

CITY OF FLORESVILLE, TEXAS

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2012

**CITY OF FLORESVILLE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2012**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements 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, (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. Our opinion on the financial statements and this report, insofar as they relate to the component unit of Floresville Electric Light and Power and Light System are based solely on the report of other auditors. These financial statements are the responsibility of the City of Floresville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013, 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 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 on pages 3 through 8 and budgetary comparison information on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Floresville's financial statements as a whole. The combining and individual nonmajor fund financial statements 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 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.

Alonso, Bacarisse, Irvine & Palmer, P.C.

May 20, 2013

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, 2012. We recommend and encourage readers to consider the information presented here in conjunction with the Independent Auditors' Report and the City's financial statements.

FINANCIAL HIGHLIGHTS

Governmental Activities:

- The City's net assets increased by \$724,623 for a balance of \$6,978,415.
- Included in total net assets is \$6,357,379 invested in capital assets, net of related debt.
- Net assets restricted for use were \$419,802.
- Unrestricted net assets were \$201,234.

Water and Wastewater Activities:

- The Water and Wastewater net assets increased by \$117,266 for a balance of \$3,538,320.
- Included in total net assets is \$3,232,382 invested in capital assets.
- Unrestricted net assets were \$305,938.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents the information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial portion of the City is improving or deteriorating. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm sewer, water distribution and sewer collections lines, etc.) to assess the overall financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expense are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees (business-type 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.).

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (pages 10 through 13).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the Town 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.

The basic fund financial statements can be found on pages 14 through 27.

- 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 –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 26 and 27. 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.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 48.

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 decreased from \$11,299,028 to \$10,711,960. 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 \$676,911 at September 30, 2012.

Net assets of the City's governmental activities decreased by \$724,623 and net assets of the business-type activities increased by \$137,555 for the year.

Table 1
City of Floresville, Texas
Net Assets

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL</u>	
	<u>2012</u>	<u>RESTATED 2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>RESTATED 2011</u>
<u>ASSETS</u>						
Current Assets	\$6,654,694	\$2,219,982	\$ 702,215	\$ 496,301	\$ 7,356,909	\$ 2,716,283
Noncurrent Assets	1,780,991	7,388,931	-	-	1,780,991	7,388,931
Capital Assets	<u>8,760,512</u>	<u>8,424,530</u>	<u>3,257,868</u>	<u>3,260,059</u>	<u>12,018,380</u>	<u>11,684,589</u>
Total Assets	<u>17,196,197</u>	<u>18,033,443</u>	<u>3,960,083</u>	<u>3,756,360</u>	<u>21,156,280</u>	<u>21,789,803</u>
<u>LIABILITIES</u>						
Current Liabilities	1,127,498	984,208	200,560	140,972	1,328,058	1,125,180
Long-Term Liabilities	<u>9,090,284</u>	<u>9,346,197</u>	<u>25,978</u>	<u>19,398</u>	<u>9,116,262</u>	<u>9,365,595</u>
Total Liabilities	<u>10,217,782</u>	<u>10,330,405</u>	<u>226,538</u>	<u>160,370</u>	<u>10,444,320</u>	<u>10,490,775</u>
<u>NET ASSETS</u>						
Investment in Capital Assets, Net of Related Debt	6,357,379	6,110,195	3,257,868	3,260,059	9,615,247	9,370,254
Restricted	419,802	508,157	-	1,600	419,802	509,757
Unrestricted	<u>201,234</u>	<u>1,084,686</u>	<u>475,677</u>	<u>334,331</u>	<u>676,911</u>	<u>1,419,017</u>
TOTAL NET ASSETS	<u>\$6,978,415</u>	<u>\$7,703,038</u>	<u>\$3,733,545</u>	<u>\$3,595,990</u>	<u>\$10,711,960</u>	<u>\$11,299,028</u>

Table 2
City of Floresville, Texas
Changes in Net Assets

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2012	RESTATED 2011	2012	2011	2012	RESTATED 2011
REVENUES						
Program Revenues						
Charges for Services	\$ 515,876	\$ 392,751	\$ 2,486,634	\$ 2,494,601	\$ 3,002,510	\$ 2,887,352
Operating Grants and Contributions	44,932	-	-	-	44,932	-
Capital Contribution	-	428,246	-	180,868	-	609,114
General Revenues						
Property Tax	835,434	768,290	-	-	835,434	768,290
Sales Tax	1,538,042	1,310,394	-	-	1,538,042	1,310,394
Hotel/Motel Tax	192,540	101,089	-	-	192,540	101,089
Franchise Tax	610,178	559,785	-	-	610,178	559,785
Capital Recovery Fees	-	-	-	-	-	-
Unrestricted Investment Earnings	27,082	77,145	239	203	27,321	77,348
Other Income	40,736	918,228	75,255	-	115,991	918,228
Total Revenues	3,804,820	4,555,928	2,562,128	2,675,672	6,366,948	7,231,600
EXPENSES						
General Government	1,637,008	1,121,143	-	-	1,637,008	1,121,143
Judicial	90,803	115,277	-	-	90,803	115,277
Police	1,163,508	1,198,782	-	-	1,163,508	1,198,782
Fire Protection	58,672	71,044	-	-	58,672	71,044
Highways and Streets	687,113	539,880	-	-	687,113	539,880
Mayor and Council	19,035	26,175	-	-	19,035	26,175
Parks and Recreation	465,549	413,659	-	-	465,549	413,659
Pool	91,481	80,673	-	-	91,481	80,673
Bond Interest	214,789	172,084	-	-	214,789	172,084
Water and Sewer	-	-	1,601,664	1,291,061	1,601,664	1,291,061
Refuse	-	-	918,201	865,233	918,201	865,233
Cemetery	-	-	6,193	3,342	6,193	3,342
Total Expenses	4,427,958	3,738,717	2,526,058	2,159,636	6,954,016	5,898,353
Increase (Decrease) in Net Assets before Transfers	(623,138)	817,211	36,070	516,036	(587,068)	1,333,247
TRANSFERS	(101,485)	(162,585)	101,485	162,585	-	-
Change in Net Assets	(724,623)	654,626	137,555	678,621	(587,068)	1,333,247
NET ASSETS - BEGINNING	7,703,038	7,048,412	3,595,990	2,917,369	11,299,028	9,965,781
NET ASSETS - ENDING	\$ 6,978,415	\$ 7,703,038	\$ 3,733,545	\$ 3,595,990	\$ 10,711,960	\$ 11,299,028

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$196,296.

The City's General Fund's fund balance deficit was (\$244,660). The General Fund's budgeted fund balance was \$58,421.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of fiscal 2012, the City had \$12,018,380, 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 a 3% increase over the prior year.

Debt:

At year-end, the City had \$9,138,934 in bonds and \$336,619 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 (page 41).

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 2012 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 2013. Amounts available for appropriation in the General Fund budget are \$3,782,800, an increase of \$126,679, or 3.47% over the final 2012 budget of \$3,656,121. In order to accomplish funding of the 2013 budget, the 2013 tax rate was set at \$0.1495 for general operations and \$.1683 for debt servicing, for a total of \$.3178. The 2013 tax rate was decreased to the effective rate.

Although the general fund ended with a deficit fund balance of \$244,660 for 2012, Council and Staff have begun addressing the issue thru a series of meetings and preparation of an Insolvency Turnaround Plan. Some of the key components included are additional monitoring of current budgets, implementing a zero based budgeting for 2013/2014, developing financial management policies, reviewing and increasing water/wastewater fees, permit and user fees. The plan is to be reviewed semi-annually by Council for progress and to update or set additional priorities. Staff will be working day to day to ensure that the goals of the plan are addressed.

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, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 447,761	\$ 275,857	\$ 723,618
Receivables – Net of Allowances for Uncollectibles:			
Property Taxes	266,938	-	266,938
Other	267,619	301,698	569,317
Due from Other Governments	65,872	-	65,872
Due from Other Funds	55,764	-	55,764
Due from Floresville EDC	-	123,000	123,000
Inventories	-	1,660	1,660
Prepaid items	-	-	-
Capitalized Bond Issue Costs	715,995	-	715,995
Capital Assets			
Land	160,209	58,155	218,364
Buildings	5,890,553	-	5,890,553
Property, Plant and Equipment	895,037	3,199,713	4,094,750
Infrastructure	1,098,718	-	1,098,718
Note Receivable Center for Housing	-	-	-
Note Receivable 4A Corporation	5,961,931	-	5,961,931
Note Receivable Floresville EDC	1,369,800	-	1,369,800
	<u>17,196,197</u>	<u>3,960,083</u>	<u>21,156,280</u>
TOTAL ASSETS	\$ 17,196,197	\$ 3,960,083	\$ 21,156,280
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities			
Accounts Payable	\$ 416,641	\$ 139,598	556,239
Accrued Liabilities	147,426	60,962	208,388
Due to Other Governments	19,615	-	19,615
Due to Others	1,988	-	1,988
Due to Other Funds	55,764	-	55,764
Due to 4A Corporation	25,299	-	25,299
Due to 4B Corporation	50,598	-	50,598
Accrued Interest Payable	24,898	-	24,898
Deferred Revenue	-	-	-
Noncurrent Liabilities			
Due Within One Year	385,269	-	385,269
Due in More than One Year	9,090,284	25,978	9,116,262
Total Liabilities	<u>10,217,782</u>	<u>226,538</u>	<u>10,444,320</u>
<u>NET ASSETS</u>			
Invested in Capital Assets – Net of Related Debt	6,357,379	3,257,868	9,615,247
Restricted Net Assets			
Debt Service	217,053	-	217,053
Capital Projects	156,761	-	156,761
Special Revenue Funds	45,988	-	45,988
Unrestricted Net Assets	<u>201,234</u>	<u>475,677</u>	<u>676,911</u>
Total Net Assets	<u>6,978,415</u>	<u>3,733,545</u>	<u>10,711,960</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 17,196,197	\$ 3,960,083	\$ 21,156,280

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Net Assets
September 30, 2012

COMPONENT UNITS		
FLORESVILLE 4A CORP.	FLORESVILLE E.D.C.	12/31/2012 F.E.L.P.S.
\$ 63,556	\$ 668,607	\$ 14,976,151
-	-	-
25,299	109,773	2,357,217
56,269	54,542	-
-	-	-
-	-	-
2,968	707,908	1,339,233
-	-	166,036
802,612	12,943	-
920,020	279,994	-
-	111,276	-
4,573	667	42,794,140
-	-	-
-	113,405	-
-	-	-
-	-	-
<u>\$ 1,875,297</u>	<u>\$ 2,059,115</u>	<u>\$ 61,632,777</u>
\$ -	\$ 50,142	\$ 1,777,937
8,315	738	819,553
1,708	123,000	-
-	-	771,331
-	-	-
-	-	-
20,863	-	-
14,350	-	-
193,740	115,605	1,130,000
<u>6,877,639</u>	<u>1,448,399</u>	<u>22,614,412</u>
<u>7,116,615</u>	<u>1,737,884</u>	<u>27,113,233</u>
(17,407)	197,732	19,049,728
-	-	1,841,016
-	-	-
-	-	-
<u>(5,223,911)</u>	<u>123,499</u>	<u>13,628,800</u>
<u>(5,241,318)</u>	<u>321,231</u>	<u>34,519,544</u>
<u>\$ 1,875,297</u>	<u>\$ 2,059,115</u>	<u>\$ 61,632,777</u>

City of Floresville, Texas
Statement of Activities
For the Year Ended
September 30, 2012

FUNCTIONS AND PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government				
<u>Governmental Activities</u>				
Administration	\$ (1,637,008)	\$ 198,362	\$ 19,931	\$ -
Municipal Court	(90,803)	-	-	-
Police Department	(1,163,508)	154,560	25,001	-
Fire Department	(58,672)	-	-	-
Streets Department	(687,113)	-	-	-
Parks and Recreation	(465,549)	112,416	-	-
Pool Department	(91,481)	50,538	-	-
Mayor and Council	(19,035)	-	-	-
Interest on Long Term Debt	(214,789)	-	-	-
Total Governmental Activities	<u>(4,427,958)</u>	<u>515,876</u>	<u>44,932</u>	<u>-</u>
<u>Business-Type Activities</u>				
Water and Sewer	(1,601,664)	1,518,637	-	-
Refuse	(918,201)	955,173	-	-
Cemetery	(6,193)	12,824	-	-
Total Business-Type Activities	<u>(2,526,058)</u>	<u>2,486,634</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	\$ (6,954,016)	\$ 3,002,510	\$ 44,932	\$ -
Component Units				
Floresville 4A Corp.	\$ (648,508)	\$ 188,929	\$ 26,682	\$ -
Floresville E.D.C.	(495,249)	7,540	-	-
F.E.L.P.S.	(28,992,620)	30,657,199	-	1,581,668
TOTAL COMPONENT UNITS	\$ (30,136,377)	\$ 30,853,668	\$ 26,682	\$ 1,581,668

General Revenues

Taxes:

Property Taxes
Sales Taxes
Hotel Motel Taxes
Franchise Fees

Interest
Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

NET ASSETS AT BEGINNING OF YEAR

Cash Distributions to Cities
Prior Period Adjustments

NET ASSETS AT BEGINNING OF YEAR – RESTATED

NET ASSETS AT END OF YEAR

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Activities
For the Year Ended
September 30, 2012

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS					
PRIMARY GOVERNMENT			COMPONENT UNITS		
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	GOVERNMENTAL TYPE		BUSINESS TYPE
			FLORESVILLE 4A CORP.	FLORESVILLE E.D.C.	12/31/2012 F.E.L.P.S.
\$ (1,418,715)	\$ -	\$ (1,418,715)			
(90,803)	-	(90,803)			
(983,947)	-	(983,947)			
(58,672)	-	(58,672)			
(687,113)	-	(687,113)			
(353,133)	-	(353,133)			
(40,943)	-	(40,943)			
(19,035)	-	(19,035)			
<u>(214,789)</u>	<u>-</u>	<u>(214,789)</u>			
<u>(3,867,150)</u>	<u>-</u>	<u>(3,867,150)</u>			
-	(83,027)	(83,027)			
-	36,972	36,972			
<u>-</u>	<u>6,631</u>	<u>6,631</u>			
<u>-</u>	<u>(39,424)</u>	<u>(39,424)</u>			
<u>\$ (3,867,150)</u>	<u>\$ (39,424)</u>	<u>\$ (3,906,574)</u>			
			\$ (432,897)	\$ -	\$ -
				(487,709)	-
			<u>-</u>	<u>-</u>	<u>3,246,247</u>
			<u>(432,897)</u>	<u>(487,709)</u>	<u>3,246,247</u>
835,434	-	835,434	-	-	-
1,538,042	-	1,538,042	307,214	614,428	-
192,540	-	192,540	-	-	-
610,178	-	610,178	-	-	-
27,082	239	27,321	12	6,064	7,577
40,736	75,255	115,991	-	5,738	-
<u>(101,485)</u>	<u>101,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>3,142,527</u>	<u>176,979</u>	<u>3,319,506</u>	<u>307,226</u>	<u>626,230</u>	<u>7,577</u>
(724,623)	137,555	(587,068)	(125,671)	138,521	3,253,824
7,433,610	3,595,990	11,029,600	(5,160,269)	182,710	32,162,571
-	-	-	-	-	(896,851)
269,428	-	269,428	44,622	-	-
<u>7,703,038</u>	<u>3,595,990</u>	<u>11,299,028</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 6,978,415</u>	<u>\$ 3,733,545</u>	<u>\$ 10,711,960</u>	<u>\$ (5,241,318)</u>	<u>\$ 321,231</u>	<u>\$ 34,519,544</u>

City of Floresville, Texas
Balance Sheet
Governmental Funds
September 30, 2012

	GENERAL FUND	DEBT SERVICE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ -	\$ 213,181	\$ 234,686	\$ 447,867
Receivables – Net of Allowances for Uncollectibles				
Property Taxes	185,354	81,584	-	266,938
Other	263,937	-	3,682	267,619
Due from Other Governments	7,113	3,872	54,887	65,872
Due from Other Funds	<u>55,764</u>	<u>-</u>	<u>-</u>	<u>55,764</u>
TOTAL ASSETS	<u>\$ 512,168</u>	<u>\$ 298,637</u>	<u>\$ 293,255</u>	<u>\$ 1,104,060</u>
<u>LIABILITIES</u>				
Bank Overdraft	\$ 224,055	\$ -	\$ -	\$ 224,055
Accounts Payable	184,668	-	7,918	192,586
Accrued Liabilities	67,239	-	-	67,239
Due to Other Governments	19,615	-	-	19,615
Due to Others	-	-	1,988	1,988
Due to Other Funds	-	-	55,764	55,764
Due to 4B Corporation	50,598	-	-	50,598
Due to 4A Corporation	25,299	-	-	25,299
Deferred/Unearned Revenues	<u>185,354</u>	<u>81,584</u>	<u>3,682</u>	<u>270,620</u>
Total Liabilities	<u>756,828</u>	<u>81,584</u>	<u>69,352</u>	<u>907,764</u>
<u>FUND BALANCES</u>				
Restricted				
Debt Service	-	217,053	-	217,053
Special Revenue	-	-	73,965	73,965
Capital Projects	-	-	156,761	156,761
Unassigned	<u>(244,660)</u>	<u>-</u>	<u>(6,823)</u>	<u>(251,483)</u>
Total Fund Balances	<u>(244,660)</u>	<u>217,053</u>	<u>223,903</u>	<u>196,296</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 512,168</u>	<u>\$ 298,637</u>	<u>\$ 293,255</u>	<u>\$ 1,104,060</u>

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, 2012

	GENERAL FUND	DEBT SERVICE FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Property Taxes	\$ 433,100	\$ 390,295	\$ -	\$ 823,395
Sales Tax	1,228,856	-	309,186	1,538,042
Franchise Fees	610,178	-	-	610,178
Licenses, Permits, Fees and Fines	439,467	-	32,791	472,258
Hotel/Motel Tax	192,540	-	-	192,540
Miscellaneous	129,286	-	-	129,286
Contributions	-	262,470	-	262,470
Interest	828	7	384	1,219
Total Revenues	<u>3,034,255</u>	<u>652,772</u>	<u>342,361</u>	<u>4,029,388</u>
EXPENDITURES				
Administration	1,469,857	-	-	1,469,857
Municipal Court	82,014	-	-	82,014
Police Department	1,046,126	-	-	1,046,126
Fire Department	52,993	-	-	52,993
Streets Department	474,047	-	165,423	639,470
Parks and Recreation	382,810	-	-	382,810
Pool Department	82,627	-	-	82,627
Mayor and Council	17,193	-	-	17,193
Debt Service				
Principal	212,000	403,213	-	615,213
Interest	7,778	40,347	-	48,125
Total Expenditures	<u>3,827,445</u>	<u>443,560</u>	<u>165,423</u>	<u>4,436,428</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(793,190)</u>	<u>209,212</u>	<u>176,938</u>	<u>(407,040)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	449,464	-	-	449,464
Transfers (Out)	-	-	(497,973)	(497,973)
Other Sources - Capital Lease	40,645	-	-	40,645
Total Other Financing Sources (Uses)	<u>490,109</u>	<u>-</u>	<u>(497,973)</u>	<u>(7,864)</u>
Net Change in Fund Balances	(303,081)	209,212	(321,035)	(414,904)
FUND BALANCES - BEGINNING OF YEAR	<u>(166,385)</u>	<u>7,841</u>	<u>500,316</u>	<u>-</u>
Prior Period Adjustments	224,806	-	44,622	269,428
FUND BALANCE - BEGINNING OF YEAR AS RESTATED	<u>58,421</u>	<u>7,841</u>	<u>544,938</u>	<u>611,200</u>
FUND BALANCES AT END OF YEAR	<u>\$ (244,660)</u>	<u>\$ 217,053</u>	<u>\$ 223,903</u>	<u>\$ 196,296</u>

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, 2012**

Net change in fund balances—governmental funds (page 16)	\$	(414,904)
 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.		40,645
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 2012 depreciation.		(420,659)
Revenues 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.		12,039
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 2012.		(44,305)
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.		407,120
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 2012.		(15,760)
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 2011.		784
Internal service fund revenue and expenditures are not reported in the funds.		(52,976)
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.		(236,607)
Change in net assets of governmental activities (page 13)	\$	<u><u>(724,623)</u></u>

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Net Assets
Proprietary Funds
September 30, 2012

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			
	<u>WATERWORKS AND SEWER</u>	<u>REFUSE</u>	<u>CEMETERY</u>	<u>TOTALS</u>
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 139,261	\$ 77,101	\$ 59,495	\$ 275,857
Accounts Receivable, Net of Allowance for Uncollectibles	178,440	123,258	-	301,698
Due from Other Funds	-	-	-	-
Due from Floresville EDC	123,000	-	-	123,000
Inventory	-	-	1,660	1,660
Total Current Assets	<u>440,701</u>	<u>200,359</u>	<u>61,155</u>	<u>702,215</u>
<u>CAPITAL ASSETS</u>				
Land, System, Buildings, and Equipment	10,132,820	-	46,366	10,179,186
Less: Accumulated Depreciation	<u>(6,900,438)</u>	<u>-</u>	<u>(20,880)</u>	<u>(6,921,318)</u>
Net Capital Assets	<u>3,232,382</u>	<u>-</u>	<u>25,486</u>	<u>3,257,868</u>
TOTAL ASSETS	<u>\$ 3,673,083</u>	<u>\$ 200,359</u>	<u>\$ 86,641</u>	<u>\$ 3,960,083</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 69,308	\$ 70,290	\$ -	139,598
Accrued Liabilities	<u>39,477</u>	<u>21,485</u>	<u>-</u>	<u>60,962</u>
Total Current Liabilities	<u>108,785</u>	<u>91,775</u>	<u>-</u>	<u>200,560</u>
<u>NONCURRENT LIABILITIES</u>				
Accrued Compensated Absences	<u>25,978</u>	<u>-</u>	<u>-</u>	<u>25,978</u>
Total Liabilities	<u>134,763</u>	<u>91,775</u>	<u>-</u>	<u>226,538</u>
<u>NET ASSETS</u>				
Invested in Capital Assets	3,232,382	-	25,486	3,257,868
Unrestricted	<u>305,938</u>	<u>108,584</u>	<u>61,155</u>	<u>475,677</u>
Total Net Assets	<u>3,538,320</u>	<u>108,584</u>	<u>86,641</u>	<u>3,733,545</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,673,083</u>	<u>\$ 200,359</u>	<u>\$ 86,641</u>	<u>\$ 3,960,083</u>

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Revenues Expenses,
and Changes in Net Assets
Proprietary Funds
For the Year Ended September 30, 2012

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			
	<u>WATERWORKS AND SEWER</u>	<u>REFUSE</u>	<u>CEMETERY</u>	<u>TOTALS</u>
<u>OPERATING REVENUES</u>				
Water Sales, Penalties, and Connection Fees	\$ 1,111,578	\$ -	\$ -	\$ 1,111,578
Sewer Sales, Penalties, and Connection Fees	407,059	-	-	407,059
Refuse Collection Fees and Penalties		955,173	-	955,173
Sale of Cemetery Lots	-	-	12,824	12,824
Total Operating Revenues	<u>1,518,637</u>	<u>955,173</u>	<u>12,824</u>	<u>2,486,634</u>
<u>OPERATING EXPENSES</u>				
Personnel Costs	534,949	-	-	534,949
General and Administrative Expenses	101,440	-	-	101,440
Repairs and Maintenance	337,705	-	-	337,705
Utilities	169,551	-	-	169,551
Disposal Fees and Sampling Costs	161,686	910,201	-	1,071,887
Chemicals	36,504	-	-	36,504
Liability Insurance	27,282	-	3,207	30,489
Other Operating Expenses	4,000	8,000	2,986	14,986
Depreciation	221,116	-	-	221,116
Total Operating Expenses	<u>1,594,233</u>	<u>918,201</u>	<u>6,193</u>	<u>2,518,627</u>
Operating Income	<u>(75,596)</u>	<u>36,972</u>	<u>6,631</u>	<u>(31,993)</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>				
Interest Income	177	7	55	239
Miscellaneous Expense	(7,431)	-	-	(7,431)
Contributions	75,255	-	-	75,255
Total Nonoperating Revenues (Expenses)	<u>68,001</u>	<u>7</u>	<u>55</u>	<u>68,063</u>
Net Income (Loss) before Transfers	<u>(7,595)</u>	<u>36,979</u>	<u>6,686</u>	<u>36,070</u>
Transfer In	278,194	-	-	278,194
Transfer (Out)	(153,333)	(23,376)	-	(176,709)
Change in Net Assets	<u>117,266</u>	<u>13,603</u>	<u>6,686</u>	<u>137,555</u>
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>3,421,054</u>	<u>94,981</u>	<u>79,955</u>	<u>3,595,990</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,538,320</u>	<u>\$ 108,584</u>	<u>\$ 86,641</u>	<u>\$ 3,733,545</u>

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>			
	<u>WATERWORKS AND SEWER</u>	<u>REFUSE</u>	<u>CEMETERY</u>	<u>TOTALS</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Payments Received from Customers	\$ 1,426,311	\$ 916,122	\$ 12,824	\$ 2,355,257
Payments to Suppliers for Goods and Services	(810,031)	(906,374)	(6,193)	(1,722,598)
Payments for Salaries and Benefits	<u>(508,745)</u>	<u>-</u>	<u>-</u>	<u>(508,745)</u>
Net Cash Provided by (Used in) Operating Activities	<u>107,535</u>	<u>9,748</u>	<u>6,631</u>	<u>123,914</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>				
Acquisition of Capital Assets	<u>(206,050)</u>	<u>-</u>	<u>(12,876)</u>	<u>(218,926)</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>				
Other expense	(7,431)	-	-	(7,431)
Contribution from FEDC 4b	75,255	-	-	75,255
Transfers from Other Funds	278,194	-	-	278,194
Transfers to Other Funds	<u>(153,333)</u>	<u>(23,376)</u>	<u>-</u>	<u>(176,709)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>192,685</u>	<u>(23,376)</u>	<u>-</u>	<u>169,309</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Interest Received	<u>177</u>	<u>7</u>	<u>55</u>	<u>239</u>
Net Increase (Decrease) in Cash and Cash Equivalents	94,347	(13,621)	(6,190)	74,536
<u>CASH AND CASH EQUIVALENTS – BEGINNING</u>	<u>44,914</u>	<u>90,722</u>	<u>65,685</u>	<u>201,321</u>
CASH AND CASH EQUIVALENTS – ENDING	<u>\$ 139,261</u>	<u>\$ 77,101</u>	<u>\$ 59,495</u>	<u>\$ 275,857</u>

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>			
	<u>WATERWORKS AND SEWER</u>	<u>REFUSE</u>	<u>CEMETERY</u>	<u>TOTALS</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</u>				
Operating Income (Loss)	\$ (75,596)	\$ 36,972	\$ 6,631	\$ (31,993)
Depreciation	221,116	-	-	221,116
(Increase) Decrease in Assets				
Accounts Receivable	(97,837)	(39,051)	-	(136,888)
Due from Other Funds	7,254	-	-	7,254
Due from Floresville EDC	(1,743)	-	-	(1,743)
Increase (Decrease) in Liabilities				
Accounts Payable	28,137	(4,303)	-	23,834
Accrued Expenses	<u>26,204</u>	<u>16,130</u>	<u>-</u>	<u>42,334</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 <u>\$ 107,535</u>	 <u>\$ 9,748</u>	 <u>\$ 6,631</u>	 <u>\$ 123,914</u>

The accompanying notes are an integral part of this statement.

City of Floresville, Texas
Statement of Fiduciary Net Assets
Trust and Agency Funds
September 30, 2012

	<u>TRUST FUND FIREMEN'S RELIEF AND RETIREMENT</u>	<u>AGENCY FUNDS F.E.L.P.S. COLLECTIONS</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 6,045	\$ 2,236
Accrued Interest	<u>11</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 6,056</u>	<u>\$ 2,236</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Due to F.E.L.P.S.	\$ -	\$ 2,236
Accrued Payables	<u>288</u>	<u>-</u>
Total Liabilities	<u>288</u>	<u>2,236</u>
<u>NET ASSETS</u>		
Unrestricted	<u>5,768</u>	<u>-</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,056</u>	<u>\$ 2,236</u>

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, 2012

ADDITIONS

Interest Earned

\$ 1

DEDUCTIONS

Benefits Paid

4,225

Change in Net Assets

(4,224)

NET ASSETS – BEGINNING OF YEAR

9,992

NET ASSETS – END OF YEAR

\$ 5,768

The accompanying notes are an integral part of this statement.

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CITY OF FLORESVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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.

**CITY OF FLORESVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

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.

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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, 2012.

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.

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

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.

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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 value.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2011 and past due after January 31, 2012.

**CITY OF FLORESVILLE, TEXAS
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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.

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:

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<u>Capital Asset</u>	<u>Useful Life</u>
Buildings	40 years
Transportation and equipment	3-30 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, 2012, of \$25,978 and \$80,187 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

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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.

**CITY OF FLORESVILLE, TEXAS
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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, 2012, the carrying amount of the primary government's (the City) cash on hand was \$425, deposits in the bank were \$537,485 and the book balance was \$723,618. The City's cash was fully collateralized. The bank and book balance reported in the trust and agency funds was \$8,281

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

**CITY OF FLORESVILLE, TEXAS
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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 investments consist of the following:

	Reported and Fair Value	Weighted Average Maturity	Rating S&P
Texas CLASS	\$ 5,007	n/a	AAAm
Fidelity money market	153,773	n/a	n/a
Cash on hand	1,633	n/a	n/a
Bank deposits	<u>563,205</u>	n/a	n/a
Total cash and cash equivalents	<u>\$ 723,618</u>		

NOTE C—RECEIVABLES

1. OTHER RECEIVABLES

Other receivables consist of the following:

	Amount	Allowance for Doubtful	Net Receivable
Property taxes	\$ 314,045	\$ (47,107)	\$ 266,938
Other governments	\$ 65,872	-	\$ 65,872
Accounts	\$ 267,619	-	\$ 267,619
Utility	\$ 342,698	\$ (41,000)	\$ 301,698

2. NOTES RECEIVABLE

Notes receivable consist of amounts due from the 4A Corporation in the amount of \$5,961,931 and the Floresville EDC in the amount of \$1,369,800. 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.

CITY OF FLORESVILLE, TEXAS
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Future payments under the interlocal agreements are as follows:

	Interlocal Agreement		
	Bonds 4a	Cap. Lease 4a	Floresville EDC
2013	\$ 96,695	\$ 84,045	\$ 59,400
2014	94,325	86,995	63,800
2015	90,185	90,049	66,000
2016	1,291,389	-	68,200
2017	1,108,464	-	72,600
2018-2022	3,019,784	-	420,200
2023-2027	-	-	528,000
2028	-	-	91,600
	\$ 5,700,842	\$ 261,089	\$ 1,369,800

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 consist of the following:

	Purpose
Other nonmajor fund (street maintenance)	
Due to general fund	55,764 Short-term loan
	\$ 55,764

CITY OF FLORESVILLE, TEXAS
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Transfers consisted of the following:

		<u>Purpose</u>
Nonmajor fund (unemployment)		
Transfer to general fund	\$ 52,977	To close out fund
Nonmajor fund (street maintenance)		
Transfer to general fund	219,778	For payment of street maintenance
Enterprise funds		
Transfer to general fund	176,709	Payment in lieu of taxes
Transfer to nonmajor fund (capital projects)	278,194	Payment of construction costs
	<u>\$ 727,658</u>	

NOTE F—CAPITAL ASSETS

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

<u>Governmental activities:</u>	<u>Balance</u> <u>9-30-11</u>	<u>Reclass and</u> <u>Additions</u>	<u>Reclass and</u> <u>Disposals</u>	<u>Balance</u> <u>9-30-12</u>
Assets not being depreciated:				
Land	\$ 160,209	\$ -	\$ -	\$ 160,209
Assets being depreciated:				
Buildings	6,647,158	-	-	6,647,158
Property, plant and equipment	4,070,524	40,636	-	4,111,160
Infrastructure	2,199,952	-	-	2,199,952
	<u>12,917,634</u>	<u>40,636</u>	<u>-</u>	<u>12,958,270</u>
Less accumulated depreciation:				
Buildings	(591,337)	(165,268)	-	(756,605)
Property, plant and equipment	(3,015,731)	(200,392)	-	(3,216,123)
Infrastructure	(1,046,235)	(54,999)	-	(1,101,234)
	<u>(4,653,303)</u>	<u>(420,659)</u>	<u>-</u>	<u>(5,073,962)</u>
Assets being depreciated, net	8,264,331	(380,023)	-	7,884,308
Total capital assets, net	<u>\$ 8,424,540</u>	<u>\$ (380,023)</u>	<u>\$ -</u>	<u>\$ 8,044,517</u>

Depreciation expense was charged to the governmental functions as follows:

Administration	\$ 157,509
Fire Department	5,679
Streets Department	87,721
Parks and Recreation	38,163
Pool Department	8,854
Mayor and Council	1,842
	<u>\$ 299,768</u>

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Business-type capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Balance</u> 9-30-11	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 9-30-12
Assets not being depreciated:				
Land	\$ 58,155	\$ -	\$ -	\$ 58,155
Construction in progress	892,600	-	(892,600)	-
	<u>950,755</u>	<u>-</u>	<u>(892,600)</u>	<u>58,155</u>
Assets being depreciated:				
Property, plant and equipment	5,366,004	1,111,526	-	6,477,530
Infrastructure	3,643,501	-	-	3,643,501
	<u>9,009,505</u>	<u>1,111,526</u>	<u>-</u>	<u>10,121,031</u>
Less accumulated depreciation:				
Property, plant and equipment	(3,120,169)	(157,648)	-	(3,277,817)
Infrastructure	(3,580,032)	(63,469)	-	(3,643,501)
	<u>(6,700,201)</u>	<u>(221,117)</u>	<u>-</u>	<u>(6,921,318)</u>
Assets being depreciated, net	<u>2,309,304</u>	<u>890,409</u>	<u>-</u>	<u>3,199,713</u>
Total capital assets, net	<u>\$ 3,260,059</u>	<u>\$ 890,409</u>	<u>\$ (892,600)</u>	<u>\$ 3,257,868</u>

CITY OF FLORESVILLE, TEXAS
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SEPTEMBER 30, 2012

NOTE G—LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2012 were comprised of the following:

Governmental activities:

	<u>Balance 9-30-11</u>	<u>Additions</u>	<u>Refunded or Payments</u>	<u>Balance 9-30-12</u>	<u>Due Within One Year</u>
Certificates of Obligation—Series 2008 Original amount of \$8,500,000 interest rate 3.91%	\$ 3,310,000	\$ -	\$ (130,000)	\$ 3,180,000	\$ 135,000
General Obligation Refunding Bonds, Series 2010, interest rate .8% to 3.5%	5,667,223	-	(98,212)	5,569,011	96,695
Tax Note Series 2008, Original amount of \$190,000, interest rate 4%	120,000	-	(30,000)	90,000	30,000
Tax Note Series 2008a, Original amount of \$734,000, interest rate 3.66%	<u>212,000</u>	<u>-</u>	<u>(212,000)</u>	<u>-</u>	<u>-</u>
Subtotal bonds and notes	<u>9,309,223</u>	<u>-</u>	<u>(470,212)</u>	<u>8,839,011</u>	<u>261,695</u>
Accretion of interest on Capital Appreciation Bonds	<u>132,475</u>	<u>167,448</u>	<u>-</u>	<u>299,923</u>	<u>-</u>
Subtotal bonds and notes	<u>9,441,698</u>	<u>167,448</u>	<u>(470,212)</u>	<u>9,138,934</u>	<u>261,695</u>
Capital lease—Incode	34,197	-	(34,197)	-	-
Capital lease—Bank of America	406,778	-	(96,494)	310,284	110,773
Capital lease—Government Capital	-	40,645	(14,310)	26,335	12,801
Subtotal capital leases	<u>440,975</u>	<u>40,645</u>	<u>(145,001)</u>	<u>336,619</u>	<u>123,574</u>
	<u>9,882,673</u>	<u>208,093</u>	<u>(615,213)</u>	<u>9,475,553</u>	<u>385,269</u>
Compensated absences	<u>64,427</u>	<u>15,760</u>	<u>-</u>	<u>80,187</u>	<u>-</u>
Total	<u>\$ 9,947,100</u>	<u>\$ 223,853</u>	<u>\$ (615,213)</u>	<u>\$ 9,555,740</u>	<u>\$ 385,269</u>

Business-type activities:

	<u>Balance 9-30-11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 9-30-12</u>	<u>Due Within One Year</u>
Compensated absences	\$ <u>19,398</u>	\$ <u>6,580</u>	\$ <u>-</u>	\$ <u>25,978</u>	\$ <u>-</u>
	<u>\$ 19,398</u>	<u>\$ 6,580</u>	<u>\$ -</u>	<u>\$ 25,978</u>	<u>\$ -</u>

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

**CITY OF FLORESVILLE, TEXAS
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SEPTEMBER 30, 2012**

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

Year ended September 30,	As to Principal	As to Interest	Total
2013	\$ 261,695	\$ 298,787	\$ 560,482
2014	269,325	296,246	565,571
2015	270,185	293,112	563,297
2016	1,313,914	310,317	1,624,231
2017	1,273,464	257,203	1,530,667
2018-2022	3,975,428	637,914	4,613,342
2023-2027	1,200,000	198,433	1,398,433
2028	275,000	10,753	285,753
	<u>\$ 8,839,011</u>	<u>\$ 2,302,765</u>	<u>\$ 11,141,776</u>

Capital leases:

Commitments under capitalized lease agreements for vehicles and equipment provide for minimum future lease payments as of September 30, 2012 as follows:

Year ended September 30,	
2013	\$ 125,083
2014	125,083
2015	110,772
Total minimum rentals	<u>360,938</u>
ss amount representing interest	<u>(24,319)</u>
Net present value	<u>\$ 336,619</u>

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 \$244,660, and the street maintenance fund has a deficit fund balance of \$6,823. The general fund deficit is mainly due to unbudgeted and unexpected legal and professional fees. To address the deficit, City Council plans to:

- Adopt a “zero based” budget for 2013-2014
- Monitor actual activity to budget monthly.
- Achieve a 30% per year deficit reduction
- Establish a 90 day fund reserve by 2018-2019

The deficit in the street maintenance fund has been eliminated in FY 2013 by receipt of street maintenance taxes.

CITY OF FLORESVILLE, TEXAS
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 SEPTEMBER 30, 2012

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:

	<u>Plan years 2011 and 2012</u>
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
Annuit increase (to retirees)	70% of CPI

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.

**CITY OF FLORESVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

The funding status and the annual pension cost and net pension obligation 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
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%
2011	\$ 3,359,955	\$ 4,566,697	73.58%	\$ 1,206,742	\$ 1,752,718	68.85%

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

	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
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	26.3 Years-Closed	27.2 Years-Closed	28 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	10-year Smoothed Market
Actuarial Assumptions			
Investment Return	7.00%	7.00%	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%

**CITY OF FLORESVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012**

NOTE J—FUND BALANCE CATEGORIES

	General Fund	Debt Service	Capital Projects	Other Governmental Funds	Total
Restricted for:					
Debt service	\$ -	\$ 217,053	\$ -	\$ -	\$ 217,053
Construction	-	-	156,761	-	156,761
State police forfeiture	-	-	-	29,884	29,884
Parks	-	-	-	26,996	26,996
Building security	-	-	-	8,267	8,267
Court technology	-	-	-	7,837	7,837
Child safety	-	-	-	981	981
	<u>-</u>	<u>217,053</u>	<u>156,761</u>	<u>73,965</u>	<u>447,779</u>
Unassigned	(244,660)	-	-	(6,823)	(251,483)
	<u>\$ (244,660)</u>	<u>\$ 217,053</u>	<u>\$ 156,761</u>	<u>\$ 67,142</u>	<u>\$ 196,296</u>

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.

CITY OF FLORESVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

NOTE M—PRIOR PERIOD ADJUSTMENTS

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

	General Fund	Other Non Major Govt Fund	Primary Government Total	Floresville 4A Corp.
Agency cash transferred to General Fund	\$ 44,799	\$ -	\$ 44,799	\$ -
Accrual of sales taxes to correct period collected	180,007	44,622	224,629	44,622
Net prior period adjustments	<u>\$ 224,806</u>	<u>\$ 44,622</u>	<u>\$ 269,428</u>	<u>\$ 44,622</u>

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.

CITY OF FLORESVILLE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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. 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.

CITY OF FLORESVILLE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

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.

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. INTERLOCAL AGREEMENTS WITH THE CITY OF FLORESVILLE

Notes payable consist of amounts due from the 4A Corporation in the amount of \$5,961,531 and the Floresville EDC in the amount of \$1,369,800. 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 2012, 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		
	Bonds	Cap. Lease	Floresville
	4a	4a	EDC
2013	\$ 96,695	\$ 84,045	\$ 59,400
2014	94,325	86,995	63,800
2015	90,185	90,049	66,000
2016	1,291,389	-	68,200
2017	1,108,464	-	72,600
2018-2022	3,019,784	-	420,200
2023-2027	-	-	528,000
2028	-	-	91,600
	\$ 5,700,842	\$ 261,089	\$ 1,369,800

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, 2012 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.

REQUIRED SUPPLEMENTARY INFORMATION

City of Floresville, Texas
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual
For the Year Ended September 30, 2012

	BUDGETED AMOUNTS ORIGINAL AND FINAL	ACTUAL AMOUNTS	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>			
Property Taxes	\$ 921,000	\$ 433,100	\$ (487,900)
Sales Tax	1,425,000	1,228,856	(196,144)
Franchise Fees	606,000	610,178	4,178
Licenses, Permits, Fees and Fines	332,600	439,467	106,867
Hotel/Motel Tax	90,000	192,540	102,540
Miscellaneous	116,500	129,286	12,786
Interest	-	828	828
Total Revenues	<u>3,491,100</u>	<u>3,034,255</u>	<u>(456,845)</u>
<u>EXPENDITURES</u>			
Administration	1,066,900	1,469,857	(402,957)
Municipal Court	135,400	82,014	53,386
Police Department	1,204,021	1,046,126	157,895
Fire Department	61,150	52,993	8,157
Streets Department	707,400	474,047	233,353
Parks and Recreation	390,050	382,810	7,240
Pool Department	74,000	82,627	(8,627)
Mayor and Council	17,200	17,193	7
Debt Service			
Principal	-	212,000	(212,000)
Interest	-	7,778	(7,778)
Total Expenditures	<u>3,656,121</u>	<u>3,827,445</u>	<u>(171,324)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(165,021)</u>	<u>(793,190)</u>	<u>(628,169)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	165,021	449,464	284,443
Transfers (Out)	-	-	-
Other Sources – Capital Lease	-	40,645	40,645
Total Other Financing Sources (Uses)	<u>165,021</u>	<u>490,109</u>	<u>325,088</u>
Net Change in Fund Balances	-	(303,081)	(303,081)
<u>FUND BALANCES – BEGINNING OF YEAR</u>	<u>(166,385)</u>	<u>(166,385)</u>	<u>-</u>
Prior Period Adjustments	180,007	180,007	-
Prior Period Adjustments	44,799	44,799	-
<u>FUND BALANCE – BEGINNING OF YEAR AS RESTATED</u>	<u>58,421</u>	<u>58,421</u>	<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ 58,421</u>	<u>\$ (244,660)</u>	<u>\$ (303,081)</u>

OTHER SUPPLEMENTARY INFORMATION

City of Floresville, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

SPECIAL REVENUE FUNDS

	<u>STREET MAINTENANCE TAX</u>	<u>CHILD SAFETY</u>	<u>STATE FORFEITURE</u>	<u>PARK RECREATION</u>	<u>MUNICIPAL COURT TECHNOLOGY</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 1,972	\$ 981	\$ 31,872	\$ 26,996	\$ 7,837
Other Receivables, net	-	-	-	3,682	-
Due from Other Funds	-	-	-	-	-
Due from Other Government	54,887	-	-	-	-
TOTAL ASSETS	<u>\$ 56,859</u>	<u>\$ 981</u>	<u>\$ 31,872</u>	<u>\$ 30,678</u>	<u>\$ 7,837</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ 7,918	\$ -	\$ -	\$ -	\$ -
Due to Other Funds	55,764	-	-	-	-
Due to Others	-	-	1,988	-	-
Deferred Revenues	-	-	-	3,682	-
Total Liabilities	<u>63,682</u>	<u>-</u>	<u>1,988</u>	<u>3,682</u>	<u>-</u>
<u>FUND BALANCES</u>					
Restricted Capital Projects	-	-	-	-	-
Unreserved, Undesignated	(6,823)	981	29,884	26,996	7,837
Total Fund Balance	<u>(6,823)</u>	<u>981</u>	<u>29,884</u>	<u>26,996</u>	<u>7,837</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 56,859</u>	<u>\$ 981</u>	<u>\$ 31,872</u>	<u>\$ 30,678</u>	<u>\$ 7,837</u>

City of Floresville, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

MUNICIPAL COURT BUILDING SECURITY	TOTAL SPECIAL REVENUE FUNDS	CAPITAL PROJECT FUND	TOTAL NONMAJOR FUNDS
\$ 8,267	\$ 77,925	\$ 156,761	\$ 234,686
-	3,682	-	3,682
-	-	-	-
-	54,887	-	54,887
<u>\$ 8,267</u>	<u>\$ 136,494</u>	<u>\$ 156,761</u>	<u>\$ 293,255</u>
\$ -	\$ 7,918	\$ -	\$ 7,918
-	55,764	-	55,764
-	1,988	-	1,988
-	<u>3,682</u>	-	<u>3,682</u>
-	<u>69,352</u>	-	<u>69,352</u>
-	-	156,761	156,761
<u>8,267</u>	<u>67,142</u>	-	<u>67,142</u>
8,267	67,142	156,761	223,903
<u>\$ 8,267</u>	<u>\$ 136,494</u>	<u>\$ 156,761</u>	<u>\$ 293,255</u>

City of Floresville, Texas
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

SPECIAL REVENUE FUNDS

	STREET MAINTENANCE TAX	CHILD SAFETY	STATE FORFEITURE	PARKS RECREATION	MUNICIPAL COURT TECHNOLOGY
<u>REVENUES</u>					
Sales Tax	\$ 309,186	\$ -	\$ -	\$ -	\$ -
Fines, Fees and Forefeitures	-	981	3,536	26,996	730
Interest Earned	-	-	13	-	1
Total Revenues	309,186	981	3,549	26,996	731
<u>EXENDITURES</u>					
Current					
Public Safety	165,423	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	143,763	981	3,549	26,996	731
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers (Out)	(219,778)	-	-	-	-
Net Change in Fund Balances	(76,015)	981	3,549	26,996	731
<u>FUND BALANCES AT BEGINNING OF YEAR</u>	24,570	-	26,335	-	7,106
Prior Period Adjustments	44,622	-	-	-	-
<u>FUND BALANCE - BEGINNING OF YEAR AS RESTATED</u>	69,192	-	26,335	-	7,106
FUND BALANCES AT END OF YEAR	\$ (6,823)	\$ 981	\$ 29,884	\$ 26,996	\$ 7,837

City of Floresville, Texas
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended September 30, 2012

MUNICIPAL COURT BUILDING SECURITY	TOTAL SPECIAL REVENUE FUNDS	CAPITAL PROJECT FUND	TOTAL NONMAJOR FUNDS
\$ -	\$ 309,186	\$ -	\$ 309,186
548	32,791	-	32,791
<u>1</u>	<u>15</u>	<u>369</u>	<u>384</u>
<u>549</u>	<u>341,992</u>	<u>369</u>	<u>342,361</u>
-	165,423	-	165,423
<u>549</u>	<u>176,569</u>	<u>369</u>	<u>176,938</u>
<u>-</u>	<u>(219,778)</u>	<u>(278,195)</u>	<u>(497,973)</u>
549	(43,209)	(277,826)	(321,035)
<u>7,718</u>	<u>65,729</u>	<u>434,587</u>	<u>500,316</u>
-	44,622	-	44,622
<u>7,718</u>	<u>110,351</u>	<u>434,587</u>	<u>544,938</u>
<u>\$ 8,267</u>	<u>\$ 67,142</u>	<u>\$ 156,761</u>	<u>\$ 223,903</u>

COMPLIANCE SECTION



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**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
 1120 D Street
 Floresville, Texas 78114

We have audited the financial statements 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 (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City of Floresville's basic financial statements and have issued our report thereon dated May 20, 2013. Our opinion on the financial statements and this report, insofar as they relate to the component unit of Floresville Electric Light and Power and Light System are based solely 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.

Internal Control Over Financial Reporting

Management of the City of Floresville is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the 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.

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 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 2012-1 and 2012-2 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 2012-3 and 2012-4 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The 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 the 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 federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alonzo, Bacarisse, Irvine & Palmer, P.C.

May 20, 2013

CITY OF FLORESVILLE, TEXAS
SCHEDULE OF FINDINGS
For the Year Ended September 30, 2012

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:

#2012-1 Fund balance deficit

The general fund has a deficit in its fund balance of \$244,660, which is a technical violation of law. The general fund deficit is mainly due to unbudgeted and unexpected legal and professional fees.

#2012-2 Utility rates

The City's Controller, Lara Feagins was reviewing the City's utility rate ordinances for water, wastewater, and refuse and found that the rates being charged customers are not in accordance with the ordinances. The results of the rates not being entered into the system correctly were to the advantage of customers, as they were lower than adopted ordinances. The financial impact of the incorrect rates was not determined.

After adopting new rates, personnel should run tests of the system to determine that the rates are in accordance with the ordinances and that the system is calculating the billing correctly.

CITY OF FLORESVILLE, TEXAS
SCHEDULE OF FINDINGS
For the Year Ended September 30, 2012

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Significant Deficiencies:

2012-3 Payroll matters

The City's payroll module is currently not being utilized to its full potential in relation to tracking of compensatory time, vacation, and sick. Staff is maintaining a separate spread sheet related to these benefits and compensatory time is not maintained in the system at all. Compensated absences are required to be presented in conformity with general accepted accounting principles (GAAP) and although there are reports that can be generated by the software for this requirement they are not complete due to the balances not being maintained in the system. The system needs to be updated to include all compensated absences so that employee pay stubs, reports to supervisors, and year end reporting is accurate.

Insurance deductions maintained by the payroll module have significant problems related to monthly reconciliation, changes to benefits during open enrollment, new/departing employees not contributing the proper amount for employee portions, and the calculation of deductions on 26 pay periods versus the monthly billing from providers. Reconciliation needs to be performed monthly by the payroll staff to ensure the proper deductions are being recorded or withheld and that the insurance bills are accurate. In addition current deductions for both the employee and employer should be calculated on a 24 pay period cycle instead of 26 to assist in the reconciliation process and to avoid expenses being understated and amounts not fully recovered from employees.

2012-4 Municipal Court

The Municipal Court currently utilizes the same software vendor as the City accounting system, but is maintained on a separate server and is not connected. The Court should be linked to the City's general ledger and cash receipts module in order to ensure more accurate and timely financial information. In addition the Court is not making timely deposits, by linking the court module with cash receipts module deposits can be completed and posted daily. Currently there is little segregation of duties in the department, internal controls being implemented by the City should be used for all City departments.

CITY OF FLORESVILLE, TEXAS
SCHEDULE OF FINDINGS
For the Year Ended September 30, 2012

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As of the date of the audit report, implementation of the prior year finding has not been achieved:

#2011-5 Cash:

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

Status: The City of Floresville has increased the frequency of bank deposits for the Utility billing department however, when warranted, daily deposits are still not being maintained by all departments.

CITY OF FLORESVILLE, TEXAS
STATUS OF PRIOR YEAR FINDINGS
For the Year Ended September 30, 2012

12

Prior Year Findings and Status:

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.

Status: The City of Floresville has established the required funds and now records transactions in accordance with Generally Accepted Accounting Principles.

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.

Transactions were often netted against the revenue, rather than recording revenue and expenditures at gross in the accounts.

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.

Status: The City of Floresville has addressed the issue of reconciling accounts on a monthly basis.

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.

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). That monitoring should include determining compliance with the

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City's policies and procedures (which should be established for purchasing, payroll, and other significant processes of the City).

Status: Monthly review of actual vs. budget amounts is being implemented. Policies and procedures continue to be designed and documented.

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.

Status: 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.

Status: The City of Floresville has increased the frequency of bank deposits for the Utility billing department however daily deposits are still not being maintained by all departments. All bank accounts that the City is responsible for are recognized on the books. Petty Cash funds have been established and a written policy has been implemented in May 2013.

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2011-6 Investment Policy:

The City has no investment policy as required by the Public Funds Investment Act (PFIA). All governments in Texas 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.

Status: The City of Floresville located an approved 2006 Investment Policy only the required yearly review had not occurred; subsequently the City approved a new policy in April of 2013.

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.

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