

CITY OF LA VERNIA, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2011**

CITY OF LA VERNIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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CITY OF LA VERNIA
PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

HAROLD SCHOTT

MAYOR PRO TEM

ROBERT RICHTER

CITY COUNCIL

BRADFORD BECK

ELOI CORMIER

MARIE GERLICH

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, 2011, 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, 2011, 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.

March 05, 2012

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, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

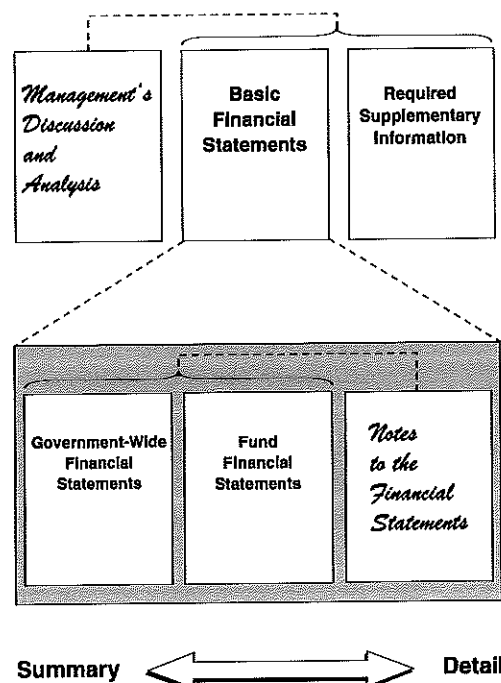
- The City's total combined net assets were \$3,713,141 at September 30, 2011.
- During the year, the City's governmental expenses were \$198,129 less than the \$1,105,558 generated in general and program revenues for governmental funds. The total cost of the City's programs increased 11.8% from last year.
- The general fund reported a fund balance this year of \$811,479, an increase of 21.9%.
- The City's utility fund issued \$750,000 in new bonds to construct a new water well.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
Type of Statements	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<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 \$3,713,141 at September 30, 2011. (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2011	2010*	2011	2010	2011	2010	2011 - 2010
<i>Assets:</i>							
Current Assets	\$ 1,079,685	\$ 978,773	\$ 417,444	\$ 283,438	\$ 1,497,129	\$ 1,262,211	18.6
Other Assets	161,352	32,575	693,723	91,980	855,075	124,555	586.5
Capital Assets (net)	945,260	1,015,334	2,056,292	2,159,254	3,001,552	3,174,588	(5.5)
Total Assets	2,186,297	2,026,682	3,167,459	2,534,672	5,353,756	4,561,354	17.4
<i>Liabilities:</i>							
Current Liabilities	78,948	79,104	180,638	102,201	259,586	181,305	43.2
Long-Term Liabilities	93,000	131,043	1,288,029	636,723	1,381,029	767,766	79.9
Total Liabilities	171,948	210,147	1,468,667	738,924	1,640,615	949,071	72.9
<i>Net Assets:</i>							
Invested in Capital Assets	838,260	895,334	1,367,104	1,523,444	2,205,364	2,418,778	(8.8)
Restricted	513,956	29,932	41,169	41,791	555,125	71,723	674.0
Unrestricted	662,133	891,269	290,519	230,513	952,652	1,121,782	(15.1)
Total Net Assets	\$ 2,014,349	\$ 1,816,535	\$ 1,698,792	\$ 1,795,748	\$ 3,713,141	\$ 3,612,283	2.8

*Restated - See Note N in the Notes to the Financial Statements

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, 2011, decreasing property tax revenues by \$13,076.

Table A-2
Changes in City's Net Assets

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2011	2010*	2011	2010	2011	2010	2011 - 2010
<i>Program Revenues:</i>							
Charges for Services	\$ 180,545	\$ 166,159	\$ 848,900	\$ 698,095	\$ 1,029,445	\$ 864,254	19.1
Grants and Contributions:							
Operating	-	8,302	-	-	-	8,302	(100.0)
Capital	-	13,425	-	442,425	-	455,850	(100.0)
<i>General Revenues:</i>							
Taxes	886,304	926,069	-	-	886,304	926,069	(4.3)
Interest Earnings	5,833	6,896	2,131	3,405	7,964	10,301	(22.7)
Miscellaneous	32,876	55,048	-	20,492	32,876	75,540	(56.5)
Transfers	35,517	(14,314)	(35,517)	14,314	-	-	0.0
TOTAL REVENUES	1,141,075	1,161,585	815,514	1,178,731	1,956,589	2,340,316	(16.4)
<i>Program Expenses:</i>							
Code Enforcement	54,496	59,934	-	-	54,496	59,934	(9.1)
General	220,497	266,461	-	-	220,497	266,461	(17.2)
Municipal Development	35,220	2,973	-	-	35,220	2,973	1084.7
Police	427,889	383,211	-	-	427,889	383,211	11.7
Public Works	194,155	123,653	-	-	194,155	123,653	57.0
Utility	-	-	912,470	705,252	912,470	705,252	29.4
Interest on Debt	10,689	6,996	-	-	10,689	6,996	52.8
TOTAL EXPENSES	942,946	843,228	912,470	705,252	1,855,416	1,548,480	19.8
Increase (Decrease) in Net Assets	<u>\$ 198,129</u>	<u>\$ 318,357</u>	<u>\$ (96,956)</u>	<u>\$ 473,479</u>	<u>\$ 101,173</u>	<u>\$ 791,836</u>	87.2

*Restated - See Note N in the Notes to the Financial Statements

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 \$942,946. Taxpayers paid for 18.2% of these activities through property taxes of \$171,904. 19.1% 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	Net Cost of Services		Percentage Change
	2011	2010	2011 - 2010	2011	2010	2011 - 2010
Code Enforcement	\$ 54,496	\$ 59,934	(9.1)	\$ 44,156	\$ 32,011	37.9
General	220,497	266,461	(17.2)	203,769	239,273	(14.8)
Municipal Development	35,220	2,973	1084.7	35,220	2,973	1084.7
Police	427,889	383,211	11.7	274,412	250,436	9.6
Public Works	194,155	123,653	57.0	194,155	123,653	57.0
Utility	912,470	705,252	29.4	63,570	7,157	788.2

Business-Type Activities

Revenues of the City's utility business-type activities increased 21.6% to \$848,900, and operating expenses increased 29.4% to \$912,470. 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 \$1,100,195, an increase of 1.9% 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 \$24,703 more than budgeted amounts, primarily because of increased demand for police officers from the La Vernia ISD. The Municipal Development District hired a director this year and expenditures were under budget by \$102,912.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2011, the City had invested \$6,048,044 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a minimal net increase (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
	2011	2010	2011	2010	2011	2010	2011 - 2010
Land	\$ 209	\$ 209	\$ 31	\$ 31	\$ 240	\$ 240	0.1
Buildings and Improvements	336	336	14	14	350	350	0.1
Equipment	549	344	140	138	689	482	42.9
Infrastructure	372	381	4,307	4,310	4,679	4,691	(0.3)
Construction in Progress	-	-	89	-	89	-	100.0
Totals at Historical Cost	1,467	1,270	4,581	4,493	6,048	5,763	4.9
Total Accumulated Depreciation	(521)	(465)	(2,525)	(2,333)	(3,046)	(2,798)	8.9
Net Capital Assets	<u>\$ 945</u>	<u>\$ 805</u>	<u>\$ 2,056</u>	<u>\$ 2,160</u>	<u>\$ 3,002</u>	<u>\$ 2,965</u>	1.2

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 \$1,456,888 in bonds 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
	2011	2010	2011	2010	2011	2010	2011 - 2010
Bonds and Loans Payable	\$ 107	\$ 120	\$ 1,350	\$ 636	\$ 1,457	\$ 756	92.7
Total Bonds & Notes Payable	\$ 107	\$ 120	\$ 1,350	\$ 636	\$ 1,457	\$ 756	92.7

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged. The economic outlook for Wilson County remains stable. Budget levels remain similar to the previous year for the General Fund. The City Council has approved a rate increase for water customers.

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, 2011

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, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 671,047	\$ 146,521	\$ 817,568
Investments	213,150	156,682	369,832
Receivables (net of allowances for uncollectibles):			
Ad Valorem Taxes	10,683	-	10,683
Other	173,304	89,288	262,592
Prepays	36,454	-	36,454
Internal Balances	(24,953)	24,953	-
Restricted Cash and Investments	157,712	650,089	807,801
Deferred Bond Issue Costs	3,640	43,634	47,274
Capital Assets:			
Land	209,198	31,158	240,356
Building and Improvements	336,329	14,000	350,329
Vehicles and Equipment	549,079	139,927	689,006
Infrastructure	372,051	4,307,002	4,679,053
Construction in Progress	-	89,300	89,300
Accumulated Depreciation	(521,397)	(2,525,095)	(3,046,492)
TOTAL ASSETS	<u>\$ 2,186,297</u>	<u>\$ 3,167,459</u>	<u>\$ 5,353,756</u>

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF NET ASSETS (CONT.)
SEPTEMBER 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES AND NET ASSETS			
<i>Liabilities:</i>			
Accounts Payable	\$ 37,656	\$ 43,764	\$ 81,420
Accrued Expenses	6,817	891	7,708
Utility Collections for FELPS	5,411	-	5,411
Accrued Compensated Absences	11,557	3,110	14,667
Customer Deposits	-	52,094	52,094
Deferred Revenue	-	2,959	2,959
Accrued Interest Payable	3,507	15,961	19,468
<i>Noncurrent Liabilities:</i>			
Due within One Year	14,000	61,859	75,859
Due in more than One Year	93,000	1,288,029	1,381,029
TOTAL LIABILITIES	171,948	1,468,667	1,640,615
<i>Net Assets:</i>			
Invested in Capital Assets, Net of Related Debt	838,260	1,367,104	2,205,364
Restricted for:			
Street Repair	148,640	-	148,640
Municipal Development District	275,427	-	275,427
Repair and Maintenance	-	5,000	5,000
Debt Service	89,889	36,169	126,058
Unrestricted	662,133	290,519	952,652
TOTAL NET ASSETS	2,014,349	1,698,792	3,713,141
TOTAL LIABILITIES AND NET ASSETS	\$ 2,186,297	\$ 3,167,459	\$ 5,353,756

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions and Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
<i>Governmental Activities:</i>				
Code Enforcement	\$ 54,496	\$ 10,340	\$ -	\$ -
General Government	220,497	16,728	-	-
Municipal Development	35,220	-	-	-
Police	427,889	153,477	-	-
Public Works	194,155	-	-	-
Interest on Long-term Debt	10,689	-	-	-
<i>Total Governmental Activities</i>	<u>942,946</u>	<u>180,545</u>	<u>-</u>	<u>-</u>
<i>Business-Type Activities:</i>				
Utility	912,470	848,900	-	-
<i>Total Business-Type Activities</i>	<u>912,470</u>	<u>848,900</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 1,855,416</u>	<u>\$ 1,029,445</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Franchise Taxes				
Sales Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Transfers Between Activities				
Change in Net Assets				
Net Assets at Beginning of Year				
Prior Period Adjustment				
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>
\$ (44,156)	\$ -	\$ (44,156)
(203,769)	-	(203,769)
(35,220)	-	(35,220)
(274,412)	-	(274,412)
(194,155)	-	(194,155)
(10,689)	-	(10,689)
<u>(762,401)</u>	<u>-</u>	<u>(762,401)</u>
-	(63,570)	(63,570)
<u>-</u>	<u>(63,570)</u>	<u>(63,570)</u>
<u>(762,401)</u>	<u>(63,570)</u>	<u>(825,971)</u>
171,904	-	171,904
75,136	-	75,136
639,264	-	639,264
5,833	2,131	7,964
32,876	-	32,876
<u>925,013</u>	<u>2,131</u>	<u>927,144</u>
35,517	(35,517)	-
198,129	(96,956)	101,173
1,685,640	1,795,748	3,481,388
130,580	-	130,580
<u>\$ 2,014,349</u>	<u>\$ 1,698,792</u>	<u>\$ 3,713,141</u>

CITY OF LA VERNIA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	Major Funds		Nonmajor Fund	Total Governmental Funds
	General Fund	Municipal Development District	Debt Service	
ASSETS				
Cash and Cash Equivalents	\$ 411,776	\$ 259,272	\$ -	\$ 671,048
Investments	213,150	-	-	213,150
Restricted Cash	157,712	-	-	157,712
Receivables (net of allowances for uncollectibles):				
Property Taxes	9,539	-	1,144	10,683
Other Receivables	140,625	32,679	-	173,304
Prepaid Items	36,454	-	-	36,454
Due from Other Funds	7,666	-	92,252	99,918
TOTAL ASSETS	<u>\$ 976,922</u>	<u>\$ 291,951</u>	<u>\$ 93,396</u>	<u>\$ 1,362,269</u>
LIABILITIES AND FUND BALANCES				
<i>Liabilities:</i>				
Accounts Payable	\$ 28,934	\$ 8,722	\$ -	\$ 37,656
Accrued Expenditures	6,681	136	-	6,817
Utility Collections for FELPS	5,411	-	-	5,411
Deferred/Unearned Revenues	7,212	-	1,030	8,242
Due to Other Funds	117,205	7,666	-	124,871
TOTAL LIABILITIES	<u>165,443</u>	<u>16,524</u>	<u>1,030</u>	<u>182,997</u>
<i>Fund Balances:</i>				
Nonspendable:				
Prepaid Items	36,454	-	-	36,454
Restricted for:				
Street Repair	148,640	-	-	148,640
Municipal Development	-	275,427	-	275,427
Debt Service	-	-	92,366	92,366
Unassigned	626,385	-	-	626,385
<i>Total Fund Balances</i>	<u>811,479</u>	<u>275,427</u>	<u>92,366</u>	<u>1,179,272</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 976,922</u>	<u>\$ 291,951</u>	<u>\$ 93,396</u>	<u>\$ 1,362,269</u>

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, 2011

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 1,179,272
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.	945,260
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	8,241
Unamortized bond issue costs are not available to pay for current-period expenditures and, therefore, are not reported in the funds.	3,640
Accrued vacation leave payable is not due and payable in the current period and, therefore, not reported in the funds.	(11,557)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(107,000)
Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds.	<u>(3,507)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,014,349</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, 2011

	Major Funds		Nonmajor Fund	Total
	General Fund	Municipal Development District	Debt Service	Governmental Funds
REVENUES				
Ad Valorem Taxes	\$ 146,584	\$ -	\$ 19,958	\$ 166,542
Franchise Fees	75,136	-	-	75,136
Sales Taxes	496,090	143,174	-	639,264
Fines and Penalties	40,612	-	-	40,612
Licenses and Permits	10,340	-	-	10,340
Interest Income	5,634	199	-	5,833
Miscellaneous	51,038	-	-	51,038
Police Services for School District	111,430	-	-	111,430
TOTAL REVENUES	936,864	143,373	19,958	1,100,195
EXPENDITURES				
<i>Current:</i>				
Code Enforcement	54,295	-	-	54,295
General Government	202,734	-	-	202,734
Police	399,819	-	-	399,819
Public Works	169,731	-	-	169,731
Municipal Development	-	35,088	-	35,088
<i>Debt Service:</i>				
Principal	-	-	13,000	13,000
Interest and Fiscal Charges	-	-	6,662	6,662
TOTAL EXPENDITURES	826,579	35,088	19,662	881,329
Excess (Deficiency) of Revenues Over (Under) Expenditures	110,285	108,285	296	218,866
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	35,517	-	-	35,517
TOTAL OTHER FINANCING SOURCES (USES)	35,517	-	-	35,517
Net Change in Fund Balance	145,802	108,285	296	254,383
Fund Balances at Beginning of Year	563,873	138,366	92,070	794,309
Prior Period Adjustment	101,804	28,776	-	130,580
Fund Balances at End of Year	<u>\$ 811,479</u>	<u>\$ 275,427</u>	<u>\$ 92,366</u>	<u>\$ 1,179,272</u>

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	254,383
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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 depreciation exceeded capital outlay.		(70,074)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		5,361
--	--	-------

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		13,000
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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	(514)	
Amortization of Bond Issue Costs	(520)	
Change in Accrued Interest	(3,507)	
	(4,541)	(4,541)

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	198,129
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CITY OF LA VERNIA
STATEMENT OF NET ASSETS
PROPRIETARY UTILITY FUND
SEPTEMBER 30, 2011

ASSETS

Cash and Cash Equivalents	\$ 146,521
Investments	156,682
Receivables (net of allowances for uncollectibles):	89,288
Restricted Cash and Investments	650,089
Due from Other Funds	24,953
Deferred Bond Issue Costs	43,634
Capital Assets:	
Land	31,158
Building and Improvements	14,000
Vehicles and Equipment	139,927
Infrastructure	4,307,002
Construction in Progress	89,300
Accumulated Depreciation	(2,525,095)
TOTAL ASSETS	\$ 3,167,459

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$ 43,764
Accrued Expenses	891
Accrued Compensated Absences	3,110
Customer Deposits	52,094
Deferred Revenue	2,959
Accrued Interest Payable	15,961

Noncurrent Liabilities:

Due within One Year	61,859
Due in more than One Year	1,288,029
TOTAL LIABILITIES	1,468,667

Net Assets:

Invested in Capital Assets, Net of Related Debt	1,367,104
Restricted for:	
Repairs	5,000
Debt Service	36,169
Unrestricted	290,519
TOTAL NET ASSETS	1,698,792

**TOTAL LIABILITIES
AND NET ASSETS**

\$ 3,167,459

See accompanying notes to basic financial statements.

CITY OF LA VERNIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY UTILITY FUND
FOR THE YEAR SEPTEMBER 30, 2011

OPERATING REVENUES

Water Charges	\$ 465,136
Sewer Charges	174,472
Garbage Charges	172,970
Connection and Impact Fees	11,796
Miscellaneous Income	24,526
TOTAL OPERATING REVENUES	<u>848,900</u>

OPERATING EXPENSES

Personnel	67,887
Water Purchase	206,930
Garbage Collection	156,073
Office and Administrative	86,854
Repairs and Chemicals	74,503
Treatment Plant Contract	70,353
Depreciation	192,262
TOTAL OPERATING EXPENSES	<u>854,862</u>

OPERATING INCOME (LOSS)

(5,962)

NONOPERATING REVENUES (EXPENSES)

Interest Income	2,129
Interest Expense	(57,606)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(55,477)</u>

Transfers In (Out)	<u>(35,517)</u>
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CHANGE IN NET ASSETS

(96,956)

NET ASSETS AT BEGINNING OF YEAR

1,795,748

NET ASSETS AT END OF YEAR

\$ 1,698,792

CITY OF LA VERNIA
STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Cash Flows From Operating Activities:

Cash Received From Customers	\$ 836,124
Cash Paid to Suppliers for Goods and Services	(601,734)
Cash Paid to Employees	(64,799)
Net Cash Provided (Used) by Operating Activities	<u>169,591</u>

Cash Flows From Capital and Related Financing Activities:

Purchases of Capital Assets	(89,300)
Proceeds from Bonds Issued	750,000
Bond Issue Costs Paid	(45,931)
Principal Payments	(35,922)
Interest Paid	(39,799)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>539,048</u>

Cash Flows From Noncapital Financing Activities:

Transfers from (to) Other Funds	(244,058)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(244,058)</u>

Cash Flows From Investing Activities:

Sale (Purchase) of Investments	185,390
Investment Interest Received	2,129
Net Cash Provided (Used) by Investing Activities	<u>187,519</u>

Net Increase (Decrease) in Cash and Cash Equivalents	652,100
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Cash and Cash Equivalents at Beginning of Year

Cash and Cash Equivalents	142,032
Restricted Cash	2,478
	<u>144,510</u>

Cash and Cash Equivalents at End of Year

Cash and Cash Equivalents	146,521
Restricted Cash	650,089
	<u>\$ 796,610</u>

CITY OF LA VERNIA
STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND (CONT.)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ (5,962)
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation	192,262
(Increase) Decrease in Operating Assets:	
Accounts Receivable (net)	(14,948)
Increase (Decrease) in Current Liabilities:	
Accounts Payable	(7,021)
Accrued Expenses	891
Accrued Compensated Absences	2,197
Customer Deposits	1,905
Deferred Revenue	267
Total Adjustments to Reconcile Operating Activities	<u>175,553</u>

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

\$ 169,591

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

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, 2011, 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 government-wide financial statements. 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, 2011

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, 2011

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

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

The government reports the following major governmental funds:

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

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

The City has one nonmajor fund: Debt Service.

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

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

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

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

4. **CASH AND CASH EQUIVALENTS**

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

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

5. INVESTMENTS

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

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2010 and past due after January 31, 2011. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are shown net of an allowance for uncollectibles, which the City currently estimates to be \$10,891.

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

7. PREPAID ITEMS

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

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

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

9. CAPITAL ASSETS

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

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

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

<u>Asset</u>	<u>Estimated Life</u>
Buildings and improvements	15 to 40 years
Streets and Infrastructure	15 to 30 years
Utility system in service	10 to 30 years
Machinery and equipment	5 to 25 years

10. COMPENSATED ABSENCES

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

11. DEFERRED COMPENSATION PLAN

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

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

11. DEFERRED/UNEARNED REVENUE

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

12. LONG-TERM OBLIGATIONS

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

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

13. FUND EQUITY

Fund balances in governmental funds are classified as follows:

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

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

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

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

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

13. FUND EQUITY (CONT.)

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

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

14. NET ASSETS

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

15. OPERATING REVENUES AND EXPENSES

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

16. INTERFUND TRANSACTIONS

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

17. USE OF ESTIMATES

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

NOTE B -- DEPOSITS AND INVESTMENTS

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

1. Deposits

The City holds deposits at two institutions. At September 30, 2011, the carrying amount of the primary government's (the City) cash on hand was \$850, the carrying amount of deposits in the main banking institution were \$1,365,243 and the bank balance was \$1,409,387. Of the bank balance, \$250,000 was covered by federal deposit insurance (FDIC) and the City's main depository had pledged securities having a collateral par value of \$1,192,690 and market value of \$1,322,996 as collateral for the City's deposits. The deposits at the main banking institution were fully collateralized. The City also has deposits at a local credit union in the amount of \$369,832, which was fully covered by FDIC. The Municipal Development District also had \$23,046 of its \$273,046 bank deposits uninsured.

2. Investments

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

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

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

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

The City's investments at September 30, 2011 consist of \$369,832 in certificates of deposit.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was exposed to custodial credit risk on deposits at institutions that exceeded FDIC and pledged collateral coverage (see Note B-2).

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

4. Investment Accounting Policy

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

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Wilson County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. The total taxable value as of January 1, 2010, upon which the fiscal 2011 levy was based, was \$76,882,535 (i.e., market value less exemptions). The estimated market value was \$106,970,360, making the taxable value 71.9% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2011, was \$0.2173 per \$100 of assessed value, which means that the City has a tax margin of \$2.2827 for each \$100 value and could increase its annual tax levy by approximately \$1,754,998 based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate.

NOTE D -- INTERFUND BALANCES

As of September 30, 2011, the following balances were owed between funds:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Purpose</u>
Municipal Development	General Fund	\$ 7,666	<i>expense reimbursement</i>
General Fund	Debt Service	92,252	<i>tax collections</i>
General Fund	Utility Fund	24,953	<i>expense reimbursement</i>
Totals	Totals	<u>\$ 124,871</u>	

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE E -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2011 are as follows:

	General Fund	Municipal Development	Utility
Sales Tax	\$ 104,139	\$ 32,679	\$ -
Franchise Taxes	16,083	-	-
Police Services	15,863	-	-
Utility Services	-	-	89,288
Miscellaneous	4,540	-	-
Total Other Receivables	<u>\$ 140,625</u>	<u>\$ 32,679</u>	<u>\$ 89,288</u>

NOTE F -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

<u>Governmental Activities</u>	Balance 10/1/2010	Additions	Disposals/ Transfers	Balance 9/30/2011
Land	\$ 209,198	\$ -	\$ -	\$ 209,198
Buildings and Improvements	336,329	-	-	336,329
Vehicles and Equipment	563,069	-	(13,990)	549,079
Infrastructure	372,051	-	-	372,051
	<u>1,480,647</u>	<u>-</u>	<u>(13,990)</u>	<u>1,466,657</u>
Less Accumulated Depreciation				
Buildings and Improvements	(41,029)	(8,567)	-	(49,596)
Equipment	(360,634)	(44,072)	13,990	(390,716)
Infrastructure	(63,650)	(17,435)	-	(81,085)
	<u>(465,313)</u>	<u>(70,074)</u>	<u>13,990</u>	<u>(521,397)</u>
Governmental Capital Assets, Net	<u>\$ 1,015,334</u>	<u>\$ (70,074)</u>	<u>\$ -</u>	<u>\$ 945,260</u>

Land and Construction in Progress are not depreciated.

Depreciation expense was charged to the governmental functions as follows:

Code Enforcement	\$ 192
General	17,704
Police	27,893
Public Works	24,285
Total Depreciation Expense - Governmental Activities	<u>\$ 70,074</u>

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE F -- CAPITAL ASSETS (Continued)

<i>Business-Type Activities</i>	Balance 10/1/2010	Additions	Disposals/ Transfers	Balance 9/30/2011
Land	\$ 31,158	\$ -	\$ -	\$ 31,158
Buildings and Improvements	14,000	-	-	14,000
Vehicles and Equipment	139,927	-	-	139,927
Infrastructure	4,307,002	-	-	4,307,002
Construction in Progress	-	89,300	-	89,300
	<u>4,492,087</u>	<u>89,300</u>	<u>-</u>	<u>4,581,387</u>
Less Accumulated Depreciation				
Buildings and Improvements	(2,279)	(925)	-	(3,204)
Equipment	(51,520)	(12,853)	-	(64,373)
Infrastructure	(2,279,034)	(178,484)	-	(2,457,518)
	<u>(2,332,833)</u>	<u>(192,262)</u>	<u>-</u>	<u>(2,525,095)</u>
Business-Type Capital Assets, Net	<u>\$ 2,159,254</u>	<u>\$ (102,962)</u>	<u>\$ -</u>	<u>\$ 2,056,292</u>

Land and Construction in Progress are not depreciated.

NOTE G -- LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2011, comprise the following individual issues:

Waterworks and Sanitary Sewer System Revenue Bonds, Series 1975

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

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

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

Note Payable – San Antonio River Authority (SARA)

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

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

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

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE G -- LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

	Balance 10/1/2010	Additions	Reductions	Balance 9/30/2011	Due Within One Year
<i>Governmental Activities</i>					
Certificates of Obligation, 2003	\$ 120,000	\$ -	\$ (13,000)	\$ 107,000	\$ 14,000
Compensated Absences	11,043	514	-	11,557	11,557
<i>Total Governmental Activities</i>	<u>131,043</u>	<u>514</u>	<u>(13,000)</u>	<u>118,557</u>	<u>25,557</u>
<i>Business-Type Activities</i>					
San Antonio River Authority	560,810	-	(20,922)	539,888	21,859
Revenue Bonds, Series 1975	75,000	-	(15,000)	60,000	15,000
Certificates of Obligation, 2011	-	750,000	-	750,000	25,000
Compensated Absences	913	2,197	-	3,110	3,110
<i>Total Business-Type Activities</i>	<u>636,723</u>	<u>752,197</u>	<u>(35,922)</u>	<u>1,352,998</u>	<u>64,969</u>
 Total Primary Government	 <u>\$ 767,766</u>	 <u>\$ 752,711</u>	 <u>\$ (48,922)</u>	 <u>\$ 1,471,555</u>	 <u>\$ 90,526</u>

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2011, including interest payments, are as follows:

Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 14,000	\$ 5,260	\$ 19,260	\$ 61,859	\$ 61,986	\$ 123,845
2013	14,000	4,524	18,524	63,838	59,008	122,846
2014	15,000	3,761	18,761	66,861	55,916	122,777
2015	15,000	2,972	17,972	68,930	52,708	121,638
2016	16,000	2,157	18,157	56,047	49,405	105,452
2017 - 2021	33,000	1,762	34,762	322,820	205,225	528,045
2022 - 2026	-	-	-	405,280	122,803	528,083
2027 - 2030	-	-	-	304,253	26,850	331,103
	<u>\$ 107,000</u>	<u>\$ 20,436</u>	<u>\$ 127,436</u>	<u>\$ 1,349,888</u>	<u>\$ 633,901</u>	<u>\$ 1,983,789</u>

NOTE H -- DEFINED BENEFIT PENSION PLAN

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677. In addition, the report is available on TMRS' website at TMRS.com.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE H -- DEFINED BENEFIT PENSION PLAN (Continued)

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

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	5%	5%
Matching Ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

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

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

The annual pension cost is as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Annual Pension Cost</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contribution</u>
2009	\$ 14,295	\$ 14,295	100%
2010	22,793	22,793	100%
2011	26,720	26,720	100%

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE H -- DEFINED BENEFIT PENSION PLAN (Continued)

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations; information for the December 31, 2010 valuation also follows:

Actuarial Valuation Date	12/31/08	12/31/09	12/31/2010 - prior to restructuring	12/31/2010 - restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	24 years - Closed Period	23.1 years - Closed Period	22.1 years - Closed Period	22.1 years - Closed Period
Amortization Period for New Gains/Losses	25 years	25 years	25 years	17 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Inflation Rate	3.0%	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	None	None	None	None

Funded Status and Funding Progress

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

CALENDAR YEAR	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	FUNDING RATIO (1)/(2)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	ANNUAL COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
2010 - original	\$ 83,898	\$ 211,179	39.7%	\$ 127,281	\$ 381,598	33.4%
2010 - new	84,458	214,626	39.4%	130,168	381,598	34.1%

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE H -- DEFINED BENEFIT PENSION PLAN (Continued)

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

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

NOTE I -- OTHER POSTEMPLOYMENT BENEFIT

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

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The city's contributions to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$1,366, \$1,114 and \$946, respectively, which equaled the required contributions each year.

NOTE J -- INTERFUND TRANSFERS

		<u>Transfer</u>	<u>Purpose</u>
Primary Government			
<i>Transfer Out</i>	<i>Transfer In</i>		
Utility Fund	General Fund	\$ 35,517	Transfer in Lieu of Taxes
		<u>\$ 35,517</u>	

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE K -- TEXAS HIGER EDUCATION AUTHORITY

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

Issuance Date	Entity	Original Issue	Estimated Outstanding	Maturity
2006	Southwest Winners Foundation, Inc.	\$ 9,470,000	\$ 8,565,000	2031
2009	Winfree Academy Charter Schools	8,305,000	8,165,000	2038
2009	KIPP, Inc	65,175,000	65,175,000	2044
2009	KIPP, Inc	1,690,000	890,000	2013
2008	COSMOS Foundation, Inc.	30,075,000	30,075,000	2038
2008	COSMOS Foundation, Inc.	980,000	355,000	2012
2008	Amigos Por Vida for Life Housing and Education Corp.	10,350,000	10,055,000	2037
2011	Life School of Dallas	38,880,000	38,880,000	2041
2011	Life School of Dallas	380,000	380,000	2015

NOTE L -- COMMITMENTS AND CONTINGENCIES

Litigation

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

Economic Development Agreement

In 2009, the City and Municipal Development District entered into agreements with HEB Grocery Company to refund a portion of sales tax and property tax to encourage and assist in development. The agreements call for sales tax rebates of ½ of the City's 1% general sales tax and ½ of the MDD's 0.5% sales tax generated by the new development. Maximum sales tax rebates are \$350,000 and \$150,000 for the City and MDD, respectively. As of September 30, 2011, \$74,567 and \$37,283 has been rebated by the City and MDD, respectively. In addition, the City agreed to rebate 100% of the development's increased property taxes above the base tax year of 2009 for a period of 5 years.

Commitment

The City has been awarded a grant from the Environmental Protection Agency (EPA) to construct a new water well. The estimated project costs are \$881,818, of which the EPA will fund 55% up to \$485,000. The City is in the planning stages of the project and anticipates completing the well in the summer of 2012.

CITY OF LA VERNIA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2011

NOTE M -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to \$1,000,000. Annual contributions for the year ended September 30, 2011 were \$22,778 for property and casualty coverage.

NOTE N -- PRIOR PERIOD ADJUSTMENT

In the prior year, accruals for two revenues were understated. A prior period adjustment was recorded to correct beginning fund balance as follows:

	Governmental Activities	General Fund	Municipal Development
Beginning Net Assets/Fund Balance, Previously Reported	\$ 1,685,640	\$ 563,873	\$ 138,366
Understated Sales Tax Receivable	120,233	91,457	28,776
Understated Other Receivables	10,347	10,347	-
Beginning Net Assets/Fund Balance, Restated	<u>\$ 1,816,220</u>	<u>\$ 665,677</u>	<u>\$ 167,142</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

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

CITY OF LA VERNIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget Amounts		Actual Amounts (Budgetary)	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Ad Valorem Taxes	\$ 169,300	\$ 169,300	\$ 166,542	\$ (2,758)
Franchise Fees	4,000	4,000	75,136	71,136
Sales Taxes	410,027	410,027	496,090	86,063
Fines and Penalties	79,300	79,300	40,612	(38,688)
Licenses and Permits	8,300	8,300	10,340	2,040
Interest Income	2,500	2,500	5,634	3,134
Miscellaneous	48,100	48,100	51,038	2,938
Police Services for School District	75,000	75,000	111,430	36,430
TOTAL REVENUES	<u>796,527</u>	<u>796,527</u>	<u>956,822</u>	<u>160,295</u>
EXPENDITURES				
<i>Code Enforcement</i>				
Personnel	38,342	38,342	38,390	(48)
Operations	33,882	33,882	15,905	17,977
<i>Total Code Enforcement</i>	<u>72,224</u>	<u>72,224</u>	<u>54,295</u>	<u>17,929</u>
<i>General Government</i>				
Personnel	73,692	73,692	53,452	20,240
Operations	133,372	133,372	149,282	(15,910)
<i>Total General Government</i>	<u>207,064</u>	<u>207,064</u>	<u>202,734</u>	<u>4,330</u>
<i>Police Department</i>				
Personnel	242,323	242,323	244,092	(1,769)
Operations	98,554	98,554	155,727	(57,173)
<i>Total Police Department</i>	<u>340,877</u>	<u>340,877</u>	<u>399,819</u>	<u>(58,942)</u>
<i>Public Works</i>				
Personnel	83,898	83,898	59,030	24,868
Operations	97,813	97,813	110,701	(12,888)
<i>Total Public Works</i>	<u>181,711</u>	<u>181,711</u>	<u>169,731</u>	<u>11,980</u>
<i>Debt Service</i>				
Principal	6,312	6,312	13,000	(6,688)
Interest	13,350	13,350	6,662	6,688
<i>Total Debt Service</i>	<u>19,662</u>	<u>19,662</u>	<u>19,662</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 821,538</u>	<u>\$ 821,538</u>	<u>\$ 846,241</u>	<u>\$ (24,703)</u>

CITY OF LA VERNIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget Amounts		Actual	Variance
	Original	Final	Amounts (Budgetary)	Favorable (Unfavorable)
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (25,011)</u>	<u>\$ (25,011)</u>	<u>\$ 110,581</u>	<u>\$ 135,592</u>
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>102,000</u>	<u>102,000</u>	<u>35,517</u>	<u>(66,483)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>102,000</u>	<u>102,000</u>	<u>35,517</u>	<u>(66,483)</u>
Net Change in Fund Balance	<u><u>\$ 76,989</u></u>	<u><u>\$ 76,989</u></u>	<u>146,098</u>	<u><u>\$ 69,109</u></u>

Reconciliation to Net Change in Fund Balance - General Fund

Perspective Differences:

Debt Service Fund Budgeted with General Fund

Debt Service Property Tax Revenues	(19,958)
Debt Service Principal Expenditures	13,000
Debt Service Interest Expenditures	<u>6,662</u>
Net Change in Fund Balance (GAAP Basis) - General Fund	<u><u>\$ 145,802</u></u>

CITY OF LA VERNIA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – MUNICIPAL DEVELOPMENT DISTRICT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable)
REVENUES				
Sales Tax	\$ 138,000	\$ 138,000	\$ 143,174	\$ 5,174
Interest Income	-	-	199	199
TOTAL REVENUES	<u>138,000</u>	<u>138,000</u>	<u>143,373</u>	<u>5,373</u>
EXPENDITURES				
Personnel	65,000	65,000	11,249	53,751
Operations	73,000	73,000	23,839	49,161
TOTAL EXPENDITURES	<u>138,000</u>	<u>138,000</u>	<u>35,088</u>	<u>102,912</u>
Net Change in Fund Balance	-	-	108,285	(97,539)
Fund Balances at Beginning of Year	138,366	138,366	138,366	-
Prior Period Adjustment	-	-	28,776	28,776
Fund Balances at End of Year	<u>\$ 138,366</u>	<u>\$ 138,366</u>	<u>\$ 275,427</u>	<u>\$ 137,061</u>

CITY OF LA VERNIA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SEPTEMBER 30, 2011

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

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

The General Fund expenditures exceeded legal adopted appropriations by \$24,703.

The City does not use encumbrances.

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

CALENDAR YEAR	ACTUARIAL VALUE OF ASSETS **	ACTUARIAL ACCRUED LIABILITY*	FUNDING RATIO (1)/(2)	UNFUNDED ACTUARIAL ACCRUED LIABILITY	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
2008	\$ 5,197	\$ 127,893	4.1%	\$ 122,696	\$ 296,186	41.4%
2009	39,599	170,874	23.2%	131,275	377,687	34.8%
2010 - Original	83,898	211,179	39.7%	127,281	381,598	33.4%
2010 - New	84,458	214,626	39.4%	130,168	381,598	34.1%

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

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

OTHER SUPPLEMENTARY INFORMATION

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

Such statements and schedule include:

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

CITY OF LA VERNIA
COMPARATIVE BALANCE SHEETS
GENERAL FUND
SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010*</u>
ASSETS		
Cash and Cash Equivalents	\$ 411,776	\$ 194,354
Investments	213,150	208,175
Restricted Cash	157,712	98,294
Receivables (net of allowances for uncollectibles):		
Property Taxes	9,539	9,374
Other Receivables	140,625	132,715
Prepaid Items	36,454	-
Due from Other Funds	7,666	166,887
TOTAL ASSETS	<u><u>\$ 976,922</u></u>	<u><u>\$ 809,799</u></u>
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 28,934	\$ 65,938
Accrued Expenditures	6,681	5,032
Utility Collections for FELPS	5,411	4,214
Deferred/Unearned Revenues	7,212	2,371
Due to Other Funds	117,205	66,567
<i>Total Liabilities</i>	<u>165,443</u>	<u>144,122</u>
<i>Fund Balances:</i>		
Nonspendable:		
Prepaid Items	36,454	-
Restricted For:		
Street Repairs	148,640	89,646
Unassigned	626,385	576,031
<i>Total Fund Balance</i>	<u>811,479</u>	<u>665,677</u>
TOTAL LIABILITIES & FUND BALANCES	<u><u>\$ 976,922</u></u>	<u><u>\$ 809,799</u></u>

**2010 has been restated to reflect the results of a prior period adjustment (see Note N).*

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010*</u>
REVENUES		
Ad Valorem Taxes	\$ 146,584	\$ 163,312
Franchise Fees	75,136	58,437
Sales Taxes	496,090	452,535
Fines and Penalties	40,612	48,190
Licenses and Permits	10,340	27,923
Interest Income	5,634	6,716
Miscellaneous	51,038	74,717
Grants	-	21,727
Police Services for School District	111,430	84,689
TOTAL REVENUES	<u>936,864</u>	<u>938,246</u>
EXPENDITURES		
<i>Current:</i>		
Code Enforcement	54,295	59,934
General Government	202,734	211,402
Police	399,819	327,028
Public Works	169,731	123,653
Capital Outlay	-	216,904
TOTAL EXPENDITURES	<u>826,579</u>	<u>938,921</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>110,285</u>	<u>(675)</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	<u>35,517</u>	<u>67,690</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>35,517</u>	<u>67,690</u>
Net Change in Fund Balance	145,802	67,015
Fund Balances at Beginning of Year	665,677	541,193
Prior Period Adjustment	<u>-</u>	<u>57,469</u>
Fund Balances at End of Year	<u>\$ 811,479</u>	<u>\$ 665,677</u>

**2010 has been restated to reflect the results of a prior period adjustment (see Note N).*

CITY OF LA VERNIA
COMPARATIVE BALANCE SHEETS
MUNICIPAL DEVELOPMENT DISTRICT
SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010*</u>
ASSETS		
Cash and Cash Equivalents	\$ 259,272	\$ 119,749
Other Receivables	32,679	28,776
Due from Other Funds	<u>-</u>	<u>18,617</u>
TOTAL ASSETS	<u><u>\$ 291,951</u></u>	<u><u>\$ 167,142</u></u>
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 8,722	\$ -
Accrued Expenditures	136	-
Due to Other Funds	7,666	-
<i>Total Liabilities</i>	<u>16,524</u>	<u>-</u>
<i>Fund Balances:</i>		
Restricted for Municipal Development	275,427	167,142
<i>Total Fund Balances</i>	<u>275,427</u>	<u>167,142</u>
TOTAL LIABILITIES & FUND BALANCES	<u><u>\$ 291,951</u></u>	<u><u>\$ 167,142</u></u>

*2010 has been restated to reflect the results of a prior period adjustment (see Note N).

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
MUNICIPAL DEVELOPMENT DISTRICT
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010*</u>
REVENUES		
Sales Tax	\$ 143,174	\$ 142,498
Interest Income	199	178
TOTAL REVENUES	<u>143,373</u>	<u>142,676</u>
EXPENDITURES		
Personnel	11,249	-
Operations	23,839	2,973
TOTAL EXPENDITURES	<u>35,088</u>	<u>2,973</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>108,285</u>	<u>139,703</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	-	(102,000)
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>(102,000)</u>
Net Change in Fund Balance	108,285	37,703
Fund Balances at Beginning of Year	167,142	112,151
Prior Period Adjustment	-	17,288
Fund Balances at End of Year	<u>\$ 275,427</u>	<u>\$ 167,142</u>

**2010 has been restated to reflect the results of a prior period adjustment (see Note N).*

CITY OF LA VERNIA
COMPARATIVE BALANCE SHEETS
DEBT SERVICE FUND
SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 28,415
Receivables (net of allowances for uncollectibles):		
Property Taxes	1,144	1,517
Due from Other Funds	<u>92,252</u>	<u>62,647</u>
TOTAL ASSETS	<u><u>\$ 93,396</u></u>	<u><u>\$ 92,579</u></u>
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Deferred/Unearned Revenues	<u>\$ 1,030</u>	<u>\$ 509</u>
<i>Total Liabilities</i>	<u>1,030</u>	<u>509</u>
<i>Fund Balances:</i>		
Restricted for Debt Service	<u>92,366</u>	<u>92,070</u>
<i>Total Fund Balances</i>	<u>92,366</u>	<u>92,070</u>
TOTAL LIABILITIES & FUND BALANCES	<u><u>\$ 93,396</u></u>	<u><u>\$ 92,579</u></u>

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DEBT SERVICE FUND
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Ad Valorem Taxes	\$ 19,958	23,904
TOTAL REVENUES	<u>19,958</u>	<u>23,904</u>
EXPENDITURES		
Debt Service:		
Principal	13,000	13,000
Interest and Fiscal Charges	6,662	6,996
TOTAL EXPENDITURES	<u>19,662</u>	<u>19,996</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>296</u>	<u>3,908</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	-	19,996
TOTAL OTHER FINANCING SOURCES(USES)	<u>-</u>	<u>19,996</u>
Net Change in Fund Balance	296	23,904
Fund Balances at Beginning of Year	<u>92,070</u>	<u>68,166</u>
Fund Balances at End of Year	<u>\$ 92,366</u>	<u>\$ 92,070</u>

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF NET ASSETS
PROPRIETARY UTILITY FUND
SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Cash Equivalents	\$ 146,521	\$ 142,032
Investments	156,682	342,072
Receivables (net of allowances for uncollectibles):	89,288	74,340
Restricted Cash and Investments	650,089	2,478
Due from Other Funds	24,953	-
Deferred Bond Issue Costs	43,634	-
Capital Assets:		
Land	31,158	31,158
Building and Improvements	14,000	14,000
Vehicles and Equipment	139,927	139,927
Infrastructure	4,307,002	4,307,002
Construction in Progress	89,300	-
Accumulated Depreciation	(2,525,095)	(2,332,833)
TOTAL ASSETS	<u><u>\$ 3,167,459</u></u>	<u><u>\$ 2,720,176</u></u>
LIABILITIES AND NET ASSETS		
<i>Liabilities:</i>		
Accounts Payable	\$ 43,764	\$ 50,785
Accrued Expenses	891	-
Accrued Compensated Absences	3,110	913
Customer Deposits	52,094	50,189
Deferred Revenue	2,959	2,692
Accrued Interest Payable	15,961	451
Due to Other Funds	-	183,588
<i>Noncurrent Liabilities:</i>		
Due within One Year	61,859	35,922
Due in more than One Year	1,288,029	599,888
TOTAL LIABILITIES	<u><u>1,468,667</u></u>	<u><u>924,428</u></u>
<i>Net Assets:</i>		
Invested in Capital Assets, Net of Related Debt	1,367,104	1,523,444
Restricted for:		
Debt Service	36,169	36,791
Repair and Replacement	5,000	5,000
Unrestricted	290,519	230,513
TOTAL NET ASSETS	<u><u>1,698,792</u></u>	<u><u>1,795,748</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,167,459</u></u>	<u><u>\$ 2,720,176</u></u>

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY UTILITY FUND
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Water Charges	\$ 465,136	\$ 357,858
Sewer Charges	174,472	161,035
Garbage Charges	172,970	162,481
Connection and Impact Fees	11,796	13,514
Miscellaneous Income	24,526	23,699
TOTAL OPERATING REVENUES	848,900	718,587
OPERATING EXPENSES		
Personnel	67,887	62,932
Water Purchase	206,930	107,129
Garbage Collection	156,073	158,942
Office and Administrative	86,854	59,420
Repairs and Chemicals	74,503	56,362
Treatment Plant Contract	70,353	65,881
Depreciation	192,262	163,781
TOTAL OPERATING EXPENSES	854,862	674,447
OPERATING INCOME (LOSS)	(5,962)	44,140
NONOPERATING REVENUES (EXPENSES)		
Interest Income	2,129	3,405
Capital Contributions	-	442,425
Interest Expense	(57,606)	(30,805)
TOTAL NONOPERATING REVENUES (EXPENSES)	(55,477)	415,025
Transfers In (Out)	(35,517)	14,314
CHANGE IN NET ASSETS	(96,956)	473,479
NET ASSETS AT BEGINNING OF YEAR	1,795,748	1,322,269
NET ASSETS AT END OF YEAR	\$ 1,698,792	\$ 1,795,748

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Cash Flows From Operating Activities:		
Cash Received From Customers	\$ 836,124	\$ 719,085
Cash Paid to Suppliers for Goods and Services	(601,734)	(404,575)
Cash Paid to Employees	(64,799)	(62,154)
Net Cash Provided (Used) by Operating Activities	<u>169,591</u>	<u>252,356</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Bonds Issued	750,000	-
Bond Issue Costs Paid	(45,931)	-
Purchases of Capital Assets	(89,300)	(193,201)
Principal Payments	(35,922)	(35,024)
Interest Paid	(39,799)	(30,805)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>539,048</u>	<u>(259,030)</u>
Cash Flows From Noncapital Financing Activities:		
Transfers from (to) Other Funds	(244,058)	99,440
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(244,058)</u>	<u>99,440</u>
Cash Flows From Investing Activities:		
Sale (Purchase) of Investments	185,390	(3,305)
Investment Interest Received	2,129	3,405
Net Cash Provided (Used) by Investing Activities	<u>187,519</u>	<u>100</u>
Net Increase (Decrease) in Cash and Cash Equivalents	652,100	92,866
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents	142,032	51,644
Restricted Cash	2,478	-
	<u>144,510</u>	<u>51,644</u>
Cash and Cash Equivalents at End of Year		
Cash and Cash Equivalents	146,521	142,032
Restricted Cash	650,089	2,478
	<u>\$ 796,610</u>	<u>\$ 144,510</u>

CITY OF LA VERNIA
COMPARATIVE STATEMENT OF CASH FLOWS
PROPRIETARY UTILITY FUND (CONT.)
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$ (5,962)	\$ 44,140
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	192,262	163,781
(Increase) Decrease in Operating Assets:		
Accounts Receivable (net)	(14,948)	(7,113)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	(7,021)	43,159
Accrued Expenses	891	-
Accrued Compensated Absences	2,197	778
Customer Deposits	1,905	6,004
Deferred Revenue	267	1,607
Total Adjustments to Reconcile Operating Activities	<u>175,553</u>	<u>208,216</u>

Net Cash Provided (Used) by

Operating Activities

<u>\$ 169,591</u>	<u>\$ 252,356</u>
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