

City of La Vernia
REGULAR CITY COUNCIL MEETING
City Council Chambers of La Vernia City Hall
102 E. Chihuahua Street, La Vernia, Texas 78121

February 14, 2013
6:30 p.m.

AGENDA

1. **Call to Order**
2. **Pledge of Allegiance and Invocation**
3. **Citizens to be Heard**
4. **Consent Agenda**
 - A. Minutes from the January 10, 2013 Zoning Board of Adjustments Meeting;
 - B. Minutes from the January 10, 2013 Regular City Council Meeting;
 - C. Minutes from the January 15, 2013 Special City Council Meeting;
 - D. Minutes from the January 15, 2013 City Council Workshop;
 - E. Minutes from the January 22, 2013 City Council Workshop; and
 - F. General Fund Profit and Loss Statement for January 2013, Water Fund Profit and Loss Statement for January 2013, and Budget vs. Actual Comparisons as of 01/31/2013.
5. **Presentations and Discussion/Action**
 - A. Presentation of the 2011 – 2012 Fiscal Year Audit by Armstrong, Vaughan & Associates, P.C.
 - B. Presentation from City Engineer Rick Myrick regarding the storm water management review.
 - C. Presentation from the Planning and Zoning Commission regarding their general direction towards future development for the City.
6. **Ordinances**
 - A. Discuss and consider approval of an Ordinance calling the May 11, 2013 General Election.
7. **Resolutions**
 - A. Discuss and consider approval of a resolution authorizing the acceptance of the streets in the Micah Point subdivision.
8. **Discussion/Action**
 - A. Discuss and consider approval of Spring Clean Up to be held March 16, 2013 through March 24, 2013.
 - B. Per our Capital Improvement Plan, discuss and consider action on replacing undersized water line and possible street replacement.
 - C. Discuss and consider possible action on the well projects.
 - D. Discuss and consider acceptance of resignation of Rhonda Watson from the La Vernia Municipal Development District Board.
 - E. Conduct review of Public Works Director's.

F. Discuss and consider appointments to fill vacant city council position.

9. Staff/Council Updates

- A. La Vernia Police Department – Reports, Traffic Violations & Arrests; Number of Occurrences by Offense; update on street light outages; and Racial Profiling Report.
- B. Public Works Department – Monthly Reporting; City Park; Utilities; Meetings & Conferences; Water/Sewer; Training & Schools; General Tasks.
- C. Code Enforcement – Nuisance Violations; Building/Development; Permits; Substandard Buildings Violations; Citizen Violation Complaints; Sign Permits; Ordinances/Resolutions/Contracts/Forms/Reports; Planning and Zoning Commission; Meetings/Training; Other.
- D. City Secretary-Treasurer – update on software installation; upcoming training, workshops, and/or meetings.

10. Items Specific to Future Line Items on the Agenda

11. Adjourn

The City Council for the City of La Vernia reserves the right to adjourn into executive session at any time during the course of this meeting to discuss any of the matters listed above, as authorized by the Texas Open Meetings Act, Texas Governmental Code §551.071 (Consultation with Attorney), §551.072 (Deliberations about Real Property), §551.073 (Deliberations about Gifts and Donations), §551.074 (Personnel Matters), §551.076 (Deliberations about Security Devices), and §551.086 (Economic Development), and any other provisions under Texas law that permits a governmental body to discuss a matter in closed executive session.

I, the undersigned authority, do hereby certify that the above Notice of Meeting of the governing body of the above named La Vernia City Council is a true and correct copy of said Notice and that I posted true and correct copy of said Notice on the bulletin boards, of the City Hall of said City of La Vernia, Texas, a place convenient and readily accessible to the general public at all times, and said Notice was posted on February 11, 2013 at 5:30 P.M. and remained so posted continuously for at least 72 hours proceeding the scheduled time of said meeting.



ANGELA CANTU, City Secretary

CITY COUNCIL MEMORANDUM

TO: MAYOR AND CITY COUNCIL MEMBERS
FROM: ANGELA CANTU, CITY SECRETARY-TREASURER
SUBJECT: JANUARY FINANCIAL STATEMENTS
DATE: FEBRUARY 11, 2013

I am in the process of getting the financial documents together. With the new software system it has taken me a little bit longer this month to complete this task. I am trying to have them delivered to you by Wednesday but I wanted to make sure you received the rest of the documentation for the council meeting this week. If you have any questions or need any further clarification on anything in the packet please let me know at your earliest convenience and I will be happy to explain as best I can.

The La Vernia City Council held a Zoning Board of Adjustments Meeting on January 10, 2013 at 6:15 p.m. at the City Hall, La Vernia, Texas.

Item No. 1. Call to Order Mayor Robert Gregory called the meeting to order at 6:17 p.m. Council members present were D. Bradford Beck, Randy Leonard, Bobby Richter, Eloi Cormier, and John Richter. Police Chief Bruce Ritchey, Code Enforcement Officer/Special Project Coordinator Janet Thelen, Public Works Director Jason Mills and City Secretary-Treasurer Angela Cantu were also present.

Item No. 2.A. – E. Mayor Gregory explained that Mr. Joel Katz is requesting a variance from Ordinance No. 051012-03, Article IV, Section 38, 402, to permit the use of parking spaces that do not meet the length requirements of 20'. He stated that the Mr. Katz would like to shorten the length of the parking spaces to 18'. Mayor Gregory asked with the 4 door trucks will 18' be enough space for 2 drive lanes. Jason Feuge, Project Manager with MDM Architects and the representative for Mr. Katz regarding this variance request, stated that yes there will be 25'. Code Enforcement Officer Thelen stated that she has done some research regarding the length of parking spaces in other cities and it is about a 50/50 split between 18' and 20'.

Item No. 3. Councilman Leonard stated from what he has seen 9' x 18' is the standard. He feels that by granting the second variance for the exact same issue is setting a precedent and believes that we should look into adjusting the ordinance. Councilman Beck stated that so we do not stop progress we should grant the variance then review the ordinance to make any necessary adjustments. Councilman Leonard made a motion to approve the variance request from Mr. Joel Katz to change the size of the parking spaces at the La Vernia Crossing site from 20' to 18' and Councilman Cormier seconded. **Motion carried 5 – 0.**

Item No. 4 Adjournment Councilman B. Richter made a motion to adjourn and Councilman Beck seconded. With no further business to discuss the meeting was adjourned at 6:24 p.m.

Robert Gregory, Mayor

Angela Cantu, City Secretary

The La Vernia City Council held a Regular City Council Meeting on January 10, 2013 at 6:30 p.m. at City Hall, La Vernia, Texas.

Item No. 1. Call to Order Mayor Robert Gregory called the meeting to order at 6:30 p.m. Council members present were D. Bradford Beck, Randy Leonard, Bobby Richter, Eloi Cormier and John Richter. Staff member present were City Secretary-Treasurer Angela Cantu, Code Enforcement Officer/Special Projects Coordinator Janet Thelen, Public Works Director Jason Mills, and Police Chief Bruce Ritchey.

Item No. 2. Pledge of Allegiance and Invocation The Pledge of Allegiance was recited and an invocation was given by Mayor Gregory.

Item No. 3. Citizens to be Heard There were no citizens to be heard.

Item No. 4.A. – C. Consent Agenda Councilman Beck made a motion to approve the consent agenda and Councilman B. Richter seconded. **Motion carried 5 – 0.**

Mayor Gregory skipped to Item 8.C.

Item No. 8.A. Discussion/Action City engineer Rick Myrick was in attendance to discuss stormwater issues. Mayor stated that he would like to discuss this matter in a workshop. Mr. Myrick stated that he agrees a workshop would be a good idea. Councilman Beck stated that hydrology is very difficult to understand without an engineering degree and Mr. Myrick stated that he would like to get a direction from council on which way to proceed with updating the City's current ordinance. Mayor Gregory stated that if we can clarify our ordinance and have a more defined set of criteria for developers to follow then we should be able to cut down on engineering fees that get passed on to the developers. Mayor Gregory asked if a workshop can be put together would Mr. Myrick be able to attend and Mr. Myrick stated that he would and that he would begin to draft a starting point for discussion in the workshop.

Mayor Gregory then skipped to Item 6.C.

Item No. 6.C. Ordinance Mayor Gregory explained Ordinance No. 011013-06 AN ORDINANCE ESTABLISHING A CITY WIDE SOLID WASTE COLLECTION, TRANSPORTATION AND DISPOSAL PROGRAM; REQUIRING MANDATORY PARTICIPATION IN THE PROGRAM; PROHIBITING THE COLLECTION, CONVEYANCE AND TRANSPORT OF RESIDENTIAL, HOUSEHOLD, COMMERCIAL AND INDUSTRIAL REFUSE AND SOLID WASTE WITHIN THE CITY LIMITS OF LA VERNIA WITHOUT A FRANCHISE AGREEMENT; PROVIDING FOR A PENALTY FOR VIOLATION THEREFORE; AND PROVIDING FOR AN EFFECTIVE DATE. Councilman Cormier asked if the elderly or disadvantaged could file an exemption. Royce Gray from IESI stated that if a customer does not want to use the carts then they do not have to. Councilman Cormier asked if they would did not use the cart would they still be charged and Mr. Gray stated that would be a council decision. Councilman J. Richter stated that he thought this was an all or nothing kind of deal and Mr. Gray stated that there is usually a small percentage of citizens that are exempt. Mayor Gregory stated that he feels that we need to either decide to approve or deny the ordinance as a whole. Councilman B. Richter sated that a survey was taken a few years ago and the citizens

were not interested. Mayor Gregory stated that he looked at that survey from 2008 and of the 100 responses 36 were in favor and 46 were against. Councilman Beck made a motion to approve Ordinance No. 011013-06 and Councilman Leonard seconded. **Motion denied 2 – 3** with Councilmen Beck and Leonard in favor and Councilmen Cormier, B. Richter, and J. Richter against.

Item No. 5.A. Public Hearing and Ordinance The public hearing regarding the proposed zoning changes from present classification of C-2 (General Commercial District) to C-1 (Retail District) for 313 W. Chihuahua Street, 109 Nicholson Street, 115 Nicholson Street, 209 Nicholson Street, 211 Nicholson Street, 213 Nicholson Street, and 219 Nicholson Street, La Vernia, Texas opened at 7:04 p.m. Planning and Zoning Commission Chairwoman Jennifer Moczygamba stated that the P & Z Commission is in favor of the change. She stated that of the 27 notices that were sent out only five were returned and of those four were in favor and one was against. The public hearing was closed at 7:05 p.m.

Item No. 5.B. Public Hearing and Ordinance Mayor Gregory explained Ordinance No. 011013-02 AN ORDINANCE OF THE CITY OF LA VERNIA, TEXAS AMENDING THE LA VERNIA CODE OF ORDINANCES CHAPTER 38 ZONING MAP, PROVIDING FOR THE CHANGE OF ZONING DISTRICT CLASSIFICATION FROM PRESENT CLASSIFICATION OF C-2 (GENERAL COMMERCIAL DISTRICT) TO C-1 (RETAIL DISTRICT) FOR 313 W. CHIHUAHUA STREET, 109 NICHOLSON STREET, 115 NICHOLSON STREET, 209 NICHOLSON STREET, 211 NICHOLSON STREET, 213 NICHOLSON STREET, AND 219 NICHOLSON STREET, LA VERNIA, TEXAS; AND PROVIDING FOR AN EFFECTIVE DATE. Councilman B. Richter asked if 313 Chihuahua Street was correctly added to this ordinance and Code Enforcement Officer Thelen stated that is the way the property is addressed. Councilman Leonard asked about the new owner of 115 Nicholson and Code Enforcement Officer Thelen stated that he was informed of the change and is in favor of it. Councilman Leonard made a motion to approve Ordinance No. 011013-02 and Councilman Beck seconded. **Motion carried 5 – 0.**

Item No. 5.C. Public Hearing and Ordinance The public hearing regarding the proposed zoning changes from present classification of C-1 (Retail District) to R-2 (General Residential District) for 100 Micah Point Road, 104 Micah Point Road, 108 Micah Point Road, 109 Micah Point Road, 112 Micah Point Road, 113 Micah Point Road, 117 Micah Point Road, 121 Micah Point Road, 125 Micah Point Road, and 129 Micah Point Road, La Vernia, Texas was opened at 7:12 p.m. Chairwoman Moczygamba stated that P & Z recommends this change. She stated that the lots in the front of the property will remain C-1 (commercial) and the lots in the back will be changed to R-2 (multifamily). Councilman B. Richter asked if residential can go anywhere and Chairwoman Moczygamba said that we do not have cumulative zoning so it cannot. She also stated that the property developer was the only one to respond to the notices and they were in favor of the change. The public hearing was closed at 7:15 p.m.

Item No. 5.D. Public Hearing and Ordinance Mayor Gregory explained Ordinance No. 011013-03 AN ORDINANCE OF THE CITY OF LA VERNIA, TEXAS AMENDING THE LA VERNIA CODE OF ORDINANCES CHAPTER 38 ZONING MAP, PROVIDING FOR THE CHANGE OF ZONING DISTRICT CLASSIFICATION FROM PRESENT CLASSIFICATION OF C-1 (RETAIL DISTRICT) TO R-2 (GENERAL RESIDENTIAL DISTRICT) FOR 100 MICAH POINT ROAD, 104 MICAH POINT ROAD, 108 MICAH POINT ROAD, 109 MICAH POINT

ROAD, 112 MICAH POINT ROAD, 113 MICAH POINT ROAD, 117 MICAH POINT ROAD, 121 MICAH POINT ROAD, 125 MICAH POINT ROAD, AND 129 MICAH POINT ROAD, LA VERNIA, TEXAS; AND PROVIDING FOR AN EFFECTIVE DATE. Councilman B. Richter made a motion to approve Ordinance No. 011013-03 and Councilman Cormier seconded. **Motion carried 5 – 0.**

Item No. 5.E. Public Hearing and Ordinance The public hearing regarding amending the La Vernia Code of Ordinances Chapter 38-Zoning, Article IV.-Supplemental Regulations, Section 38-404 Exterior Construction Standards, amending 38-404(c) Commercial Standards and adopting 38-404(d) Residential Standards regarding masonry requirements was opened at 7:16 p.m. Chairwoman Moczygemba stated that of the P & Z Commissioners one abstained from the vote because he wanted to see more stringent requirements, basically 100% masonry. Councilman J. Richter asked if this was regarding only new construction and Chairwoman Moczygemba stated that it was. The public hearing was closed at 7:18 p.m.

Item No. 5.F. Public Hearing and Ordinance Mayor Gregory explained Ordinance No. 011013-04 AN ORDINANCE OF THE CITY OF LA VERNIA, TEXAS AMENDING LA VERNIA CODE OF ORDINANCES CHAPTER 38 ZONING, ARTICLE I. SECTION 38-104 DEFINITIONS AND ARTICLE IV. SUPPLEMENTAL REGULATIONS SECTION 38-404 EXTERIOR CONSTRUCTION AND ARCHITECTURAL STANDARDS; PROVIDING A PENALTY; PROVIDING A REPEALING CLAUSE; PROVIDING A SEVERABILITY AND SAVINGS CLAUSE; AND PROVIDING AN EFFECTIVE DATE. Councilman J. Richter asked if the ordinance was just regarding commercial construction. Mayor Gregory stated that this ordinance proposes increasing masonry requirement to 90% on both commercial and residential construction. This item was tabled to be discussed in a workshop.

Item No. 6.A. Ordinances City Secretary Cantu explained Ordinance No. 011013-01 AN ORDINANCE AMENDING THE ANNUAL BUDGET OF THE CITY OF LA VERNIA, TEXAS FOR THE 2012 – 2013 FISCAL YEAR. Councilman Leonard made a motion to approve Ordinance No. 011013-01 and Councilman Cormier seconded. **Motion carried 5 – 0.**

Item No. 6.B. Ordinances Mayor Gregory explained Ordinance No. 011013-05 AN ORDINANCE OF THE CITY OF LA VERNIA, TEXAS AMENDING LA VERNIA CODE OF ORDINANCES CHAPTER 6 BUILDING REGULATIONS, ARTICLE IV. FLOOD DAMAGE PREVENTION ADDING SECTION 6-417 AUTHORIZING THE ADOPTION OF FEES AND RATE SCHEDULE FOR FLOOD DAMAGE PREVENTION; PROVIDING A SEVERABILITY AND SAVINGS CLAUSE; AND PROVIDING AN EFFECTIVE DATE. Councilman Beck asked if this was regarding all new construction and Code Enforcement Officer Thelen stated that it does. Councilman J. Richter stated that he thought FEMA had the guidelines set. Code Enforcement Officer Thelen stated that the City has to review the documents. Councilman J. Richter asked if we charge the developer to review the plans and Code Enforcement Officer Thelen stated that we do. Councilman B. Richter asked if it is a requirement that we charge. Mayor Gregory stated that the charge is simply to cover the cost of doing the research. Councilman Beck made a motion to approve Ordinance No. 011013-05 and Councilman Cormier seconded. **Motion carried 4 – 1** with Councilman B. Richter against.

Item No. 7.A. Resolution Mayor Gregory explained Resolution No. R011013-01 A Resolution of the City of La Vernia, Texas establishing a fee schedule related TO Floodplain development permit fees and, associated ENGINEERING and LEGAL FEES and fees for

variance relief; PROVIDING A SEVERABILITY AND SAVINGS CLAUSE; and providing an effective date. Code Enforcement Officer Thelen stated that the standard fee for this type of review is \$25.00. Councilman Beck made a motion to approve Resolution No. R011013-01 and Councilman Cormier seconded. **Motion carried 4 – 1** with Councilman B. Richter against.

Item No. 8.A. Discussion/Action Mayor Gregory asked council if they were ok with the letter that the attorney prepared to send to Bain Medina Bain regarding the outstanding invoices and Council agreed. Mayor Gregory also explained that he would like to have a workshop to discuss the three different options that have been provided by Southwest Engineers.

Item No. 8.B. Discussion/Action Mayor Gregory explained that we need to see if we should advise the Impact Fee Advisory Committee to review new projects. Code Enforcement officer Thelen stated that with some of the items outlined in the comprehensive plan have not been studied. She also stated that we did not set aside any funds in this budget cycle to perform these studies which will cost about \$25,000. Mayor Gregory stated that he spoke with another financing source to help cover the costs of this study as well as the infrastructure. Councilman Beck asked if there was still a real estate person on the committee. Code Enforcement Officer Thelen stated that Kathy Crisp is on the committee which currently only meets once a year. She stated that she will look into whether or not more real estate representatives can serve.

Item No. 9.A. Staff/Council Updates Police Chief Ritchey stated that the Police Department has been chosen by CopSync to participate in a one year program where we have their software and all we have to pay for are the ticket writers.

Item No. 9.B. Staff/Council Updates Public Works Director Mills stated that there have been several leaks and the department will start some of the valve replacement during the week of spring break.

Item No. 9.C. Staff/Council Updates Code Enforcement Officer Thelen stated that she has been very busy.

Item No. 9.D. Staff/Council Updates City Secretary Cantu stated that we will need to have a Special Meeting next week and would like to see which days would be best for the Councilmembers.

Item No. 10. Items Specific to Future Line Items on the Agenda There were no items specific to future agendas.

Item No. 11. Adjourn With no further business Councilman B. Richter made a motion to adjourn and Councilman J. Richter seconded. The meeting was adjourned at 7:59 p.m.

Robert Gregory, Mayor

Angela Cantu, City Secretary-Treasurer

The La Vernia City Council held a Special City Council Meeting on January 15, 2013 6:30 p.m. at City Hall, La Vernia, Texas.

Item No. 1. Call to Order Mayor Robert Gregory called the meeting to order at 6:33 p.m. Council members present were Randy Leonard, Bobby Richter, Eloi Cormier, and John Richter. Councilman Beck was absent. Staff member present was Enforcement Officer/Project Coordinator Janet Thelen.

Item No. 2. Pledge of Allegiance and Invocation The Pledge of Allegiance was recited and Councilman Leonard gave the invocation.

Item No. 3. Resolutions The council considered action on approving an increase in the City's water rates. Councilman Leonard advised that typically rates are raised only on the step rates and not the base rates. The resolution was to increase water rates by five percent (5%) due to a five percent (5%) increase in water purchased from Canyon Regional Water Authority (CRWA). Councilman Bobby Richter advised that he reviewed the proposed increase from CRWA and the actual increase is 5.05 percent, not five percent (5%) as originally discussed. Councilman Leonard made a motion to adopt the 5.05 percent increase on the step rates for both inside and outside the city water customers with no increase in the base water rates or the bulk water rates. Councilman Cormier seconded. **Motion carried 4-0.**

Item No. 4. Discussion and Action Councilman Beck submitted a letter of resignation to the Mayor. Councilman Cormier moved to accept Councilman Beck's resignation. Councilman John Richter seconded. There was no discussion. **Motion carried 4-0.**

Item No. 5. Adjourn With no further business Councilman Bobby Richter moved to adjourn. Councilman John Richter seconded the motion. Mayor Gregory adjourned the meeting at 6:45 p.m.

Robert Gregory, Mayor

Janet Thelen, Code Enforcement Officer/Project Coordinator

The La Vernia City Council held a Workshop on January 15, 2013 at 6:30 p.m. at City Hall, La Vernia, Texas.

Item No. 1. Call to Order Mayor Gregory called the workshop to order at 6:32 p.m. and declared a quorum. Councilmen Randy Leonard, Bobby Richter, John Richter, and Eloi Cormier were in attendance. Councilman Brad Beck was absent. Officer Janet Thelen was in attendance.

Item No. 2. Discuss the City of La Vernia well project options. Mayor Gregory started the discussion with comments from Southwest Engineers regarding selecting other well sites on Mr. Callaway's property. Mayor Gregory advised that Mr. Callaway has expressed that he would be amicable to changes. Mayor Gregory advised that moving the site would require a new Environmental Information Document (EID) per the EPA grant. The George Jones with Naismith Engineering informed Mayor Gregory that the EID conducted on the present Callaway Well #7 site required seven months at a cost of \$20,500. Mr. Jones also advised that the "drop-dead" date for the EPA grant monies is December 31, 2013. The city can within 10-15 days of the drop-dead date apply for an extension. Mayor Gregory will contact Mr. Jones and determine if the extension can be requested now.

Mayor Gregory advised that a second meeting was held with Sutherland Springs Water Supply (S.S. Water) to discuss possible options for addressing La Vernia's future water needs. Herb Williams, General Manager expressed that S.S. Water is not interested in Option 1 or Option 2. Option 3 that allowed the City of La Vernia to assist with construction cost, but the well and operation of the well would belong to S.S. Water was the only option that S.S. Water would support. The city would then receive water without payment for a specific time period, with other considerations for well operation and line use to be decided during the contract negotiating of Option 3.

The councilman discussed that East Central and Canyon Regional Water Authority (CRWA) are not interested in purchasing water from La Vernia. Originally, it was believed that either or both would be interested in purchasing La Vernia's surplus water if wells were built in La Vernia and excess water was produced.

Mayor Gregory has reviewed the various contracts that the city has entered into with CRWA and cannot find any language that specifically addresses a contractual obligation for the city to pay line use and administrative fees. The Mayor is interested in possible terms within the contracts regarding severability. Councilman Leonard and Councilman Bobby Richter inquired about increases in the past in line use and admin fees. Mayor Gregory advised that there have been several increases and we are currently paying around \$36,000 per year.

Councilman Bobby Richter presented information from the CRWA meeting held on Monday, January 14, 2013 and advised that the Texas Water Development Board and the Texas Water Alliance is considering making changes to the acre feet to land requirement for groundwater. Some parts of the state are already using a 1 acre foot to one acre formula. Currently our area is at 2 acre feet of water per one acre. The change could be to 1.5 acre feet per one acre or even as restrictive as the one to one requirement. This would greatly impact well locations and expenses for new well construction.

Mayor Gregory stressed that to meet our financial obligations, if La Vernia became water self-sufficient we would need to end the contract with CRWA. This would stop line use and admin fees.

The discussions moved back to the recent meeting with S.S. Water in which Clarence Littlefield of Southwest Engineers was in attendance. The well being discussed would be in the CR 307 and US Hwy 87 area. The well would be either a 1,000 gpm or 1,200 gpm. Mayor Gregory reference the email sent on January 14, 2013 from Neal Goedrich with Southwest Engineers regarding the short notice Southwest Engineers were given prior to the meeting with S.S. Water and that the cost estimates and discussions were lacking specifics for moving the pumped water from the well, through the S.S. Water distribution system and into the La Vernia water distribution system. The Mayor discussed the maps that accompanied the three options and possible methods of moving the water from the well to the city. Additional research is needed on this portion of the possible plan to partner with S.S. Water. The city would need two points of connection with S.S. Water to attain the self-sufficiency required by TCEQ. S.S. Water does not need a 1,000 or 1,200 gpm well, so all upsizing needed for La Vernia and La Vernia's future growth would be funded by the city.

The council then discussed the plans for Well #6 and Well #7 and the issues with the cost of filtration. S.S. Water does not filter their water, but they sequester the iron with chemicals. The result is iron dropping out of the water and settling in the lines especially in the dead-ends. Council Leonard advised that he does not want to provide the water customers with a lesser quality of water than currently is being provided. The CRWA Wells Ranch well field is heavily filtered. Mayor Gregory advised that S.S. Water would like to go to filtration, but currently it is not in their funding plans. If the S.S. Water does add filtration, La Vernia would be expected to participate in the costs.

Mayor Gregory advised that La Vernia currently uses 277 gpm per day. The city must get off CRWA if two wells are built as the city could not absorb the \$36,000 line use and admin fees plus any future increases. The CRWA contract lasts until December 31, 2030. The Mayor projects the city could be using 325 gpm per day within two years. The CRWA contract allows the city 400 acre feet of water per year. The city has never used that much water, but future growth could result in water demands that might meet the 400 acre feet per year. The council discussed the pros and cons of drilling two wells, partnering with S.S. Water for development of one large well, or moving completely to CRWA. Everyone agreed that the council still has insufficient information to make that decision. Councilman Bobby Richter and Councilman Leonard expressed a desire to stay with CRWA instead of drilling wells. Councilman John Richter expressed concerns of not having wells in the city.

Mr. Callaway was in attendance at the meeting and advised that he had reviewed the report from Southwest Engineering that included comments of drilling two wells on his property to a depth of 500 feet. Mr. Callaway expressed that the Wilcox Aquifer has upper and lower strata and the upper layer has lesser quality water than the lower strata. Mr. Callaway has a 700 foot well on his property and the water is of good quality.

Mayor Gregory met with Wilson County Judge Quinney, and Gary Marrow and Bob Williams of P³ Finance regarding Public Private Project financing. The County is considering this method of paying for the repairs to the Wilson County Courthouse. That project would be bundled with other projects and the funding would have interest rates 2.5 percent. Mayor Gregory then

stated that a lower interest rate is better, but the City must still find ways to fund the payments. Mayor asked the rates for the Certificate of Obligation taken for the well projects. No one knew the exact amount, but believed it was around 4.3 percent. The discussion progressed to investigating the current income generated through water bills. There was a brief discussion of the auto read meters and how that should improve income.

Again, the discussion turned to the possible options to be considered including getting out of the water production business and utilizing only purchased water from CRWA, or drilling two water wells and pricing the construction costs with and without filtration.

Councilman Leonard discussed the need for overhead storage with a minimum capacity of 500,000 gallons. With a large overhead storage tank, the city could eliminate the need for pump stations and ground storage tanks which are currently spread cross the city for water distribution.

Mayor Gregory advised that he would continue to gather information. He advised that if the city remains on CRWA that the upcoming rate increase planned for 2015 by CRWA should be phased in over the next few years to avoid hitting customers with one huge increase that they cannot easily plan for.

Councilman Leonard stated that EPA will require submission of all new construction documents for approval prior to releasing grant funds. This discussion also included verifying with EPA if the funds could be used to fund an overhead storage tank, second connection point with CRWA, or filtration. Mayor Gregory confirmed that he will contact George Jones with Naismith Engineering to determine the parameters of the EPA grant funds.

Mr. Callaway advised that he will modify his agreements with the city if needed and was willing to assist in any way to help the city.

The council further discussed issues related to currently secured funds (grant and Certificate of Obligation funds) and the difficulty of small cities to fund growth for utilities.

The council decided to hold another workshop the on Tuesday, January 22, 2013.

Item No. 3. Adjournment With no further discussion the meeting adjourned at 8:25 p.m.

Robert Gregory, Mayor

Janet Thelen, Code Enforcement Officer/Project Coordinator

The La Vernia City Council held a Workshop on January 22, 2013 at 6:30 p.m. at City Hall, La Vernia, Texas.

Item No. 1. Call to Order Mayor Gregory called the workshop to order at 6:30 p.m. and declared a quorum. Councilmen Randy Leonard, Bobby Richter, John Richter, and Eloi Cormier were in attendance. City Secretary-Treasurer Angela Cantu and Public Works Director Jason Mills were also in attendance.

Item No. 2. Discuss Councilman Leonard outlined five options to discuss regarding proceeding with the City's well projects. *Option #1:* drill one well with 300 gpm at the well #6 site with no filter. *Option #2:* drill one well with 300 gpm at the well #6 site with a filter. *Option #3:* drill two wells #6 and #7 with filters for a total of 600 gpm. *Option #4:* drill one well with 750 gpm further into the Carrizo. *Option #5:* keep agreement with Canyon Regional Water Authority and the City builds a water storage tank. Councilman Cormier asked which option is best. Councilman B. Richter stated that he thinks option #1 is the best. Mayor Gregory stated that if we go with option #1 then we pull off of Canyon Regional Water Authority (CRWA) and don't blend then we will have a lot of calls from customers due to the quality of the water. Councilman B. Richter stated that he does not think we are talking about getting rid of CRWA and only using well #1. He stated that he does not see the City ever coming off of CRWA unless we are able to produce between 600 and 800 gpm. Councilman Leonard stated that he does not feel that any of the options are to get off of CRWA. He stated that if we produce a well with 300 gpm then we can move CRWA down to 20% which would give us an approximate profit of \$12,000. He also stated that if the grant money doesn't come in then we have to start all over and we can't do it all at once. Councilman B. Richter stated that we have to take a step so if we can proceed with option #2 then we can expand and go further. He also stated that he does not think option #4 is a good idea because he does not think water is any better. Mayor Gregory stated if we drill well #6 and it takes care of citizens then we can use impact fees to pay for the future growth of system. Councilman Leonard stated that he does not want to let a tower get too far away from us. Mayor Gregory asked if we go with option #2 then what about the grant. Councilman Leonard stated that we will have to resubmit an application with correct numbers for grant because the original application covered well #6 & #7. Councilman Leonard stated that before we have anything else engineered we need to be 98% sure of direction we will be going. Mayor Gregory stated that we need to look at in engineering cost, to see if it includes bid documents as well. Councilman B. Richter stated that he can't see paying \$350,000 for well when people around here have built wells for \$30,000 to \$40,000. Councilman Leonard stated that the problem with bid is there are no booster pumps and we have an oversized well pump which will pull harder on the formation. So the idea was to put in a smaller pump to give you exactly what you need then install booster pumps to get the water where it needs to go. Mayor Gregory stated that it is still incumbent upon us to think about these types of possible issues. Councilman Leonard stated that he feels that oversizing the pumps is a huge mistake. It will end up costing the City a lot of money to maintain the pumps and feels it will be cheaper than replacing a well pump. Mayor Gregory stated that he feels we need to get further clarification from Mr. Littlefield. Councilman Leonard said we need to make sure we get the grant money otherwise we will have to make large rate increases to cover the cost of the project.

Item No. 3. Adjournment With no further discussion the meeting adjourned at p.m.

Robert Gregory, Mayor

Angela Cantu, City Secretary

SHAREHOLDERS:

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



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

Material Weakness and Significant Deficiency in Internal Controls

To the Council and Management
City of La Vernia

In planning and performing our audit of the basic financial statements of the City of La Vernia as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered City of La Vernia's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of La Vernia's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of La Vernia's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the City of La Vernia's internal control to be a material weakness:

Financial Statement Preparation

For the year ended September 30, 2012, management requested us to prepare the draft of the City's financial statements, including the related notes to financial statements. As a result, certain adjustments were required to be made to the accounting records such as recording accounts receivable, payables, and depreciation. Cities with limited staff and resources tend to have difficulty preparing the annual financial reports and applying all of the necessary accounting principles to be in compliance with generally accepted accounting principles (GAAP). However, recent auditing standards have clarified that internal control is the same for all entities, regardless of size. We cannot be considered part of the City's internal controls (which includes the preparation of the financial statements), so the fact that we prepared the draft financial statements and related notes represents a control deficiency for the City.

Suggestion: To remedy the control deficiency, management may obtain training or hire additional consultants outside of the auditor to assist in the drafting of the financial statements. However, management may ultimately decide to accept the deficiency and continue to have the auditors prepare the draft financial statements. It is our responsibility to report this deficiency to ensure management has the information necessary to make an informed decision that is best for the City.

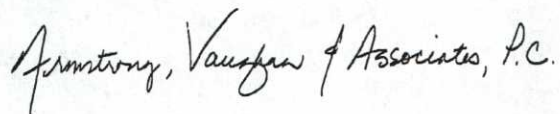
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the City of La Vernia's internal control to be a significant deficiency:

Control of Police Tickets

The Police Department issues citations on pre-numbered, three part tickets. The tickets are issued in books of 25 to officers and recorded on a log book. The Police Department enters these issued citations into their module of the court software. Citations ready to be processed through court are provided to the Court Clerk, who then imports the citations into the court module of the software. In our random sample of 40 citations during the year, 2 tickets could not be located. Without all tickets on file, it is difficult to ensure all tickets were appropriately processed through court. This control is important to prevent tickets from being lost or fraudulently dismissed for cash payments. Subsequent to year end, the City has purchased and implemented electronic ticket writers, which will interface with court software. The proper configuration of the electronic ticket writers should eliminate this deficiency going forward.

This communication is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Armstrong, Vaughan & Associates, P.C.
February 04, 2013

SHAREHOLDERS:

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



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

Communication with Those Charged with Governance

To the Audit Committee
City of La Vernia, Texas

We have audited the basic financial statements of the City of La Vernia, as of and for the year ended September 30, 2012, and have issued our report thereon dated February 04, 2013. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards (and when applicable, *Government Auditing Standards*)

As communicated in our engagement letter dated June 19, 2012, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of City of La Vernia solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit in a separate letter to you dated February 04, 2013.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information (statistical section) in documents containing City of La Vernia's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read the information and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by City of La Vernia is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2012. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the financial statements is:

- Useful lives of capital assets

We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Significant Difficulties Encountered during the Audit

We encountered no difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

1. General fund cash was overstated from duplicate deposits and Water fund cash was overstated from unnecessary transfers to holding accounts for debt service.
2. A Water fund certificate of deposit was closed to the General fund and recorded as a transfer rather than a payable back to the Water fund
3. Payroll is recorded first to the General fund and then charged to the Water fund and Municipal Development District. Entries were posted to correct timing differences (i.e. charges to those funds were not recorded in the same period the payroll was recorded) and clean up the coding of the expenditures so that they are not reported in the General Fund.
4. Entries were posted to correct how the payroll withholding and employer contributions for health insurance are recorded.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to City of La Vernia's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated February 04, 2013.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Matters

In planning and performing our audit of the financial statements we became aware of an opportunity to strengthen the City's internal controls with the following suggestion:

City police officers, who are paid employees of the City, are paid as contract labor for attending events for La Vernia ISD. There are very rare circumstances in which workers of an entity can be classified as both contract labor and employees. We recommend the City review the policy of paying these officers as contract labor to ensure compliance with IRS regulations. The City may wish to pay the officers for these events through payroll to avoid any potential scrutiny.

Public Funds Investment Act

As a part of our audit, we review the City's compliance with the Public Funds Investment Act. Our procedures determined that the City is in compliance, in all material respects, with the provisions of the Act.

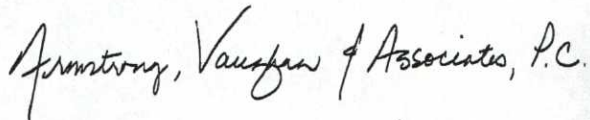
New Pronouncements

The Governmental Accounting Standards Board has approved Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with implementation in periods beginning after June 15, 2014. The statement established accounting and financial reporting for employers with defined benefit pensions. For the first time, a net pension liability (or asset); defined as the net assets held in trust for pension benefits net of a total pension liability; will be recognized on the statement of net assets (net pension). Any annual changes will flow to the statement of activities. In addition, required note disclosures will include ten years of data as supplementary information.

Other Significant Findings or Issues

In the normal course of our professional association with City of La Vernia, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as City of La Vernia's auditors.

This report is intended solely for the information and use of the City Council, and management of City of La Vernia and is not intended to be and should not be used by anyone other than these specified parties.



Armstrong, Vaughan & Associates, P.C.

February 04, 2013

CITY OF LA VERNIA, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2012**

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

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

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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

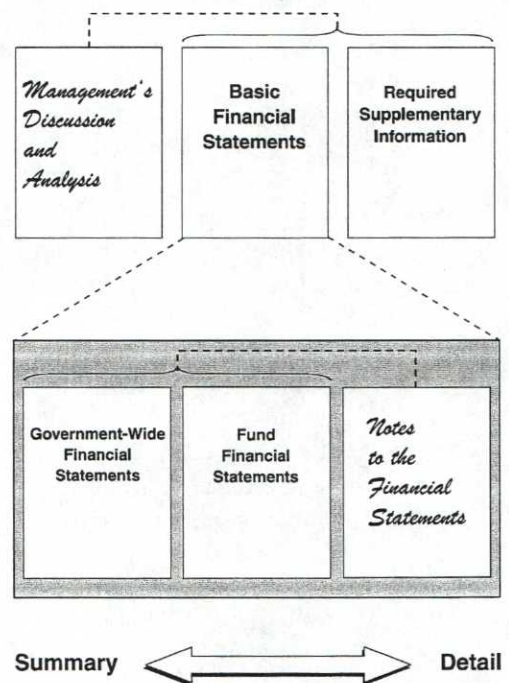
- The City's total combined net assets were \$3,989,728 at September 30, 2012.
- During the year, the City's governmental expenses were \$188,855 less than the \$1,172,684 generated in general and program revenues for governmental funds. The total cost of the City's programs increased 4.3% from last 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			
<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 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
<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 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	<u>\$ 188,855</u>	<u>\$ 198,129</u>	<u>\$ 87,732</u>	<u>\$ (96,956)</u>	<u>\$ 276,587</u>	<u>\$ 101,173</u>	(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	<u>\$ 936</u>	<u>\$ 945</u>	<u>\$ 1,915</u>	<u>\$ 2,056</u>	<u>\$ 2,850</u>	<u>\$ 3,001</u>	(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	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
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	<u>\$ 2,388,504</u>	<u>\$ 3,183,080</u>	<u>\$ 5,571,584</u>

See accompanying notes to basic financial statements.

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

LIABILITIES AND NET ASSETS	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<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

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
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>1,785,005</u>	<u>1,099,856</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.	<u>(3,016)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,203,204</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, 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	(64,063)
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	331,043
 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	(174,947)
 Cash Flows From Noncapital Financing Activities:	
Transfers from (to) Other Funds	(167,688)
Net Cash Provided (Used) by Noncapital Financing Activities	(167,688)
 Cash Flows From Investing Activities:	
Proceeds from Certificate of Deposit	156,682
Investment Interest Received	1,593
Net Cash Provided (Used) by Investing Activities	158,275
 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
	796,610
 Cash and Cash Equivalents at End of Year	
Cash and Cash Equivalents	313,294
Restricted Cash	629,999
	\$ 943,293

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	180,841

**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.