

CITY OF LA VERNIA, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

CITY OF LA VERNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

INTRODUCTORY SCHEDULE

	PAGE
TITLE PAGE	i
TABLE OF CONTENTS	ii
PRINCIPAL OFFICERS	iv

FINANCIAL SECTION

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS.....	9
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	10
STATEMENT OF ACTIVITIES	12
FUND FINANCIAL STATEMENTS:	
BALANCE SHEET - GOVERNMENTAL FUNDS	14
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES.....	15
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- GOVERNMENTAL FUNDS	16
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	17
STATEMENT OF NET ASSETS - PROPRIETARY UTILITY FUND.....	18
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY UTILITY FUND	19
STATEMENT OF CASH FLOWS - PROPRIETARY UTILITY FUND	20
NOTES TO BASIC FINANCIAL STATEMENTS	22
REQUIRED SUPPLEMENTARY INFORMATION.....	40
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL - GENERAL FUND	41
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL - MUNICIPAL DEVELOPMENT DISTRICT	43
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL.....	44
SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN.....	45

CITY OF LA VERNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS (CONT.)

FINANCIAL SECTION (CONT.)

	<u>Page</u>
SUPPLEMENTARY INFORMATION.....	46
COMPARATIVE BALANCE SHEETS - GENERAL FUND.....	47
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND.....	48
COMPARATIVE BALANCE SHEETS - MUNICIPAL DEVELOPMENT DISTRICT.....	49
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MUNICIPAL DEVELOPMENT DISTRICT.....	50
COMPARATIVE BALANCE SHEETS - DEBT SERVICE FUND.....	51
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - DEBT SERVICE FUND.....	52
COMPARATIVE STATEMENT OF NET ASSETS - PROPRIETARY UTILITY FUND.....	53
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY UTILITY FUND.....	54
COMPARATIVE STATEMENT OF CASH FLOWS - PROPRIETARY UTILITY FUND.....	55

CITY OF LA VERNIA
PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

ROBERT GREGORY

MAYOR PRO TEM

ROBERT RICHTER

CITY COUNCIL

BRADFORD BECK

ELOI CORMIER

JOHN RICHTER

RANDY LEONARD

CITY SECRETARY-TREASURER

ANGELA CANTU

ATTORNEY

DENTON, NAVARRO, ROCHA & BERNAL

AUDITOR

ARMSTRONG, VAUGHAN & ASSOCIATES, P.C.

SHAREHOLDERS:

Nancy L. Vaughan, CPA
Deborah F. Fraser, CPA



Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of La Vernia

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 La Vernia, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of La Vernia's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of La Vernia, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 through 8 and 40 through 45, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of La Vernia's financial statements as a whole. The comparative fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The comparative fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

February 04, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of La Vernia's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

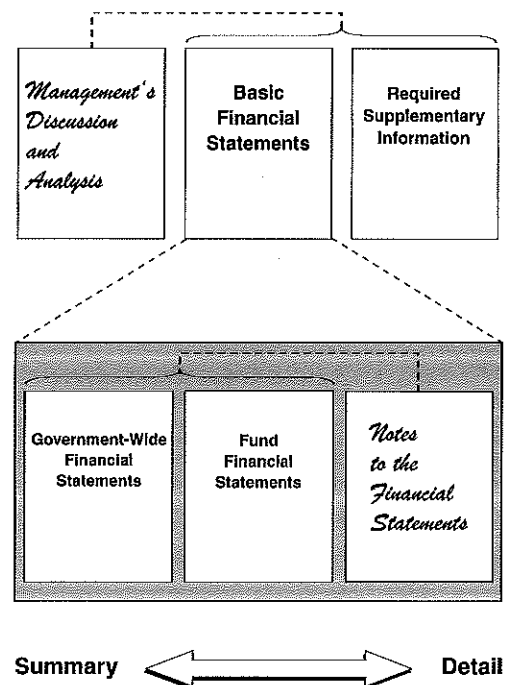
- The City's total combined net assets were \$3,989,728 at September 30, 2012.
- During the year, the City's governmental expenses were \$188,855 less than the \$1,172,684 generated in general and program revenues for governmental funds. The total cost of the City's programs increased 4.3% from last year.
- The general fund reported a fund balance this year of \$947,631, an increase of 16.8%.
- No new debt was issued this year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1F, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
Type of Statements	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
Scope	Entire City's government (except fiduciary funds) and the City's component units	The activities of the city that are not proprietary or fiduciary	Activities the City operates similar to private businesses: utilities
Required financial statements	• Statement of net assets	• Balance Sheet	• Statement of net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

- The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, municipal development, parks, and interest on long-term debt. Property taxes and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$3,989,728 at September 30, 2012. (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
<i>Assets:</i>							
Current Assets	\$ 1,201,491	\$ 1,079,685	\$ 597,100	\$ 417,444	\$ 1,798,591	\$ 1,497,129	20.1
Other Assets	251,432	161,352	671,345	693,723	922,777	855,075	7.9
Capital Assets (net)	935,581	945,260	1,914,635	2,056,292	2,850,216	3,001,552	(5.0)
Total Assets	2,388,504	2,186,297	3,183,080	3,167,459	5,571,584	5,353,756	4.1
<i>Liabilities:</i>							
Current Liabilities	106,300	78,948	172,364	180,638	278,664	259,586	7.3
Long-Term Liabilities	79,000	93,000	1,224,192	1,288,029	1,303,192	1,381,029	(5.6)
Total Liabilities	185,300	171,948	1,396,556	1,468,667	1,581,856	1,640,615	(3.6)
<i>Net Assets:</i>							
Invested in Capital Assets	842,581	838,260	1,236,812	1,367,104	2,079,393	2,205,364	(5.7)
Restricted	672,810	513,956	40,968	41,169	713,778	555,125	28.6
Unrestricted	687,813	662,133	508,744	290,519	1,196,557	952,652	25.6
Total Net Assets	\$ 2,203,204	\$ 2,014,349	\$ 1,786,524	\$ 1,698,792	\$ 3,989,728	\$ 3,713,141	7.4

The unrestricted net assets represent resources available to fund the programs of the City next year.

Governmental Activities

- Property tax rates decreased for the fiscal year ending September 30, 2012, decreasing property tax revenues by \$4,561.

Table A-2
Changes in City's Net Assets

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
<i>Program Revenues:</i>							
Charges for Services	\$ 212,541	\$ 180,545	\$ 887,315	\$ 848,900	\$ 1,099,856	\$ 1,029,445	6.8
<i>Grants and Contributions:</i>							
Operating	-	-	-	-	-	-	0.0
Capital	-	-	-	-	-	-	0.0
<i>General Revenues:</i>							
Taxes	950,235	886,304	-	-	950,235	886,304	7.2
Interest Earnings	3,930	5,833	1,593	2,131	5,523	7,964	(30.7)
Miscellaneous	5,978	32,876	-	-	5,978	32,876	(81.8)
Transfers	-	35,517	-	(35,517)	-	-	0.0
TOTAL REVENUES	1,172,684	1,141,075	888,908	815,514	2,061,592	1,956,589	5.4
<i>Program Expenses:</i>							
Code Enforcement	62,080	54,496	-	-	62,080	54,496	13.9
General	201,149	220,497	-	-	201,149	220,497	(8.8)
Municipal Development	103,624	35,220	-	-	103,624	35,220	194.2
Police	468,173	427,889	-	-	468,173	427,889	9.4
Public Works	142,664	194,155	-	-	142,664	194,155	(26.5)
Utility	-	-	801,176	912,470	801,176	912,470	(12.2)
Interest on Debt	6,139	10,689	-	-	6,139	10,689	(42.6)
TOTAL EXPENSES	983,829	942,946	801,176	912,470	1,785,005	1,855,416	(3.8)
Increase (Decrease) in Net Assets	\$ 188,855	\$ 198,129	\$ 87,732	\$ (96,956)	\$ 276,587	\$ 101,173	(173.4)

Table A-3 presents the cost of each of the City's largest functions, as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services as well as local tax dollars. The cost of all *governmental* activities this year was \$983,829. Taxpayers paid for 17% of these activities through property taxes of \$167,343. 21.6% of the cost was paid by those who directly benefited from the programs

Table A-3
Net Cost of Selected City Functions

	Total Cost of Services		Percentage Change 2012-2011	Net Cost of Services		Percentage Change 2012-2011
	2012	2011		2012	2011	
Code Enforcement	\$ 62,080	\$ 54,496	13.9	\$ 47,164	\$ 44,156	6.8
General	201,149	220,497	(8.8)	186,382	203,769	(8.5)
Municipal Development	103,624	35,220	194.2	103,624	35,220	194.2
Police	468,173	427,889	9.4	285,315	274,412	4.0
Public Works	142,664	194,155	(26.5)	142,664	194,155	(26.5)
Utility	801,176	912,470	(12.2)	(86,139)	63,570	(235.5)

Business-Type Activities

Revenues of the City's utility business-type activities increased 4.5% to \$887,315, and operating expenses decreased 12.1% to \$801,176. Fluctuations in revenues and expenses are primarily related to changes in water consumption and sewer line repairs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$1,177,182, an increase of 7.0% from the preceding year.

Budgetary Highlights

The City's actual expenditures in the general fund (which includes the debt service fund for budgetary purposes) were \$40,614 less than budgeted amounts, leading to a net change in fund balance that was \$140,856 better than anticipated. The Municipal Development District's expenditures were under budget by \$41,194.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2012, the City had invested \$6,008,704 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a minimal net decrease (including additions and deductions) over the prior year.

Table A-4
City's Capital Assets
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
Land	\$ 209	\$ 209	\$ 31	\$ 31	\$ 240	\$ 240	0.1
Buildings and Improvements	336	336	14	14	350	350	0.1
Equipment	459	549	140	140	599	689	(13.0)
Infrastructure	372	372	4,307	4,307	4,679	4,679	0.0
Construction in Progress	-	-	140	89	140	89	57.1
Totals at Historical Cost	1,377	1,466	4,632	4,581	6,009	6,047	(0.6)
Total Accumulated Depreciation	(441)	(521)	(2,717)	(2,525)	(3,158)	(3,046)	3.7
Net Capital Assets	\$ 936	\$ 945	\$ 1,915	\$ 2,056	\$ 2,850	\$ 3,001	(5.0)

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end, the City had \$1,381,030 in bonds and loans outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City's Long-Term Debt
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2012	2011	2012	2011	2012	2011	2012-2011
Bonds and Loans Payable	\$ 93	\$ 107	\$ 1,288	\$ 1,350	\$ 1,381	\$ 1,457	(5.2)
Total Bonds & Notes Payable	\$ 93	\$ 107	\$ 1,288	\$ 1,350	\$ 1,381	\$ 1,457	(5.2)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2013 budget, tax rates, and fees that will be charged. The economic outlook for Wilson County remains stable. No changes in services are expected and budget levels remain similar to the previous year for the City:

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at (830) 779-4541.

CITY OF LA VERNIA
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2012

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Fund

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF LA VERNIA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total
Cash and Cash Equivalents	\$ 988,984	\$ 313,294	\$ 1,302,278
Investments	216,630	-	216,630
Receivables (net of allowances for uncollectibles):			
Ad Valorem Taxes	8,106	-	8,106
Other	174,603	91,165	265,768
Prepays	5,809	-	5,809
Internal Balances	(192,641)	192,641	-
Restricted Cash and Investments	248,312	629,999	878,311
Deferred Bond Issue Costs	3,120	41,346	44,466
Capital Assets:			
Land	209,198	31,158	240,356
Building and Improvements	336,329	14,000	350,329
Vehicles and Equipment	459,246	139,927	599,173
Infrastructure	372,051	4,307,002	4,679,053
Construction in Progress	-	139,793	139,793
Accumulated Depreciation	(441,243)	(2,717,245)	(3,158,488)
TOTAL ASSETS	\$ 2,388,504	\$ 3,183,080	\$ 5,571,584

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF NET ASSETS (CONT.)
SEPTEMBER 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
LIABILITIES AND NET ASSETS			
<i>Liabilities:</i>			
Accounts Payable	\$ 63,146	\$ 42,817	\$ 105,963
Accrued Expenses	5,907	498	6,405
Accrued Compensated Absences	20,231	946	21,177
Customer Deposits	-	46,444	46,444
Deferred Revenue	-	2,681	2,681
Accrued Interest Payable	3,016	15,140	18,156
<i>Noncurrent Liabilities:</i>			
Due within One Year	14,000	63,838	77,838
Due in more than One Year	79,000	1,224,192	1,303,192
TOTAL LIABILITIES	<u>185,300</u>	<u>1,396,556</u>	<u>1,581,856</u>
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	842,581	1,236,812	2,079,393
Restricted for:			
Street Repair	246,142	-	246,142
Municipal Development District	334,807	-	334,807
Repair and Maintenance	-	5,000	5,000
Debt Service	91,861	35,968	127,829
Unrestricted	687,813	508,744	1,196,557
TOTAL NET ASSETS	<u>2,203,204</u>	<u>1,786,524</u>	<u>3,989,728</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,388,504</u>	<u>\$ 3,183,080</u>	<u>\$ 5,571,584</u>

CITY OF LA VERNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
<i>Governmental Activities:</i>				
Code Enforcement	\$ 62,080	\$ 14,916	\$ -	\$ -
General Government	201,149	14,767	-	-
Municipal Development	103,624	-	-	-
Police	468,173	182,858	-	-
Public Works	142,664	-	-	-
Interest on Long-term Debt	6,139	-	-	-
<i>Total Governmental Activities</i>	<u>983,829</u>	<u>212,541</u>	<u>-</u>	<u>-</u>
<i>Business-Type Activities:</i>				
Utility	801,176	887,315	-	-
<i>Total Business-Type Activities</i>	<u>801,176</u>	<u>887,315</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u><u>1,785,005</u></u>	<u><u>1,099,856</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Franchise Taxes				
Sales Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets at Beginning of Year				
Net Assets at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (47,164)	\$ -	\$ (47,164)
(186,382)	-	(186,382)
(103,624)	-	(103,624)
(285,315)	-	(285,315)
(142,664)	-	(142,664)
(6,139)	-	(6,139)
<u>(771,288)</u>	<u>-</u>	<u>(771,288)</u>
-	86,139	86,139
-	86,139	86,139
<u>(771,288)</u>	<u>86,139</u>	<u>(685,149)</u>
167,343	-	167,343
62,919	-	62,919
719,973	-	719,973
3,930	1,593	5,523
5,978	-	5,978
<u>960,143</u>	<u>1,593</u>	<u>961,736</u>
188,855	87,732	276,587
<u>2,014,349</u>	<u>1,698,792</u>	<u>3,713,141</u>
<u>\$ 2,203,204</u>	<u>\$ 1,786,524</u>	<u>\$ 3,989,728</u>

CITY OF LA VERNIA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	Major Funds		Nonmajor Fund	Total Governmental Funds
	General Fund	Municipal Development District	Debt Service	
ASSETS				
Cash and Cash Equivalents	\$ 667,026	\$ 321,957	\$ -	\$ 988,983
Investments	216,630	-	-	216,630
Receivables (net of allowances for uncollectibles):				
Property Taxes	7,256	-	851	8,107
Other Receivables	138,139	36,464	-	174,603
Prepaid Items	5,809	-	-	5,809
Restricted Cash	248,312	-	-	248,312
Due from Other Funds	11,108	-	94,026	105,134
TOTAL ASSETS	\$ 1,294,280	\$ 358,421	\$ 94,877	\$ 1,747,578
LIABILITIES AND FUND BALANCES				
<i>Liabilities:</i>				
Accounts Payable	\$ 51,137	\$ 12,009	\$ -	\$ 63,146
Accrued Expenditures	5,410	497	-	5,907
Deferred/Unearned Revenues	3,435	-	307	3,742
Due to Other Funds	286,667	11,108	-	297,775
TOTAL LIABILITIES	346,649	23,614	307	370,570
<i>Fund Balances:</i>				
Nonspendable:				
Prepaid Items	5,809	-	-	5,809
Restricted for:				
Street Repair	246,142	-	-	246,142
Municipal Development	-	334,807	-	334,807
Debt Service	-	-	94,570	94,570
Unassigned	695,680	-	-	695,680
<i>Total Fund Balances</i>	947,631	334,807	94,570	1,377,008
TOTAL LIABILITIES & FUND BALANCES	\$ 1,294,280	\$ 358,421	\$ 94,877	\$ 1,747,578

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 1,377,008

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 935,581

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 3,742

Unamortized bond issue costs are not available to pay for current-period expenditures and, therefore, are not reported in the funds. 3,120

Accrued vacation leave payable is not due and payable in the current period and, therefore, not reported in the funds. (20,231)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds. (93,000)

Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds. (3,016)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 2,203,204

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Major Funds		Nonmajor Fund	Total Governmental Funds
	General Fund	Municipal Development District	Debt Service	
REVENUES				
Ad Valorem Taxes	\$ 149,662	\$ -	\$ 22,182	\$ 171,844
Franchise Fees	62,919	-	-	62,919
Sales Taxes	557,447	162,526	-	719,973
Fines and Penalties	56,138	-	-	56,138
Licenses and Permits	14,916	-	-	14,916
Interest Income	3,704	224	-	3,928
Miscellaneous	25,329	-	-	25,329
Police Services for School District	122,135	-	-	122,135
TOTAL REVENUES	992,250	162,750	22,182	1,177,182
EXPENDITURES				
<i>Current:</i>				
Code Enforcement	60,838	-	-	60,838
General Government	183,613	-	-	183,613
Police	409,919	-	-	409,919
Public Works	119,621	-	-	119,621
Municipal Development	-	103,370	-	103,370
Capital Outlay	82,107	-	-	82,107
<i>Debt Service:</i>				
Principal	-	-	14,000	14,000
Interest and Fiscal Charges	-	-	5,978	5,978
TOTAL EXPENDITURES	856,098	103,370	19,978	979,446
Net Change in Fund Balance	136,152	59,380	2,204	197,736
Fund Balances at Beginning of Year	811,479	275,427	92,366	1,179,272
Fund Balances at End of Year	\$ 947,631	\$ 334,807	\$ 94,570	\$ 1,377,008

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 197,736

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

Governmental funds report capital outlays as expenditures. However, in the
statement of activities the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense. This is the amount by which
capital outlay exceeded depreciation. 3,099

Governmental funds report proceeds from the sale of capital assets as revenues
without regard for the net book value of the asset. On the statement of activities
the proceeds are adjusted by the net book value of the asset upon sale. This
amount represents the net book value of capital assets disposed. (12,778)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds. (4,500)

The issuance of long-term debt (e.g. bonds and notes payable) provides current
financial resources to the governmental funds, while the repayment of the
principal of long-term debt consumes the current financial resources of
governmental funds. Neither transactions, however, has any effect on net assets.
Also, governmental funds report the net effect of issuance costs, premiums,
discounts, and similar items when debt is first issued, whereas these amounts are
deferred and amortized in the Statement of Activities:

Principal Payments 14,000

Some expenses 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.

Change in Compensated Absences	(8,674)	
Amortization of Bond Issue Costs	(520)	
Change in Accrued Interest	492	(8,702)

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 188,855

CITY OF LA VERNIA
STATEMENT OF NET ASSETS
PROPRIETARY UTILITY FUND
SEPTEMBER 30, 2012

ASSETS

Cash and Cash Equivalents	\$	313,294
Receivables (net of allowances for uncollectibles):		91,165
Restricted Cash and Investments		629,999
Due from Other Funds		192,641
Deferred Bond Issue Costs		41,346
Capital Assets:		
Land		31,158
Building and Improvements		14,000
Vehicles and Equipment		139,927
Infrastructure		4,307,002
Construction in Progress		139,793
Accumulated Depreciation		(2,717,245)
TOTAL ASSETS	\$	<u>3,183,080</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$	42,817
Accrued Expenses		498
Accrued Compensated Absences		946
Customer Deposits		46,444
Deferred Revenue		2,681
Accrued Interest Payable		15,140

Noncurrent Liabilities:

Due within One Year		63,838
Due in more than One Year		1,224,192
TOTAL LIABILITIES		<u>1,396,556</u>

Net Assets:

Invested in Capital Assets, Net of Related Debt		1,236,812
Restricted for:		
Repairs		5,000
Debt Service		35,968
Unrestricted		508,744
TOTAL NET ASSETS		<u>1,786,524</u>

**TOTAL LIABILITIES
AND NET ASSETS**

\$ 3,183,080

CITY OF LA VERNIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY UTILITY FUND
FOR THE YEAR SEPTEMBER 30, 2012

OPERATING REVENUES	
Water Charges	\$ 464,292
Sewer Charges	169,342
Garbage Charges	184,103
Connection and Impact Fees	31,276
Miscellaneous Income	38,302
TOTAL OPERATING REVENUES	<u>887,315</u>
 OPERATING EXPENSES	
Personnel	52,270
Water Purchase	154,076
Garbage Collection	164,496
Office and Administrative	79,516
Repairs and Chemicals	31,841
Treatment Plant Contract	62,764
Depreciation	192,150
TOTAL OPERATING EXPENSES	<u>737,113</u>
 OPERATING INCOME (LOSS)	 <u>150,202</u>
 NONOPERATING REVENUES (EXPENSES)	
Interest Income	1,593
Interest Expense	<u>(64,063)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(62,470)</u>
 CHANGE IN NET ASSETS	 87,732
 NET ASSETS AT BEGINNING OF YEAR	 <u>1,698,792</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 1,786,524</u>

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 879,510
Cash Paid to Suppliers for Goods and Services	(493,640)
Cash Paid to Employees	(54,827)
Net Cash Provided (Used) by Operating Activities	<u>331,043</u>
 Cash Flows From Capital and Related Financing Activities:	
Purchases of Capital Assets	(50,493)
Principal Payments	(61,858)
Interest Paid	(62,596)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(174,947)</u>
 Cash Flows From Noncapital Financing Activities:	
Transfers from (to) Other Funds	(167,688)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(167,688)</u>
 Cash Flows From Investing Activities:	
Proceeds from Certificate of Deposit	156,682
Investment Interest Received	1,593
Net Cash Provided (Used) by Investing Activities	<u>158,275</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 146,683
 Cash and Cash Equivalents at Beginning of Year	
Cash and Cash Equivalents	146,521
Restricted Cash	650,089
	<u>796,610</u>
 Cash and Cash Equivalents at End of Year	
Cash and Cash Equivalents	313,294
Restricted Cash	629,999
	<u>\$ 943,293</u>

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND (CONT.)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ 150,202
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation	192,150
(Increase) Decrease in Operating Assets:	
Accounts Receivable (net)	(1,877)
Increase (Decrease) in Current Liabilities:	
Accounts Payable	(947)
Accrued Expenses	(393)
Accrued Compensated Absences	(2,164)
Customer Deposits	(5,650)
Deferred Revenue	(278)
Total Adjustments to Reconcile Operating Activities	<u>180,841</u>

**Net Cash Provided (Used) by
Operating Activities**

\$ 331,043

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of La Vernia, Texas ("City") operates under a Council-Mayor form of government and provides the following services: police protection, parks and recreation, municipal court, planning and zoning, general administrative services, and utility (water, sewer and garbage) services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Proprietary type funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

1. REPORTING ENTITY

Component Units

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. As of September 30, 2012, the City had one component unit that is blended in these financial statements:

La Vernia Municipal Development District

The City appoints a voting majority to, and exerts significant control over, the Municipal Development District (MDD), a legally separate entity. This qualifies the MDD as a component unit, which is presented in a separate column in the governmental fund financial statements (blended presentation). The MDD collects a 1/2 cent sales tax to promote the economic growth and enhance overall quality of life in the City of La Vernia. The MDD does not issue standalone financial statements. The MDD is located at 115 W. Chihuahua, La Vernia, Texas 78121.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net assets and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The statement of activities reflects the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate **fund financial statements** are provided for governmental funds and proprietary funds. The General Fund and Municipal Development District meet the criteria as *major governmental funds*.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The government reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public service and capital acquisition.

Municipal Development District is used to account for the ½ cent sales tax to promote economic development and enhance overall quality of life in the City.

The City has one nonmajor fund: Debt Service.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Utility Fund (used to account for the provision of water, sewer, and garbage services to residents).

The **Proprietary Fund** is accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City has all its monies in interest bearing checking accounts, savings accounts, and certificates of deposit. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair market value except for certificates of deposit which are carried at amortized cost.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2011 and past due after January 31, 2012. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are shown net of an allowance for uncollectibles, which the City currently estimates to be \$10,891.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. PREPAID ITEMS

Payments made for goods and services in advance are recorded as prepaid items on the balance sheet.

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sewer, sidewalks, curbs and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

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

Asset	Estimated Life
Buildings and improvements	15 to 40 years
Streets and Infrastructure	10 to 30 years
Utility system in service	10 to 30 years
Machinery and equipment	3 to 25 years

10. COMPENSATED ABSENCES

Employees earn vacation leave at varying rates depending on length of service, ranging from 5 to 15 days per year. Accrued vacation leave must be taken within the employment year (based on anniversary date). Employees earn sick leave at the rate of 48 hours per year starting on date of employment. No sick leave days are paid when an employee leaves city employment and no liability is reported for unpaid sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

11. DEFERRED COMPENSATION PLAN

The City offers an Internal Revenue Code Section 457 deferred compensation plan. The City does not contribute to the plan, the plan is administered by an unrelated party, and the assets are invested at the direction of the employee.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. DEFERRED/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as deferred revenue. Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue.

13. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net assets. On new bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

14. FUND EQUITY

Fund balances in governmental funds are classified as follows:

Nonspendable - Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

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

Committed - Represents amounts that can only be used for a specific purpose by a resolution of City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

Assigned - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council may make assignments and has chosen not to delegate that authority to any other individuals.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. FUND EQUITY (CONT.)

Unassigned - Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second and assigned third.

15. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

16. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

17. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

18. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B -- DEPOSITS AND INVESTMENTS

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

1. Deposits

The City holds deposits at two institutions. At September 30, 2012, the carrying amount of the City's cash on hand was \$850, the carrying amount of deposits in the main banking institution were \$2,021,833 and the bank balance was \$2,034,944. Of the bank balance, \$500,000 was covered by federal deposit insurance (FDIC) and the City's main depository had pledged securities having a collateral par value of \$1,557,435 and market value of \$1,709,226 as collateral for the City's deposits. The deposits at the main banking institution were fully collateralized. The City also has deposits at a local credit union in the amount of \$374,801, which was fully covered by FDIC.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, the investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City's investment policy further limits investments to: (1) federally insured bank deposits, (2) collateralized bank deposits, (3) U.S. Government Treasury bills and notes, including sweep accounts that invest in them, (4) U.S. Government Agencies, and (5) Public Funds Investment Pools. No other investments may be made without authorization of City Council.

The City's investments at September 30, 2012 consist of \$216,630 in certificates of deposit.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not significantly exposed to custodial credit risk on deposits at institutions.

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

4. Investment Accounting Policy

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

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Wilson County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. The total taxable value as of January 1, 2011, upon which the fiscal 2012 levy was based, was \$85,718,053 (i.e., market value less exemptions). The estimated market value was \$116,313,980, making the taxable value 73.7% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2012, was \$0.1998 per \$100 of assessed value, which means that the City has a tax margin of \$2.3002 for each \$100 value and could increase its annual tax levy by approximately \$1,971,687 based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate.

NOTE D -- INTERFUND BALANCES

As of September 30, 2012, the following balances were owed between funds:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Purpose</u>
Municipal Development	General Fund	\$ 11,108	<i>reimbursement</i>
General Fund	Debt Service	94,026	<i>tax collections</i>
General Fund	Utility Fund	192,641	<i>reimbursement</i>
Totals	Totals	<u>\$ 297,775</u>	

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE E -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2012 are as follows:

	<u>General Fund</u>	<u>Municipal Development</u>	<u>Utility</u>
Sales Tax	\$ 113,770	\$ 36,464	\$ -
Franchise Taxes	16,083	-	-
Police Services	8,286	-	-
Utility Services	-	-	91,165
Total Other Receivables	<u>\$ 138,139</u>	<u>\$ 36,464</u>	<u>\$ 91,165</u>

NOTE F -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

<u>Governmental Activities</u>	<u>Balance 10/1/2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 9/30/2012</u>
Land	\$ 209,198	\$ -	\$ -	\$ 209,198
Buildings and Improvements	336,329	-	-	336,329
Vehicles and Equipment	549,079	77,272	(167,105)	459,246
Infrastructure	372,051	-	-	372,051
	<u>1,466,657</u>	<u>77,272</u>	<u>(167,105)</u>	<u>1,376,824</u>
Less Accumulated Depreciation				
Buildings and Improvements	(49,596)	(8,567)	-	(58,163)
Equipment	(390,716)	(48,171)	154,327	(284,560)
Infrastructure	(81,085)	(17,435)	-	(98,520)
	<u>(521,397)</u>	<u>(74,173)</u>	<u>154,327</u>	<u>(441,243)</u>
Governmental Capital Assets, Net	<u>\$ 945,260</u>	<u>\$ 3,099</u>	<u>\$ (12,778)</u>	<u>\$ 935,581</u>

Land and Construction in Progress are not depreciated.

Depreciation expense was charged to the governmental functions as follows:

Code Enforcement	\$ 68
General	17,063
Police	31,834
Public Works	25,208
Total Depreciation Expense - Governmental Activities	<u>\$ 74,173</u>

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE F -- CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Balance 10/1/2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 9/30/2012</u>
Land	\$ 31,158	\$ -	\$ -	\$ 31,158
Buildings and Improvements	14,000	-	-	14,000
Vehicles and Equipment	139,927	-	-	139,927
Infrastructure	4,307,002	-	-	4,307,002
Construction in Progress	89,300	50,493	-	139,793
	<u>4,581,387</u>	<u>50,493</u>	<u>-</u>	<u>4,631,880</u>
Less Accumulated Depreciation				
Buildings and Improvements	(3,204)	(925)	-	(4,129)
Equipment	(64,373)	(12,741)	-	(77,114)
Infrastructure	<u>(2,457,518)</u>	<u>(178,484)</u>	<u>-</u>	<u>(2,636,002)</u>
	<u>(2,525,095)</u>	<u>(192,150)</u>	<u>-</u>	<u>(2,717,245)</u>
Business-Type Capital Assets, Net	<u>\$ 2,056,292</u>	<u>\$ (141,657)</u>	<u>\$ -</u>	<u>\$ 1,914,635</u>

Land and Construction in Progress are not depreciated.

NOTE G -- LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2012, comprise the following individual issues:

Waterworks and Sanitary Sewer System Revenue Bonds, Series 1975

In February 1975, the City issued these bonds to perform improvements to the City's water and sewer system. The face amount of the bonds was \$390,000 with interest rates ranging from 5.35% to 6%. The bonds mature in January 2015.

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2003

In 2003, the City issued these bonds to perform improvements to City Hall. The face amount of the bonds was \$170,000 with an interest rate of 5%. The bonds mature in March 2018.

Note Payable -- San Antonio River Authority (SARA)

In April 2004, the City borrowed money from SARA to improve the wastewater treatment plant. The loan was for \$600,000 with an interest rate of 4.48%. The loan requires annual installments of \$46,046, maturing in June 2024. The loan is supported by a pledge of income and fees from the utility fund.

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011

In May 2011, the City issued these bonds to construct a new water well. The face value of the bonds was \$750,000, which has an interest rate of 4.69% and matures March 2030.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE G -- LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

	Balance 10/1/2011	Additions	Reductions	Balance 9/30/2012	Due Within One Year
<i>Governmental Activities</i>					
Certificates of Obligation, 2003	\$ 107,000	\$ -	\$ (14,000)	\$ 93,000	\$ 14,000
Compensated Absences	11,557	20,231	(11,557)	20,231	20,231
<i>Total Governmental Activities</i>	<u>118,557</u>	<u>20,231</u>	<u>(25,557)</u>	<u>113,231</u>	<u>34,231</u>
<i>Business-Type Activities</i>					
San Antonio River Authority	539,888	-	(21,858)	518,030	22,838
Revenue Bonds, Series 1975	60,000	-	(15,000)	45,000	15,000
Certificates of Obligation, 2011	750,000	-	(25,000)	725,000	26,000
Compensated Absences	3,110	946	(3,110)	946	946
<i>Total Business-Type Activities</i>	<u>1,352,998</u>	<u>946</u>	<u>(64,968)</u>	<u>1,288,976</u>	<u>64,784</u>
Total Primary Government	<u>\$1,471,555</u>	<u>\$ 21,177</u>	<u>\$ (90,525)</u>	<u>\$1,402,207</u>	<u>\$ 99,015</u>

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2012, including interest payments, are as follows:

Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 14,000	\$ 4,524	\$ 18,524	\$ 63,838	\$ 59,008	\$ 122,846
2014	15,000	3,761	18,761	66,861	55,916	122,777
2015	15,000	2,972	17,972	68,930	52,708	121,638
2016	16,000	2,157	18,157	56,047	49,405	105,452
2017	16,000	1,315	17,315	59,214	46,784	105,998
2018 - 2022	17,000	447	17,447	337,487	190,209	527,696
2023 - 2027	-	-	-	424,580	103,927	528,507
2028 - 2030	-	-	-	211,071	13,957	225,028
	<u>\$ 93,000</u>	<u>\$ 15,176</u>	<u>\$ 108,176</u>	<u>\$1,288,028</u>	<u>\$ 571,914</u>	<u>\$1,859,942</u>

NOTE H – DEFINED BENEFIT PENSION PLAN

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE H -- DEFINED BENEFIT PENSION PLAN (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>Plan Year 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	5%	5%
Matching Ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the City's contribution rate is annually determined by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and the prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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

The annual pension cost is as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Annual Pension Cost</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contribution</u>
2012	\$ 18,726	\$ 18,726	100%
2011	26,720	26,720	100%
2010	22,793	22,793	100%

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE H -- DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	23.1 years - Closed Period	22.1 years - Closed Period	20.9 years - Closed Period
Amortization Period for New Gains/Losses	25 years	17 years	19 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation Rate	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	None	None	None

Funded Status and Funding Progress

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

CALENDAR YEAR	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	FUNDING RATIO (1)/(2)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	ANNUAL COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
2011	\$ 135,551	\$ 276,102	49.1%	\$ 140,551	\$ 443,598	31.7%

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE H -- DEFINED BENEFIT PENSION PLAN (Continued)

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

NOTE I -- OTHER POSTEMPLOYMENT BENEFIT

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

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The city's contributions to the TMRS SDBF for the years ended September 30, 2012, 2011 and 2010 were \$1,153, \$1,366 and \$1,114, respectively, which equaled the required contributions each year.

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE J -- TEXAS HIGER EDUCATION AUTHORITY

In September 2006, the City created a nonprofit corporation under Section 53.35(b) of The Texas Education code. The creation of this nonprofit corporation established a Higher Education Authority (the Authority) for the purpose of assisting in the financing of accredited primary and secondary schools as provided by state law. In accordance with the terms establishing the nonprofit corporation, the city is not liable for any expenses incurred in establishing or administering the Higher Education Authority. The Texas Higher Education Authority is not consolidated into the financial statements of City of La Vernia because it does not meet the requirements of being treated as a component unit of the City under governmental accounting standards. The Authority has approved the issuance of the following obligations. The City has no obligation for this debt.

Issuance Date	Entity	Original Issue	Estimated Outstanding	Maturity
2006	Southwest Winners Foundation, Inc.	\$ 9,470,000	\$ 8,295,000	2031
2009	Winfree Academy Charter Schools	8,305,000	8,150,000	2038
2009	KIPP, Inc	65,175,000	65,175,000	2044
2009	KIPP, Inc	1,690,000	460,000	2013
2008	COSMOS Foundation, Inc.	30,075,000	30,075,000	2038
2008	COSMOS Foundation, Inc.	980,000	-	2012
2008	Amigos Por Vida for Life Housing and Education Corp.	10,350,000	9,895,000	2037
2011	Life School of Dallas	38,880,000	38,245,000	2041
2011	Life School of Dallas	380,000	270,000	2015

NOTE K -- COMMITMENTS AND CONTINGENCIES

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

Economic Development Agreement

In 2009, the City and Municipal Development District entered into agreements with HEB Grocery Company to refund a portion of sales tax and property tax to encourage and assist in development. The agreements call for sales tax rebates of ½ of the City's 1% general sales tax and ½ of the MDD's 0.5% sales tax generated by the new development. Maximum sales tax rebates are \$350,000 and \$150,000 for the City and MDD, respectively. As of September 30, 2012, \$157,685 and \$78,737 has been rebated by the City and MDD, respectively. In addition, the City agreed to rebate 100% of the development's increased property taxes above the base tax year of 2009 for a period of 5 years.

Commitment

The City has been awarded a grant from the Environmental Protection Agency (EPA) to construct a new water well. The estimated project costs are \$881,818, of which the EPA will fund 55% up to \$485,000. The City is in the planning stages of the project and anticipates completing the well in the summer of 2013.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE L -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to \$1,000,000. Annual contributions for the year ended September 30, 2012 were \$23,163 for property and casualty coverage.

For workers compensation coverage, the City participates in the Texas Political Subdivisions Joint Self-Insurance Fund (TPS), a self-insurance pool. Guaranteed-cost members, who are non-assessable, combine their contributions to cover pooled losses and expenses. The required contribution for each guaranteed-cost member is based upon the rated manual contribution affected by a factor for individual loss experience, and the member's share of total expenses. As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the interlocal agreement, so that members will not have joint and several liability beyond their required contribution. Annual contributions for the year ended September 30, 2012 were \$9,569.



REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Budgetary Comparison Schedule – Municipal Development District
- Schedule of Funding Progress – Defined Benefit Pension Plan

CITY OF LA VERNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budget Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary)	Favorable (Unfavorable)
REVENUES				
Ad Valorem Taxes	\$ 168,250	\$ 168,250	\$ 171,844	\$ 3,594
Franchise Fees	65,000	65,000	62,919	(2,081)
Sales Taxes	403,050	403,050	557,447	154,397
Fines and Penalties	37,300	37,300	56,138	18,838
Licenses and Permits	9,750	9,750	14,916	5,166
Interest Income	2,500	2,500	3,704	1,204
Miscellaneous	55,400	55,400	25,329	(30,071)
Police Services for School District	102,000	102,000	122,135	20,135
TOTAL REVENUES	843,250	843,250	1,014,432	171,182
EXPENDITURES				
<i>Code Enforcement</i>				
Personnel	37,795	37,795	41,861	(4,066)
Operations	21,810	21,810	18,977	2,833
<i>Total Code Enforcement</i>	59,605	59,605	60,838	(1,233)
<i>General Government</i>				
Personnel	71,936	71,936	72,070	(134)
Operations	111,733	111,733	111,543	190
<i>Total General Government</i>	183,669	183,669	183,613	56
<i>Police Department</i>				
Personnel	233,545	233,545	231,116	2,429
Operations	135,018	135,018	178,803	(43,785)
Capital Outlay	60,000	62,500	62,400	100
<i>Total Police Department</i>	428,563	431,063	472,319	(41,256)
<i>Public Works</i>				
Personnel	133,030	133,030	69,265	63,765
Operations	69,795	69,795	50,356	19,439
Capital Outlay	19,550	19,550	19,707	(157)
<i>Total Public Works</i>	222,375	222,375	139,328	83,047
<i>Debt Service</i>				
Principal	14,000	14,000	14,000	-
Interest	5,978	5,978	5,978	-
<i>Total Debt Service</i>	19,978	19,978	19,978	-
TOTAL EXPENDITURES	\$ 914,190	\$ 916,690	\$ 876,076	\$ 40,614

CITY OF LA VERNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budget Amounts		Actual Amounts (Budgetary)	Variance Favorable (Unfavorable)
	Original	Final		
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (70,940)	\$ (73,440)	\$ 138,356	\$ 211,796
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	70,940	70,940	-	(70,940)
TOTAL OTHER FINANCING SOURCES (USES)	70,940	70,940	-	(70,940)
Net Change in Fund Balance	\$ -	\$ (2,500)	138,356	\$ 140,856

Reconciliation to Net Change in Fund Balance - General Fund
 Perspective Differences:

Debt Service Fund Budgeted with General Fund		
Debt Service Property Tax Revenues		(22,182)
Debt Service Principal Expenditures		14,000
Debt Service Interest Expenditures		5,978
Net Change in Fund Balance (GAAP Basis) - General Fund		\$ 136,152

CITY OF LA VERNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL – MUNICIPAL DEVELOPMENT DISTRICT
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales Tax	\$ 138,000	\$ 138,000	\$ 162,526	\$ 24,526
Interest Income	-	-	224	224
Miscellaneous Income	10,000	10,000	-	(10,000)
TOTAL REVENUES	<u>148,000</u>	<u>148,000</u>	<u>162,750</u>	<u>14,750</u>
EXPENDITURES				
Personnel	52,410	52,410	53,575	(1,165)
Operations	92,154	92,154	49,795	42,359
TOTAL EXPENDITURES	<u>144,564</u>	<u>144,564</u>	<u>103,370</u>	<u>41,194</u>
Net Change in Fund Balance	3,436	3,436	59,380	(26,444)
Fund Balances at Beginning of Year	<u>275,427</u>	<u>275,427</u>	<u>275,427</u>	-
Fund Balances at End of Year	<u>\$ 278,863</u>	<u>\$ 278,863</u>	<u>\$ 334,807</u>	<u>\$ 55,944</u>

CITY OF LA VERNIA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SEPTEMBER 30, 2012

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. However, the City combines the Debt Service and General Fund budgets. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund, Municipal Development, and Debt Service Funds.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

The City does not use encumbrances.

CITY OF LA VERNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN
 LAST FOUR CALENDAR YEARS

CALENDAR YEAR	ACTUARIAL VALUE OF ASSETS **	ACTUARIAL ACCRUED LIABILITY*	FUNDING RATIO (1)/(2)	UNFUNDED ACTUARIAL ACCRUED LIABILITY	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
2008	\$ 5,197	\$ 127,893	4.1%	\$ 122,696	\$ 296,186	41.4%
2009	39,599	170,874	23.2%	131,275	377,687	34.8%
2010	84,458	214,626	39.4%	130,168	381,598	34.1%
2011	135,551	276,102	49.1%	140,551	443,598	31.7%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated at cost as of December 31 of the preceding year.

SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedule include:

- Comparative Statements – General Fund
- Comparative Statements – Municipal Development District
- Comparative Statements – Debt Service
- Comparative Statements – Proprietary Utility Fund

CITY OF LA VERNIA
 COMPARATIVE BALANCE SHEETS
 GENERAL FUND
 SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 667,026	\$ 411,776
Investments	216,630	213,150
Restricted Cash	248,312	157,712
Receivables (net of allowances for uncollectibles):		
Property Taxes	7,256	9,539
Other Receivables	138,139	140,625
Prepaid Items	5,809	36,454
Due from Other Funds	11,108	7,666
TOTAL ASSETS	1,294,280	976,922
 LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	51,137	28,934
Accrued Expenditures	5,410	6,681
Utility Collections for FELPS	-	5,411
Deferred/Unearned Revenues	3,435	7,212
Due to Other Funds	286,667	117,205
<i>Total Liabilities</i>	346,649	165,443
 <i>Fund Balances:</i>		
Nonspendable:		
Prepaid Items	5,809	36,454
Restricted For:		
Street Repairs	246,142	148,640
Unassigned	695,680	626,385
<i>Total Fund Balance</i>	947,631	811,479
TOTAL LIABILITIES & FUND BALANCES	\$ 1,294,280	\$ 976,922

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 GENERAL FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
REVENUES		
Ad Valorem Taxes	\$ 149,662	\$ 146,584
Franchise Fees	62,919	75,136
Sales Taxes	557,447	496,090
Fines and Penalties	56,138	40,612
Licenses and Permits	14,916	10,340
Interest Income	3,704	5,634
Miscellaneous	25,329	51,038
Police Services for School District	122,135	111,430
TOTAL REVENUES	992,250	936,864
 EXPENDITURES		
<i>Current:</i>		
Code Enforcement	60,838	54,295
General Government	183,613	202,734
Police	409,919	399,819
Public Works	119,621	169,731
Capital Outlay	82,107	-
TOTAL EXPENDITURES	856,098	826,579
Excess (Deficiency) of Revenues Over (Under) Expenditures	136,152	110,285
 OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	-	35,517
TOTAL OTHER FINANCING SOURCES (USES)	-	35,517
Net Change in Fund Balance	136,152	145,802
Fund Balances at Beginning of Year	811,479	665,677
Fund Balances at End of Year	\$ 947,631	\$ 811,479

CITY OF LA VERNIA
 COMPARATIVE BALANCE SHEETS
 MUNICIPAL DEVELOPMENT DISTRICT
 SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 321,957	\$ 259,272
Other Receivables	36,464	32,679
TOTAL ASSETS	\$ 358,421	\$ 291,951
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 12,009	\$ 8,722
Accrued Expenditures	497	136
Due to Other Funds	11,108	7,666
<i>Total Liabilities</i>	<i>23,614</i>	<i>16,524</i>
<i>Fund Balances:</i>		
Restricted for Municipal Development	334,807	275,427
<i>Total Fund Balances</i>	<i>334,807</i>	<i>275,427</i>
TOTAL LIABILITIES & FUND BALANCES	\$ 358,421	\$ 291,951

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 MUNICIPAL DEVELOPMENT DISTRICT
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
REVENUES		
Sales Tax	\$ 162,526	\$ 143,174
Interest Income	224	199
TOTAL REVENUES	162,750	143,373
 EXPENDITURES		
Personnel	53,575	11,249
Operations	49,795	23,839
TOTAL EXPENDITURES	103,370	35,088
 Net Change in Fund Balance	59,380	108,285
 Fund Balances at Beginning of Year	275,427	167,142
 Fund Balances at End of Year	\$ 334,807	\$ 275,427

CITY OF LA VERNIA
 COMPARATIVE BALANCE SHEETS
 DEBT SERVICE FUND
 SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ -	\$ -
Receivables (net of allowances for uncollectibles):		
Property Taxes	851	1,144
Due from Other Funds	94,026	92,252
TOTAL ASSETS	\$ 94,877	\$ 93,396
 LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Deferred/Unearned Revenues	\$ 307	\$ 1,030
<i>Total Liabilities</i>	307	1,030
 <i>Fund Balances:</i>		
Restricted for Debt Service	94,570	92,366
<i>Total Fund Balances</i>	94,570	92,366
 TOTAL LIABILITIES & FUND BALANCES	\$ 94,877	\$ 93,396

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 DEBT SERVICE FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
REVENUES		
Ad Valorem Taxes	\$ 22,182	\$ 19,958
TOTAL REVENUES	22,182	19,958
 EXPENDITURES		
Debt Service:		
Principal	14,000	13,000
Interest and Fiscal Charges	5,978	6,662
TOTAL EXPENDITURES	19,978	19,662
 Net Change in Fund Balance	2,204	296
 Fund Balances at Beginning of Year	92,366	92,070
 Fund Balances at End of Year	\$ 94,570	\$ 92,366

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF NET ASSETS
 PROPRIETARY UTILITY FUND
 SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 313,294	\$ 146,521
Investments	-	156,682
Receivables (net of allowances for uncollectibles):	91,165	89,288
Restricted Cash and Investments	629,999	650,089
Due from Other Funds	192,641	24,953
Deferred Bond Issue Costs	41,346	43,634
Capital Assets:		
Land	31,158	31,158
Building and Improvements	14,000	14,000
Vehicles and Equipment	139,927	139,927
Infrastructure	4,307,002	4,307,002
Construction in Progress	139,793	89,300
Accumulated Depreciation	(2,717,245)	(2,525,095)
TOTAL ASSETS	\$ 3,183,080	\$ 3,167,459
 LIABILITIES AND NET ASSETS		
<i>Liabilities:</i>		
Accounts Payable	\$ 42,817	\$ 43,764
Accrued Expenses	498	891
Accrued Compensated Absences	946	3,110
Customer Deposits	46,444	52,094
Deferred Revenue	2,681	2,959
Accrued Interest Payable	15,140	15,961
<i>Noncurrent Liabilities:</i>		
Due within One Year	63,838	61,859
Due in more than One Year	1,224,192	1,288,029
TOTAL LIABILITIES	1,396,556	1,468,667
 <i>Net Assets:</i>		
Invested in Capital Assets, Net of Related Debt	1,236,812	1,367,104
Restricted for:		
Debt Service	35,968	36,169
Repair and Replacement	5,000	5,000
Unrestricted	508,744	290,519
TOTAL NET ASSETS	1,786,524	1,698,792
TOTAL LIABILITIES AND NET ASSETS	\$ 3,183,080	\$ 3,167,459

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY UTILITY FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Water Charges	\$ 464,292	\$ 465,136
Sewer Charges	169,342	174,472
Garbage Charges	184,103	172,970
Connection and Impact Fees	31,276	11,796
Miscellaneous Income	38,302	24,526
TOTAL OPERATING REVENUES	887,315	848,900
OPERATING EXPENSES		
Personnel	52,270	67,887
Water Purchase	154,076	206,930
Garbage Collection	164,496	156,073
Office and Administrative	79,516	86,854
Repairs and Chemicals	31,841	74,503
Treatment Plant Contract	62,764	70,353
Depreciation	192,150	192,262
TOTAL OPERATING EXPENSES	737,113	854,862
OPERATING INCOME (LOSS)	150,202	(5,962)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	1,593	2,129
Interest Expense	(64,063)	(57,606)
TOTAL NONOPERATING REVENUES (EXPENSES)	(62,470)	(55,477)
Transfers In (Out)	-	(35,517)
CHANGE IN NET ASSETS	87,732	(96,956)
NET ASSETS AT BEGINNING OF YEAR	1,698,792	1,795,748
NET ASSETS AT END OF YEAR	\$ 1,786,524	\$ 1,698,792

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF CASH FLOWS
 PROPRIETARY UTILITY FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 879,510	\$ 836,124
Cash Paid to Suppliers for Goods and Services	(493,640)	(601,734)
Cash Paid to Employees	(54,827)	(64,799)
Net Cash Provided (Used) by Operating Activities	<u>331,043</u>	<u>169,591</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Bonds Issued	-	750,000
Bond Issue Costs Paid	-	(45,931)
Purchases of Capital Assets	(50,493)	(89,300)
Principal Payments	(61,858)	(35,922)
Interest Paid	(62,596)	(39,799)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(174,947)</u>	<u>539,048</u>
Cash Flows From Noncapital Financing Activities:		
Transfers from (to) Other Funds	(167,688)	(244,058)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(167,688)</u>	<u>(244,058)</u>
Cash Flows From Investing Activities:		
Sale (Purchase) of Investments	156,682	185,390
Investment Interest Received	1,593	2,129
Net Cash Provided (Used) by Investing Activities	<u>158,275</u>	<u>187,519</u>
Net Increase (Decrease) in Cash and Cash Equivalents	146,683	652,100
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents	146,521	142,032
Restricted Cash	650,089	2,478
	<u>796,610</u>	<u>144,510</u>
Cash and Cash Equivalents at End of Year		
Cash and Cash Equivalents	313,294	146,521
Restricted Cash	629,999	650,089
	<u>\$ 943,293</u>	<u>\$ 796,610</u>

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF CASH FLOWS
 PROPRIETARY UTILITY FUND (CONT.)
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 150,202	\$ (5,962)
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	192,150	192,262
(Increase) Decrease in Operating Assets:		
Accounts Receivable (net)	(1,877)	(14,948)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(947)	(7,021)
Accrued Expenses	(393)	891
Accrued Compensated Absences	(2,164)	2,197
Customer Deposits	(5,650)	1,905
Deferred Revenue	(278)	267
Total Adjustments to Reconcile Operating Activities	180,841	175,553
 Net Cash Provided (Used) by		
Operating Activities	\$ 331,043	\$ 169,591

