

FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION AND
INDEPENDENT AUDITORS' REPORT

**FIREMEN'S RELIEF AND RETIREMENT FUND
A FIDUCIARY FUND OF THE
CITY OF HARLINGEN, TEXAS**

September 30, 2014 and 2013

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	
Statements of Fiduciary Net Position	10
Statements of Changes in Fiduciary Net Position	11
Notes to Basic Financial Statements	12
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress (Unaudited)	20
Schedule of Changes in Net Pension Liability and Related Ratios (Unaudited)	21
Schedule of Employer Contributions (Unaudited)	22
Schedule of Investment Returns (Unaudited)	24
Notes to Required Supplementary Information (Unaudited)	25
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	29

INDEPENDENT AUDITORS' REPORT

Board of Trustees of the City of Harlingen
Firemen's Relief and Retirement Fund
City of Harlingen, Texas

We have audited the accompanying financial statements of the Firemen's Relief and Retirement Fund of the City of Harlingen, Texas (the Plan), which comprise the statements of fiduciary net position as of September 30, 2014 and 2013 and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan'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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Plan'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 Plan'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 Plan's financial statements.

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

Opinion

In our opinion, the Plan's financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Firemen's Relief and Retirement Fund, of the City of Harlingen, Texas, as of September 30, 2014 and 2013, and the changes in fiduciary net position of the Plan for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standards

As discussed in Note B to the financial statements, in 2014 the Plan adopted new accounting guidance Statement No. 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* (GASB 67). Our opinion is not modified with respect to this matter.

Fiduciary Fund of the City of Harlingen, Texas

As discussed in Note A, the financial statements present only the Firemen's Relief and Retirement Fund, a fiduciary fund of the City of Harlingen, Texas and do not intend to, and do not, present fairly, the financial position of the City of Harlingen, as of September 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, schedule of funding progress (unaudited), schedule of changes in the Plan's net pension liability and related ratios (unaudited), schedule of employer contributions (unaudited), schedule of investment returns (unaudited) and notes to required supplementary information (unaudited) 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.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
April 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of the Harlingen Firemen's Relief and Retirement Fund (the Plan) for the fiscal year ended September 30, 2014. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements and required supplementary information.

FINANCIAL HIGHLIGHTS

The fiduciary net position held in trust for pension benefits increased by \$2,019,490 or (7.50) percent. The increase is primarily the result of the net appreciation in fair value of investments when compared to the prior year.

Benefits paid increased by \$342,398 compared to the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the plan's basic financial statements, together with the related notes to the financial statements, required supplemental information, and the supporting schedules, as of which are described below:

Statements of Fiduciary Net Position – These statements report the plan's assets, liabilities and resultant fiduciary net position held in trust for pension benefits. These statements should be read with the understanding that it discloses the plan's financial position as of September 30, 2014 and 2013.

Statements of Changes in Fiduciary Net Position– These statements report the results of operations during the year, categorically disclosing the additions to and deletions from the plan's fiduciary net position. The net increase (decrease) in plan assets on these statements support the change in fiduciary net position held in trust for pension benefits on the Statements of Fiduciary Net Position.

Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements. A description of the information provided in the notes follows:

- ◆ Note A (Plan Description) provides a general description of the Harlingen Firemen's Relief and Retirement Fund. Information is included regarding plan membership and description of retirement benefits.
- ◆ Note B (Summary of Significant Accounting Policies and Plan Asset Matters) provides information disclosing certain accounting methods in determining amounts shown on the financial statements. Included in this note is information relative to the basis of accounting and determination of estimates.
- ◆ Note C (Contributions Required and Contributions Made) provides information disclosing the methods and assumptions in determining required contributions.

Required Supplementary Information:

Schedule of funding progress (unaudited), schedule of changes in net position liability and related ratios (unaudited), schedule of employer contributions (unaudited), schedule of investment returns (unaudited), and additional notes to required schedules (unaudited) are included within this section to provide historical and additional information considered useful in reading the basic financial statements.

GASB Statement No. 67 requires a disclosure of the Net Pension Liability (NPL). The NPL is the difference between the Total Pension Liability (TPL) and the market value of assets. GASB 67 requires the determination for the TPL using the individual entry age method, level percent of pay actuarial cost method and a discounted rate. Information about whether the fiduciary’s net positions are increasing or decreasing over time relative to the total pension liability is provided in the Schedule of Changes in the Fund’s Net Pension Liability and Related Ratios (unaudited) on page 21.

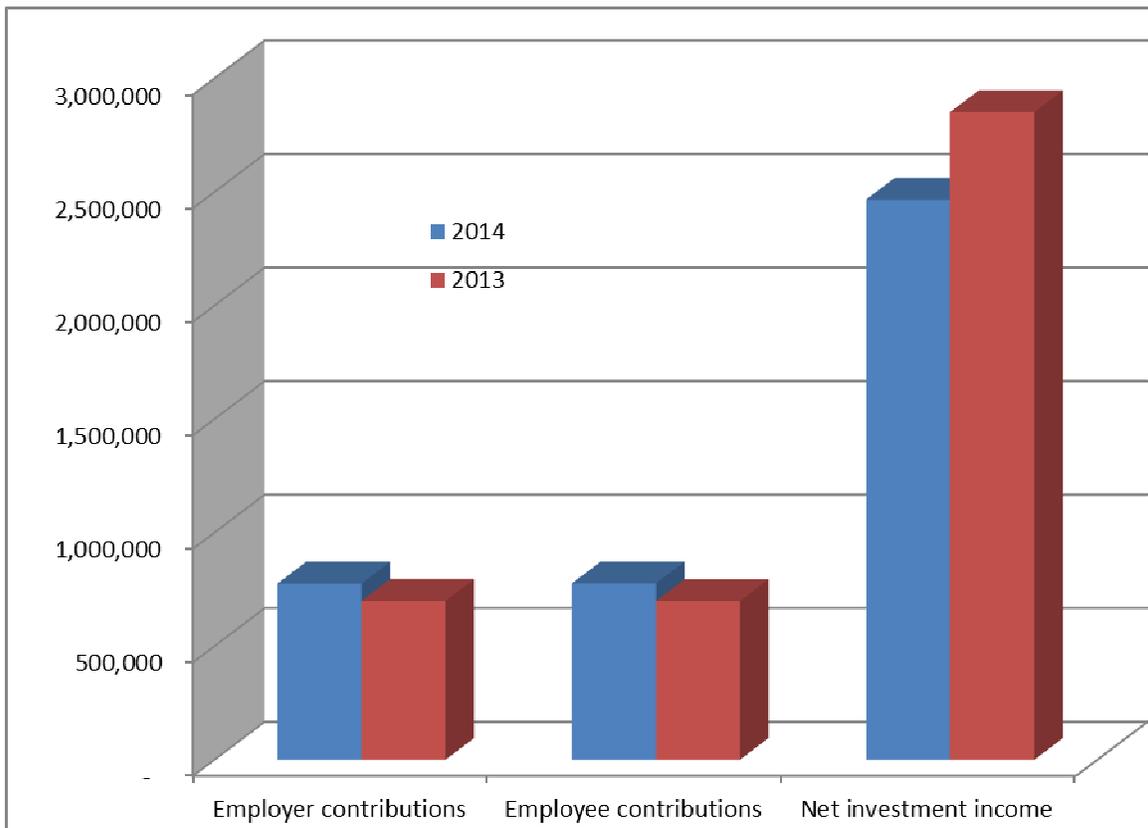
FUND FINANCIAL ANALYSIS

The Fund provides retirement benefits to essentially all eligible fire fighter employees. These benefits are funded through member contributions, employer contributions and earnings on investments. Total fiduciary net position held in trust for pension benefits as of September 30, 2014 amounted to \$28,959,823, which is an increase of \$2,019,490 or 7.50 percent from the \$26,940,333 held as of September 30, 2014.

Additions to Fiduciary Net Position

Additions to fiduciary net position held in trust for pension benefits include contributions from employees (plan members) and the City, as well as investment income. There was an increase of \$154,954 in employee and employer contributions in FY 2014 compared to FY 2013. Net investment income (loss) decreased by \$385,333 in FY 2013 to \$2,466,921 compared with a decrease of \$875,253 in FY 2013 as a result of fair market value adjustments recorded during the year.

Additions (Reductions) to Fiduciary Net Position

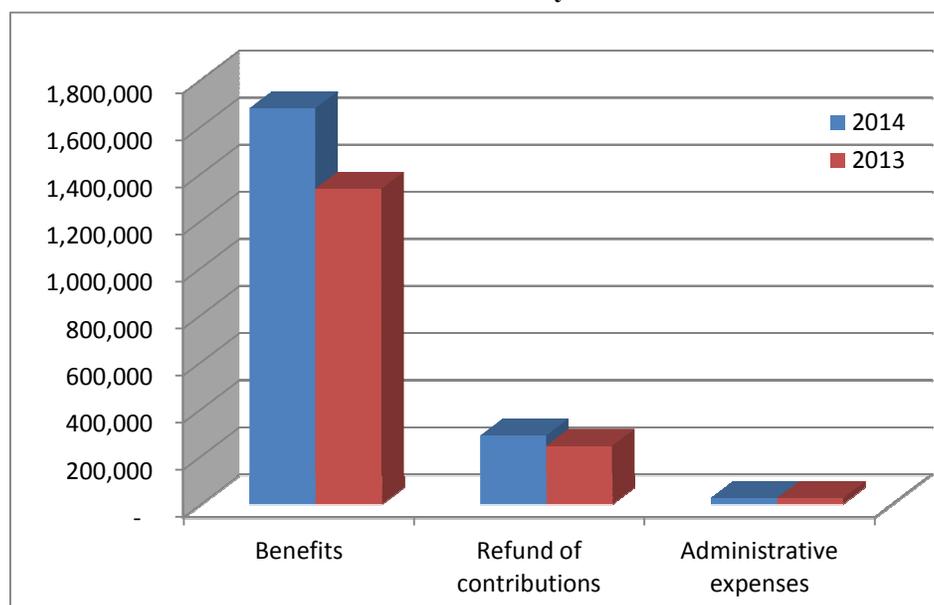


<u>Additions to Fiduciary Net Position</u>	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Employer contributions	\$ 775,438	\$ 699,601	10.84%
Employee contributions	775,998	698,881	11.03%
Net investment income (loss)	<u>2,466,921</u>	<u>2,852,254</u>	(13.51)%
Total additions	<u>\$4,018,357</u>	<u>\$4,250,736</u>	

Deductions from Fiduciary Net Position

Deductions from fiduciary net position held in trust for pension benefits are comprised primarily of retirement benefits to Fund retirees, survivors, and beneficiaries, administrative expenses, and refunds of contributions. For 2014, the benefits payments amounted to \$1,682,263, which represents an increase of \$283,781 from the \$1,398,482 paid out in 2013. Administrative expenses increased \$324 from \$26,335 in 2013 to \$26,659 in 2014 or 1.2 percent. Refunds of member contributions increased from \$247,530 in 2013 to \$291,945 in 2014.

Deductions from Fiduciary Net Position



<u>Deductions from Fiduciary Net Position</u>	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Benefits	\$1,682,263	\$1,398,482	25.56%
Refund of contributions	291,945	247,530	17.94%
Administrative expenses	<u>26,659</u>	<u>26,335</u>	1.2%
Total deductions	<u>\$2,000,867</u>	<u>\$1,613,730</u>	

Investments

Total common trust funds as reflected on the Westwood Trust statements amounted to \$28,948,599 at September 30, 2014 as compared to \$26,890,384 at September 30, 2013, which represents an increase of \$2,058,215 or 7.7 percent. The increase can be attributed to the increases in estimated fair market values of the investments.

Cash is included in the investment total as shown on the schedule below in order to account for all of the Plan's fiduciary assets. The amount of idle cash as measured by the year-end balances decreased by \$27,985 to \$22,067 at September 30, 2014. The government securities are considered as cash equivalents but are also considered as an investment vehicle by the interest that is earned.

The plan currently has a balance of 1.1 percent in cash and cash equivalents, 54.3 percent in equities, 27.4 percent in fixed income and approximately 17.1 percent in specialty. When comparing investments from year to year, it is important to be aware that several factors may affect the change in investments, particularly the changes between investment categories and types. One factor is that of investment rebalancing, which is initiated when certain predetermined target allocation percentages are reached. The investment portfolio is not stagnant, but is traded in part each business day. It is best to refer to the total investment figures to conclude how investments performed overall.

	Investments (at fair value)			
	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Investments at fair value				
Cash (Compass Bank)	\$ 22,067	\$ 50,052	\$ (27,985)	(4.0)%
Cash (Westwood Trust)	<u>310,939</u>	<u>407,191</u>	<u>(96,252)</u>	(23.6)%
Total cash	<u>333,006</u>	<u>457,243</u>	<u>(124,237)</u>	(27.2)%
Mutual funds - equity	15,729,073	14,382,711	1,346,362	9.4%
Mutual funds – fixed income	7,951,705	7,756,298	195,407	(25.2)%
Mutual funds - specialty	<u>4,956,882</u>	<u>4,344,184</u>	<u>612,698</u>	14.1%
	<u>28,637,660</u>	<u>26,483,193</u>	<u>2,154,467</u>	8.1%
Total	<u>\$28,970,666</u>	<u>\$26,940,436</u>	<u>\$ 2,030,230</u>	7.5%

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to inform the citizens, taxpayers, customers, investors and creditors with a general overview of the Fund's finances and to show accountability for the money it receives. If you have any questions about the report or need additional information, contact the Finance Director's Office at the City of Harlingen, 118 East Tyler, Harlingen, Texas 78550.

FINANCIAL STATEMENTS

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
STATEMENTS OF FIDUCIARY NET POSITION
September 30,

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 22,064	\$ 50,052
Investments, at fair value		
Money market funds	310,939	407,191
Mutual funds- equity	15,729,073	14,382,711
Mutual funds- fixed income	7,951,705	7,756,298
Mutual funds- specialty	<u>4,956,882</u>	<u>4,344,184</u>
Total investments, at fair value	28,948,599	26,890,384
Prepaid items	<u>365</u>	<u>-</u>
Total assets	<u>\$28,971,028</u>	<u>\$26,940,436</u>
LIABILITIES		
Accounts payable	\$ 11,205	\$ 103
FIDUCIARY NET POSITION		
Fiduciary Net position held in trust for pension benefits (see page 20 for a schedule of funding progress)	<u>28,959,823</u>	<u>26,940,333</u>
Total liabilities and fiduciary net position	<u>\$28,971,028</u>	<u>\$26,940,436</u>

The accompanying notes are an integral part of these financial statements.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended September 30,

	<u>2014</u>	<u>2013</u>
Additions		
Contributions		
Employer	\$ 777,438	\$ 699,601
Plan members	<u>775,998</u>	<u>698,881</u>
Total contributions	1,553,436	1,398,482
Investment income		
Net appreciation (depreciation) in fair value of investments	2,604,847	2,732,754
Interest and dividends	<u>49,565</u>	<u>279,995</u>
	2,654,412	3,012,749
Less investment expense	<u>(187,491)</u>	<u>(160,495)</u>
Net investment income (loss)	<u>2,466,921</u>	<u>2,852,254</u>
Total additions (reductions)	4,020,357	4,250,736
Deductions		
Benefits	1,682,263	1,339,865
Refunds of contributions	291,945	247,530
Administrative expenses	<u>26,659</u>	<u>26,335</u>
Total deductions	<u>2,000,867</u>	<u>1,613,730</u>
Net change in fiduciary net position	2,019,490	2,637,006
Fiduciary net position held in trust for pension benefits:		
Beginning of year	<u>26,940,333</u>	<u>24,303,327</u>
End of year	<u>\$28,959,823</u>	<u>\$26,940,333</u>

The accompanying notes are an integral part of these financial statements.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO FINANCIAL STATEMENTS
September 30, 2014 and 2013

NOTE A - PLAN DESCRIPTION

The Board of Trustees of the Firemen's Relief and Retirement Fund for the City of Harlingen, Texas is the administrator of a single-employer defined benefit pension plan. The Firemen's Relief and Retirement Fund is considered part of the City of Harlingen's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a pension trust fund.

Firefighters employed by the City of Harlingen fire department are covered by the Firemen's Relief and Retirement Fund. During the year 2003, the fund changed its actuarial reporting year from September 30th to December 31st. Therefore, December 31, 2013 is the most recent actuarial information available. The table below summarizes the membership of the fund at December 31, 2013.

1. Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and employees who have elected the DROP benefit	74
2. Current	
a. Vested	14
b. Nonvested	<u>82</u>
3. Total	<u>170</u>

The Firemen's Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits vest after twenty years of credited service. Employees may retire at age 50 with twenty years of service. The monthly benefit at retirement, payable in a joint and 2/3 to spouse form of annuity, is equal to 65.5% of the highest 60-month average salary plus \$65.00 per month for each year of service in excess of twenty years. Under this plan, Harlingen firefighters are required to contribute 12.00% of their pay to the fund. The City of Harlingen is required to make contributions which will equal 12.00% of pay. The benefit and contribution provisions of this plan are authorized by the Texas Local Fire Fighters Retirement Act (TLFFRA).

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN FIDUCIARY ASSET MATTERS

1. ***Organization***

The Plan was created pursuant to the TLFFRA. The Plan provides pension, disability, death, and severance benefits to employees of the City's fire department eligible to receive benefits pursuant to a single-employer defined benefit pension plan.

2. ***Basis of Accounting***

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America for local governmental units as prescribed by the GASB. The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN FIDUCIARY ASSET MATTERS - Continued

3. *Cash Equivalents*

For purposes of the statements of plan net position, short-term, highly liquid investments are considered cash equivalents.

4. *Valuation of Plan Investments*

The Plan's investments are stated at fair value and, accordingly, unrealized appreciation and depreciation are reported in the statement of changes in plan position. The fair value of money market funds is considered to be the same as the cost of these investments due to their nature. The fair value of common stocks and foreign equities are based on quoted market prices. The fair value of United States Government securities and corporate bonds are based on quotes from broker dealers.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statements of changes in fiduciary net position, along with gains and losses realized on sales of investments.

Purchases and sales of investments are recorded on a trade-date basis and, accordingly, the related receivables and payables for any unsettled trades are recorded. Interest income and dividends are recorded on the accrual basis.

5. *Federal Income Tax*

The Plan is exempt from federal income tax pursuant to applicable regulations.

6. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

7. *Administrative Expenses*

The cost of administering the fund is paid by the fund from current earnings pursuant to an annual fiscal budget approved by the Board.

8. *Recent Accounting Pronouncements*

In June 2013, GASB issued Statement No. 67, Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25. This standard addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also included comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the Fund's financial statements.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN FIDUCIARY ASSET MATTERS - Continued

In June 2013, GASB issued Statement No.68, Accounting and Financial Reporting for Pensions- an Amendment of GASB Statement No. 27. This standard will be used by the Plan's sponsor to record and report pension information in their financial statements and must comply with similar provisions as listed above. This Statement is effective for fiscal years beginning after June 5, 2014. Management of the Fund is currently evaluating the impact, if any, of this new pronouncement on the Fund's financial statements.

NOTE C – INVESTMENTS

Statutes of the State of Texas authorize the Fund to invest in surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Fund; however, the Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the Fund given prevailing economic and capital market conditions. While the Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name.

Concentration of Credit Risk

The allocation of assets among various asset classes is set by the Board with the objective of optimizing the investment return of the Fund within framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, private equity and real estate, and specialty), the Fund where such broker is also affiliated with the manager who is making the transaction are prohibited, unless specifically approved by the Fund.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE C – INVESTMENTS - Continued

Interest Rate Risk

The Fund invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest. Instruments may have an investment grade or noninvestment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Fund's Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation (depreciation) in fair value of investments.

NOTE D - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

For the plan in effect on September 30, 2014 and 2013, the funding policy of the Firemen's Relief and Retirement Fund required contributions equal to 12% of payroll by the firefighters and 12% of payroll by the City of Harlingen.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the fund must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the firefighters and the City provide an adequate financing arrangement. Using the variation of the entry age normal actuarial cost method, the plan's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the plan's unfunded actuarial accrued liability, and the number of years needed to amortize the plan's unfunded actuarial accrued liability is determined using a level percentage of payroll method. For the plan in effect on December 31, 2013, the most recent actuarial valuation date, the normal cost is 18.06% of pay. The amortization period based on the December 31, 2013 actuarial valuation is 25 years.

For the 2014 and 2013 fiscal year, total contributions of \$1,553,436 and \$1,398,482 were paid into the fund.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE E- NET PENSION LIABILITY OF EMPLOYERS

The components of the net pension liability (as actuarially determined) of the Fund at December 31, 2013 were as follows:

Total pension liability	\$39,930,327
Plan fiduciary net position	<u>(28,343,328)</u>
Plan's net pension liability	<u>\$11,586,999</u>
Plan fiduciary net position as a percentage of the total pension liability	70.9%

Actuarial assumptions: the total pension liability was determined by an actuarial valuation as of December 31, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increase	5.5% per annum
Investment rate of return	8.0%

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (assumed 2.5%). Best estimates of arithmetic real rates of return for each major assets class included in the pension plan's target asset allocations as of December 31, are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	6.5%
Fixed income	4.0%
Real Estate	5.0%
Cash	0.0%

Discount rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE E - NET PENSION LIABILITY OF EMPLOYERS - Continued

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 8.00% as well as what the City's net pension liability would be if it were to be calculated using the discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's net pension liability	\$15,813,038	\$11,586,999	\$8,003,928

**Schedule of Investment Returns
Fiscal Year Ending December 31,**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	-0.23%	11.87%	15.85%

NOTE F – CONTINGENCIES

From time to time the plan may be involved in legal proceedings in the normal course of operations. No litigation involving the plan existed at September 30, 2014.

NOTE G – RISKS AND UNCERTAINTIES

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. It is a least reasonably possible that changes in the value of the Fund's investment securities may occur over the course of different economic and market cycles.

The Fund's contribution rates and actuarial information are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumption process, it is a least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

Certain members of the Fund are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits.

REQUIRED
SUPPLEMENTARY INFORMATION

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)
September 30, 2014 and 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/05	\$17,840,652	\$22,300,316	\$4,459,664	80.0%	\$4,157,424	107.3%
12/31/07	21,269,781	26,391,457	5,121,676	80.6%	4,711,611	108.7%
12/31/09	20,187,246	30,948,888	10,761,642	65.2%	4,864,179	221.2%
12/31/11	22,270,694	34,223,995	11,953,301	65.1%	4,925,968	242.7%
12/31/13	28,343,328	39,930,327	11,586,999	70.9%	5,912,428	195.9%

Notes:

An actuarial valuation occurs only every two years. In 2003, the pension plan changed the plan's year to December 31.

- (1) The Actuarial Value of Assets is the fair market value of the fund.
- (2) The Actuarial Accrued Liability is based upon a variation of the aggregate entry age normal actuarial cost method with the unfunded actuarial liability being amortized as a level percentage of pay.
- (3) The economic assumptions used for the December 31, 2013 actuarial valuation include:

Investment return	8.00%
Projected salary increases	5.50%
Amortization increase	4.00%
Remaining amortization period	25 years; open period

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
As of September 30,

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total pension liability			
Service cost	\$926,557	\$899,070	\$970,996
Interest	\$2,645,507	\$2,747,425	\$2,916,988
Changes of benefit terms	\$0	\$0	\$0
Differences between expected and and actual experience	\$(742,859)	\$0	\$1,168,295
Changes of assumptions	\$0	\$0	\$201,338
Benefits payments, including refunds of member contributions	\$(1,495,000)	\$(1,560,495)	\$(1,637,285)
Net change in total pension liability	\$1,334,205	\$2,086,000	\$3,620,332
Total pension liability – beginning	\$32,889,790	\$34,223,995	\$36,309,995
Total pension liability – ending (a)	\$34,223,995	\$36,309,995	\$39,930,327
Plan fiduciary net position			
Contributions – employer	\$669,605	\$681,143	\$719,740
Contributions – member	\$669,605	\$681,143	\$719,740
Net investment income	\$(51,521)	\$2,633,668	\$3,897,335
Benefit payments, including refunds of member contributions	\$(1,495,000)	\$(1,560,495)	\$(1,637,285)
Administrative expense	\$(31,506)	\$(36,109)	\$(26,246)
Other	\$0	\$0	\$0
Net change in plan fiduciary net position	\$(238,817)	\$2,399,350	\$3,673,284
Plan fiduciary net position – beginning	\$22,509,511	\$22,270,694	\$24,670,044
Plan fiduciary net position – ending (b)	\$22,270,694	\$24,670,044	\$28,343,328
Fund's net pension liability – ending (a)-(b)	\$11,953,301	\$11,639,951	\$11,586,999
Plan fiduciary net position as a percentage of the total pension liability	65.1%	67.9%	71.0%
Covered-employee payroll	\$5,580,042	\$5,676,192	\$5,875,429
Fund's net position liability as a percentage of covered employee payroll	214.2%	205.1%	197.2%

Notes to Schedule:

Covered-employee payroll is estimated using firefighter contributions divided by the fixed contribution percentage.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Actuarially determined contribution	\$1,662,294	\$1,589,334	\$1,608,692
Contributions in relation to the actuarially determined contribution	\$1,339,210	\$1,362,286	\$1,439,480
Contribution deficiency (excess)	\$323,084	\$227,048	\$169,212
Covered-employee payroll	\$5,580,042	\$5,676,192	\$5,875,429
Contributions as a percentage of covered employee payroll	24.0%	24.0%	24.5%

Notes to Schedule

Valuation date	December 31, 2013
Actuarially determined contribution rates:	Calculated in the year contributions are reported based on 40 year (open) period amortization.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age
Amortization method	Open period, level percent of pay
Remaining amortization period	66.6 years
Asset valuation method	Fair value of assets
Salary increases	5.50%
Payroll Growth	4.00%
Investment rate of return	8.00%

There were no changes to methods or plan provisions since the prior valuation. The mortality assumption is based on the RP 2000 mortality with Blue Collar adjustment with mortality improvements projected to the valuation date using scale.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED) - Continued
September 30, 2014 and 2013

<u>Year Ended</u> <u>December 31,</u>		
2009	811,471	78.2%
2010	906,249	70.5%
2011	894,003	74.9%
2012	869,695	80.4%
2013	995,852	78.3%

Active members are required to contribute 12% of covered pay. For the fiscal year ending December 31, 2013, the employees contributed \$699,601 in addition to the employer contribution shown above.

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Reconciliation of Net Pension Obligation (NPO)			
1. NPO at beginning of year	\$ 444,162	\$ 668,560	\$ 995,426
2. Annual pension cost (APC)			
a. Annual required contribution (ARC)	1,552,350	1,672,206	1,690,361
b. Firefighter contribution	(669,605)	(681,143)	(719,740)
c. Interest on NPO	35,533	53,485	79,634
d. Amortization adjustment on ARC	(24,275)	(36,539)	(54,403)
e. Total APC	894,003	1,008,009	995,852
3. Employer contribution	<u>(669,605)</u>	<u>(681,143)</u>	<u>(719,740)</u>
4. NPO at end year	<u>\$ 668,560</u>	<u>\$ 995,426</u>	<u>\$ 1,271,538</u>

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
SCHEDULE OF INVESTMENT RETURN (UNAUDITED)
September 30, 2014 and 2013

<u>Year Ended</u> <u>September 30,</u>	<u>Annual Money - Weighted</u> <u>Rate of Return, Net of</u> <u>Investment Expense</u>
2004	13.9%
2005	8.4%
2006	13.7%
2007	7.4%
2008	(23.8)%
2009	22.4%
2010	12.2%
2011	(0.4)%
2012	11.7%
2013	15.8%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Firemen's Relief and Retirement Fund
City of Harlingen, Texas
NOTES TO SCHEDULE
September 30, 2014 and 2013

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (assumed 2.5%). Best estimates of arithmetic real rates of return for each major assets class included in the pension plan's target asset allocations as of December 31, 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	6.5%
Fixed income	4.0%
Real Estate	5.0%
Cash	0.0%

Discount rate: The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 8.00% as well as what the City's net pension liability would be if it were to be calculated using the discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's net pension liability	\$15,813,038	\$11,586,999	\$8,003,928

**Schedule of Investment Returns
Fiscal Year Ending December 31,**

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	-0.23%	11.87%	15.85%

(This page intentionally left blank)

COMPLIANCE SECTION

(This page intentionally left blank)

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees of the Firemen's
Relief and Retirement Fund of Harlingen
City of Harlingen, Texas

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 fiduciary net position of the Firemen's Relief and Retirement Fund (the Plan), a fiduciary fund of the City of Harlingen, Texas, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents and have issued our report thereon dated April 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Firemen's Relief and Retirement Fund of the City of Harlingen'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firemen's Relief and Retirement Fund of the City of Harlingen's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Firemen's Relief and Retirement Fund of the City of Harlingen's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(This page intentionally left blank)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Firemen's Relief and Retirement Fund of the City of Harlingen'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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
April 17, 2015