

CITY OF LA VERNIA, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2013**



CITY OF LA VERNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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CITY OF LA VERNIA
PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR	ROBERT GREGORY
MAYOR PRO TEM	RANDY LEONARD
CITY COUNCIL	ELOI CORMIER
	MARIE GERLICH
	JENNIFER MOCZYGEMBA
	HAROLD SCOTT
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
Phil S. Vaughan, 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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Vernia, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of La Vernia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of La Vernia, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.
October 20, 2014

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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

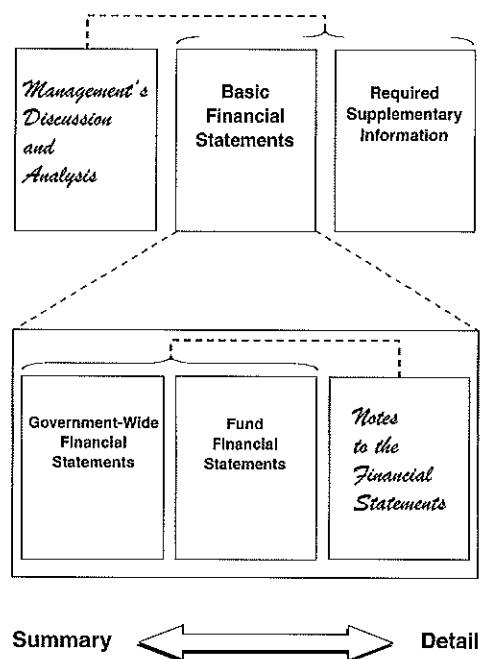
- The City's total combined net position was \$4.2 million at September 30, 2013.
- During the year, the City's governmental expenses were \$222 thousand less than the \$1.3 million generated in general and program revenues for governmental funds. The total cost of the City's programs increased 10% from last year.
- The general fund reported a fund balance this year of \$948 thousand, a decrease of 0.6%.
- 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			
<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	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
<i>Required financial statements</i>	• Statement of net position	• Balance Sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net position • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	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
<i>Type of inflow/outflow information</i>	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 position 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 position and how it has changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position 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

The City's combined net position was \$4.2 million at September 30, 2013. (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2013-2012
	2013	2012	2013	2012	2013	2012	
<i>Assets:</i>							
Current Assets	\$ 917,636	\$ 1,201,491	\$ 686,191	\$ 597,100	\$ 1,603,827	\$ 1,798,591	(10.8)
Other Assets	682,772	251,432	579,165	671,345	1,261,937	922,777	36.8
Capital Assets (net)	1,068,565	935,581	1,823,448	1,914,635	2,892,013	2,850,216	1.5
Total Assets	2,668,973	2,388,504	3,088,804	3,183,080	5,757,777	5,571,584	3.3
<i>Liabilities:</i>							
Current Liabilities	165,068	106,300	103,505	172,364	268,573	278,664	(3.6)
Long-Term Liabilities	79,000	79,000	1,224,191	1,224,192	1,303,191	1,303,192	(0.0)
Total Liabilities	244,068	185,300	1,327,696	1,396,556	1,571,764	1,581,856	(0.6)
<i>Net Position:</i>							
Net Investment in Capital Assets	989,565	842,581	1,117,565	1,236,812	2,107,130	2,079,393	1.3
Restricted	701,316	672,810	40,968	40,968	742,284	713,778	4.0
Unrestricted	734,024	687,813	602,575	508,744	1,336,599	1,196,557	11.7
Total Net Position	\$ 2,424,905	\$ 2,203,204	\$ 1,761,108	\$ 1,786,524	\$ 4,186,013	\$ 3,989,728	4.9

The unrestricted net position represents resources available to fund the programs of the City next year.

Governmental Activities

- Property tax rates increased for the fiscal year ending September 30, 2013, increasing property tax revenues by \$79 thousand.

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2013	2012	2013	2012	2013	2012	2013-2012
<i>Program Revenues:</i>							
Charges for Services	\$ 245,163	\$ 212,541	\$ 920,230	\$ 887,315	\$ 1,165,393	\$ 1,099,856	6.0
<i>Grants and Contributions:</i>							
Operating	-	-	-	-	-	-	0.0
Capital	20,000	-	-	-	20,000	-	0.0
<i>General Revenues:</i>							
Taxes	1,029,479	950,235	-	-	1,029,479	950,235	8.3
Interest Earnings	3,120	3,930	1,791	1,593	4,911	5,523	(11.1)
Miscellaneous	6,959	5,978	-	-	6,959	5,978	16.4
Transfers	-	-	-	-	-	-	0.0
TOTAL REVENUES	1,304,721	1,172,684	922,021	888,908	2,226,742	2,061,592	8.0
<i>Program Expenses:</i>							
Code Enforcement	62,428	62,080	-	-	62,428	62,080	0.6
General	219,908	201,149	-	-	219,908	201,149	9.3
Municipal Development	106,059	103,624	-	-	106,059	103,624	2.3
Police	499,649	468,173	-	-	499,649	468,173	6.7
Public Works	187,123	142,664	-	-	187,123	142,664	31.2
Utility	-	-	947,437	801,176	947,437	801,176	18.3
Interest on Debt	7,853	6,139	-	-	7,853	6,139	27.9
TOTAL EXPENSES	1,083,020	983,829	947,437	801,176	2,030,457	1,785,005	13.8
Increase (Decrease) in Net Position	\$ 221,701	\$ 188,855	\$ (25,416)	\$ 87,732	\$ 196,285	\$ 276,587	29.0

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 \$1.1 million. Taxpayers paid for 15.5% of these activities through property taxes of \$168 thousand.

Table A-3
Net Cost of Selected City Functions

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2013	2012	2013-2012	2013	2012	2013-2012
Code Enforcement	\$ 62,428	\$ 62,080	0.6	\$ 39,916	\$ 47,164	(15.4)
General	219,908	201,149	9.3	207,657	186,382	11.4
Municipal Development	106,059	103,624	2.3	106,059	103,624	2.3
Police	499,649	468,173	6.7	289,249	285,315	1.4
Public Works	187,123	142,664	31.2	167,123	142,664	17.1
Utility	947,437	801,176	18.3	27,207	(86,139)	(131.6)

Business-Type Activities

Revenues of the City's utility business-type activities increased 3.7% to \$920 thousand, and operating expenses increased 18% to \$947 thousand. Fluctuations in revenues and expenses are primarily related to changes in water consumption and water acquisition costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$1.1 million, an increase of 11% 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 \$81,364 less than budgeted amounts, leading to a net change in fund balance that was \$86,249 better than anticipated. The Municipal Development District's expenditures were under budget by \$10,972.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2013, the City had invested \$6.3 million 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 2013-2012
	2013	2012	2013	2012	2013	2012	
Land	\$ 209	\$ 209	\$ 31	\$ 31	\$ 240	\$ 240	0.1
Buildings and Improvements	336	337	14	14	350	351	(0.2)
Equipment	517	459	151	140	668	599	11.5
Infrastructure	539	372	4,307	4,307	4,846	4,679	3.6
Construction in Progress	-	-	232	140	232	140	65.5
Totals at Historical Cost	1,602	1,377	4,735	4,632	6,337	6,009	5.5
Total Accumulated Depreciation	(533)	(441)	(2,911)	(2,717)	(3,445)	(3,158)	9.1
Net Capital Assets	\$ 1,069	\$ 936	\$ 1,823	\$ 1,915	\$ 2,892	\$ 2,851	1.4

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 \$1,303,191 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		Business-Type		Total		Percentage
	Activities		Activities				Change
	2013	2012	2013	2012	2013	2012	2013-2012
Bonds and Loans Payable	\$ 79	\$ 93	\$ 1,224	\$ 1,288	\$ 1,303	\$ 1,381	(5.6)
Total Bonds & Notes Payable	\$ 79	\$ 93	\$ 1,224	\$ 1,288	\$ 1,303	\$ 1,381	(5.6)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2014 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, 2013

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 POSITION
SEPTEMBER 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 501,550	\$ 331,385	\$ 832,935
Investments	219,510	259,346	478,856
Receivables (net of allowances for uncollectibles):			
Ad Valorem Taxes	5,446	-	5,446
Other	191,130	95,460	286,590
Restricted Cash and Investments	682,772	579,165	1,261,937
Capital Assets:			
Land	209,198	31,158	240,356
Building and Improvements	336,329	14,000	350,329
Vehicles and Equipment	517,220	150,772	667,992
Infrastructure	539,220	4,307,002	4,846,222
Construction in Progress	-	231,692	231,692
Accumulated Depreciation	(533,402)	(2,911,176)	(3,444,578)
TOTAL ASSETS	<u>2,668,973</u>	<u>3,088,804</u>	<u>5,757,777</u>
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	128,847	22,670	151,517
Accrued Expenses	11,851	8,827	20,678
Accrued Compensated Absences	21,863	2,767	24,630
Customer Deposits	-	51,131	51,131
Unearned Revenue	-	2,970	2,970
Accrued Interest Payable	2,507	15,140	17,647
<i>Noncurrent Liabilities:</i>			
Due within One Year	15,000	66,861	81,861
Due in more than One Year	64,000	1,157,330	1,221,330
TOTAL LIABILITIES	<u>244,068</u>	<u>1,327,696</u>	<u>1,571,764</u>
NET POSITION:			
Net Investment in Capital Assets	989,565	1,117,565	2,107,130
Restricted for:			
Street Repair	194,482	-	194,482
Municipal Development District	413,435	-	413,435
Repair and Maintenance	-	5,000	5,000
Debt Service	93,399	35,968	129,367
Unrestricted	734,024	602,575	1,336,599
TOTAL NET POSITION	<u>\$ 2,424,905</u>	<u>\$ 1,761,108</u>	<u>\$ 4,186,013</u>

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	\$ 62,428	\$ 22,512	\$ -	\$ -
General Government	219,908	12,251	-	-
Municipal Development	106,059	-	-	-
Police	499,649	210,400	-	-
Public Works	187,123	-	-	20,000
Interest on Long-term Debt	7,853	-	-	-
<i>Total Governmental Activities</i>	<u>1,083,020</u>	<u>245,163</u>	<u>-</u>	<u>20,000</u>
<i>Business-Type Activities:</i>				
Utility	947,437	920,230	-	-
<i>Total Business-Type Activities</i>	<u>947,437</u>	<u>920,230</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u><u>2,030,457</u></u>	<u><u>1,165,393</u></u>	<u><u>-</u></u>	<u><u>20,000</u></u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Franchise Taxes				
Sales Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Position
Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (39,916)	\$ -	\$ (39,916)
(207,657)	-	(207,657)
(106,059)	-	(106,059)
(289,249)	-	(289,249)
(167,123)	-	(167,123)
(7,853)	-	(7,853)
<u>(817,857)</u>	<u>-</u>	<u>(817,857)</u>
-	(27,207)	(27,207)
-	(27,207)	(27,207)
<u>(817,857)</u>	<u>(27,207)</u>	<u>(845,064)</u>
168,246	-	168,246
62,552	-	62,552
798,681	-	798,681
3,120	1,791	4,911
6,959	-	6,959
<u>1,039,558</u>	<u>1,791</u>	<u>1,041,349</u>
221,701	(25,416)	196,285
<u>2,203,204</u>	<u>1,786,524</u>	<u>3,989,728</u>
<u>\$ 2,424,905</u>	<u>\$ 1,761,108</u>	<u>\$ 4,186,013</u>

CITY OF LA VERNIA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Major Funds		Nonmajor Fund	Total Governmental Funds
	General Fund	Municipal Development District	Debt Service	
ASSETS				
Cash and Cash Equivalents	\$ 501,550	\$ 384,035	\$ 95,519	\$ 981,104
Investments	219,510	-	-	219,510
Receivables (net of allowances for uncollectibles):				
Property Taxes	5,059	-	387	5,446
Other Receivables	153,817	37,313	-	191,130
Restricted Cash	203,218	-	-	203,218
TOTAL ASSETS	\$ 1,083,154	\$ 421,348	\$ 95,906	\$ 1,600,408
LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES				
<i>Liabilities</i>				
Accounts Payable	\$ 122,027	\$ 6,820	\$ -	\$ 128,847
Accrued Expenditures	10,758	1,093	-	11,851
<i>Total Liabilities</i>	<u>132,785</u>	<u>7,913</u>	<u>-</u>	<u>140,698</u>
<i>Deferred Inflows of Resources</i>				
Unavailable Property Tax Revenues	1,901	-	-	1,901
<i>Total Deferred Inflows of Resources</i>	<u>1,901</u>	<u>-</u>	<u>-</u>	<u>1,901</u>
<i>Fund Balances:</i>				
Restricted for:				
Street Repair	194,482	-	-	194,482
Municipal Development	-	413,435	-	413,435
Debt Service	-	-	95,906	95,906
Unassigned	753,986	-	-	753,986
<i>Total Fund Balances</i>	<u>948,468</u>	<u>413,435</u>	<u>95,906</u>	<u>1,457,809</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	\$ 1,083,154	\$ 421,348	\$ 95,906	\$ 1,600,408

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 1,457,809
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,068,565
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,901
Accrued vacation leave payable is not due and payable in the current period and, therefore, not reported in the funds.		(21,863)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.		(79,000)
Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds.		<u>(2,507)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,424,905</u></u>

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, 2013

	Major Funds		Nonmajor Fund	Total Governmental Funds
	General Fund	Municipal Development District	Debt Service	
REVENUES				
Ad Valorem Taxes	\$ 149,507	\$ -	\$ 20,578	\$ 170,085
Franchise Fees	62,552	-	-	62,552
Sales Taxes	615,504	183,177	-	798,681
Fines and Penalties	74,479	-	-	74,479
Licenses and Permits	22,512	-	-	22,512
Interest Income	2,838	281	-	3,119
Miscellaneous	42,179	-	-	42,179
Police Services for School District	132,953	-	-	132,953
TOTAL REVENUES	<u>1,102,524</u>	<u>183,458</u>	<u>20,578</u>	<u>1,306,560</u>
EXPENDITURES				
<i>Current:</i>				
Code Enforcement	63,501	-	-	63,501
General Government	199,388	-	-	199,388
Police	457,755	-	-	457,755
Public Works	155,901	-	-	155,901
Municipal Development	-	104,830	-	104,830
Capital Outlay	225,142	-	-	225,142
<i>Debt Service:</i>				
Principal	-	-	14,000	14,000
Interest and Fiscal Charges	-	-	5,242	5,242
TOTAL EXPENDITURES	<u>1,101,687</u>	<u>104,830</u>	<u>19,242</u>	<u>1,225,759</u>
Net Change in Fund Balance	837	78,628	1,336	80,801
Fund Balances at Beginning of Year	<u>947,631</u>	<u>334,807</u>	<u>94,570</u>	<u>1,377,008</u>
Fund Balances at End of Year	<u>\$ 948,468</u>	<u>\$ 413,435</u>	<u>\$ 95,906</u>	<u>\$ 1,457,809</u>

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, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 80,801

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. 132,984

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (1,841)

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 position. 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	(1,632)	
Amortization of Bond Issue Costs	(3,120)	
Change in Accrued Interest	509	(4,243)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 221,701

CITY OF LA VERNIA
STATEMENT OF NET POSITION
PROPRIETARY UTILITY FUND
SEPTEMBER 30, 2013

ASSETS

Cash and Cash Equivalents	\$ 331,385
Investments	259,346
Receivables (net of allowances for uncollectibles):	95,460
Restricted Cash and Investments	579,165
Capital Assets:	
Land	31,158
Building and Improvements	14,000
Vehicles and Equipment	150,772
Infrastructure	4,307,002
Construction in Progress	231,692
Accumulated Depreciation	<u>(2,911,176)</u>
TOTAL ASSETS	<u><u>3,088,804</u></u>

LIABILITIES

Current Liabilities:

Accounts Payable	22,670
Accrued Expenses	8,827
Accrued Compensated Absences	2,767
Customer Deposits	51,131
Unearned Revenue	2,970
Accrued Interest Payable	15,140

Noncurrent Liabilities:

Due within One Year	66,861
Due in more than One Year	<u>1,157,330</u>
TOTAL LIABILITIES	<u><u>1,327,696</u></u>

NET POSITION:

Net Investment in Capital Assets	1,117,565
Restricted for:	
Repairs	5,000
Debt Service	35,968
Unrestricted	602,575
TOTAL NET POSITION	<u><u>\$ 1,761,108</u></u>

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY UTILITY FUND
 FOR THE YEAR SEPTEMBER 30, 2013

OPERATING REVENUES	
Water Charges	\$ 489,874
Sewer Charges	172,066
Garbage Charges	194,032
Connection and Impact Fees	35,988
Miscellaneous Income	28,270
TOTAL OPERATING REVENUES	920,230
 OPERATING EXPENSES	
Personnel	39,902
Water Purchase	215,097
Garbage Collection	164,577
Office and Administrative	80,104
Repairs and Chemicals	59,582
Treatment Plant Contract	93,292
Depreciation	193,931
TOTAL OPERATING EXPENSES	846,485
OPERATING INCOME (LOSS)	73,745
 NONOPERATING REVENUES (EXPENSES)	
Interest Income	1,791
Interest Expense	(100,952)
TOTAL NONOPERATING REVENUES (EXPENSES)	(99,161)
CHANGE IN NET POSITION	(25,416)
NET POSITION AT BEGINNING OF YEAR	1,786,524
NET POSITION AT END OF YEAR	\$ 1,761,108

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 920,911
Cash Paid to Suppliers for Goods and Services	(632,799)
Cash Paid to Employees	(29,752)
Net Cash Provided (Used) by Operating Activities	<u>258,360</u>
 Cash Flows From Capital and Related Financing Activities:	
Purchases of Capital Assets	(102,744)
Principal Payments	(63,839)
Interest Paid	(59,606)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(226,189)</u>
 Cash Flows From Noncapital Financing Activities:	
Repayment of Short-Term Loans to Other Funds	192,641
Net Cash Provided (Used) by Noncapital Financing Activities	<u>192,641</u>
 Cash Flows From Investing Activities:	
Purchase of Certificate of Deposit	(259,346)
Investment Interest Received	1,791
Net Cash Provided (Used) by Investing Activities	<u>(257,555)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (32,743)
 Cash and Cash Equivalents at Beginning of Year	
Cash and Cash Equivalents	313,294
Restricted Cash	629,999
	<u>943,293</u>
 Cash and Cash Equivalents at End of Year	
Cash and Cash Equivalents	331,385
Restricted Cash	579,165
	<u>\$ 910,550</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, 2013

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$	73,745
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation		193,931
 (Increase) Decrease in Operating Assets:		
Accounts Receivable (net)		(4,295)
Increase (Decrease) in Current Liabilities:		
Accounts Payable		(20,147)
Accrued Expenses		8,329
Accrued Compensated Absences		1,821
Customer Deposits		4,687
Deferred Revenue		289
Total Adjustments to Reconcile Operating Activities		184,615
 Net Cash Provided (Used) by		
Operating Activities	\$	258,360

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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.

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, 2013, 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 position 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, 2013

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 outflows of resources.

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, 2013

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, 2013

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, 2012 and past due after January 31, 2013. 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 \$9,374 and \$1,517 for the general fund and debt service funds, respectively.

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, 2013

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 INFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of accounting. Unavailable revenues from property tax are deferred and recognized as an inflow of resource in the period the amounts become available.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

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

12. 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.

13. UNEARNED REVENUE

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

14. 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 position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the discount. Bond issuance costs are expensed when incurred.

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.

15. 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, 2013

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

15. 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.

16. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

17. 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.

18. INTERFUND TRANSACTIONS

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

19. 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.

20. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

The Government Accounting Standards Board has issued a new standard, GASB 65. Included in GASB 65 are new rules regarding the treatment of bond issue costs. In the past, bond issue costs were amortized for the life of the bond. However, GASB 65 now requires issue costs to be expensed in the period they were incurred. Additionally, deferred property tax revenue, previously reported in liabilities, is now reported as a deferred inflow of resources on the Statement of Net Position.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

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

21. RECLASSIFICATIONS

Certain transactions are classified differently on the September 30, 2013 financial statements than previous fiscal years. These reclassifications had no effect on net income.

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.

1. Deposits

The City holds deposits at two institutions. At September 30, 2013, the City's deposits were fully collateralized by a combination of FDIC and pledged securities by the City's depository.

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.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

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, 2013 consist of \$478,856 in certificates of deposit.

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, 2012, upon which the fiscal 2013 levy was based, was \$87,323,102 (i.e., market value less exemptions). The estimated market value was \$117,695,453, making the taxable value 74% 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, 2013, was \$0.2008 per \$100 of assessed value, which means that the City has a tax margin of \$2.2992 for each \$100 value and could increase its annual tax levy by approximately \$2,007,733 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 -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2013 are as follows:

	<u>General Fund</u>	<u>Municipal Development</u>	<u>Utility</u>
Sales Tax	\$ 115,936	\$ 37,313	\$ -
Franchise Taxes	14,763	-	-
Police Services	23,118	-	-
Utility Services	-	-	103,111
Allowance for Uncollectible Accounts - Utility Services	-	-	(7,651)
Total Other Receivables	<u>\$ 153,817</u>	<u>\$ 37,313</u>	<u>\$ 95,460</u>

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE E -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

<u>Governmental Activities</u>	<u>Balance 10/1/2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 9/30/2013</u>
Land	\$ 209,198	\$ -	\$ -	\$ 209,198
Buildings and Improvements	336,329	-	-	336,329
Vehicles and Equipment	459,246	57,974	-	517,220
Infrastructure	372,051	167,169	-	539,220
	<u>1,376,824</u>	<u>225,143</u>	<u>-</u>	<u>1,601,967</u>
Less Accumulated Depreciation				
Buildings and Improvements	(58,163)	(8,567)	-	(66,730)
Equipment	(284,560)	(64,764)	-	(349,324)
Infrastructure	(98,520)	(18,828)	-	(117,348)
	<u>(441,243)</u>	<u>(92,159)</u>	<u>-</u>	<u>(533,402)</u>
Governmental Capital Assets, Net	<u>\$ 935,581</u>	<u>\$ 132,984</u>	<u>\$ -</u>	<u>\$ 1,068,565</u>

Land and Construction in Progress are not depreciated.

Depreciation expense was charged to the governmental functions as follows:

Code Enforcement	\$ 68
General	20,458
Police	42,231
Public Works	29,402
Total Depreciation Expense - Governmental Activities	<u>\$ 92,159</u>

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE E -- CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Balance 10/1/2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 9/30/2013</u>
Land	\$ 31,158	\$ -	\$ -	\$ 31,158
Buildings and Improvements	14,000	-	-	14,000
Vehicles and Equipment	139,927	10,845	-	150,772
Infrastructure	4,307,002	-	-	4,307,002
Construction in Progress	139,793	91,899	-	231,692
	<u>4,631,880</u>	<u>102,744</u>	<u>-</u>	<u>4,734,624</u>
Less Accumulated Depreciation				
Buildings and Improvements	(4,129)	(925)	-	(5,054)
Equipment	(77,114)	(14,521)	-	(91,635)
Infrastructure	(2,636,002)	(178,485)	-	(2,814,487)
	<u>(2,717,245)</u>	<u>(193,931)</u>	<u>-</u>	<u>(2,911,176)</u>
Business-Type Capital Assets, Net	<u>\$ 1,914,635</u>	<u>\$ (91,187)</u>	<u>\$ -</u>	<u>\$ 1,823,448</u>

Land and Construction in Progress are not depreciated.

NOTE F -- LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2013, 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, 2013

NOTE F -- LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

	Balance 10/1/2012	Additions	Reductions	Balance 9/30/2013	Due Within One Year
<i>Governmental Activities</i>					
Certificates of Obligation, 2003	\$ 93,000	\$ -	\$ (14,000)	\$ 79,000	\$ 15,000
Compensated Absences	20,231	21,863	(20,231)	21,863	21,863
<i>Total Governmental Activities</i>	<u>113,231</u>	<u>21,863</u>	<u>(34,231)</u>	<u>100,863</u>	<u>36,863</u>
<i>Business-Type Activities</i>					
San Antonio River Authority	518,030	-	(22,839)	495,191	23,861
Revenue Bonds, Series 1975	45,000	-	(15,000)	30,000	15,000
Certificates of Obligation, 2011	725,000	-	(26,000)	699,000	28,000
Compensated Absences	946	2,767	(946)	2,767	2,767
<i>Total Business-Type Activities</i>	<u>1,288,976</u>	<u>2,767</u>	<u>(64,785)</u>	<u>1,226,958</u>	<u>69,628</u>
Total Primary Government	<u>\$1,402,207</u>	<u>\$ 24,630</u>	<u>\$ (99,016)</u>	<u>\$1,327,821</u>	<u>\$ 106,491</u>

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2013, including interest payments, are as follows:

Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	17,000	447	17,447	61,433	44,041	105,474
2019 - 2023	-	-	-	353,453	174,497	527,950
2024 - 2028	-	-	-	444,253	84,163	528,416
2029 - 2030	-	-	-	114,000	5,394	119,394
	<u>\$ 79,000</u>	<u>\$ 10,652</u>	<u>\$ 89,652</u>	<u>\$1,224,191</u>	<u>\$ 512,908</u>	<u>\$1,737,099</u>

NOTE G – 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, 2013

NOTE G -- 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 2012</u>	<u>Plan Year 2013</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>
2013	\$ 13,836	\$ 13,836	100%
2012	18,726	18,726	100%
2011	26,720	26,720	100%

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2013

NOTE G -- DEFINED BENEFIT PENSION PLAN (Continued)

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations; information for the December 31, 2012 valuation also follows:

Actuarial Valuation Date	12/31/2010	12/31/2011	12/31/2012
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	22.1 years - Closed Period	20.9 years - Closed Period	19.7 years - Closed Period
Amortization Period for New Gains/Losses	17 years	19 years	18 Years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.0%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation 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, 2012, 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
2012	\$ 157,039	\$ 275,943	56.9%	\$ 118,904	\$ 448,819	26.5%

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, 2013

NOTE G -- 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 H -- 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, 2013, 2012 and 2011 were \$682, \$1,153 and \$1,336, respectively, which equaled the required contributions each year.

CITY OF LA VERNIA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2013

NOTE I -- 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	\$ 8,015,000	2031
2009	Winfree Academy Charter Schools	8,305,000	8,065,000	2038
2009	KIPP, Inc	65,175,000	65,175,000	2044
2008	COSMOS Foundation, Inc.	30,075,000	29,645,000	2038
2008	Amigos Por Vida for Life Housing and Education Corp.	10,350,000	9,725,000	2037
2011	Life School of Dallas	38,880,000	37,530,000	2041
2011	Life School of Dallas	380,000	190,000	2015

NOTE J -- 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, 2013, \$221,935 and \$117,918 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 \$1.4 million, 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 fall of 2013. Additionally, the City signed a contract for the new well for \$296,708 subsequent to year end.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE J -- COMMITMENTS AND CONTINGENCIES (CONT.)

Payroll Tax Liability

During 2013, the City began processing payroll in house for the City employees. However, Quarterly Payroll Tax reports were not being prepared timely and the payroll tax was not being paid. Since year end, this has been rectified and the proper payroll tax reports and payments have been submitted to the IRS. However, as a result of the late filings, the City may be liable for fees and interest, and the amount could be significant. Penalties of \$35,000 have been assessed for quarterly reports filed late related to the September 30, 2013 fiscal year. Management anticipates these penalties will be reduced.

NOTE K -- 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, 2013 were \$25,064 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, 2013 were \$9,569.

NOTE L -- SUBSEQUENT EVENT

Subsequent to year end, the City entered into a capital lease to purchase a new police vehicle. The purchase price of the new vehicle was \$44,159 and the capital lease will be paid in four annual installments of \$12,157 beginning September 1, 2014.

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, 2013

	Budget Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary)	Favorable (Unfavorable)
REVENUES				
Ad Valorem Taxes	\$ 175,703	\$ 175,703	\$ 170,085	\$ (5,618)
Franchise Fees	65,000	65,000	62,552	(2,448)
Sales Taxes	462,587	462,587	615,504	152,917
Fines and Penalties	96,800	96,800	74,479	(22,321)
Licenses and Permits	9,900	9,900	22,512	12,612
Interest Income	3,000	3,000	2,838	(162)
Miscellaneous	16,500	16,500	42,179	25,679
Police Services for School District	120,000	120,000	132,953	12,953
TOTAL REVENUES	<u>949,490</u>	<u>949,490</u>	<u>1,123,102</u>	<u>173,612</u>
EXPENDITURES				
<i>Code Enforcement</i>				
Personnel	39,857	39,857	41,708	(1,851)
Operations	22,615	22,615	21,793	822
<i>Total Code Enforcement</i>	<u>62,472</u>	<u>62,472</u>	<u>63,501</u>	<u>(1,029)</u>
<i>General Government</i>				
Personnel	143,982	143,982	81,437	62,545
Operations	124,553	129,553	117,951	11,602
Capital Outlay	34,400	34,400	34,923	(523)
<i>Total General Government</i>	<u>302,935</u>	<u>307,935</u>	<u>234,311</u>	<u>73,624</u>
<i>Police Department</i>				
Personnel	248,811	248,811	243,302	5,509
Operations	239,702	239,702	214,453	25,249
Capital Outlay	14,400	14,400	23,050	(8,650)
<i>Total Police Department</i>	<u>502,913</u>	<u>502,913</u>	<u>480,805</u>	<u>22,108</u>
<i>Public Works</i>				
Personnel	84,530	84,530	89,817	(5,287)
Operations	67,473	67,473	66,084	1,389
Capital Outlay	-	-	167,169	(167,169)
<i>Total Public Works</i>	<u>152,003</u>	<u>152,003</u>	<u>323,070</u>	<u>(171,067)</u>
<i>Debt Service</i>				
Principal	14,000	14,000	14,000	-
Interest	5,242	5,242	5,242	-
<i>Total Debt Service</i>	<u>19,242</u>	<u>19,242</u>	<u>19,242</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 1,039,565</u>	<u>\$ 1,044,565</u>	<u>\$ 1,120,929</u>	<u>\$ (76,364)</u>

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, 2013

	Budget Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary)	Favorable (Unfavorable)
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (90,075)	\$ (95,075)	\$ 2,173	\$ 97,248
Net Change in Fund Balance	<u>\$ (90,075)</u>	<u>\$ (95,075)</u>	<u>\$ 2,173</u>	<u>\$ 97,248</u>

Reconciliation to Net Change in Fund Balance - General Fund

Perspective Differences:

Debt Service Fund Budgeted with General Fund

Debt Service Property Tax Revenues	(20,578)
Debt Service Principal Expenditures	14,000
Debt Service Interest Expenditures	5,242
Net Change in Fund Balance (GAAP Basis) - General Fund	<u>\$ 837</u>

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, 2013

	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Sales Tax	\$ 156,000	\$ 156,000	\$ 183,177	\$ 27,177
Interest Income	-	-	281	281
TOTAL REVENUES	<u>156,000</u>	<u>156,000</u>	<u>183,458</u>	<u>27,458</u>
EXPENDITURES				
Personnel	74,676	74,676	70,502	4,174
Operations	41,128	41,128	34,328	6,800
TOTAL EXPENDITURES	<u>115,804</u>	<u>115,804</u>	<u>104,830</u>	<u>10,974</u>
Net Change in Fund Balance	40,196	40,196	78,628	16,484
Fund Balances at Beginning of Year	<u>334,807</u>	<u>334,807</u>	<u>334,807</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 375,003</u>	<u>\$ 375,003</u>	<u>\$ 413,435</u>	<u>\$ 38,432</u>

CITY OF LA VERNIA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SEPTEMBER 30, 2013

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. Actual expenditures exceeded the appropriated budget in the General Fund.

The City does not use encumbrances.

CITY OF LA VERNIA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN
 LAST FIVE 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%
2012	157,039	275,943	56.9%	118,904	448,819	26.5%

* 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, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 501,550	\$ 667,026
Investments	219,510	216,630
Restricted Cash	203,218	248,312
Receivables (net of allowances for uncollectibles):		
Property Taxes	5,059	7,256
Other Receivables	153,817	138,139
Prepaid Items	-	5,809
Due from Other Funds	-	11,108
	\$ 1,083,154	\$ 1,294,280
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCES		
<i>Liabilities</i>		
Accounts Payable	\$ 122,027	\$ 51,137
Accrued Expenditures	10,758	5,410
Due to Other Funds	-	286,667
<i>Total Liabilities</i>	132,785	343,214
 <i>Deferred Inflows of Resources</i>		
Unavailable Property Tax Revenues	1,901	3,435
<i>Total Deferred Inflows of Resources</i>	1,901	3,435
 <i>Fund Balances:</i>		
Nonspendable:		
Prepaid Items	-	5,809
Restricted For:		
Street Repairs	194,482	246,142
Unassigned	753,986	695,680
<i>Total Fund Balances</i>	948,468	947,631
	\$ 1,083,154	\$ 1,294,280

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 GENERAL FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Ad Valorem Taxes	\$ 149,507	\$ 149,662
Franchise Fees	62,552	62,919
Sales Taxes	615,504	557,447
Fines and Penalties	74,479	86,584
Licenses and Permits	22,512	14,916
Interest Income	2,838	3,704
Miscellaneous	42,179	25,329
Police Services for School District	132,953	122,135
TOTAL REVENUES	<u>1,102,524</u>	<u>1,022,696</u>
EXPENDITURES		
<i>Current:</i>		
Code Enforcement	63,501	60,838
General Government	199,388	183,613
Police	457,755	440,365
Public Works	155,901	119,621
Capital Outlay	225,142	82,107
TOTAL EXPENDITURES	<u>1,101,687</u>	<u>886,544</u>
Net Change in Fund Balance	837	136,152
Fund Balances at Beginning of Year	<u>947,631</u>	<u>811,479</u>
Fund Balances at End of Year	<u>\$ 948,468</u>	<u>\$ 947,631</u>

CITY OF LA VERNIA
 COMPARATIVE BALANCE SHEETS
 MUNICIPAL DEVELOPMENT DISTRICT
 SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 384,035	\$ 321,957
Other Receivables	37,313	36,464
TOTAL ASSETS	\$ 421,348	\$ 358,421
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 6,820	\$ 12,009
Accrued Expenditures	1,093	497
Due to Other Funds	-	11,108
<i>Total Liabilities</i>	<i>7,913</i>	<i>23,614</i>
<i>Fund Balances:</i>		
Restricted for Municipal Development	413,435	334,807
<i>Total Fund Balances</i>	<i>413,435</i>	<i>334,807</i>
TOTAL LIABILITIES & FUND BALANCES	\$ 421,348	\$ 358,421

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 MUNICIPAL DEVELOPMENT DISTRICT
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Sales Tax	\$ 183,177	\$ 162,526
Interest Income	281	224
TOTAL REVENUES	183,458	162,750
 EXPENDITURES		
Personnel	70,502	53,575
Operations	34,328	49,795
TOTAL EXPENDITURES	104,830	103,370
 Net Change in Fund Balance	78,628	59,380
 Fund Balances at Beginning of Year	334,807	275,427
 Fund Balances at End of Year	\$ 413,435	\$ 334,807

CITY OF LA VERNIA
 COMPARATIVE BALANCE SHEETS
 DEBT SERVICE FUND
 SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 95,519	\$ -
Receivables (net of allowances for uncollectibles):		
Property Taxes	387	851
Due from Other Funds	-	94,026
TOTAL ASSETS	\$ 95,906	\$ 94,877
 DEFERRED INFLOWS OF RESOURCES & FUND BALANCES		
<i>Deferred Inflows of Resources</i>		
Unavailable Property Tax Revenues	\$ -	\$ 307
<i>Total Deferred Inflows of Resources</i>	-	307
 <i>Fund Balances</i>		
Restricted for Debt Service	95,906	94,570
<i>Total Fund Balances</i>	95,906	94,570
 TOTAL DEFERRED INFLOWS OF RESOURCES & FUND BALANCES	\$ 95,906	\$ 94,877

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 DEBT SERVICE FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
REVENUES		
Ad Valorem Taxes	\$ 20,578	\$ 22,182
TOTAL REVENUES	20,578	22,182
 EXPENDITURES		
Debt Service:		
Principal	14,000	14,000
Interest and Fiscal Charges	5,242	5,978
TOTAL EXPENDITURES	19,242	19,978
 Net Change in Fund Balance	1,336	2,204
 Fund Balances at Beginning of Year	94,570	92,366
 Fund Balances at End of Year	\$ 95,906	\$ 94,570

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF NET POSITION
 PROPRIETARY UTILITY FUND
 SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and Cash Equivalents	\$ 331,385	\$ 313,294
Investments	259,346	-
Receivables (net of allowances for uncollectibles):	95,460	91,165
Restricted Cash and Investments	579,165	629,999
Due from Other Funds	-	192,641
Other Assets	-	41,346
Capital Assets:		
Land	31,158	31,158
Building and Improvements	14,000	14,000
Vehicles and Equipment	150,772	139,927
Infrastructure	4,307,002	4,307,002
Construction in Progress	231,692	139,793
Accumulated Depreciation	<u>(2,911,176)</u>	<u>(2,717,245)</u>
TOTAL ASSETS	<u>3,088,804</u>	<u>3,183,080</u>
LIABILITIES		
<i>Current Liabilities:</i>		
Accounts Payable	22,670	42,817
Accrued Expenses	8,827	498
Accrued Compensated Absences	2,767	946
Customer Deposits	51,131	46,444
Unearned Revenue	2,970	2,681
Accrued Interest Payable	15,140	15,140
<i>Noncurrent Liabilities:</i>		
Due within One Year	66,861	63,838
Due in more than One Year	<u>1,157,330</u>	<u>1,224,192</u>
TOTAL LIABILITIES	<u>1,327,696</u>	<u>1,396,556</u>
NET POSITION:		
Net Investment in Capital Assets	1,117,565	1,236,812
Restricted for:		
Debt Service	35,968	35,968
Repair and Replacement	5,000	5,000
Unrestricted	602,575	508,744
TOTAL NET POSITION	<u><u>\$ 1,761,108</u></u>	<u><u>\$ 1,786,524</u></u>

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY UTILITY FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES		
Water Charges	\$ 489,874	\$ 464,292
Sewer Charges	172,066	169,342
Garbage Charges	194,032	184,103
Connection and Impact Fees	35,988	31,276
Miscellaneous Income	28,270	38,302
TOTAL OPERATING REVENUES	920,230	887,315
 OPERATING EXPENSES		
Personnel	39,902	52,270
Water Purchase	215,097	154,076
Garbage Collection	164,577	164,496
Office and Administrative	80,104	79,516
Repairs and Chemicals	59,582	31,841
Treatment Plant Contract	93,292	62,764
Depreciation	193,931	192,150
TOTAL OPERATING EXPENSES	846,485	737,113
 OPERATING INCOME (LOSS)	73,745	150,202
 NONOPERATING REVENUES (EXPENSES)		
Interest Income	1,791	1,593
Interest Expense	(100,952)	(64,063)
TOTAL NONOPERATING REVENUES (EXPENSES)	(99,161)	(62,470)
 CHANGE IN NET POSITION	(25,416)	87,732
 NET POSITION AT BEGINNING OF YEAR	1,786,524	1,698,792
 NET POSITION AT END OF YEAR	\$ 1,761,108	\$ 1,786,524

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF CASH FLOWS
 PROPRIETARY UTILITY FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 920,911	\$ 879,510
Cash Paid to Suppliers for Goods and Services	(632,799)	(493,640)
Cash Paid to Employees	(29,752)	(54,827)
Net Cash Provided (Used) by Operating Activities	258,360	331,043
Cash Flows From Capital and Related Financing Activities:		
Purchases of Capital Assets	(102,744)	(50,493)
Principal Payments	(63,839)	(61,858)
Interest Paid	(59,606)	(62,596)
Net Cash Provided (Used) by Capital and Related Financing Activities	(226,189)	(174,947)
Cash Flows From Noncapital Financing Activities:		
Transfers from (to) Other Funds	192,641	(167,688)
Net Cash Provided (Used) by Noncapital Financing Activities	192,641	(167,688)
Cash Flows From Investing Activities:		
Sale (Purchase) of Certificates	(259,346)	156,682
Investment Interest Received	1,791	1,593
Net Cash Provided (Used) by Investing Activities	(257,555)	158,275
Net Increase (Decrease) in Cash and Cash Equivalents	(32,743)	146,683
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents	313,294	146,521
Restricted Cash	629,999	650,089
	943,293	796,610
Cash and Cash Equivalents at End of Year		
Cash and Cash Equivalents	331,385	313,294
Restricted Cash	579,165	629,999
	\$ 910,550	\$ 943,293

CITY OF LA VERNIA
 COMPARATIVE STATEMENT OF CASH FLOWS
 PROPRIETARY UTILITY FUND (CONT.)
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Reconciliation of Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 73,745	\$ 150,202
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	193,931	192,150
(Increase) Decrease in Operating Assets:		
Accounts Receivable (net)	(4,295)	(1,877)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(20,147)	(947)
Accrued Expenses	8,329	(393)
Accrued Compensated Absences	1,821	(2,164)
Customer Deposits	4,687	(5,650)
Deferred Revenue	289	(278)
Total Adjustments to Reconcile Operating Activities	184,615	180,841
 Net Cash Provided (Used) by		
Operating Activities	\$ 258,360	\$ 331,043

