THE CITY OF
FLORESVILLE, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2011

CITY OF FLORESVILLE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2011

Table of Contents

	Page
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Statement of Revenues,Expenditures, and Changes in Fund Balances	18
Reconciliation the Statement of Revenues,Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
Statement of Net Assets	20
Statement of Revenues,Expenses, and Changes in Net Assets	22
Statement of Cash Flows	24
Fiduciary Funds:	
Statement of Fiduciary Net Assets-Trust and Agency Funds	28
Statement of Changes in Fiduciary Net Assets-Trust Fund	29
Notes to the Financial Statements	30
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget (GAAP Basis) and Actual	52
Other Supplementary Information:	
Combining Balance Sheet - All Nonmajor Governemental Funds	54
Combining Statement of Revenues, Expenditures and Changes in. Fund Balances - All Nonmajor Governmental Funds	56
COMPLIANCE SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	59
Schedule of Findings and Responses	61
Summary of Prior Audit Findings	65

holtman, wagner & company llp
certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of City Council
City of Floresville
1120 D Street
Floresville, Texas 78114

We have audited the accompanying financial statements of the governmental activities, business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Floresville, Texas 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 City of Floresville's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Floresville Electric Light and Power System (F.E.L.P.S.) a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for F.E.L.P.S., is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Floresville, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012, on our consideration of the City of Floresville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in

p: 830.625.1182 | f: 830.625.1498 | 876 loop 337, bldg. 501 | new braunfels, texas 78130

accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 52 is 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 Floresville's financial statements as a whole. The combining and individual nonmajor fund financial statements and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and other supplementary information 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.

Holtman Wagner & Company LLP

New Braunfels, Texas
May 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Floresville, Texas' financial performance provides an overview of the City's financial activities for the year ended September 30, 2011. Please read it in conjunction with the Independent Auditors' Report and the City's financial statements.

FINANCIAL HIGHLIGHTS

Governmental Activities:

- The City's net assets increased by $385,198 for a balance of 7,433,610.
- Included in total net assets is $6,110,195 invested in capital assets, net of related debt.
- Net assets restricted for use were $508,157.
- Unrestricted net assets were $815,258.

Water and Wastewater Activities:

- The Water and Wastewater net assets increased by $665,504 for a balance of $3,421,054.
- Included in total net assets is $3,247,449 invested in capital assets.
- Unrestricted net assets were $173,605.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (pages 10 through 15). These provide information about the activities of the City as a whole and present a long-term view of the City's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (pages 30 through 49) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Combining statements for nonmajor funds contain more information about the City's individual funds.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary objective is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the same basis of accounting used by most private sector entities - accrual.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into sources applicable to charges for services that the City provides, fines, and general revenues. All the City's assets are reported whether they serve the current year or future years. All liabilities are reported regardless of whether they must be paid in the current year or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider nonfinancial factors as well, such as the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and Statement of Activities, operations are displayed for two kinds of activities:

- Governmental activities - The City's basic services are reported herein, including debt service, capital projects, police, fire, public works, parks and recreation departments, and general administration. Property taxes, sales taxes, franchise fees, and state and federal grants finance most of these activities.

- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and refuse system as well as cemetery lot sales are reported here.

The City also reports on discretely presented component units which include the 4A Corporation, Floresville EDC (4b), and Floresville Electric light and Power System (F.E.L.P.S.).

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds - governmental and proprietary - use different accounting methods.

- Governmental funds - The City reports its basic services in governmental funds. These funds use modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and

they report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental fund financial statements.

- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City - these are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government wide statements but provide more detail and additional information such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities.

Fiduciary Funds

Reporting the City's Fiduciary Responsibilities

The City is a trustee for a volunteer firemen's pension funds and is an agent for F.E.L.P.S. collections, and the Riverbend Tax Increment Fund. All of the City's fiduciary activities are reported in the separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 28 and 29. We exclude these resources from the City's other financial statements because the City cannot use them to support its operations. The City is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's combined governmental and business-type activities.

Net assets of the City's combined activities increased from $9,934,572 to $11,029,600. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - was $1,149,589 at September 30, 2011.

Net assets of the City's governmental activities increased by $385,198 and net assets of the business-type activities increased by $678,621 for the year.

Table 1
City of Floresville, Texas
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	Restated 2010	2011	Restated 2010	2011	Restated 2010
Assets:						
Current and other assets	$ 9,339,485	$ 1,795,816	$ 496,301	$ 335,190	$ 9,835,786	$ 2,131,006
Capital assets	8,424,530	14,989,855	3,260,059	2,589,848	11,684,589	17,579,703
Total assets	$ 17,764,015	$ 16,785,671	$ 3,756,360	$ 2,925,038	$ 21,520,375	$ 19,710,709
Liabilities:						
Current liabilities	$ 984,208	$ 478,913	$ 140,972	$ 38,878	$ 1,125,180	$ 517,791
Long-term liabilities	9,346,197	9,258,346	19,398	-	9,365,595	9,258,346
Total liabilities	$ 10,330,405	$ 9,737,259	$ 160,370	$ 38,878	$ 10,490,775	$ 9,776,137
Net assets:						
Investment in capital assets, net of related debt	$ 6,110,195	$ 5,731,509	$ 3,260,059	$ 2,589,848	$ 9,370,254	$ 8,321,357
Restricted net assets	508,157	1,243,447	1,600	18,478	509,757	1,261,925
Unrestricted net assets	815,258	73,456	334,331	277,834	1,149,589	351,290
Total net assets	7,433,610	7,048,412	3,595,990	2,886,160	11,029,600	9,934,572
Total liabilities and net assets	$ 17,764,015	$ 16,785,671	$ 3,756,360	$ 2,925,038	$ 21,520,375	$ 19,710,709

Table 2
City of Floresville, Texas
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	Restated 2010	2011	Restated 2010	2011	Restated 2010
Program Revenues:						
Charges for Services	$ 392,751	$ 1,156,534	$ 2,494,601	$ 2,314,129	$ 2,887,352	$ 3,470,663
Capital contribution	428,246	4,682,151	180,868	-	609,114	4,682,151
General Revenues:						
Property Tax	768,290	733,899	-	-	768,290	733,899
Sales Tax	1,142,055	1,020,774	-	-	1,142,055	1,020,774
Franchise Tax	559,785	539,669	-	-	559,785	539,669
Capital Recovery Fees	-	-	-	4,154	-	4,154
Unrestricted Investment Earnings	77,145	26,934	203	7,169	77,348	34,103
Other Income	918,228	3,695	-	-	918,228	3,695
Total Revenues	4,286,500	8,163,656	2,675,672	2,325,452	6,962,172	10,489,108
Expenses:						
General Government	1,121,143	766,687	-	-	1,121,143	766,687
Judicial	115,277	91,013	-	-	115,277	91,013
Police	1,198,782	1,078,593	-	-	1,198,782	1,078,593
Fire protection	71,044	45,230	-	-	71,044	45,230
Highways and streets	539,880	482,176	-	-	539,880	482,176
Mayor & council	26,175	22,186	-	-	26,175	22,186
Recreation	80,673	100,388	-	-	80,673	100,388
Parks	413,659	335,224	-	-	413,659	335,224
Bond interest	172,084	287,331	-	-	172,084	287,331
Water and sewer	-	-	1,291,061	1,276,978	1,291,061	1,276,978
Refuse	-	-	865,233	761,583	865,233	761,583
Cemetery	-	-	3,342	4,122	3,342	4,122
Total Expenses	3,738,717	3,208,828	2,159,636	2,042,683	5,898,353	5,251,511
Change in Net Assets Before Transfers	547,783	4,954,828	516,036	282,769	1,063,819	5,237,597
Transfer	(162,585)	142,526	162,585	-	-	142,526
Change in Net Assets	385,198	5,097,354	678,621	282,769	1,063,819	5,380,123
Beginning Net Assets	7,048,412	1,951,058	2,917,369	2,634,600	9,965,781	4,585,658
Ending Net Assets	$ 7,433,610	$ 7,048,412	$ 3,595,990	$ 2,917,369	$ 11,029,600	$ 9,965,781

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of $341,772.

The City's General Fund's fund balance deficit was ($166,385). The General Fund's budgeted fund balance was $348,529. The decrease from budget was due to re-aligning the City's fund structure

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:
At the end of fiscal 2011, the City had $11,684,589, net of depreciation, invested in a broad range of capital assets, including police and fire equipment, buildings, park and recreational facilities, roads, bridges, and water and sewer lines. This is an increase of 8.8% over the prior year. The event center construction was completed in 2011.

Debt:
At year-end, the City had $9,441,698 in bonds and $440,975 in capital leases outstanding.

Other obligations include accrued vacation. More detailed information about the City's long-term liabilities is presented in the Notes to the Financial Statements (pages 42 to 43).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors and goals when setting the fiscal year 2011 budget and tax rates. While the national economy continues to struggle, the local area has experienced significant increases in activities related to oilfield development. The budget was executed in pursuit of two primary objectives: to improve the quality of life in Floresville and to fulfill the desire to make our community a destination City. The principals of total quality management will be applied to improve the effectiveness and efficiency of our services to both our citizens and residents of the surrounding area. In an effort to promote economic development we plan to work with the Floresville Economic Development Corporation and the Floresville Event Center. Within this context, the top priority is to improve the quality of municipal services provided to both private homes and business alike. As so, infrastructure improvements will continue as an integral part of that effort so that we may maintain our services and competitive posture. The street department will continue paving projects in accordance with the street study and the water distribution department will begin an engineered improvement plan designed to meet the needs of future growth. These factors were taken into account when adopting the General fund budget for 2012. Amounts available for appropriation in the General Fund budget are $3,656,121, an increase of $436,846, or 16% over the final 2011 budget of $3,219,275. In order to accomplish funding of the 2012 budget, the 2012 tax rate was set at $0.1627 for general operations and $.1600 for debt servicing, for a total of $.3227. The 2012 tax rate remained constant with the 2011 tax rate. If these estimates are realized, the City's budgeted General Fund balance is expected to remain constant, with no change from the close of 2011.

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 show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager at the City's office at 1120 D Street, Floresville, Texas 78114.

BASIC FINANCIAL STATEMENTS

City of Floresville, Texas
Statement of Net Assets
September 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 732,372	$ 201,321	$ 933,693
Accounts receivable-net of allowances for uncollectible:			
Property taxes	258,581	-	258,581
Other	21,339	163,066	184,405
Internal balances	(7,254)	7,254	-
Due from other governments	5,809	-	5,809
Due from Floresville EDC		123,000	123,000
Due from 4A Corporation	-	-	-
Inventories	-	1,660	1,660
Capitalized bond issue costs	760,300	-	760,300
Capital assets:			
Land	160,209	58,155	218,364
Construction in progress	-	892,600	892,600
Buildings	6,055,821	-	6,055,821
Property, plant and equipment	1,054,783	2,245,835	3,300,618
Infrastructure	1,153,717	63,469	1,217,186
Note receivable Center for Housing	-	-	-
Note receivable 4A Corporation	6,141,338	-	6,141,338
Note receivable Floresville EDC	1,427,000	-	1,427,000
Total assets	$ **17,764,015**	$ **3,756,360**	$ **21,520,375**
Liabilities			
Accounts payable	$ 244,971	$ 115,764	$ 360,735
Accrued liabilities	71,908	-	71,908
Due to other governments	12,985	25,208	38,193
Due to others	-		-
Due to 4A Corporation	27,758	-	27,758
Due to City of Floresville	-	-	-
Due to Floresville ISD	-	-	-
Accrued interest payable	25,683	-	25,683
Deferred revenue	-	-	-
Non-current liabilities:			
Due within one year	600,903	-	600,903
Due in more than one year	9,346,197	19,398	9,365,595
Total liabilities	**10,330,405**	**160,370**	**10,490,775**

	Component Units		
	Floresville 4A Corp.	Floresville E.D.C.	F.E.L.P.S.
$	166,529	$ 285,976	$ 15,420,545
	-	-	-
	1,383	-	2,429,445
	-	-	-
	-	-	-
	-	-	-
	27,758	-	
	2,968	-	1,398,864
	846,916	13,930	-
	920,020	1,632,918	252,000
	-	-	-
	-	-	386,000
	5,582	67,043	40,072,809
	-	-	-
	-	120,263	-
	-	-	-
	-	-	-
$	**1,971,156**	$ **2,120,130**	$ **59,959,663**
$	374	$ 19,918	$ 1,527,236
	-	737	1,070,735
	-	-	-
	500		-
	-	-	-
	-	123,000	
	-	200,000	
	20,863	-	529,624
	14,350	10,000	-
	193,195	109,004	960,000
	6,902,143	1,564,005	23,709,497
	7,131,425	**2,026,664**	**27,797,092**

continued

City of Floresville, Texas
Statement of Net Assets
September 30, 2011

	Primary Government		
Net Assets	Governmental Activities	Business-Type Activities	Total
Invested in capital assets, net of related debt	6,110,195	3,260,059	9,370,254
Restricted for:			
Inventory	-	1,600	1,600
Debt service	7,841	-	7,841
Capital projects	434,587	-	434,587
Special revenue funds	65,729	-	65,729
Unrestricted net assets	815,258	334,331	1,149,589
Total net assets	**7,433,610**	**3,595,990**	**11,029,600**
Total liabilities and net assets	**$ 17,764,015**	**$ 3,756,360**	**$ 21,520,375**

The accompanying notes are an integral part of this statement.

Component Units		
Floresville 4A Corp.	Floresville E.D.C.	F.E.L.P.S.
(28,398)	1,453,952	16,041,312
2,968	-	-
-	-	1,793,811
-	-	-
-	-	-
(5,134,839)	(1,360,486)	14,327,448
(5,160,269)	**93,466**	**32,162,571**
$ 1,971,156	**$ 2,120,130**	**$ 59,959,663**

City of Floresville, Texas
Statement of Activities
For the Year Ended September 30, 2011

Functions and Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Government activities				
Administration	$ (1,121,143)	$ 161,019	$ -	$ -
Municipal court	(115,277)	136,225	-	-
Police department	(1,198,782)	-	-	-
Fire department	(71,044)	-	-	-
Streets department	(539,880)	13,006	-	-
Parks and recreation	(413,659)	23,771	-	428,246
Pool department	(80,673)	58,730	-	-
Mayor and council	(26,175)	-	-	-
Interest on long term debt	(172,084)	-	-	-
Total governmental activities	(3,738,717)	392,751	-	428,246
Business-type activities:				
Water and Sewer	(1,291,061)	1,589,970	-	180,868
Refuse	(865,233)	887,461	-	-
Cemetery	(3,342)	17,170	-	-
Total business-type activities	(2,159,636)	2,494,601	-	180,868
Total primary government	$ **(5,898,353)**	$ **2,887,352**	$ **-**	$ **609,114**
Component units:				
Floresville 4A Corp.	(888,951)	142,007	-	200,248
Floresville E.D.C.	(1,127,350)	9,761	-	-
F.E.L.P.S.	(30,054,396)	30,266,081	-	554,067
Total component units	$ **(32,070,697)**	$ **30,417,849**	$ **-**	$ **754,315**

Property taxes	
Sales taxes	
Hotel motel taxes	
Franchise fees	
Interest	
Miscellaneous	
Gain on sale of assets	
Transfers	
Total general revenues and transfers	
Change in net assets	
Net assets at the beginning of the year	
Prior period adjustments	
Net assets at the beginning of the year as restated	
Net assets at the end of the year	

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets						
Primary Government			Component Units			
			Governmental Type		Business Type	
Governmental Activities	Business-Type Activities	Total	Floresville 4A Corp.	Floresville E.D.C.	12/31/2011 F.E.L.P.S.	
$ (960,124)		$ (960,124)				
20,948		20,948				
(1,198,782)		(1,198,782)				
(71,044)		(71,044)				
(526,874)		(526,874)				
38,358		38,358				
(21,943)		(21,943)				
(26,175)		(26,175)				
(172,084)		(172,084)				
(2,917,720)		(2,917,720)				
-	$ 479,777	479,777				
-	22,228	22,228				
-	13,828	13,828				
-	515,833	515,833				
(2,917,720)	**515,833**	**(2,401,887)**				
			$ (546,696)	$ -	$ -	
			-	(1,117,589)	-	
			-	-	765,752	
			$ (546,696)	**$ (1,117,589)**	**$ 765,752**	
768,290	-	768,290	-	-	-	
1,142,055	-	1,142,055	228,221	456,442	-	
-	-	-	94,543	-		
559,785	-	559,785	-	-	-	
77,145	203	77,348	476	6,223	12,643	
918,228	-	918,228	-	-	549,061	
-	-	-	-	55,986	-	
(162,585)	162,585	-	-	-	-	
3,302,918	162,788	3,465,706	323,240	518,651	561,704	
385,198	**678,621**	**1,063,819**	**(223,456)**	**(598,938)**	**1,327,456**	
1,649,571	3,003,913	4,653,484	289,349	64,714	30,835,115	
5,398,841	(86,544)	5,312,297	(5,226,162)	627,690	-	
7,048,412	2,917,369	9,965,781	(4,936,813)	692,404	30,835,115	
$ 7,433,610	**$ 3,595,990**	**$ 11,029,600**	**$ (5,160,269)**	**$ 93,466**	**$ 32,162,571**	

City of Floresville, Texas
Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 382,963	$ 15,095	$ 240,285	$ 41,159	$ 679,502
Accounts receivable-net of allowance for uncollectible:					
Property taxes	130,372	128,209	-	-	258,581
Other	21,339	-	-	-	21,339
Due from other governments	5,809	-	-	-	5,809
Due from other funds	-	-	194,302	24,570	218,872
Total assets	$ **540,483**	$ **143,304**	$ **434,587**	$ **65,729**	$ **1,184,103**
LIABILITIES					
Accounts payable	$ 244,973	$ -	$ -	$ -	$ 244,973
Accrued liabilities	71,908	-	-	-	71,908
Due to other governments	12,985	-	-	-	12,985
Due to others	-	-	-	-	-
Due to other funds	218,872	7,254	-	-	226,126
Due to 4A Corporation	27,758	-	-	-	27,758
Deferred/unearned revenue	130,372	128,209	-	-	258,581
Total liabilities	**706,868**	**135,463**	**-**	**-**	**842,331**
FUND BALANCES					
Restricted debt service	-	7,841	-	-	7,841
Restricted special revenue	-	-	-	65,729	65,729
Restricted capital projects	-	-	434,587	-	434,587
Unassigned	(166,385)	-	-	-	(166,385)
Total fund balances	**(166,385)**	**7,841**	**434,587**	**65,729**	**341,772**
Total liabilities and fund balances	$ **540,483**	$ **143,304**	$ **434,587**	$ **65,729**	$ **1,184,103**

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
September 30, 2011

Total fund balance-total governmental funds (page 16)	$	**341,772**
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.		8,424,531
Property taxes receivable unavailable to pay current expenses are deferred in the funds.		258,581
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not deferred in the funds.		7,568,338
Bond issue costs which will be amortized in future years are not reported in the the funds.		760,300
Accrued vacation leave payable is not due and payable in the current period and, therefore, is not reported in the funds.		(64,427)
Long-term liabilities consisting of bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.		(9,882,673)
Accrued interest payable on bonded debt is not reported in the funds.		(25,682)
Internal service fund assets and liabilities are included in the governmental activities in the statement of net assets		52,870
Total net assets of governmental activities (page 12)	$	**7,433,610**

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2011

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	$ 414,460	$ 365,536	$ -	$ -	$ 779,996
Sales tax	913,644	-	-	228,411	1,142,055
Franchise fees	559,785	-	-	-	559,785
Licenses, permits, fees and fines	374,253	-	-	18,498	392,751
Miscellaneous	92,649	-	-	-	92,649
Contributions	661,687				661,687
Interest	75,386	8	1,650	-	77,044
Total revenues	**3,091,864**	**365,544**	**1,650**	**246,909**	**3,705,967**
EXPENDITURES					
Administration	951,430	-	-	-	951,430
Municipal court	116,158	-	-	-	116,158
Police department	1,144,920	-	-	423	1,145,343
Fire department	71,044	-	-	-	71,044
Streets department	620,591	-	-	-	620,591
Parks and recreation	355,928	-	-	-	355,928
Pool department	83,034	-	-	-	83,034
Mayor and council	26,175	-	-	-	26,175
Debt service:					
Principal	562,182				562,182
Interest	175,472				175,472
Community center and parks	428,890	-	-	-	428,890
Total expenditures	**4,535,824**	**-**	**-**	**423**	**4,536,247**
Excess (deficiency) of revenues over (under) expenditures	(1,443,960)	365,544	1,650	246,486	(830,280)
OTHER FINANCING SOURCES (USES)					
Transfers in	929,546	-	-	-	929,546
Transfers out	-	(365,536)	(522,754)	(203,841)	(1,092,131)
Other sources-refunding debt issued	-	5,766,579	-	-	5,766,579
Other uses-refund debt	-	(4,965,000)	-	-	(4,965,000)
Other uses-refund debt issue cost	-	(801,579)	-	-	(801,579)
Total other financing sources (uses)	**929,546**	**(365,536)**	**(522,754)**	**(203,841)**	**(162,585)**
Net change in fund balance	**(514,414)**	**8**	**(521,104)**	**42,645**	**(992,865)**
Total fund balance-beginning of year	139,435	7,833	1,235,614	-	1,382,882
Prior period adjustments	208,594	-	(279,923)	23,084	(48,245)
Total fund balance-beginning of year as restated	348,029	7,833	955,691	23,084	1,334,637
Total fund balance(deficit)-end of year	$ **(166,385)**	$ **7,841**	$ **434,587**	$ **65,729**	$ **341,772**

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
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 (page 18)	$	**(992,865)**
Amounts reported in governmental activities and 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 are capitalized.		693,461
Capital assets are not recorded in government funds and are not therefore depreciated. However, in the statement of activities these assets are depreciated over their estimated useful lives. This is the amount of 2011 depreciation.		(415,060)
Reveues that are deferred in governmental activities because they do not provide current financial resources are not deferred in the statement of activities. This is the change in deferred from the prior year.		(11,706)
Bond issue costs are expended in the governmental activities, but are capitalized and amortized over the life of the bond in the statement of activities. This is the amortization for 2011		(41,279)
The repayment of principal on debt consumes current financial resources and is expended in the governmental funds, but is a reduction of the liability and does not affect the statement of activities.		562,182
Amounts to be expended for long-term employee leave is not recorded as an expenditure in the funds, but is an expense in the statement of activities. This is the change in compensated absences in 2011		(1,513)
Accrued interest payable for debt is not reported in the funds, but is an expenditure in the statement of activities. This is the change from 2010.		3,388
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of bond issue costs that 4A Corporation is responsible for.		825,579
Payments received on the interlocal receivables are not recorded as revenues in the governmental funds but as a reduction of the receivable in the statement of activities.		(233,441)
Net expenditures in the internal service fund are reported in the governmental activities.		(3,548)
Change in net assets of governmental activities (page 15)	$	**385,198**

The notes to the financial statements are an integral part of this statement.

City of Floresville, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2011

	Business-type Activities - Enterprise Funds			
	Waterworks & Sewer	Refuse	Cemetery	Totals
ASSETS				
Current assets:				
Cash and cash equivalents	$ 44,914	$ 90,722	$ 65,685	$ 201,321
Accounts receivable-net of allowance for uncollectibles	78,859	84,207	-	163,066
Due from other funds	7,254	-	-	7,254
Due from Floresville EDC	123,000	-	-	123,000
Inventory	-	-	1,660	1,660
Total current assets	**254,027**	**174,929**	**67,345**	**496,301**
Capital assets:				
Land, system, buildings, and equipment	9,034,170	-	33,490	9,067,660
Construction in progress	892,600	-	-	892,600
Less accumulated depreciation	(6,679,321)	-	(20,880)	(6,700,201)
Net capital assets	3,247,449	-	12,610	3,260,059
Total assets	$ **3,501,476**	$ **174,929**	$ **79,955**	$ **3,756,360**
LIABILITIES				
Current liabilities:				
Accounts payable	$ 41,171	$ 74,593	$ -	$ 115,764
Accrued liabilities	19,853	5,355	-	25,208
Total current liabilities	**61,024**	**79,948**	**-**	**140,972**
Non-current liabilities:				
Accrued compensated abscences	19,398	-	-	19,398
Total non-current liabilities	**19,398**	**-**	**-**	**19,398**
Total liabilities	**80,422**	**79,948**	**-**	**160,370**
NET ASSETS				
Invested in capital assets	3,247,449	-	12,610	3,260,059
Unrestricted	173,605	94,981	67,345	335,931
Total net assets	**3,421,054**	**94,981**	**79,955**	**3,595,990**
Total liabilities and net assets	$ **3,501,476**	$ **174,929**	$ **79,955**	$ **3,756,360**

The accompanying notes are an integral part of this statement.

	Governmental Activities - Internal Service Funds
	Unemployment
$	52,870
	-
	-
	-
	-
	52,870
	-
	-
	-
	-
$	52,870
$	-
	-
	-
	-
	-
	-
	-
	52,870
	52,870
$	**52,870**

City of Floresville, Texas
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2011

	Business-type Activities - Enterprise Funds			
	Waterworks & Sewer	Refuse	Cemetery	Totals
OPERATING REVENUES				
Charges for sales and services:				
Water sales, penalties, and connection fees	$ 1,218,650	$ -	$ -	$ 1,218,650
Sewer sales, penalties, and connection fees	371,320	-	-	371,320
Refuse collection fees and penalties	-	887,461	-	887,461
Sale of cemetery lots	-	-	17,170	17,170
Total operating revenues	**1,589,970**	**887,461**	**17,170**	**2,494,601**
OPERATING EXPENSES				
Personnel costs	548,640	-	-	548,640
General and administrative expenses	65,745	-	-	65,745
Repairs and maintenance	134,266	-	-	134,266
Utilities	139,100	-	-	139,100
Disposal fees and sampling costs	98,747	865,233	-	963,980
Chemicals	33,355	-	-	33,355
Liability insurance	24,627	-	3,212	27,839
Other operating expenses	9,305	-	-	9,305
Depreciation	237,276	-	130	237,406
Total expenses	**1,291,061**	**865,233**	**3,342**	**2,159,636**
Operating income	**298,909**	**22,228**	**13,828**	**334,965**
NON-OPERATING REVENUES (EXPENSES)				
Interest income	142	5	56	203
Grant revenue	180,868	-	-	180,868
Non-operating transfers in	522,754	-	-	522,754
Non-operating transfers out	(337,169)	(23,000)	-	(360,169)
Total non-operating revenues (expenses)	**366,595**	**(22,995)**	**56**	**343,656**
Net change in net assets	665,504	(767)	13,884	678,621
Total net assets-beginning of year	2,820,090	117,752	66,071	3,003,913
Prior period adjustments	(64,540)	(22,004)	-	(86,544)
Total net assets-beginning of year as restated	2,755,550	95,748	66,071	2,917,369
Total net assets-end of year	$ **3,421,054**	$ **94,981**	$ **79,955**	$ **3,595,990**

The accompanying notes are an integral part of this statement.

	Governmental Activities - Internal Service Funds
	Unemployment
$	-
	-
	-
	-
	-
	-
	-
	3,649
	-
	-
	-
	-
	-
	-
	-
	3,649
	(3,649)
	101
	-
	-
	-
	101
	(3,548)
	56,418
	-
	56,418
$	**52,870**

City of Floresville, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

	Business-type Activities - Enterprise Funds		
	Waterworks & Sewer	Refuse	Cemetery
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments received from customers	$ 1,609,860	$ 880,216	$ 17,170
Payments to suppliers for goods and services	(621,624)	(815,765)	(3,212)
Payments for salaries and benefits	(540,332)	-	-
Net cash provided by operating activities	**447,904**	**64,451**	**13,958**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Grant proceeds	180,868	-	-
Transfers from other funds	522,754	-	-
Transfers to other funds	(337,168)	(23,000)	-
Net cash provided (used) by noncapital financing activities	**366,454**	**(23,000)**	**-**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(902,016)	-	(5,599)
Net cash provided (used) by capital and related financing activities	**(902,016)**	**-**	**(5,599)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	141	5	56
Net cash provided (used) by investing activities	**141**	**5**	**56**
Net increase (decrease) in cash and cash equivalents	**(87,517)**	**41,456**	8,415
Cash and cash equivalents at beginning of period:	132,431	49,266	57,270
Cash and cash equivalents at end of period	$ **44,914**	$ **90,722**	$ **65,685**

Totals	Governmental Activities - Internal Service Funds Unemployment
$ 2,507,246	$ -
(1,440,601)	(3,649)
(540,332)	-
526,313	**(3,649)**
180,868	-
522,754	-
(360,168)	-
343,454	**-**
(907,615)	-
(907,615)	**-**
202	101
202	**101**
(37,646)	**(3,548)**
238,967	56,418
$ **201,321**	$ **52,870**

continued

City of Floresville, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2011

	Business-type Activities - Enterprise Funds		
	Waterworks & Sewer	Refuse	Cemetery
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	$ 298,909	$ 22,228	$ 13,828
Depreciation	237,276	-	130
(Increase) decrease in assets:			
Accounts receivable	19,890	(7,245)	-
Due from Floresville EDC	(123,000)	-	-
Increase (decrease) in liabilities:			
Accounts payable	6,521	48,087	-
Accrued expenses	8,308	5,355	-
Due to other funds	-	(3,974)	-
Net cash provided (used) by operating activities	$ **447,904**	$ **64,451**	$ **13,958**

The accompanying notes are an integral part of this statement.

Totals	Governmental Activities - Internal Service Funds Unemployment
$ 334,965	$ (3,649)
237,406	-
12,645	-
(123,000)	-
54,608	-
13,663	-
(3,974)	-
$ **526,313**	$ **(3,649)**

City of Floresville, Texas
Statement of Fiduciary Net Assets
Trust and Agency Funds
September 30, 2011

	Trust Fund	Agency Funds		
	Firemen's Relief & Retirement	FELPS Collections	Riverbend TIF	Agency Totals
ASSETS				
Cash and cash equivalents	$ 9,944	$ 8,036	$ 54,963	$ 62,999
Accrued interest	11	-	-	-
Total assets	$ **9,955**	$ **8,036**	$ **54,963**	$ **62,999**
LIABILITIES				
Due to F.E.L.P.S.	$ -	$ 8,036	$ -	$ 8,036
Due to Riverbend	-	-	54,963	54,963
Total liabilities	-	**8,036**	**54,963**	**62,999**
NET ASSETS				
Unrestricted	9,955	-	-	-
Total net assets	**9,955**	-	-	-
Total liabilities and net assets	$ **9,955**	$ -	$ -	$ -

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Changes in Fiduciary Net Assets
Trust Fund - Firemen's Relief & Retirement
For the Year Ended September 30, 2011

Additons		
Interest earned	$	3
Total additions		**3**
Deductions		
Benefits paid		-
Total deductions		-
Change in net assets		**3**
Net assets-beginning of year		9,992
Net assets-end of year	$	**9,995**

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Floresville, Texas ("City"), was incorporated under the provisions of the Acts of the State of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire protection), highways and streets, sanitation, culture and recreation, planning and zoning, general administrative services, water, and sewer 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. The more significant of the City's accounting policies are described below:

1. REPORTING ENTITY

   In evaluating how to define the government, for financial purposes, management has considered all potential component units and associated component units. The decision to include a potential component unit or associated component unit in the reporting entity was made by applying the criteria set forth in GASB statement 14, "The Financial Reporting Entity" and GASB Statement 39 "Determining Whether Certain Organizations are Component Units". The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government.

   Component Units:
   Based on the criteria of GASB Nos. 14 and 39, the Floresville Economic Development Corporation (FEDC) and the Floresville 4A Corporation are considered to be discretely presented component units. FEDC and the Floresville 4A Corporation are financially accountable to the City because City Council approves their budgets and must approve any debt issuance. The component unit boards are appointed by City Council and their activities benefit the City by promoting growth and development opportunities.

   Joint Venture:
   The City of Floresville Electric Light and Power System (F.E.L.P.S.) is a municipally owned electric light and power distribution system which serves most of Wilson County, and portions of Bexar and Karnes Counties including the cities of Floresville, Stockdale and Poth. Management and control of the system is vested in a five-member Board of Trustees composed of the Mayor of Floresville, one member for each of the cities of Floresville, Stockdale, and Poth appointed by the respective governing body, and one member appointed on a rotating basis by the City Councils of Floresville, Stockdale, or Poth. The board also includes two non-voting advisory members appointed by the cities of Falls City and La Vernia. The City of Floresville has a 66% interest in this joint venture. Based on the criteria of GASB Nos. 14 and 39 F.E.L.P.S. is considered to be a discretely presented component unit of the City of Floresville.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net assets and 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. The value of interfund services provided and used are not eliminated in the government-wide financial statements, as elimination of those charges would distort the direct costs reported for the various functions. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed whole or in part by fees charged to external parties for goods and services.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses of a given function or segment 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, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Governmental activities and business type activities are reported as separate columns in the statement of net assets.

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 and fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash revenue types, which have been accrued, 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 good, 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 and investment earnings.

Governmental fund level financial statements are reported using the current financial resources measurement focus and 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. Property taxes which are levied prior to September 30, 2010, and became due October 1, 2010 have been assessed to finance the budget of the fiscal year beginning October 1, 2010 and, accordingly, have been reflected as deferred revenue and taxes receivable in the fund financial statement at September 30, 2011.

Sales taxes, franchise taxes, hotel/motel taxes, and fees associated with the current fiscal year are considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items received by the government are considered to be measurable and available only when the cash is received by the City.

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.

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. Primary expenditures are for general administration, public safety, streets and public recreation.

The debt service fund accounts for tax revenues and various debt transactions.

The capital project fund is used to account for the proceeds of the 2008 debt issue and transfers to the general fund for related capital projects expenditures

Nonmajor funds include special revenue funds which are used to separately account for funds related to grants, contracts, and ordinances.

Proprietary fund level financial statements are used to account for activities, which are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's proprietary funds consist of the water/wastewater fund, refuse fund and the cemetery fund.

The proprietary funds are accounted for using the accrual basis of accounting as follows:

- Revenues are recognized when earned, and expenses are recognized when liabilities are incurred.

- 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 the proprietary funds principal ongoing operations.

Additionally, the government reports the following fund types:

Internal service fund is used to account for revenues and expenses related to services provided to parties inside the City. These funds facilitate distribution of support costs to the users and support services on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency funds are used to report other resources held in a purely custodial capacity (assets = liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary fund (private purpose trust fund) is reported in the trust and agency financial statements. However, because its assets are held in trust or agent capacity and therefore are not available to support City programs, this fund is not included in the government-wide statements.

4. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Enterprise Funds consider all highly liquid investments including cash in banks, cash on hand, money market accounts and deposits in local government investment pools to be cash equivalents.

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) – (d). Statutes 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. Investments are stated at fair

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.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

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. 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 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".

8. INVENTORIES

The City accounts for inventories using the consumption method. Inventories consist primarily of supplies and are valued at cost determined by the average cost method.

9. BUDGET

An operating budget is adopted each fiscal year for all City governmental funds. The budget is adopted on the GAAP basis of accounting.

10. 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, 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 Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets 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:

Capital Asset	Useful Life
Buildings	40 years
Transportation and equipment	6-10 years
Infrastructure	40 years
Improvements other than buildings	10-40 years

11. COMPENSATED ABSENCES

Vested or accumulated vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Amounts of vested or accumulated vacation leave that is not expected to be liquidated with expendable available financial resources are reported in the government wide statements. Vested or accumulated vacation leave of the Enterprise Fund is recorded as an expense and liability of that fund as the benefits accrue to employees. Accumulated vacation pay at September 30, 2011, of $19,398 and $64,427 has been recorded in accrued liabilities of the Enterprise Fund and government-wide statements, respectively. Compensated absences are reported in the governmental funds only if they have matured (i.e., unused reimbursable leave outstanding following an employee's resignation or retirement). The General Fund is the governmental fund that has typically been used in prior years to liquidate the liability for compensated absences.

12. DEFERRED/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in 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 revenues 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 expense/expenditures are reflected as unearned revenue.

13. LONG-TERM OBLIGATIONS

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

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

14. FUND BALANCE

The City adopted GASB 54. Governmental Accounting Standards Board Statement Number 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definitions.* The statement provides guidance for fund balance categories and classifications and governmental fund type definitions. GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Five categories of cash balances were created and defined by GASB 54. These five categories are as follows:

- Non-spendable - These funds are not available for expenditures based on legal or contractual requirements. An example might be inventories and prepaid expenditures.

- Restricted - These funds are governed by externally enforceable restrictions.

- Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the City Council). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.

- Assigned - For funds to be assigned, there must be an intended use which can be established by the City Council or an official delegated by the council, such as a city administrator or finance director. For example, during the budget process, the council decided to use some existing fund balance to support activities in the upcoming year.

- Unassigned - This classification is the default for all funds that do not fit into the other categories.

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The City's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

15. NET ASSETS

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

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. 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 water, sewer and refuse services. Operating expenses are necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

18. USE OF ESTIMATES

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

NOTE B—CASH AND CASH EQUIVALENTS

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

1. CASH

At September 30, 2011, the carrying amount of the primary government's (the City) cash on hand was $425, deposits in the bank were $380,767 and the book balance was $143,954. The City's cash was fully collateralized. The bank and book balance reported in the trust and agency funds was $72,943.

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 of the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposits.

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 had not adopted an investment policy and was not in compliance with the Public Funds Investment Act. This is reported as a compliance finding. The City's investments were however within the requirements of the Act.

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) investments pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City's cash and cash equivalents at September 30, 2011 are as shown below:

		Reported and Fair Value	Weighted Average Maturity	Rating S&P
Texas CLASS	$	243,218	n/a	AAAm
Fidelity money market		546,096	n/a	n/a
Cash on hand		425	n/a	n/a
Bank deposits		143,954	n/a	n/a
Total cash and cash equivalents	$	933,693		

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. The City has not adopted an investment policy, however investments follow state guidelines.

At September 30, 2011, the City's investments were in Texas Class, a public funds investment pool where all securities held maintain a continuous rating of no lower than Aaa or AAAm or an equivalent rating by at least one nationally recognized rating service.

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 all funds were in the City's name and collateralized with securities that maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. The City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. All City funds are in the external investment pool, and the investment pool invests in hundreds of authorized securities that minimizes concentrations of credit risk. At year-end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

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

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The City's policy does not allow investment in foreign currency. At year end the City was not exposed to foreign currency risk.

4. PUBLIC FUNDS INVESTMENT POOLS

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, as are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

NOTE C—RECEIVABLES

1. OTHER RECEIVABLES

Other receivables consist of the following:

	Amount	Allowance for Doubtful	Net Receivable
Property taxes	$ 314,747	$ (56,166)	$ 258,581
Other governments	$ 5,809	$ -	$ 5,809
Accounts	$ 21,339	$ -	$ 21,339
Utility	$ 249,066	$ (86,000)	$ 163,066

2. NOTES RECEIVABLE

Notes receivable consist of amounts due from the 4A Corporation in the amount of $6,141,338 and the Floresville EDC in the amount of $1,427,000. These notes are a result of interlocal agreements whereby the 4a and Floresville EDC have agreed to pay the City for a share of the bonded debt issued by the City in 2008 and partially refunded in 2011, and a portion of a capital lease. The payments to the City mirror the City's debt service requirements on the bonds and capital lease.

Future payments under the interlocal agreements are as follows:

	Interlocal Agreement		
	4a	4a	Floresville EDC
2012	$ 98,212	$ 81,195	$ 57,200
2013	96,695	84,045	59,400
2014	94,325	86,995	63,800
2015	90,185	89,404	66,000
2016	1,291,389	-	68,200
2017-2021	4,128,893	-	400,400
2022-2026	-	-	506,000
2027-2028	-	-	206,000
	$ 5,799,699	$ 341,639	$ 1,427,000

Interest rates on the 4a interlocal agreements 3.147% to 3.51% and the interest rate on the Floresville EDC interlocal agreement is 3.91%

NOTE D—PROPERTY TAX CALENDAR

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Property taxes are recorded as receivables and deferred revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in the time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.

NOTE E—INTERFUND TRANSACTIONS

Amounts due to and from other funds and transfers consist of the following:

			Purpose
Debt service fund			
Transfer to general fund	$	365,536	For payment of debt
Nonmajor fund (street maintenace)			
Transfer to general fund		203,841	For payment of street maintenance
Enterprise funds		360,169	Payment in lieu of taxes
Transfer to general fund	$	929,546	
Capital project fund			
Transfer to enterprise fund	$	522,754	For payment of construction costs

Transfers consisted of the following:

			Purpose
Capital projects fund			
Due to general fund	$	194,302	Short-term loan
Other nonmajor fund (street maintenace)			
Due to general fund		24,570	Short-term loan
	$	218,872	
Debt service fund			
Due to enterprise fund	$	7,254	Short-term loan

NOTE F—CAPITAL ASSETS

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

	Balance 9-30-10	Reclass and Additions	Reclass and Disposals	Balance 9-30-11
Assets not being depreciated:				
Land	$ 160,209	$ -	$ -	$ 160,209
Construction in progress	4,952,544		(4,952,544)	-
	5,112,753	-	(4,952,544)	160,209
Assets being depreciated:				
Buildings	1,283,016	5,364,142	-	6,647,158
Property, plant and equipment	4,112,424	129,290	(171,200)	4,070,514
Infrastructure	2,047,379	152,573	-	2,199,952
	7,442,819	5,646,005	(171,200)	12,917,624
Less accumulated depreciation:				
Buildings	(427,939)	(163,398)	-	(591,337)
Property, plant and equipment	(2,988,063)	(198,868)	171,200	(3,015,731)
Infrastructure	(993,441)	(52,794)	-	(1,046,235)
	(4,409,443)	(415,060)	171,200	(4,653,303)
Assets being depreciated, net	3,033,376	5,230,945	-	8,264,321
Total capital assets, net	$ 8,146,129	$ 5,230,945	$ (4,952,544)	$ 8,424,530

Depreciation expense was charged to the governmental functions as follows:

Administration	$ 125,131
Police and fire	150,578
Street and infrastructure	81,619
Parks and recreation	57,732
	$ 415,060

Business-type capital asset activity for the year ended September 30, 2011, was as follows:

	Balance 9-30-10	Additions	Disposals	Balance 9-30-11
Assets not being depreciated:				
Land	$ 52,555	$ 5,600	$ -	$ 58,155
Construction in progress	-	892,600	-	892,600
	52,555	898,200	-	950,755
Assets being depreciated:				
Property, plant and equipment	5,356,588	9,416	-	5,366,004
Infrastructure	3,643,501	-	-	3,643,501
	9,000,089	9,416	-	9,009,505
Less accumulated depreciation:				
Property, plant and equipment	(3,004,213)	(115,956)	-	(3,120,169)
Infrastructure	(3,458,583)	(121,449)		(3,580,032)
	(6,462,796)	(237,405)	-	(6,700,201)
Assets being depreciated, net	2,537,293	(227,989)	-	2,309,304
Total capital assets, net	$ 2,589,848	$ 670,211	$ -	$ 3,260,059

NOTE G—LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2011 were comprised of the following:

Governmental activities:

	Balance 9-30-10	Additions	Refunded or Payments	Balance 9-30-11	Due Within One Year
Certificates of Obligation-Series 2008 Original amount of $8,500,000 interest rate 3.91%	$ 8,400,000	$ -	$ (5,090,000)	$ 3,310,000	$ 130,000
General Obligation Refunding Bonds, Series 2010, interest rate .8% to 3.5%	-	5,766,579	(99,356)	5,667,223	98,212
Capital Appreciation Bonds	-	132,475	-	132,475	-
Tax Note Series 2008, Original amount of $190,000, interest rate 4%	145,000	-	(25,000)	120,000	30,000
Tax Note Series 2008a, Original amount of $734,000, interest rate 3.66%	399,000	-	(187,000)	212,000	212,000
Subtotal bonds and notes	8,944,000	5,899,054	(5,401,356)	9,441,698	470,212
Capital lease-Encode	66,801	-	(32,604)	34,197	34,197
Capital lease-Bank of America, interest rate 3.51%	500,000	-	(93,222)	406,778	96,494
Subtotal capital leases	566,801	-	(125,826)	440,975	130,691
Compensated absences	62,914	1,513	-	64,427	-
Total	$ 9,573,715	$ 5,900,567	$ (5,527,182)	$ 9,947,100	$ 600,903

Business-type activities:

	Balance 9-30-10	Additions	Disposals	Balance 9-30-11	Due Within One Year
Compensated absences	$ 13,421	$ 5,977	$ -	$ 19,398	$ -
	$ 13,421	$ 5,977	$ -	$ 19,398	$ -

In the past, the General Fund and the Water & Wastewater fund were used to liquidate compensated absences.

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

Year ended September 30,	As to Principal	As to Interest	Total
2012	$ 470,212	$ 309,228	$ 779,440
2013	261,695	298,787	560,482
2014	269,325	296,246	565,571
2015	270,185	293,112	563,297
2016	1,446,389	310,317	1,756,706
2017-2021	5,038,892	829,233	5,868,125
2022-2026	1,150,000	243,398	1,393,398
2027-2028	535,000	31,671	566,671
	$ 9,441,698	$ 2,611,992	$ 12,053,690

In October 2010, the city issued Series 2010 general obligation refunding bonds in the amount of $5,766,579 to provide resources to refund $4,965,000 of the Series 2008 Certificates of Obligation. As a result, the refunded portion is considered defeased and the liability has been removed from the governmental activities column of the statement of net assets. The advanced refunding resulted in a economic gain of $370,145 and a decrease in debt service of $137,339.

Capital leases:

Commitments under capitalized lease agreements for vehicles and equipment provide for minimum future lease payments as of September 30, 2011 as follows:

Year ended September 30,	
2012	$ 146,501
2013	110,773
2014	110,773
2015	110,773
Total minimum rentals	478,820
Less amount representing interest	(37,845)
Net present value	$ 440,975

The effective interest rate on capital leases is 3.51%.

NOTE H—FUND BALANCE DEFICIT

The general fund has a deficit in its fund balance of $166,385.

NOTE I—EMPLOYEES' RETIREMENT SYSTEM

Plan Description- The City provides pension benefits for all of its eligible employees through a non-traditional, joint-contributory, hybrid defined benefit plan in the state-wide 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 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 TMRS, P. O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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:

	Plan years 2010 and 2011
Employee deposit rate	5.00%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service requirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Contributions- Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is 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 (over-funded) actuarial liability (asset) over the applicable period for that entity. Both the normal cost and 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 funding status and the annual pension cost and net pension obligation (asset) are as follows:

Year	(A) Actuarial Value of Assets	(B) Actuarial Accrued Liability	(C) (A)/(B) Funding Ratio	(D) Unfunded Actuarial Accrued Liability (UAAL)	(E) Annual Covered payroll	(D)/(E) UAAL as a Percent of Covered Payroll
2008	$ 1,848,322	$ 3,183,627	58.06%	$ 1,335,305	$ 1,958,303	68.19%
2009	$ 1,949,037	$ 3,251,833	59.94%	$ 1,302,796	$ 1,842,515	70.71%
2010	$ 3,258,482	$ 4,507,457	72.29%	$ 1,248,975	$ 1,730,143	72.19%

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

	December 31, 2010	**December 31, 2009**	**December 31, 2008**
Actuarial Valuation Date			
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Amortization Period	27.2 Years-Closed	28 Years-Closed	29 Years-Closed
Amortization Period for New Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	Amortized Cost
Actuarial Assumptions			
Investment Return	7.00%	7.50%	7.50%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost of Living Adjustments	2.10%	2.10%	2.10%

NOTE J—FUND BALANCE CATEGORIES

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total
Restricted					
Debt Service	$ -	$ 7,841	$ -	$ -	$ 7,841
Construction	-	-	434,587	-	434,587
State police forfeiture	-	-	-	26,335	26,335
Building security	-	-	-	7,718	7,718
Court technology	-	-	-	7,106	7,106
Street maintenance tax	-	-	-	24,570	24,570
	-	7,841	434,587	65,729	508,157
Unassigned	(166,385)	-	-	-	(166,385)
	$ (166,385)	$ 7,841	$ 434,587	$ 65,729	$ 341,772

NOTE K—CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE L—RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. 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 contribution amounts. During the past three years, no settlements have exceeded insurance coverage.

NOTE M—PRIOR PERIOD ADJUSTMENTS

The City's beginning fund balances and net assets were restated to reflect proper balances as follows:

Fund level:

	General Fund	Capital Project Fund	Other Non Major Govt Fund
Record beginning of year accrual for wages and payroll taxes	$ (48,245)	$ -	$ -
Reclass cash reported in capital projects but should be general fund	279,923	(279,923)	-
To transfer cash balances belonging to special revenue funds	(23,084)	-	23,084
Net prior period adjustments	$ 208,594	$ (279,923)	$ 23,084

Business-type activities:

	Waterworks/ Sewer	Refuse
Record beginning allowance for doubtful accounts	$ (37,825)	$ (22,004)
Record beginning of year accrual for wages and payroll taxes	(13,294)	-
Record beginning of year compensated absences	(13,421)	-
Net prior period adjustments	$ (64,540)	$ (22,004)

Government-wide level:

	Governmental Activities
Correct over-stated compensated absences	$ 209,044
Record fixed assets associated with convention center	5,218,867
Record beginning of year accrued interest payable	(29,070)
Record beginning of year Bank of America lease	(79,275)
Record City's debt from 4A Corporation and FEDC	6,843,725
Record receivable from 4A Corporation and FEDC	(6,843,725)
Record police cars purchased with lease proceeds	79,275
Net prior period adjustment to net assets	$ 5,398,841

NOTE N—FLORESVILLE ECONOMIC DEVELOPMENT CORPORATION AND FLORESVILLE 4A CORPORATION

Summary of Significant Accounting Policies:

1. FINANCIAL REPORTING ENTITY

Floresville Economic Development Corporation (FEDC), a nonprofit corporation, was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6, Section 4B. The purpose of the FEDC is to develop, implement, provide, and finance projects for the City of Floresville. The City Council appoints directors of the FEDC. FEDC receives all proceeds from the 0.25% sales tax for economic development in Floresville.

Floresville 4a Corporation (4a), a nonprofit corporation, was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6, Section 4A. The purpose of the 4a is to finance projects to promote the City of Floresville. The City Council appoints directors of the 4a. 4a receives all proceeds from the 0.125% sales and Hotel/Motel taxes for promoting Floresville.

FEDC and Floresville 4a Corporation meet the criteria of a discretely presented component units of the City and are presented as a governmental fund types in the City's general purpose financial statements.

The financial statements of the FEDC and 4a have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present the financial position and results of operations of FEDC and 4a only and are not intended to present fairly the financial position, results of operations, or cash flows of the proprietary fund types and nonexpendable trust funds of the City as a whole in conformity with generally accepted accounting principles.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net assets and statement of activities. Government-wide statements report information on all of the activities of FEDC and 4a. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash revenue types, which have been accrued, 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.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses of a given function or segment 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.

Sales taxes associated with the current fiscal year are considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items received by the government are considered to be measurable and available only when the cash is received by FEDC and 4a.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, if any, are recorded only when the liability has matured and payment is due.

The General Fund is the general operating fund of FEDC and 4a 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 are sales taxes. Expenditures are for economic development.

3. BASIS OF ACCOUNTING

Government fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

4. BUDGET

FEDC and 4a adopt an annual operating budget which is approved by City Council. The budget can be amended by the Board of Directors, subject to City Council approval.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date of three months or less.

6. 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 this reporting period. Actual results could differ from those estimates.

7. CASH AND CASH EQUIVALENTS

FEDC and 4a funds are required to be deposited and invested under the terms of the depository contract. The depository bank deposits for safekeeping and trust with FEDC'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. FEDC's and 4a's deposits were fully collateralized.

8. INTERLOCAL AGREEMENTS WITH THE CITY OF FLORESVILLE

Notes payable consist of amounts due from the 4A Corporation in the amount of $6,141,338 and the Floresville EDC in the amount of $1,427,000. These notes are a result of interlocal agreements whereby the 4a and Floresville EDC have agreed to pay the City for a share of the bonded debt issued by the City in 2008 and partially refunded in 2011, and a portion of a capital lease. The payments to the City mirror the City's debt service requirements on the bonds and capital lease.

Future payments under the interlocal agreements are as follows:

	Interlocal Agreement		
	4a	4a	Floresville EDC
2012	$ 98,212	$ 81,195	$ 57,200
2013	96,695	84,045	59,400
2014	94,325	86,995	63,800
2015	90,185	89,404	66,000
2016	1,291,389	-	68,200
2017-2021	4,128,893	-	400,400
2022-2026	-	-	506,000
2027-2028	-	-	206,000
	$ 5,799,699	$ 341,639	$ 1,427,000

Interest rates on the 4a interlocal agreements 3.147% to 3.51% and the interest rate on the Floresville EDC interlocal agreement is 3.91%

NOTE M—FLORESVILLE ELECTRIC LIGHT AND POWER

The City of Floresville Electric Light and Power System (F.E.L.P.S.) is a municipally owned electric light and power distribution system which serves most of Wilson County, and portions of Bexar and Karnes Counties including the cities of Floresville, Stockdale and Poth. The City of Floresville has a 66% interest in this joint venture. Based on the criteria of GASB Nos. 14 and 39 F.E.L.P.S. is considered to be a discretely presented component unit of the City of Floresville. The statements as of December 31, 2011 are presented in the Statement of Net Assets and the Statement of Activities. Separate financial statements of the joint venture are available at the City of Floresville administration building.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

City of Floresville, Texas
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance-
Budget (GAAP Basis) and Actual
For the Year Ended September 30, 2011

	Budgeted Amounts Original and Final	Actual Amounts	Variance With Final Budget
Revenues			
Property taxes	$ 850,293	$ 414,460	$ (435,833)
Sales taxes	977,000	913,644	(63,356)
Street maintenance tax	196,500	-	(196,500)
Franchise fees	521,925	559,785	37,860
Licenses, permits, fees and fines	283,500	374,253	90,753
Miscellaneous	-	92,649	92,649
Interest	-	75,386	75,386
Contributions	-	661,687	661,687
Total revenues	**2,829,218**	**3,091,864**	**262,646**
Expenditures			
Administration	766,559	951,430	(184,871)
Municipal court	143,138	116,158	26,980
Police department	1,092,000	1,144,920	(52,920)
Fire department	61,150	71,044	(9,894)
Streets department	601,464	620,591	(19,127)
Parks and recreation department	377,050	355,928	21,122
Pool department	72,600	83,034	(10,434)
Mayor and council	17,200	26,175	(8,975)
Debt service:			
Principal	17,614	562,182	(544,568)
Interest	-	175,472	(175,472)
Community center	-	428,890	(428,890)
Total expenditures	**3,148,775**	**4,535,824**	**(1,387,049)**
Excess (deficiency) of revenues over (under) expenditures	**(319,557)**	**(1,443,960)**	**(1,124,403)**
OTHER FINANCING SOURCES (USES)			
Transfers in	320,057	929,546	609,489
Total other financing sources (uses)	**320,057**	**929,546**	**609,489**
Net change in fund balance	**500**	**(514,414)**	**(514,914)**
Total fund balance-beginning of year	139,435	139,435	-
Prior period adjustment	208,594	208,594	-
Total fund balance-beginning of year as restated	348,029	348,029	-
Total fund balance (deficit)-end of year	$ **348,529**	$ **(166,385)**	$ **(514,914)**

OTHER SUPPLEMENTARY INFORMATION

City of Floresville, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2011

	Special Revenue Funds			
	Street Maintenance Tax	Child Safety	State Forfeiture	Municipal Court Technology
Assets				
Cash and cash equivalents	$ -	$ -	$ 26,335	$ 7,106
Due from other funds	24,570	-	-	-
Total assets	$ **24,570**	$ -	$ **26,335**	$ **7,106**
Liabilities				
Due to others	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-
Fund Balances				
Unreserved, undesignated	24,570	-	26,335	7,106
Total fund balances	**24,570**	-	**26,335**	**7,106**
Total liabilities and fund balances	$ **24,570**	$ -	$ **26,335**	$ **7,106**

	Municipal Court Building Security		Total
$	7,718	$	41,159
	-		24,570
$	**7,718**	$	**65,729**
$	-	$	-
	-		-
	7,718		65,729
	7,718		**65,729**
$	**7,718**	$	**65,729**

City of Floresville, Texas
Combining Statement of Revenues, Expenses, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2011

	Special Revenue Funds			
	Street Maintenance Tax	Child Safety	State Forfeiture	Municipal Court Technology
Revenues				
Sales tax	$ 228,411	$ -	$ -	$ -
Fines and forfeitures	-	423	13,866	2,401
Total revenues	**228,411**	**423**	**13,866**	**2,401**
Expenditures				
Current:				
Public safety	-	423	-	-
Total expenditures	**-**	**423**	**-**	**-**
Excess (deficiency) of revenues over (under) expenditures	228,411	-	13,866	2,401
Other Financing Sources and (Uses)				
Transfers out	(203,841)	-	-	-
Total other financing sources (uses)	**(203,841)**	**-**	**-**	**-**
Net change in fund balance	**24,570**	**-**	**13,866**	**2,401**
Total fund balance-beginning of year	-	-	-	-
Prior period adjustment	-	-	12,469	4,705
Total fund balance-end of year as restated	$ **24,570**	$ **-**	$ **26,335**	$ **7,106**

Municipal Court Building Security	Total
$ -	$ 228,411
1,808	18,498
1,808	**246,909**
-	423
-	**423**
1,808	246,486
-	(203,841)
-	**(203,841)**
1,808	**42,645**
-	-
5,910	23,084
$ **7,718**	$ **65,729**

COMPLIANCE SECTION

holtman, wagner & company llp
certified public accountants

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

To the City Council
City of Floresville
1120D Street
Floresville, Texas 78114

We have audited the financial statements of the governmental activities, business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Floresville, as of and for the year ended September 30, 2011, which collectively comprise the City of Floresville's basic financial statements and have issued our report thereon dated May 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Floresville, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Floresville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Floresville's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Floresville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement

p: 830.625.1182 | f: 830.625.1498 | 876 loop 337, bldg. 501 | new braunfels, texas 78130

of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 through 2011-3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-4 through 2011-7 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Floresville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Floresville's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Floresville's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Haltman Wagner & Company LLP

New Braunfels, Texas
May 4, 2012

CITY OF FLORESVILLE, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2011

A. Summary of Auditors' Results:

1 Financial statements:

Type of report on financial statements	Unqualified
Internal Control over financial reporting:	
One or more material weaknesses identified?	Yes
One or more significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	None

B. Financial Statement Findings:

Material Weaknesses:

2011-1 City's accounting structure:

Certain receipts are restricted as to use and require separate accountability (not necessarily a separate bank account). This restriction is a result of legislation, or third party agreements (such as grants, bond issues, fees established by City Ordinance, etc.). The City did not establish separate funds for Street Maintenance tax, State Forfeitures, Court Technology, Security, and Child Safety as required by the Governmental Accounting Standards Board (GASB). In addition, the Debt Service Fund and the Capital Projects Fund were not being correctly used, and the activities were recorded in the General Fund. Management had tried to manage some of these activities using separate cash accounts, however those cash accounts were not monitored for errors and became unreliable. Separate funds were established for those restricted receipts and disbursements by the contract accountant, and 2011 was restated to record the fund structure. There is a fundamental misunderstanding of how a fund structure works in governmental accounting.

Response: *The City of Floresville is in the process of establishing the required funds and will record future transactions in accordance with GAAP.*

2011-2 Bank accounts and transaction processing:

During the year, bank accounts were not reconciled. The reconciliation process and the Encode reports were not understood by City staff. The City hired a contract accountant to prepare the reconciliations which were completed in January 2012.

Transactions were often netted against the revenue, rather than recording revenue and expenditures at gross in the accounts. There is a fundamental misunderstanding of how the City's chart of accounts is designed and how transactions should be recorded within that structure.

In addition to bank accounts, other accounts should be reconciled at least monthly to a statement or to a sub-ledger. Those accounts would include accounts payable, accounts receivable, inventories (if any), sales tax payable, fines due to the State, due to and from other funds, transfers among funds, and others. The Encode software provides many tools to assist accountants in the reconciliation process, but staff is not trained to know how to access those sub-ledgers and reconcile to the general ledger. Subsequent to year-end the contract accountant reconciled the accounts.

***Response**: The City of Floresville is continuing to address the issue of reconciling accounts on a monthly basis. Cash reconciliations are current. Other accounts will be addressed this year.*

2011-3 Monitoring:

City management and those charged with governance should monitor the City's financial position and how actual operations are comparing to the budget. Because the City did not have the fund structure in place, and because accounts were not routinely reconciled, this process did not occur in an effective manner. As a result, the City's General Fund has a deficit fund balance of $166,385 at September 30, 2011.

Accounting processes, especially journal entries, bank deposits, and disbursements should be also be subject to monitoring through a review and approval process (a second set of eyes). A signature stamp that is not secured at all times and in control of the signer is not an effective control for review and approval of disbursements. That monitoring should include determining compliance with the City's policies and procedures (which should be established for purchasing, payroll, and other significant processes of the City).

The Encode account defaults should be regularly monitored to determine that accounting for transactions such as payroll liabilities are going to the proper accounts within the Encode system. It appears that the staff is not familiar enough with the Encode system to determine what the defaults are and how to correct them.

***Response**: Monthly review of actual vs. budget amounts is being implemented. The other monitoring issues will be reviewed and addressed for corrective action.*

Significant Deficiencies:

2011-4 Segregation of Duties:

A good internal control design would include segregating incompatible functions. For example, the person who receives cash, the person who enters the transaction into the system, and the person reconciling the cash accounts should not be the same person. During the year, too many incompatible functions were concentrated in a single individual. Some compensating controls may be used when the size of the workforce does not allow for three different employees to process transactions. Those compensating controls typically include over-sight of the transaction process by someone knowledgeable in good accounting practices. The City manager provides a second review in the areas of cash disbursements and payroll, but other areas such as reconciliations, journal entry approval, and purchasing should have a second review.

Response: *Compensating controls are currently being utilized and further segregation will be considered.*

2011-5 Cash:

The City should develop a policy limiting the amount of cash allowed in the vault. At certain time of the month, deposits should be made daily or more often as necessary.

The City carried a bank account on the book that did not belong to the City, and another cash account was identified that was not on the books and should have been. Neither account was material to the City, but all accounts belonging to the City should be on the books and reconciled monthly.

Paid-outs are allowed from cash drawers. Better accountability would be served by using a petty cash account that is reconciled periodically. Cash overages are not always identified as such. Overages are part of the accounting system and should be entered on the books and deposited into the bank. These amounts were not material to the City.

Response: *The City of Floresville has increased the frequency of bank deposits and all accounts that the City is responsible for are recognized on the books. Petty Cash funds have been established.*

2011-6 Investment Policy:

The City has no investment policy as required by the Public Funds Investment Act (PFIA). All governments in Texas to must adopt an investment policy that is within the parameters of the Act. The policy must call for quarterly investment reports to the governance body, and an annual review of the policy. The City should adopt a policy in accordance with the PFIA. A sample has been provided.

Response: *The City of Floresville, along with the City Attorney are currently working to produce an Investment Policy.*

2011-7 City and 4a Operated Concessions:

The City and 4a operate concessions at the pool and for events at the Community Center. Some concession receipts are subject to sales tax, but those taxes had not been remitted to the State Comptroller. A Sales Tax Return for 4a was ultimately filed for 2011 and previous years when they became aware of the filing requirement. The City should become aware of its responsibilities to other governments.

Paid-out's for concession supplies should not be netted against receipts, rather a change drawer should be maintained and reconciled every day or after every event.

Concession employees may be considered as seasonal employees for IRS purposes, and not as contract labor.

Response: *All of the above matters have been addressed and appropriate procedures have been implemented to correct the deficiencies.*

CITY OF FLORESVILLE, TEXAS
SUMMARY OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

PROGRAM / ITEM NUMBER	PLAN
None	N/A