u>	<u>10,005</u>	<u>10,005</u>
Expenditures:				
Current:				
Childcare center operations	<u>2,900</u>	<u>2,900</u>	<u>2,900</u>	<u>-</u>
Total expenditures	<u>2,900</u>	<u>2,900</u>	<u>2,900</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,900)</u>	<u>(2,900)</u>	<u>7,105</u>	<u>10,005</u>
Net change in fund balance	(2,900)	(2,900)	7,105	10,005
Fund balances - beginning	-	-	(76,623)	-
Prior period adjustment	<u>(30,316)</u>	<u>(30,316)</u>	<u>(30,316)</u>	<u>-</u>
Fund balances - ending	<u><u>\$ (33,216)</u></u>	<u><u>\$ (33,216)</u></u>	<u><u>\$ (99,834)</u></u>	<u><u>\$ 10,005</u></u>

CITY OF FARMERSVILLE

**BUDGETARY COMPARISON SCHEDULE
CDBG PROGRAM INCOME SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 33,937	\$ 33,937	\$ 59,008	\$ 25,071
Investment income	<u>-</u>	<u>-</u>	<u>191</u>	<u>191</u>
Total revenues	<u>33,937</u>	<u>33,937</u>	<u>59,199</u>	<u>25,262</u>
EXPENDITURES				
Current:				
Community development	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total expenditures	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>8,937</u>	<u>8,937</u>	<u>59,199</u>	<u>50,262</u>
Other financing sources (uses):				
Transfers out	<u>-</u>	<u>-</u>	<u>(32,665)</u>	<u>(32,665)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(32,665)</u>	<u>(32,665)</u>
Net change in fund balance	8,937	8,937	26,534	17,597
Fund balances - beginning	<u>60,931</u>	<u>60,931</u>	<u>60,931</u>	<u>-</u>
Fund balances - ending	<u>\$ 69,868</u>	<u>\$ 69,868</u>	<u>\$ 87,465</u>	<u>\$ 17,597</u>

CITY OF FARMERSVILLE

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014**

NOTE 1 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Prior to July 1, the City Council adopts budgets for the governmental fund types. Following publication and public hearings, the budgets are legally enacted by resolution. The budgets are adopted on a modified accrual basis of accounting. The City Council approves budget amendments as needed during the fiscal year. The budget is prepared on a generally accepted accounting principles (GAAP) basis.

If expenditures exceed appropriations, the City Manager is authorized to transfer budgeted amounts between line items within any department. However, any revisions that alter the total appropriations of any department must be approved by the City Council. Budgeted amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on a Budgetary Basis include amendments for these supplemental appropriations.

Under GASB Statement No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The City adopts annual operating budgets for the general fund and all special revenue funds except the Child Care Center Special Revenue Fund and the Low and Moderate Housing Asset Special Revenue Fund.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2014, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Current:			
City council	\$ 3,850	\$ 4,033	\$ (183)
Administration	218,222	294,824	(76,602)
Public safety:			
Law enforcement	1,660,970	1,725,343	(64,373)
Fire services	304,054	363,286	(59,232)
Animal control	84,952	109,388	(24,436)
Buildings and grounds	55,385	86,328	(30,943)
Street construction and maintenance	5,700	7,011	(1,311)
Community development	95,122	104,107	(8,985)
Capital outlay	(39,000)	30,979	(69,979)
Street Tax Special Revenue Fund:			
Current:			
Street construction and maintenance	234,894	264,963	(30,069)
Capital outlay	131,000	444,878	(313,878)

SUPPLEMENTARY INFORMATION

CITY OF FARMERSVILLE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>Special Revenue Funds</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 604,489	\$ 176,185	\$ 780,674
Receivables (net of allowance for uncollectibles):			
Intergovernmental	22,591	-	22,591
Advances to other funds	<u>91,950</u>	<u>-</u>	<u>91,950</u>
 Total assets	 <u>\$ 719,030</u>	 <u>\$ 176,185</u>	 <u>\$ 895,215</u>
LIABILITIES			
Accounts payable	\$ 8,501	\$ -	\$ 8,501
Due to other funds	7,381	-	7,381
Salaries and benefits payable	<u>533</u>	<u>-</u>	<u>533</u>
 Total liabilities	 <u>16,415</u>	 <u>-</u>	 <u>16,415</u>
FUND BALANCES			
Nonspendable:			
Long-term receivables	91,950	-	91,950
Restricted for:			
Public safety	223,643	-	223,643
Buildings, grounds and parks	5,802	-	5,802
Community development	22,081	-	22,081
Capital maintenance	366,520	176,185	542,705
Unassigned	<u>(7,381)</u>	<u>-</u>	<u>(7,381)</u>
 Total fund balances	 <u>702,615</u>	 <u>176,185</u>	 <u>878,800</u>
 Total liabilities and fund balances	 <u>\$ 719,030</u>	 <u>\$ 176,185</u>	 <u>\$ 895,215</u>

CITY OF FARMERSVILLE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues:			
Property taxes	\$ 62,976	\$ -	\$ 62,976
Developer fees	75,532	24,433	99,965
Intergovernmental	124,178	-	124,178
Investment income	1,058	352	1,410
Miscellaneous revenue	<u>1,250</u>	<u>-</u>	<u>1,250</u>
Total revenues	<u>264,994</u>	<u>24,785</u>	<u>289,779</u>
Expenditures:			
Current:			
Public safety:			
Law enforcement	76,794	-	76,794
Buildings, grounds and parks	21,041	-	21,041
Street construction and maintenance	33,404	52,000	85,404
Capital outlay	<u>62,887</u>	<u>-</u>	<u>62,887</u>
Total expenditures	<u>194,126</u>	<u>52,000</u>	<u>246,126</u>
Net changes in fund balances	70,868	(27,215)	43,653
Fund balances - beginning	<u>631,747</u>	<u>203,400</u>	<u>835,147</u>
Fund balances - ending	<u>\$ 702,615</u>	<u>\$ 176,185</u>	<u>\$ 878,800</u>

CITY OF FARMERSVILLE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2014

	<u>Park Development Fund</u>	<u>Maintenance District</u>	<u>Developer Fees</u>	<u>Drug Enforcement Fund</u>
ASSETS				
Cash and cash equivalents	\$ 5,802	\$ 117,311	\$ 246,305	\$ 32,835
Receivables (net of allowance for uncollectibles):				
Intergovernmental	-	4,931	-	-
Advances to other funds	-	-	91,950	-
	<u>5,802</u>	<u>122,242</u>	<u>338,255</u>	<u>32,835</u>
Total assets	<u>\$ 5,802</u>	<u>\$ 122,242</u>	<u>\$ 338,255</u>	<u>\$ 32,835</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 1,494	\$ -	\$ 7,007
Due to other funds	-	-	-	-
Salaries and benefits payable	-	533	-	-
	<u>-</u>	<u>2,027</u>	<u>-</u>	<u>7,007</u>
Total liabilities	<u>-</u>	<u>2,027</u>	<u>-</u>	<u>7,007</u>
Fund Balances:				
Nonspendable:				
Long-term receivables	-	-	91,950	-
Restricted for:				
Public safety	-	-	-	25,828
Buildings, grounds and parks	5,802	-	-	-
Community development	-	-	-	-
Capital maintenance	-	120,215	246,305	-
Unassigned	-	-	-	-
	<u>5,802</u>	<u>120,215</u>	<u>338,255</u>	<u>25,828</u>
Total fund balances	<u>5,802</u>	<u>120,215</u>	<u>338,255</u>	<u>25,828</u>
Total liabilities and fund balances	<u>\$ 5,802</u>	<u>\$ 122,242</u>	<u>\$ 338,255</u>	<u>\$ 32,835</u>

<u>Police Grants</u>	<u>State and County Asset Forfeiture</u>	<u>CalHOME Program Income</u>	<u>Federal Grants</u>	<u>Totals</u>
\$ 176,242	\$ 3,913	\$ 22,081	\$ -	\$ 604,489
17,660	-	-	-	22,591
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,950</u>
<u>\$ 193,902</u>	<u>\$ 3,913</u>	<u>\$ 22,081</u>	<u>\$ -</u>	<u>\$ 719,030</u>
\$ -	\$ -	\$ -	\$ -	\$ 8,501
-	-	-	7,381	7,381
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>7,381</u>	<u>16,415</u>
-	-	-	-	91,950
193,902	3,913	-	-	223,643
-	-	-	-	5,802
-	-	22,081	-	22,081
-	-	-	-	366,520
<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,381)</u>	<u>(7,381)</u>
<u>193,902</u>	<u>3,913</u>	<u>22,081</u>	<u>(7,381)</u>	<u>702,615</u>
<u>\$ 193,902</u>	<u>\$ 3,913</u>	<u>\$ 22,081</u>	<u>\$ -</u>	<u>\$ 719,030</u>

CITY OF FARMERSVILLE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Park Development Fund</u>	<u>Maintenance District</u>	<u>Developer Fees</u>	<u>Drug Enforcement Fund</u>
Revenues:				
Property taxes	\$ -	\$ 62,976	\$ -	\$ -
Developer fees	-	-	75,532	-
Intergovernmental	-	-	-	-
Investment income	50	168	448	57
Miscellaneous revenue	<u>1,250</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,300</u>	<u>63,144</u>	<u>75,980</u>	<u>57</u>
Expenditures:				
Current:				
Public safety:				
Law enforcement	-	-	8,503	-
Buildings, grounds and parks	21,041	-	-	-
Street construction and maintenance	-	33,404	-	-
Capital outlay	<u>12,000</u>	<u>-</u>	<u>50,887</u>	<u>-</u>
Total expenditures	<u>33,041</u>	<u>33,404</u>	<u>59,390</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(31,741)</u>	<u>29,740</u>	<u>16,590</u>	<u>57</u>
Net changes in fund balances	(31,741)	29,740	16,590	57
Fund balances - beginning	<u>37,543</u>	<u>90,475</u>	<u>321,665</u>	<u>25,771</u>
Fund balances - ending	<u>\$ 5,802</u>	<u>\$ 120,215</u>	<u>\$ 338,255</u>	<u>\$ 25,828</u>

<u>Police Grants</u>	<u>State and County Asset Forfeiture</u>	<u>CalHOME Program Income</u>	<u>Federal Grants</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 62,976
-	-	-	-	75,532
114,844	-	2,952	6,382	124,178
292	7	36	-	1,058
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,250</u>
<u>115,136</u>	<u>7</u>	<u>2,988</u>	<u>6,382</u>	<u>264,994</u>
68,291	-	-	-	76,794
-	-	-	-	21,041
-	-	-	-	33,404
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,887</u>
<u>68,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,126</u>
<u>46,845</u>	<u>7</u>	<u>2,988</u>	<u>6,382</u>	<u>70,868</u>
46,845	7	2,988	6,382	70,868
<u>147,057</u>	<u>3,906</u>	<u>19,093</u>	<u>(13,763)</u>	<u>631,747</u>
<u>\$ 193,902</u>	<u>\$ 3,913</u>	<u>\$ 22,081</u>	<u>\$ (7,381)</u>	<u>\$ 702,615</u>

CITY OF FARMERSVILLE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECTS FUND
JUNE 30, 2014

	Storm Drain Development Fund
ASSETS	
Cash and cash equivalents	\$ <u>176,185</u>
Total assets	\$ <u><u>176,185</u></u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ <u> -</u>
Total liabilities	<u> -</u>
Fund Balances:	
Capital maintenance	<u>176,185</u>
Total fund balances	<u>176,185</u>
Total liabilities and fund balances	\$ <u><u>176,185</u></u>

CITY OF FARMERSVILLE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Storm Drain Development Fund</u>
Revenues:	
Developer fees	\$ 24,433
Investment income	<u>352</u>
Total revenues	<u>24,785</u>
Expenditures:	
Current:	
Street construction and maintenance	<u>52,000</u>
Total expenditures	<u>52,000</u>
Net change in fund balance	(27,215)
Fund balances - beginning	<u>203,400</u>
Fund balances - ending	<u>\$ 176,185</u>

CITY OF FARMERSVILLE

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2014**

	Customer Utility Deposit			Balance June 30, 2014
	Balance June 30, 2013	Additions	Deduction	
ASSETS				
Cash and cash equivalents	\$ 39,863	\$ 24,560	\$ (21,985)	\$ 42,438
Total assets	<u>\$ 39,863</u>	<u>\$ 24,560</u>	<u>\$ (21,985)</u>	<u>\$ 42,438</u>
LIABILITIES				
Accounts payable	\$ -	\$ 3,090	\$ (2,790)	\$ 300
Customer deposits	<u>39,863</u>	<u>26,531</u>	<u>(24,256)</u>	<u>42,138</u>
Total liabilities	<u>\$ 39,863</u>	<u>\$ 29,621</u>	<u>\$ (27,046)</u>	<u>\$ 42,438</u>

	PD Hold Unadjudicated Evidence			Balance June 30, 2014
	Balance June 30, 2013	Additions	Deduction	
ASSETS				
Cash and cash equivalents	\$ 954	\$ 1	\$ -	\$ 955
Total assets	<u>\$ 954</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 955</u>
LIABILITIES				
Due to other agencies	\$ 954	\$ 1	\$ -	\$ 955
Total liabilities	<u>\$ 954</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 955</u>

CITY OF FARMERSVILLE

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2014**

	Live Scan			Balance June 30, 2014
	Balance June 30, 2013	Additions	Deduction	
ASSETS				
Cash and cash equivalents	\$ (561)	\$ 1,793	\$ (1,432)	\$ (200)
Accounts receivable	<u>703</u>	<u>-</u>	<u>-</u>	<u>703</u>
Total assets	<u>\$ 142</u>	<u>\$ 1,793</u>	<u>\$ (1,432)</u>	<u>\$ 503</u>
LIABILITIES				
Accounts payable	\$ 355	\$ 1,126	\$ (1,432)	\$ 49
Due to other agencies	<u>(213)</u>	<u>1,892</u>	<u>(1,225)</u>	<u>454</u>
Total liabilities	<u>\$ 142</u>	<u>\$ 3,018</u>	<u>\$ (2,657)</u>	<u>\$ 503</u>

	Total			Balance June 30, 2014
	Balance June 30, 2013	Additions	Deduction	
ASSETS				
Cash and cash equivalents	\$ 40,256	\$ 26,354	\$ (23,417)	\$ 43,193
Accounts receivable	<u>703</u>	<u>-</u>	<u>-</u>	<u>703</u>
Total assets	<u>40,959</u>	<u>26,354</u>	<u>(23,417)</u>	<u>43,896</u>
LIABILITIES				
Accounts payable	355	4,216	(4,222)	349
Customer deposits	39,863	26,531	(24,256)	42,138
Due to other agencies	<u>741</u>	<u>1,893</u>	<u>(1,225)</u>	<u>1,409</u>
Total liabilities	<u>\$ 40,959</u>	<u>\$ 32,640</u>	<u>\$ (29,703)</u>	<u>\$ 43,896</u>

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OVERALL COMPLIANCE, INTERNAL CONTROLS AND
FEDERAL AWARDS SECTION

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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

To the Honorable Mayor and City Council
City of Farmersville, California

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 the City of Farmersville, California (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 20, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2014-001 through 2014-005 to be material weaknesses.

Compliance and Other Matters

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

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

City of Farmersville's Response to Findings

The City of Farmersville's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Pange & Company

Clovis, California
February 20, 2015

CITY OF FARMERSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes

 no

Significant deficiency(ies) identified -
not considered to be material weaknesses?

 yes

 X none reported

Noncompliance material to financial statements noted?

 yes

 X no

CITY OF FARMERSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2014-001 Accounts Receivable

Condition: The City did not properly record certain receivables and the related revenue and unavailable revenue during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts.

Criteria: A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause: The City did not have adequate time to fully address this recommendation from the prior year, as their efforts were focused on areas with more significant issues.

Effect: As a result of this condition, receivables, revenues, and unavailable revenues were materially misstated.

Recommendation: The City already maintains a schedule for receivables at year-end, but they should refine their process to ensure that all receivables are captured and classified correctly. The City should place additional focus on receivables and revenues related to grants and loans.

Management's Response: The City is continuing to work toward improving all year-end and receivable processes. Part of this improvement process includes increased focus on grant reporting by staff. We are currently working with our grant writers on developing a grant reporting policy and calendar so that nothing is missed. Additionally, the City is in the process of outsourcing loan management which will dramatically improve the reporting performance of loans held by the City.

CITY OF FARMERSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2014-002 Capital Assets

Condition: The City did not properly identify all capital asset acquisitions during the year.

Criteria: GASB Statement No. 34 requires the accurate and complete reporting of capital asset balances and related accumulated depreciation and depreciation expense in the government-wide financial statements.

Cause: The City did not consider various accrued expenditures as capital asset additions during its review the numerous capital outlay accounts it maintains in its accounting system.

Effect: As a result of this condition, capital assets were understated by \$405,465.

Recommendation: The City has improved considerably in this area during the last two years but should still implement stronger procedures to capture capital asset activity. We recommend that the City have in place a system to identify asset additions when invoices are being processed rather than exclusively performing procedures at year-end to try to identify potential activity that occurred throughout the year.

Management's Response: The City is working toward improving all year-end processes. Part of this process is to further develop our month-end reporting process. This includes monthly bank reconciliation as well as a check of all transactions posted and any related journal entries. Added to this process will be a review of all potential asset purchases and a clean-up of our inventory and depreciation schedules. This process will include working closely with department heads to identify these capital assets.

CITY OF FARMERSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2014-003 Fund Balances

Condition: The fund balances in the City's accounting records did not reconcile to the prior year audited financial statements.

Criteria: Beginning balances per the City's trial balance should reconcile to the previous year audited financial statements balances.

Cause: The differences are the result of several different issues that can occur within the City's accounting system, which include, but are not limited to, the following instances:

- 1) Transactions may be posted to a period that has already been closed, which creates discrepancies between different trial balance reports within the system.
- 2) Expenses that were processed in one year but paid in the next may have been voided, which creates a discrepancy between the closing fund balances in the prior year and the opening fund balance in the current year.
- 3) Prior year proposed audit adjusting journals entries may not have been posted by the City, which causes a discrepancy between the opening fund balances in the City's accounting system and the prior year audited financial statements.

Effect: The City's accounting records did not accurately reflect financial position or results of operations and numerous audit adjustments were required to reconcile opening fund balances.

Recommendation: The City's year-end close process should include reconciling beginning fund balances to the prior year audited balances. Controls should be created and implemented to ensure that any of the above causes will be detected before the City's closes its financial records for the current fiscal year.

Management's Response: The City is working toward improving all year-end processes. Fiscal year 2012 and 2013 both had issues with fund balances caused by several issues during a difficult transition period for the City. We anticipate this coming to an end now that these processes have been refined and monthly processes have been put in place to head off any of these issues ahead of time.

CITY OF FARMERSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2014-004 Miscodings

Condition: During our review of transactions, we discovered that the City had miscoded eight transactions into either the incorrect fund or account.

Criteria: Transactions should be classified and recorded into proper funds and accounts in the City's accounting system.

Cause: Miscoded transactions were the result of miscommunication or clerical errors. Additionally, this was due to the inability of the City's current controls to identify and correct miscoded transactions.

Effect: As a result of this condition, various funds and accounts were materially understated or overstated.

Recommendation: The City should implement a review process for all posted transactions to ensure that they have been properly coded in the City's accounting system. Additionally, department heads should be reviewing their budgets on a consistent basis to ensure that only valid expenses are hitting their fund or department.

Management's Response: The City is working toward improving all year-end processes. Part of that effort is to keep improving our month-end process that has been established. This process includes a review of the general ledger, including revenue and expense postings, journal entries, and bank reconciliations. This month-end process includes involving input from department heads on the accuracy of postings and journal entries and review where they stand with their budgets each month.

CITY OF FARMERSVILLE

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2014-005 Accounts Payable

Condition: The City did not properly identify and accrue all accounts payable and related expenditures at year-end.

Criteria: Expenditures should be recognized when liabilities are incurred.

Cause: Controls did not effectively identify all accounts payable and related expenditures.

Effect: As a result of this condition, accounts payable and expenses were understated by \$41,560.

Recommendation: The City should implement a supplementary review process for transactions near year-end to ensure all payables are captured and properly recorded in its financial system.

Management's Response: The City is working toward improving all year-end processes. The year-end accrual process has been vastly improved from prior years by using separate batches posted for prior year accrual amounts which are tracked on a separate spreadsheet. This instance was simply a one-off error related to a late invoice that was not included properly in the year-end accrual schedule.

CITY OF FARMERSVILLE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS

Finding 2013-001

Condition: The City did not properly record cash, payables, receivables, revenues, unavailable revenues and capital assets during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts. City management agreed with our adjustments and posted the entries.

Criteria: A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cause: Financial closing adjustments to record year-end cash, payables, receivables, revenues, unavailable revenues and capital assets were not identified and posted to the City accounting records.

Effect: As a result of this condition, payables, receivables, revenues, unavailable revenues and land held for resale were initially materially misstated.

Recommendation: We recommend that the City create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

Management's Response: The City concurs with the finding. Management will create a year-end financial closing checklist that includes the necessary steps at year-end to ensure proper reconciliation and reporting of all significant account balances. The City also recognizes the importance of consistency and stability in management. Having too much turnover and at times vacancies in the Finance Director and Finance Manager positions have contributed to the conditions that lead to these findings. The City is hopeful that the newly-hired Finance Director will bring more stability and structure to the City and help to prevent such findings, in the future.

Status: Partially implemented. See current year findings.

CITY OF FARMERSVILLE

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2013-002

Condition: The accounting records of the City were not adjusted to reflect the dissolution of the Farmersville Redevelopment Agency and the establishment of the Successor Agency.

Criteria: On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 ("the Bill"), which provided for the dissolution of all redevelopment agencies in the State of California. Under the Bill, the City of Farmersville accepted the role of successor agency to serve as custodian for the assets of the dissolved redevelopment agency, pending distribution to the appropriate taxing entities after the payment of enforceable obligations that were in effect as of the signing of the Bill. Based upon the nature of this custodial role, upon dissolution the assets and liabilities of the dissolved redevelopment agency, the activity should have been reported in a fiduciary fund (private-purpose trust fund) of the City in accordance with generally accepted accounting principles.

Cause: The City did not adequately understand the required accounting and related financial reporting applicable to the dissolution.

Effect: The City accounting records did not accurately reflect the dissolution of the former redevelopment agency and subsequent custodial role of the successor agency.

Recommendation: The year-end closing process should be enhanced to ensure identification of accounting changes for inclusion in the accounting records.

Management's Response: The City concurs with the finding. Management is hopeful that the newly-hired Finance Director will bring to the City the much-needed stability and consistency that has been lacking over the past few years, due to turnover in those positions.

Status: Implemented