

**City of Florence, Texas
Financial Statements
For the Year Ended
September 30, 2008**

Michael Warner & Associates, P.C.
A Professional Corporation
Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS
REQUIRED SUPPLEMENTARY INFORMATION

As management of the City of Florence, Texas (the City), we are pleased to offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2008. We encourage readers to consider it in conjunction with the additional information presented in the accompanying basic financial statements and the notes to the financial statements.

Financial Statements

- The net assets of the City's governmental activities increased by \$41,308 as a result of the current year's operations. Net assets at year end consisted of invested in capital assets (net of related debt) of \$527,421, restricted net assets for debt service of \$77,777, and unrestricted net assets of \$203,015, for total net assets of \$808,213.
- The City's business-type activities net assets decreased by \$38,325 as a result of the current year's operations. Business-type net assets consisted of invested in capital assets (net of related debt) of \$1,983,976, and unrestricted net assets of \$78,712, for total net assets of \$2,062,688 at the end of the year.
- Total revenues from all sources were \$1,125,480. This represents an increase of \$10,448 due to increased water and sanitation billings.
- Total costs of all programs were \$1,122,497. This represents an increase of \$122,572 due primarily to increases in general and police expenditures.
- As of September 30, 2008, the City's governmental funds reported an ending fund balance of \$265,004, of which \$176,085 is unreserved and \$88,919 is reserved for various purposes.

Using this Annual Report

This Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements.

This report presents the following three components of the financial statements:

1. Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund financial statements.

This report also contains other supplementary information in addition to the basic financial statements. This information includes this management's discussion and analysis and a budgetary comparison schedule.

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 information on all of the assets and liabilities of the City. The difference between assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information on how the City's net assets changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Both the Statement of Net Assets and the Statement of Activities present information for the following:

- Governmental activities include general government, public safety, highways, streets, community improvements, planning and zoning, judicial, general administrative, and other services as are authorized by its code of ordinances and its citizens.
- Business activities include water and sanitation services.

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 these costs through user fees and charges (business-type activities).

The government-wide financial statements begin on page 11. The following table is a summary of net assets as of September 30, 2008:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 242,379	\$ 207,826	\$ 121,552	\$ 161,824	\$ 363,931	\$ 369,650
Capital assets, net	570,835	574,754	1,987,560	2,049,282	2,558,395	2,624,036
Restricted assets	<u>77,777</u>	<u>93,177</u>	<u>-</u>	<u>-</u>	<u>77,777</u>	<u>93,177</u>
Total assets	<u>890,991</u>	<u>875,757</u>	<u>2,109,112</u>	<u>2,211,106</u>	<u>3,000,103</u>	<u>3,086,863</u>
Current liabilities	39,364	50,720	42,840	71,147	82,204	121,867
Noncurrent liabilities	<u>43,414</u>	<u>58,132</u>	<u>3,584</u>	<u>38,946</u>	<u>46,998</u>	<u>97,078</u>
Total liabilities	<u>82,778</u>	<u>108,852</u>	<u>46,424</u>	<u>110,093</u>	<u>129,202</u>	<u>218,945</u>
Net assets:						
Invested in capital assets, net of related debt	527,421	516,622	1,983,976	2,010,336	2,511,397	2,526,958
Restricted for:						
Debt Service	77,777	93,177	-	-	77,777	93,177
Unrestricted	<u>203,015</u>	<u>157,106</u>	<u>78,712</u>	<u>90,677</u>	<u>281,727</u>	<u>247,783</u>
	<u>\$ 808,213</u>	<u>\$ 766,905</u>	<u>\$ 2,062,688</u>	<u>\$ 2,101,013</u>	<u>\$ 2,870,901</u>	<u>\$ 2,867,918</u>

The following table is a summary of changes in net assets for the year ended September 30, 2008:

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program revenues:						
Charges for services	\$ 207,815	\$ 202,327	\$ 488,614	\$ 403,357	\$ 696,429	\$ 605,684
Operating grants and contributions	3,363	10,874	-	-	3,363	10,874
Capital grants and contributions	42,687	25,450	-	226,697	42,687	252,147
General revenues:						
Property taxes	181,544	159,146	4,626	23,687	186,170	182,833
Sales taxes	136,906	92,999	-	-	136,906	92,999
Franchise taxes	42,037	55,721	-	-	42,037	55,721
Miscellaneous	3,830	43	-	-	3,830	43
Investment earnings	6,687	8,363	821	2,664	7,508	11,027
Sale of assets	6,550	(100,025)	-	3,729	6,550	(96,296)
Transfers	<u>(21,218)</u>	<u>(3,844)</u>	<u>21,218</u>	<u>3,844</u>	<u>-</u>	<u>-</u>
Total revenues	<u>610,201</u>	<u>451,054</u>	<u>515,279</u>	<u>663,978</u>	<u>1,125,480</u>	<u>1,115,032</u>
Expenses:						
General government	218,293	172,640	-	-	218,293	172,640
Public safety	174,401	118,064	-	-	174,401	118,064
Public works	21,552	18,496	-	-	21,552	18,496
Municipal court	132,778	148,240	-	-	132,778	148,240
Parks and recreation	17,848	17,193	-	-	17,848	17,193
Fire safety	4,021	8,016	-	-	4,021	8,016
Water and sewer	-	-	<u>553,604</u>	<u>517,276</u>	<u>553,604</u>	<u>517,276</u>
Total expenses	<u>568,893</u>	<u>482,649</u>	<u>553,604</u>	<u>517,276</u>	<u>1,122,497</u>	<u>999,925</u>
Increase in net assets	41,308	(31,595)	(38,325)	146,702	2,983	115,107
Net assets - October 1	<u>766,905</u>	<u>798,500</u>	<u>2,101,013</u>	<u>1,954,311</u>	<u>2,867,918</u>	<u>2,752,811</u>
Net assets - September 30	\$ <u>808,213</u>	\$ <u>766,905</u>	\$ <u>2,062,688</u>	\$ <u>2,101,013</u>	\$ <u>2,870,901</u>	\$ <u>2,867,918</u>

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. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds - not the City as a whole. All of the City's funds fall into two categories - governmental funds and proprietary funds.

The *governmental funds statements* provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified accrual basis of accounting which focuses on available spendable resources. The focus of the City's *governmental fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. *Unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This allows the reader to evaluate the City's short-term financing requirements. Both the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* provide a reconciliation to the government-wide financial statements.

The City adopts an annual budget for the General Fund. A budgetary comparison schedule has been provided to demonstrate compliance. The governmental fund financial statements begin on page 14, and the budgetary comparison schedule is on page 45.

The *proprietary funds statements* present the same functions as the business-type activities in the government-wide financial statements. The City uses the proprietary funds to account for its water and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary funds financial statements begin on page 19.

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 23 through 43 of this report.

General Fund Budgetary Highlights

The City's original budget was not amended during the year ended September 30, 2008.

The City's overall actual revenue was 7 percent less than budgeted. This mainly resulted from a decrease in anticipated fine revenue. The City's overall actual expenses were 21 percent less than budgeted. This relates to a decrease in unexpected court department expenditures.

Capital Assets

In accordance with GASB Statement No. 34, the City is not required to report infrastructure retrospectively. Therefore, infrastructure has been capitalized prospectively beginning April 1, 2004.

The City's investment in capital assets (net of accumulated depreciation) for its governmental activities as of September 30, 2008, amounts to \$570,835 and for the City's business-type activities \$1,987,560. This investment in capital assets includes land, buildings, water and sewer system assets, improvements, vehicles, machinery and equipment.

**Capital Assets at Year End
(net of depreciation)**

	Governmental Activities	Business-Type Activities	Total 2008	Total 2007
Land	\$ 87,869	\$ 8,802	\$ 96,671	\$ 96,671
Machinery and equipment	172,179	26,765	198,944	204,758
Buildings and improvements	243,837	-	243,837	255,238
Street improvements	66,950	-	66,950	71,666
Water system	-	989,200	989,200	1,001,162
Sewer system	-	<u>962,793</u>	<u>962,793</u>	<u>994,541</u>
Total	<u>\$ 570,835</u>	<u>\$ 1,987,560</u>	<u>\$ 2,558,395</u>	<u>\$ 2,624,036</u>

Major capital asset additions during the year included the following:

2007 Dodge Charger	\$ 32,417
5 Library computers and software	10,270
Gardner street improvements	<u>22,200</u>
	<u>\$ 64,887</u>

Also during the year ended September 30, 2008, a police car was sold.

Additional information on the City's capital assets can be found in Notes 6 and 7 beginning on page 34 of this report.

Debt Administration

At year end, the City had the following debt:

Outstanding Debt at Year End

	Governmental Activities	Business-Type Activities	Total 2008	Total 2007
Notes and Leases Payable	\$ 11,414	\$ 3,584	\$ 14,998	\$ 32,078
Time Warrants	32,000	-	32,000	40,000
1997 Certificate of Obligation	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Total	\$ <u>43,414</u>	\$ <u>3,584</u>	\$ <u>46,998</u>	\$ <u>97,078</u>

During the year, the City assumed no new debt. The City did pay off the 1997 Certificate of Obligation.

The City incurred \$3,276 of interest expense during the year ended September 30, 2008, all of which has been charged as a direct expense of the various departments.

Additional information on the City's non-current liabilities can be found in Notes 8 and 9 beginning on page 35 of this report.

Economic Factors, Next Year's Budgets, and Highlights

The City of Florence continues to prepare and plan for future growth, by initiating policies and overseeing compliance in all areas of infrastructure and services.

The City has applied for numerous grants to improve infrastructure and other various projects. These grants include a Safe Route to School Grant, which is currently in the environmental stage. The City is anticipating a positive outcome of the Community Development Block Grant that we were denied in the previous year. The City will also be participating in the Home Program to build a new home for a needy family.

In the coming fiscal year, the City will begin the application process for a one and a half million loan from the Texas Water Development Board for various water and wastewater projects including the construction of a pipeline for surface water from Chisholm Trail

The Council and staff are striving for a pro-active approach to improve our infrastructure and prepare for anticipated growth within the City.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives from the citizens of Florence. If you have any questions about this report or need further information, contact the City of Florence, P.O. Box 430, Florence, Texas, 76527, or call 254-793-2490.

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INDEPENDENT AUDITORS' REPORT

To The Honorable Mayor and City Council
City of Florence, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Florence, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements, as listed in the accompanying Table of Contents. These financial statements are the responsibility of the City of Florence, Texas. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Florence, Texas as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison schedule are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Michael Warner & Associates, P.C.

Burnet, Texas
May 28, 2009

City of Florence, Texas

Statement of Net Assets

As of September 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 218,168	\$ 65,419	\$ 283,587	\$ 67,515
Receivables	24,211	56,133	80,344	-
Capital assets, net	570,835	1,987,560	2,558,395	-
Restricted assets				
Temporary investments	<u>77,777</u>	<u>-</u>	<u>77,777</u>	<u>-</u>
Total assets	<u>890,991</u>	<u>2,109,112</u>	<u>3,000,103</u>	<u>67,515</u>
Liabilities				
Accounts payable	21,881	1,312	23,193	-
Accrued expenses	17,483	8,729	26,212	-
Customer deposits	-	32,799	32,799	-
Noncurrent liabilities				
Due within one year	15,096	3,584	18,680	-
Due in more than one year	<u>28,318</u>	<u>-</u>	<u>28,318</u>	<u>-</u>
Total liabilities	<u>82,778</u>	<u>46,424</u>	<u>129,202</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	527,421	1,983,976	2,511,397	-
Restricted for:				
Debt service	77,777	-	77,777	-
Library	-	-	-	67,515
Unrestricted net assets	<u>203,015</u>	<u>78,712</u>	<u>281,727</u>	<u>-</u>
Total net assets	\$ <u>808,213</u>	\$ <u>2,062,688</u>	\$ <u>2,870,901</u>	\$ <u>67,515</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Activities*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 218,293	\$ 4,900	\$ 3,363	\$ 10,270
Public safety	174,401	12,839	-	32,417
Public works	21,552	-	-	-
Municipal court	132,778	185,361	-	-
Parks and recreation	17,848	4,715	-	-
Fire safety	<u>4,021</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	\$ <u>568,893</u>	\$ <u>207,815</u>	\$ <u>3,363</u>	\$ <u>42,687</u>
Business-type activities:				
Water and sewer	\$ <u>553,604</u>	\$ <u>488,614</u>	\$ <u>-</u>	\$ <u>-</u>
Total primary government	\$ <u>1,122,497</u>	\$ <u>696,429</u>	\$ <u>3,363</u>	\$ <u>42,687</u>
Component Unit:				
Library	\$ <u>26,122</u>	\$ <u>140</u>	\$ <u>52,457</u>	\$ <u>-</u>

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Unit	
\$ (199,760)	\$ -	\$ (199,460)	\$ -	
(129,145)	-	(129,145)	-	
(21,552)	-	(21,552)	-	
52,583	-	52,283	-	
(13,133)	-	(13,133)	-	
<u>(4,021)</u>	<u>-</u>	<u>(4,021)</u>	<u>-</u>	
\$ <u>(315,028)</u>	\$ <u>-</u>	\$ <u>(315,028)</u>	\$ <u>-</u>	
\$ -	\$ <u>(64,990)</u>	\$ <u>(64,990)</u>	\$ -	
\$ <u>(315,028)</u>	\$ <u>(64,990)</u>	\$ <u>(380,018)</u>	\$ -	
\$ -	\$ -	\$ -	\$ <u>26,475</u>	
General revenues:				
Taxes:				
Property taxes	181,544	4,626	186,170	-
Sales taxes	136,906	-	136,906	-
Franchise taxes	42,037	-	42,037	-
Miscellaneous	3,830	-	3,830	-
Investment earnings	6,687	821	7,508	1,452
Sale of assets	6,550	-	6,550	-
Transfers	<u>(21,218)</u>	<u>21,218</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>356,336</u>	<u>26,665</u>	<u>383,001</u>	<u>1,452</u>
Change in net assets	41,308	(38,325)	2,983	27,927
Net Assets, Beginning of Year	<u>766,905</u>	<u>2,101,013</u>	<u>2,867,918</u>	<u>39,588</u>
Net Assets, End of Year	\$ <u>808,213</u>	\$ <u>2,062,688</u>	\$ <u>2,870,901</u>	\$ <u>67,515</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Balance Sheet - Governmental Funds**As of September 30, 2008*

	Governmental Funds		
	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and savings	\$ 218,168	\$ -	\$ 218,168
Receivables:			
Property taxes	25,331	808	26,139
Restricted temporary investment	<u>77,777</u>	<u>-</u>	<u>77,777</u>
Total Assets	\$ <u>321,276</u>	\$ <u>808</u>	\$ <u>322,084</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 21,881	\$ -	\$ 21,881
Accrued liabilities	17,483	-	17,483
Deferred revenues	<u>16,908</u>	<u>808</u>	<u>17,716</u>
Total Liabilities	<u>56,272</u>	<u>808</u>	<u>57,080</u>
Fund Balances:			
Reserved for:			
Debt service	77,777	-	77,777
Veterans memorial	7,711	-	7,711
Police department	3,431	-	3,431
Unreserved	<u>176,085</u>	<u>-</u>	<u>176,085</u>
Total Fund Balances	<u>265,004</u>	<u>-</u>	<u>265,004</u>
Total Liabilities and Fund Balances	\$ <u>321,276</u>	\$ <u>808</u>	\$ <u>322,084</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets**As of September 30, 2008*

Total Fund Balance - Governmental Funds:	\$ 265,004
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (See Note 6)	570,835
Other long-term assets that are not available to pay for current year expenditures and therefore are not reported in the governmental funds balance sheet.	15,788
Long-term liabilities are not due and payable in the current year and therefore are not reported as liabilities in the governmental funds balance sheet. (See Note 8)	<u>(43,414)</u>
Net Assets of Governmental Activities	\$ <u>808,213</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds**For the Year Ended September 30, 2008*

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Tax collections, penalties, and interest	\$ 174,143	\$ 7,401	\$ 181,544
Sales tax	133,266	-	133,266
Franchise tax	46,018	-	46,018
Municipal court fines	185,984	-	185,984
Pool revenue	4,715	-	4,715
Fees and permits	16,797	-	16,797
Interest	6,687	-	6,687
Grant revenue	34,417	-	34,417
Contributions	13,633	-	13,633
Miscellaneous	<u>4,150</u>	<u>-</u>	<u>4,150</u>
Total Revenues	<u>619,810</u>	<u>7,401</u>	<u>627,211</u>
Expenditures			
General government	214,236	-	214,236
Public safety	192,428	-	192,428
Public works	20,102	-	20,102
Municipal court	129,667	-	129,667
Parks and recreation	<u>13,321</u>	<u>-</u>	<u>13,321</u>
Total Expenditures	<u>569,754</u>	<u>-</u>	<u>569,754</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>50,056</u>	<u>7,401</u>	<u>57,457</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds (Continued)**For the Year Ended September 30, 2008*

	General Fund	Debt Service Fund	Total Governmental Funds
Other Financing Sources (Uses)			
Transfers	(23,755)	2,537	(21,218)
Sale of assets	4,550	-	4,550
Debt service	-	(8,000)	(8,000)
Interest expense	<u>-</u>	<u>(1,938)</u>	<u>(1,938)</u>
Total Other Financing Sources (Uses)	<u>(19,205)</u>	<u>(7,401)</u>	<u>(26,606)</u>
Excess (Deficiencies) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	30,851	-	30,851
Fund Balance - Beginning of Year	<u>234,153</u>	<u>-</u>	<u>234,153</u>
Fund Balance - End of Year	\$ <u>265,004</u>	\$ <u>-</u>	\$ <u>265,004</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas

*Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances -
Governmental Funds to the Statement of Activities*

For the Year Ended September 30, 2008

Net Change in Fund Balance - Governmental Funds \$ 30,851

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in
the government-wide statement of Activities the cost of those assets is
allocated over their estimated useful lives as depreciation expense.
This amount is the net effect of these differences in the treatment of
capital outlays and related items. (See Note 6) (3,919)

Revenues in the government-wide Statement of Activities that do not provide
current financial resources are not reported as revenues in the funds. (342)

The issuance of long-term debt provides current financial resources to
governmental funds, while the repayment of the principal of long-term debt
consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. This amount is the net
effect of these differences in the treatment of long-term debt and related items.
(See Note 8) 14,718

Change in Net Assets of Governmental Activities \$ 41,308

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Net Assets
Proprietary Fund**As of September 30, 2008*

	Business-Type Activities Enterprise Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 65,419
Accounts receivable	<u>56,133</u>
Total Current Assets	121,552
Capital Assets	
Fixed assets (net of accumulated depreciation when applicable)	<u>1,987,560</u>
Total Assets	\$ <u>2,109,112</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 1,312
Accrued liabilities	8,729
Customer deposits	32,799
Current portion of long-term debt	<u>3,584</u>
Total Current Liabilities	<u>46,424</u>
Total Liabilities	<u>46,424</u>
Net Assets	
Invested in capital assets, net of related debt	1,983,976
Unrestricted net assets (deficit)	<u>78,712</u>
Total Net Assets	<u>2,062,688</u>
Total Liabilities and Net Assets	\$ <u>2,109,112</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Fund**For the Year Ended September 30, 2008*

	Business-Type Activities Enterprise <u>Fund</u>
Revenues	
Charges for services	\$ <u>488,614</u>
Total Revenues	<u>488,614</u>
Expenses	
Wages and benefits	169,719
Contractual service	118,774
Utilities	66,996
Water purchase	27,250
Administration	15,198
Repairs and maintenance	67,270
State fees	3,967
Depreciation	<u>83,922</u>
Total Expenses	<u>553,096</u>
Net Operating Income (Loss)	<u>(64,482)</u>
Non-Operating Revenue and (Expenses)	
Tax revenue	4,626
Interest revenue	821
Interest expense - bonds	<u>(508)</u>
Total Non-Operating Revenue and (Expenses)	<u>4,939</u>
Interfund Transfers	
Transfers in	<u>21,218</u>
Total Interfund Transfers	<u>21,218</u>
Net Income (Loss)	(38,325)
Total Net Assets, Beginning of Year	<u>2,101,013</u>
Total Net Assets, End of Year	\$ <u><u>2,062,688</u></u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Cash Flows
Proprietary Fund**For the Year Ended September 30, 2008*

	Business-Type Activities Enterprise <u>Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 476,977
Payments to suppliers	(347,390)
Payments to employees	(150,091)
Net cash provided (used) by operating activities	<u>(20,504)</u>
Cash Flows from Non-Capital Financing Activities	
Property taxes received	4,626
Transfers from other funds	<u>21,218</u>
Net cash provided (used) by non-capital financing activities	<u>25,844</u>
Cash Flows from Capital and Related Financing Activities	
Bond payments	(25,000)
Note payments	(10,362)
Interest paid on debt	(508)
Acquisition of capital assets	<u>(22,200)</u>
Net cash provided (used) by capital and related financing activities	<u>(58,070)</u>
Cash Flows from Investing Activities	
Interest on investments	<u>821</u>
Net cash provided (used) by investing activities	<u>821</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(51,909)
Cash and Cash Equivalents at Beginning of Year	<u>117,328</u>
Cash and Cash Equivalents at End of Year	\$ <u>65,419</u>

The accompanying notes are an integral part of the financial statements.

City of Florence, Texas*Statement of Cash Flows
Proprietary Fund (Continued)**For the Year Ended September 30, 2008*

	Business-Type Activities Enterprise <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (64,482)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	83,922
(Increase) decrease in accounts receivable	(11,637)
Increase (decrease) in accounts payable	(33,100)
Increase (decrease) in accrued expenses	2,361
Increase (decrease) in customer deposits	<u>2,432</u>
Net cash provided by operating activities	\$ (<u>20,504</u>)

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Florence, Texas (the City) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the City are described below.

Reporting Entity

The City is a general law city in Williamson County, which incorporated in the State of Texas in 1929. The City operates under a Council form of government and provides such services as public safety, highways, streets, sanitation and water, judicial, community improvements, planning and zoning, culture-recreation, general administrative, and other services as are authorized by its code of ordinances and its citizens.

The City Council, which is elected at large, consists of a mayor and five Aldermen constituting an ongoing entity and is the level of government which has governing responsibilities over all activities related to the City. The City is not included in any other governmental reporting entity. Councilmen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant indication of this ability is financial interdependency. Other indications of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no component units that meet the requirements for blending as discussed above.

Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. Each discretely presented component unit has a September 30 fiscal year end. The component units discussed below have been included based on the application of these criteria.

Florence Public Library - is a separate legal entity for which the primary government is financially accountable. This component unit has been discretely presented within the financial statements of the City because it exclusively benefits the primary government and the citizens of Florence. The component unit does not maintain separate financial statements other than those included in this report.

Financial Reporting Model

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the City prepares and presents financial information. GASB Statement No. 34 establishes requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Government-Wide Financial Statements***

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services during the year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets

The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net assets of a government will be reported in three categories - 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the funds are grouped into three broad fund categories as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

General Fund

This Fund is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds.

Debt Service Fund

This fund is used to account for the accumulation of financial resources for the payment of long-term bond debt principal and interest, paid principally from property taxes levied by the City.

Proprietary Funds

Enterprise Fund

This Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City's Enterprise Fund is used to account for the operations that provide water and sanitation services to the public on a continuing basis.

Budgetary Comparison Schedules

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets during the year for a variety of reasons. Under the reporting model, governments will provide budgetary comparison information in their annual reports including the original budget with the comparison of final budget and actual results.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Basis of Presentation***

The accounting and reporting policies of the City relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles as applicable to cities. Generally accepted accounting principles for cities include those principles prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and appropriate pronouncements of the American Institute of Certified Public Accountants (AICPA).

Basic Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. These financial statements focus on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, parks and recreation, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, parks and recreation, etc.) or a business-type activity. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The City does not allocate indirect expenses.

In the fund financial statements, financial transactions of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means of which spending activities are controlled.

The governmental fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the governmental column in the government-wide statements, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund financial statements with the governmental column of the government-wide presentation.

The focus of this reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

Basis of Accounting

Basis of accounting refers to the method by which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All revenue and expenditure recognition for governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The City’s revenues are recognized when they become measurable and available as current assets. Available means collectible within the current year or as soon enough thereafter to be used to pay liabilities of the current year. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal year. Utility franchise taxes, penalties and interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or the statement of net assets-proprietary funds.

Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sanitation function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Budgets***

Prior to August of each fiscal year, the mayor submits a proposed operating budget for the fiscal year commencing the following October 1 to the City Council. The operating budget includes proposed expenditures and means of financing them for the upcoming years, along with estimates for the current year and actual data for the preceding year. Public hearings are conducted to obtain taxpayer comments. Prior to September 30, the budget is legally enacted through passage by majority vote of the Council. The Council may authorize supplemental appropriations during the year.

The final amended budget is used in this report. Unused appropriations lapse at the end of the year unless carried forward to the next year by Council action. No encumbrances are recognized or recorded. The operating budget includes proposed expenditures for the General Fund. The City adopted the current year's budget on a line item basis.

Cash and Cash Equivalents

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents. The carrying amounts for cash and cash equivalents equal fair value.

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements of the City. In accordance with GASB Statement No. 34, the City is not required to report infrastructure retroactively. Therefore, infrastructure has been capitalized prospectively beginning April 1, 2004. Depreciation is recorded on general fixed assets on a government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Machinery and equipment	5-10 years
Buildings and improvements	10-40 years
Water and sewer system	10-50 years
Street improvements	10-20 years

General Obligation Enterprise Bonds

The Enterprise Fund provides the annual debt service requirements on certain general obligation enterprise bonds (not secured by system revenues) issued to finance system improvements. Since the Enterprise Fund provides the annual debt service on these general obligation enterprise bonds, the bonds are considered to be obligations of the Enterprise Fund and have been reported on the balance sheet of the Enterprise Fund.

Compensated Absences

The City accrues a liability for compensated absences which meet the following criteria:

- (a) The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (b) The obligation relates to rights that vest or accumulate.
- (c) Payment of the compensation is probable.
- (d) The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by employees. As of the balance sheet date, the City expected that all of the liability for accrued vacation would be liquidated with expendable resources. Therefore, the liability for accrued vacation is reflected as a current liability in the financial statements for the year ended September 30, 2008.

Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Risk Management***

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the year ended September 30, 2008, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. There were no significant reductions in commercial insurance coverage in the year ended September 30, 2008, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Commitments and Contingencies

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 2 - PROPERTY TAXES

Property taxes are levied each October 1 on the assessed value listed as of the previous January 1 for all real business and personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due in January following the October 1 statement date. The lien date is January 1 of that year, and they become delinquent on February 1. Property tax revenues are considered available when they become due or past due and are considered a receivable within the current year when they are expected to be collected 60 days after the close of the year.

The tax assessment of October 1, 2007 sets a tax levy at \$.50 per \$100 of assessed valuation at 100 percent of market value. Of this amount, \$0.0323 was allocated to debt service.

NOTE 2 - PROPERTY TAXES (Continued)

Delinquent property taxes estimated to be collectible within the next fiscal year are recognized as revenues. Other delinquent property taxes receivable at year end that are deemed to be ultimately collectible are recorded as deferred revenues.

NOTE 3 - EMPLOYEE BENEFITS

The City's policy is to account for the cost of employees' vacation time benefits as they are earned. At September 30, 2008, accrued vacation benefits related to employees of the General Fund totaling \$14,320 have been recorded on the General Fund. Accrued vacation benefits related to Enterprise Fund employees have been recorded on the Enterprise Fund in the amount of \$6,216.

NOTE 4 - DEPOSITS

Deposits

The City maintains its cash deposits in interest bearing accounts which are insured to a limit of \$100,000 by the FDIC and the remainder is secured by pledged collateral. As of the balance sheet date, the City's deposits totaled \$428,829, and the bank balance was \$455,357. At September 30, 2008 all of the City's balances are either insured by the FDIC or are collateralized by registered securities.

NOTE 5 - RESTRICTED TEMPORARY INVESTMENTS

Governmental Activities Assets Restricted

Temporary investments consist of cash and other highly liquid investments that are dedicated to the following:

Debt Service	\$ <u>77,777</u>
	\$ <u>77,777</u>

NOTE 6 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS

Changes in governmental capital assets during the year ended September 30, 2008, were as follows:

	Balance October 1, 2007	Increases	Decreases	Balance September 30, 2008
Capital Assets Not Being Depreciated				
Land	\$ <u>87,869</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>87,869</u>
Other Capital Assets				
Machinery and equipment	311,386	52,062	16,620	346,828
Buildings and improvements	380,155	-	-	380,155
Street improvements	<u>91,140</u>	<u>-</u>	<u>-</u>	<u>91,140</u>
Total Other Capital Assets	782,681	52,062	16,620	818,123
Less accumulated depreciation	<u>(295,796)</u>	<u>(55,981)</u>	<u>(16,620)</u>	<u>(335,157)</u>
Other Capital Assets, Net	<u>486,885</u>	<u>(3,919)</u>	<u>-</u>	<u>482,966</u>
Total Capital Assets, Net of Depreciation	\$ <u>574,754</u>	\$ <u>(3,919)</u>	\$ <u>-</u>	\$ <u>570,835</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	\$ 6,584
Public safety	31,123
Public works	10,635
Municipal court	3,111
Parks and recreation	<u>4,528</u>
Total depreciation expense - Governmental Activities	\$ <u>55,981</u>

NOTE 7 - CHANGES IN BUSINESS-TYPE CAPITAL ASSETS

Changes in business-type capital assets during the year ended September 30, 2008, were as follows:

	Balance October 1, 2007	Increases	Decreases	Balance September 30, 2008
Capital Assets Not Being Depreciated				
Land	\$ <u>8,802</u>	\$ -	\$ -	\$ <u>8,802</u>
Other Capital Assets				
Machinery and equipment	187,263	-	-	187,263
Water system	1,487,560	22,200	-	1,509,760
Sewer system	<u>1,424,777</u>	<u>-</u>	<u>-</u>	<u>1,424,777</u>
Total Other Capital Assets	3,099,600	22,200	-	3,121,800
Less accumulated depreciation	<u>(1,059,120)</u>	<u>(83,922)</u>	<u>-</u>	<u>(1,143,042)</u>
Other Capital Assets, Net	<u>2,040,480</u>	<u>(61,722)</u>	<u>-</u>	<u>1,978,758</u>
Total Capital Assets, Net of Depreciation	\$ <u>2,049,282</u>	\$ <u>(61,722)</u>	\$ <u>-</u>	\$ <u>1,987,560</u>

NOTE 8 - CHANGES IN GOVERNMENTAL ACTIVITIES NON-CURRENT LIABILITIES

The following is a summary of long-term debt transactions in the governmental activities for the year ended September 30, 2008:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008
Notes and leases payable	\$ 18,132	\$ -	\$ 6,718	\$ 11,414
Time warrants	<u>40,000</u>	<u>-</u>	<u>8,000</u>	<u>32,000</u>
	\$ <u>58,132</u>	\$ <u>-</u>	\$ <u>14,718</u>	\$ <u>43,414</u>

**NOTE 8 - CHANGES IN GOVERNMENTAL ACTIVITIES NON-CURRENT
LIABILITIES (Continued)**

Long-term debt in the governmental activities consists of the following at September 30, 2008:

<u>Payee and Terms</u>	<u>Balance at September 30, 2008</u>
Note Payable	
Note payable to Union State Bank, secured by a vehicle, payable in monthly installments of \$629 including interest at 5.5%, with final payment due April 20, 2010.	\$ 11,414
Bond Payable	
\$80,000 Time Warrants, Series 2003, due in annual installments of \$8,000 plus interest through July, 2012, with an interest rate of 5.1%.	\$ <u>32,000</u>
Total	43,414
Less current portion	<u>(15,096)</u>
Total Long-Term Debt	\$ <u>28,318</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2008, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 15,096	\$ 1,981	\$ 17,077
2010	12,318	1,201	13,519
2011	8,000	714	8,714
2012	<u>8,000</u>	<u>306</u>	<u>8,306</u>
	\$ <u>43,414</u>	\$ <u>4,202</u>	\$ <u>47,616</u>

NOTE 9 - CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES

The following is a summary of long-term debt transactions in the business-type activities for the year ended September 30, 2008:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008
Notes Payable	\$ 13,946	\$ -	\$ 10,362	\$ 3,584
1997 Certificate of Obligation	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>-</u>
	\$ <u>38,946</u>	\$ <u>-</u>	\$ <u>35,362</u>	\$ <u>3,584</u>

Long-term debt in the business-type activities consists of the following at September 30, 2008:

<u>Payee and Terms</u>	<u>Balance at September 30, 2008</u>
Notes and Lease Obligations Payable	
Note payable to Union State Bank, secured by a dump truck, payable in monthly installments of \$906 including interest at 5.5% with the final installment due January 23, 2009.	\$ <u>3,584</u>
Total	3,584
Less current portion	<u>(3,584)</u>
Total Long-Term Debt	\$ <u>-</u>

The annual requirements to amortize all certificates of obligation outstanding as of September 30, 2008, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ <u>3,584</u>	\$ <u>38</u>	\$ <u>3,622</u>
	\$ <u>3,584</u>	\$ <u>38</u>	\$ <u>3,622</u>

NOTE 10 - RESERVED FUND BALANCES

Certain amounts have been segregated within the equity section of the governmental fund type balance sheets as reserved for specific purposes to indicate that these amounts are not available for the general operations of the City. Reserves indicate a legal, contractual, or moral segregation of funds.

NOTE 11 - INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The financial statements for the governmental and proprietary type funds generally reflect some transactions as transfers and others as receivables and payables. There were no receivables or payables as of September 30, 2008.

Operating transfers as of September 30, 2008, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 12,027	\$ 35,782
Enterprise Fund	21,218	-
Debt Service Fund	<u>9,938</u>	<u>7,401</u>
Total Operating Transfers	\$ <u>43,183</u>	\$ <u>43,183</u>

NOTE 12 - PENSION PLANS

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer defined benefit pension plan.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the

NOTE 12 - PENSION PLANS (Continued)

date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming that the current member deposit rate of the currently employing City (5%, 6%, or 7%) has always been in effect. The computation also assumes that the member's salary has always been the member's average salary - using a salary calculation based on the 36-month period ending a year before the effective date of interest credited to member accounts in previous years, and increased by the City match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual City match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or updated service credit) equal to the difference between the hypothetical calculation and the actual calculation. At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three lifetime survivor options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. A member City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. Cities may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index - all Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate using the Projected Unit Credit actuarial cost method (effective with the December 31, 2007 actuarial valuation). This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. A member City's retirement contribution rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit

NOTE 12 - PENSION PLANS (Continued)

allocated annually. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating updates, such as updated service credit and annuity increases. The employer contribution rate cannot exceed a statutory maximum rate, which is a function of the employee contribution rate and the City matching percentage. 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, (i.e., December 31, 2007 valuation is effective for rates beginning January, 2009).

Actuarial Assumptions

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted the Updated service credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a City requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition of higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the City's unfunded actuarial accrued liability would have been \$16,230 and the funded ratio would have been 81.9%.

NOTE 12 - PENSION PLANS (Continued)

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio that includes equities as well. If state legislation needed to facilitate the contained diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in City contribution rates, following the December 31, 2009 actuarial valuation.

Schedule of Pension Plan

The City’s total payroll in fiscal year 2008 was \$305,687. Both the City and the covered employees made the required contributions, amounting to \$15,797 for the City and \$14,638 for the employees. There were no related-party transactions.

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Plan Provisions</u>			
Total number of participating entities	811	821	827
<u>City Specific</u>			
Employee deposit rate	5%	5%	5%
Matching ratio (city of employee)	1 to 1	1 to 1	1 to 1
Years required for vesting	5 years	5 years	5 years
Service retirement eligibility (Expressed as age/years of service)	60/5, 0/20	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%	0%
annually repeating (Y/N)	N	N	N
Annuity increase to retirees	0%	0%	0%
annually repeating (Y/N)	N	N	N
Supplemental death benefit			
for active employees (Y/N)	Y	Y	Y
for retirees (Y/N)	Y	Y	Y

Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective - for example, the January 1, 2007 contribution rate is based on the December 31, 2005 valuation results; if a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar year basis; the city discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City’s fiscal year.

NOTE 12 - PENSION PLANS (Continued)

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Actuarial Information</u>			
Actuarial cost method	Unit Credit	Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Amortization period	25 years-open period	25 years-open period	25 years-closed period
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Assumptions			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.5%	3.5%	3.0%
Cost-of-living adjustments	None	None	0.0%
City-specific assumptions			
Payroll growth assumption	3.0%	3.0%	3.0%
Withdrawal rates for Male/Female (mild, mild/low, mid, mid/high, or high)	Low/Low	Low/Low	Low/Low
<u>Schedule of Funding Information</u>			
Actuarial valuation date	December 31, 2005	December 31, 2006	December 31, 2007
Actuarial value of assets	\$ 46,667	\$ 65,043	\$ 73,585
Actuarial accrued liability (AAL)	\$ 58,382	\$ 79,665	\$ 109,586
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL)			
	\$ 11,715	\$ 14,622	\$ 36,001
Funded ratio	79.9%	81.6%	67.1%
Annual covered payroll (actuarial)	\$ 168,826	\$ 217,289	\$ 251,714
UAAL or OAAL as % of covered payroll	6.9%	6.7%	14.3%
	<u>9/30/08</u>	<u>9/30/07</u>	<u>9/30/06</u>
Net Pension Obligation (NPO)	\$ -0-	\$ -0-	\$ -0-
Annual Pension Costs (APC)	\$ 15,797	\$ 8,156	\$ 5,837
Percent of APC Contributed	100%	100%	100%

NOTE 13 - GRANT FUNDED PROGRAMS

In June 2005 the City (Enterprise Fund) was awarded a grant, Contract No. 725319, in the amount of \$250,000, funded through the Office of Rural Community Affairs. These funds are designated for sewer system improvements. The grant requires the City to provide matching funds of \$25,000 to pay engineering costs. The grant commenced June 22, 2005 as of September 30, 2008, \$250,000 has been spent, reimbursed, and is complete.

In August 2006, the City entered into a contract and agreement with the Texas Department of Housing and Community Affairs for a grant, in the amount of \$275,000 to rehabilitate or reconstruct five owner occupied residences. The grant period began November 1, 2006 and terminates April 30, 2009. As of September 30, 2008, \$1,200 has been spent and reimbursed.

In February 2008, the City was awarded a grant from the State for \$32,417. The proceeds were used for a law enforcement K-9 vehicle.

During the year ended September 30, 2008, the City has been awarded a grant of \$400,158 for sidewalks. As of September 30, 2008 no money has been spent or reimbursed.

NOTE 14 - SUBSEQUENT EVENTS

In January 2009, nine acres of land was donated to the City for use as a park. A grant has been applied for from Williamson County to make park improvements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Florence, Texas

Budgetary Comparison Schedule
General Fund

For the Year Ended September 30, 2008

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Revenues				
Tax collections, penalties and interest	\$ 168,643	\$ 168,643	\$ 174,143	\$ 5,500
Sales tax	122,686	122,686	133,266	10,580
Franchise tax	52,000	52,000	46,018	(5,982)
Municipal court fines	303,300	303,300	185,984	(117,316)
Pool revenue	5,500	5,500	4,715	(785)
Fees and permits	4,000	4,000	16,797	12,797
Interest	6,500	6,500	6,687	187
Grant revenue	-	-	34,417	34,417
Contributions	4,400	4,400	13,633	9,233
Miscellaneous	<u>725</u>	<u>725</u>	<u>4,150</u>	<u>3,425</u>
Total Revenues	<u>667,754</u>	<u>667,754</u>	<u>619,810</u>	<u>(47,944)</u>
Expenditures				
General government	208,752	208,752	214,236	(5,484)
Public safety	174,792	174,792	192,428	(17,636)
Public works	69,705	69,705	20,102	49,603
Municipal court	255,921	255,921	129,667	126,254
Parks and recreation	<u>15,750</u>	<u>15,750</u>	<u>13,321</u>	<u>2,429</u>
Total Expenditures	<u>724,920</u>	<u>724,920</u>	<u>569,754</u>	<u>155,166</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(57,166)</u>	<u>(57,166)</u>	<u>50,056</u>	<u>107,222</u>
Other Financing Sources (Uses):				
Transfers	-	-	(23,755)	(23,755)
Sale of assets	<u>-</u>	<u>-</u>	<u>4,550</u>	<u>4,550</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(19,205)</u>	<u>(19,205)</u>
Excess (Deficiencies) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	\$ <u>(57,166)</u>	\$ <u>(57,166)</u>	30,851	\$ <u>88,017</u>
Fund Balance - Beginning of Year			<u>234,153</u>	
Fund Balance - End of Year			\$ <u>265,004</u>	