

**City of Florence, Texas
Financial Statements
For the Year Ended
September 30, 2012**

Taber & Burnett, P.C.
A Professional Corporation
Certified Public Accountants

	Page
Management’s Discussion and Analysis	2
Independent Auditors’ Report	10
Statement of Net Assets	11
Statement of Activities	12
Balance Sheet - Governmental Funds	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Net Assets - Proprietary Fund	19
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	20
Statement of Cash Flows - Proprietary Fund	21
Notes to the Financial Statements	23
Required Supplementary Information: Budgetary Comparison Schedule - General Fund	44

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, 2012. 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 \$411,139 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 \$936,699, restricted net assets for various purposes of \$165,360, and unrestricted net assets of \$298,048, for total net assets of \$1,400,107.
- The City's business-type activities net assets increased by \$79,704 as a result of the current year's operations. Business-type net assets consisted of invested in capital assets (net of related debt) of \$2,063,042, and unrestricted net assets of \$244,446, for total net assets of \$2,307,488 at the end of the year.
- Total revenues from all sources were \$1,711,462. This represents an increase of \$208,485 due to increased taxes and grant revenues.
- Total costs of all programs were \$1,220,619. This represents a decrease of \$48,049 due primarily to decreases in court expenditures.
- As of September 30, 2012, the City's governmental funds reported an ending fund balance of \$448,504, of which \$283,144 is unassigned and \$165,360 is restricted 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 supplementary 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, 2012:

**Table 1
Net Assets**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 502,191	\$ 374,907	\$ 330,873	\$ 416,232	\$ 833,064	\$ 791,139
Capital assets, net	959,562	678,149	2,193,538	2,125,408	3,153,100	2,803,557
Restricted assets	<u>5,554</u>	<u>10,427</u>	<u>-</u>	<u>-</u>	<u>5,554</u>	<u>10,427</u>
Total assets	<u>1,467,307</u>	<u>1,063,483</u>	<u>2,524,411</u>	<u>2,541,640</u>	<u>3,991,718</u>	<u>3,605,123</u>
Current liabilities	44,337	37,387	86,427	179,456	130,764	216,843
Noncurrent liabilities	<u>22,863</u>	<u>37,128</u>	<u>130,496</u>	<u>134,400</u>	<u>153,359</u>	<u>171,528</u>
Total liabilities	<u>67,200</u>	<u>74,515</u>	<u>216,923</u>	<u>313,856</u>	<u>284,123</u>	<u>388,371</u>
Net assets:						
Invested in capital assets, net of related debt	936,699	641,021	2,063,042	1,991,008	2,999,741	2,632,029
Restricted for:						
Child and safety	7,408	10,981	-	-	7,408	10,981
Court	29,374	27,030	-	-	29,374	27,030
Debt Service	5,554	10,427	-	-	5,554	10,427
Parks	8,946	9,636	-	-	8,946	9,636
Police department	25,618	21,473	-	-	25,618	21,473
Streets	76,801	55,138	-	-	76,801	55,138
Veterans memorial	11,659	8,096	-	-	11,659	8,096
Unrestricted	<u>298,048</u>	<u>205,166</u>	<u>244,446</u>	<u>236,776</u>	<u>542,494</u>	<u>441,942</u>
	\$ <u>1,400,107</u>	\$ <u>988,968</u>	\$ <u>2,307,488</u>	\$ <u>2,227,784</u>	\$ <u>3,707,595</u>	\$ <u>3,216,752</u>

The following table is a summary of changes in net assets for the year ended September 30, 2012:

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 240,021	\$ 280,375	\$ 587,291	\$ 563,994	\$ 827,312	\$ 844,369
Operating grants and contributions	7,007	5,286	-	-	7,007	5,286
Capital grants and contributions	344,779	80,257	83,605	158,071	428,384	238,328
General revenues:						
Property taxes	248,256	214,258	-	-	248,256	214,258
Sales taxes	151,987	148,569	-	-	151,987	148,549
Franchise taxes	45,937	44,543	-	-	45,937	44,543
Miscellaneous	1,246	3,377	-	-	1,246	3,377
Investment earnings	842	914	491	333	1,333	1,247
Sale of assets	-	-	-	3,000	-	3,000
Total revenues	<u>1,040,075</u>	<u>777,579</u>	<u>671,387</u>	<u>725,398</u>	<u>1,711,462</u>	<u>1,502,977</u>
Expenses:						
General government	246,544	248,738	-	-	246,544	248,738
Public safety	212,071	208,692	-	-	212,071	208,692
Public works	21,592	17,998	-	-	21,592	17,998
Municipal court	119,214	150,849	-	-	119,214	150,849
Parks and recreation	25,494	25,668	-	-	25,494	25,668
Fire safety	4,021	4,021	-	-	4,021	4,021
Water and sewer	-	-	591,683	612,702	591,683	612,702
Total expenses	<u>628,936</u>	<u>655,966</u>	<u>591,683</u>	<u>612,702</u>	<u>1,220,619</u>	<u>1,268,668</u>
Increase in net assets before transfers	411,139	121,613	79,704	112,696	490,843	234,309
Transfers	-	3,000	-	(3,000)	-	-
Increase in net assets	411,139	124,613	79,704	109,696	490,843	234,309
Net assets - October 1	<u>988,968</u>	<u>864,355</u>	<u>2,227,784</u>	<u>2,118,088</u>	<u>3,216,752</u>	<u>2,982,443</u>
Net assets - September 30	\$ <u>1,400,107</u>	\$ <u>988,968</u>	\$ <u>2,307,488</u>	\$ <u>2,227,784</u>	\$ <u>3,707,595</u>	\$ <u>3,216,752</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. *Unassigned 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 44.

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 42 of this report.

General Fund Budgetary Highlights

The City's original budget was not amended during the year ended September 30, 2012.

The City's overall actual revenue was 63 percent more than budgeted. This mainly resulted from unbudgeted grant revenue and increased property taxes. The City's overall actual expenses were 45 percent more than budgeted. This primarily relates to an increase in unbudgeted grant 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, 2012, amounts to \$959,562 and for the City's business-type activities \$2,193,538. 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 2012	Total 2011
Land	\$ 142,966	\$ 8,802	\$ 151,768	\$ 151,768
Machinery and equipment	90,976	5,742	96,718	144,621
Buildings and improvements	223,766	-	223,766	234,653
Street improvements	501,854	-	501,854	164,607
Water system	-	1,122,374	1,122,374	1,081,411
Sewer system	-	<u>1,056,620</u>	<u>1,056,620</u>	<u>1,026,497</u>
Total	\$ <u>959,562</u>	\$ <u>2,193,538</u>	\$ <u>3,153,100</u>	\$ <u>2,803,557</u>

Major capital asset additions during the year included the following:

Wastewater Upgrades	\$ 69,998
Sidewalk Improvements	348,805
Wells refurbished	<u>61,853</u>
	\$ <u>480,656</u>

During the year ended September 30, 2012, no assets were disposed of.

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 2012	Total 2011
Notes and Leases Payable	\$ 22,863	\$ 130,496	\$ 153,359	\$ 163,528
Time Warrants	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
Total	\$ <u>22,863</u>	\$ <u>130,496</u>	\$ <u>153,359</u>	\$ <u>171,528</u>

During the year, the City assumed no new debt.

The City incurred \$5,790 of interest expense during the year ended September 30, 2012, all of which has been charged as a direct expense to the various departments.

Additional information on the City's non-current liabilities can be found in Notes 8 and 9 beginning on page 36 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 received a grant from the Texas Parks and Wildlife for \$191,215 to match the grant from Williamson County for \$200,000 and is in the construction phase of building the new Florence Community Park. The City of Florence has completed the project to update wastewater lines along College and adjacent streets with funding from a Community Development Block Grant (CDBG). The City of Florence also received a new CDBG grant for wastewater line upgrades for 2013 and is in the process of implementing the grant.

The Safe Route to School Grant is completed, and the City has a new sidewalk connecting our Elementary school with our Middle school.

The City received a Texas Department of Agriculture grant in the amount of \$350,000 for emergency water relief. This grant will allow us to move forward with the long anticipated project of blending a new source of surface water with our current well water. We estimate that this will secure water for our current citizens and provide for modest growth over the coming years.

The State Highway 195 Loop around Florence has begun construction and is scheduled to be completed by fiscal year 2013-2014.

The Council and employees continue to strive for a pro-active approach to improve services and staff by improving communication and services to the citizens of Florence.

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.

Taber & Burnett, P.C.

*A Professional Corporation
Certified Public Accountants*

*P.O. Box 1519, 412 Buchanan Drive, Burnet, Texas 78611
512/756-4904; Fax: 512/756-4227*

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, 2012, 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, 2012, 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. This supplementary information is the responsibility of the City's management. 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.

Taber & Burnett, P.C.

Burnet, Texas
May 8, 2013

City of Florence, Texas

Statement of Net Assets

As of September 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 416,246	\$ 266,452	\$ 682,698	\$ 76,525
Receivables	85,945	64,421	150,366	-
Capital assets, net	959,562	2,193,538	3,153,100	-
Restricted assets				
Temporary investments	<u>5,554</u>	<u>-</u>	<u>5,554</u>	<u>-</u>
Total assets	<u>1,467,307</u>	<u>2,524,411</u>	<u>3,991,718</u>	<u>76,525</u>
Liabilities				
Accounts payable	26,084	29,926	56,010	-
Accrued expenses	18,253	18,282	36,535	-
Customer deposits	-	38,219	38,219	-
Noncurrent liabilities				
Due within one year	6,623	4,021	10,644	-
Due in more than one year	<u>16,240</u>	<u>126,475</u>	<u>142,715</u>	<u>-</u>
Total liabilities	<u>67,200</u>	<u>216,923</u>	<u>284,123</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	936,699	2,063,042	2,999,741	-
Restricted for:				
Child and safety	7,408	-	7,408	-
Court	29,374	-	29,374	-
Debt service	5,554	-	5,554	-
Parks	8,946	-	8,946	-
Police department	25,618	-	25,618	-
Streets	76,801	-	76,801	-
Veterans memorial	11,659	-	11,659	-
Library	-	-	-	76,525
Unrestricted net assets	<u>298,048</u>	<u>244,446</u>	<u>542,494</u>	<u>-</u>
Total net assets	\$ <u>1,400,107</u>	\$ <u>2,307,488</u>	\$ <u>3,707,595</u>	\$ <u>76,525</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	\$ 246,544	\$ 5,164	\$ 4,060	\$ 344,779
Public safety	216,092	31,594	55	-
Public works	21,592	-	-	-
Municipal court	119,214	197,321	-	-
Parks and recreation	<u>25,494</u>	<u>5,942</u>	<u>2,892</u>	<u>-</u>
Total governmental activities	\$ <u>628,936</u>	\$ <u>240,021</u>	\$ <u>7,007</u>	\$ <u>344,779</u>
Business-type activities:				
Water and sewer	\$ <u>591,683</u>	\$ <u>587,291</u>	\$ <u>-</u>	\$ <u>83,605</u>
Total primary government	\$ <u>1,220,619</u>	\$ <u>827,312</u>	\$ <u>7,007</u>	\$ <u>428,384</u>
Component Unit:				
Library	\$ <u>10,262</u>	\$ <u>2,488</u>	\$ <u>9,382</u>	\$ <u>-</u>

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
\$ 107,459	\$ -	\$ 107,459	\$ -
(184,443)	-	(184,443)	-
(21,592)	-	(21,592)	-
78,107	-	78,107	-
<u>(16,660)</u>	<u>-</u>	<u>(16,660)</u>	<u>-</u>
\$ <u>(37,129)</u>	\$ <u>-</u>	\$ <u>(37,129)</u>	\$ <u>-</u>
\$ -	\$ <u>79,213</u>	\$ <u>79,213</u>	\$ -
\$ <u>(37,129)</u>	\$ <u>79,213</u>	\$ <u>42,084</u>	\$ -
\$ -	\$ -	\$ -	\$ <u>1,608</u>
General revenues:			
Taxes:			
Property taxes	248,256	-	248,256
Sales taxes	151,987	-	151,987
Franchise taxes	45,937	-	45,937
Miscellaneous	1,246	-	1,246
Investment earnings	<u>842</u>	<u>491</u>	<u>1,333</u>
Total general revenues	<u>448,268</u>	<u>491</u>	<u>448,759</u>
Change in net assets	411,139	79,704	490,843
Net Assets, Beginning of Year	<u>988,968</u>	<u>2,227,784</u>	<u>3,216,752</u>
Net Assets, End of Year	\$ <u>1,400,107</u>	\$ <u>2,307,488</u>	\$ <u>3,707,595</u>

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

City of Florence, Texas*Balance Sheet - Governmental Funds**As of September 30, 2012*

	Governmental Funds		
	General Fund	Debt Service Fund	Total Governmental Funds
Assets			
Cash and savings	\$ 416,246	\$ -	\$ 416,246
Receivables:			
Property and sales taxes	26,911	633	27,544
Grant	57,900	-	57,900
Restricted temporary investments	<u>5,554</u>	<u>-</u>	<u>5,554</u>
Total Assets	\$ <u>506,611</u>	\$ <u>633</u>	\$ <u>507,244</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 25,987	\$ -	\$ 25,987
Accrued liabilities	18,350	-	18,350
Deferred revenues	<u>13,770</u>	<u>633</u>	<u>14,403</u>
Total Liabilities	<u>58,107</u>	<u>633</u>	<u>58,740</u>
Fund Balances:			
Restricted for:			
Child & Safety	7,408	-	7,408
Court	29,374	-	29,374
Debt Service	5,554	-	5,554
Parks	8,946	-	8,946
Police Department	25,618	-	25,618
Streets	76,801	-	76,801
Veterans Memorial	11,659	-	11,659
Unassigned	<u>283,144</u>	<u>-</u>	<u>283,144</u>
Total Fund Balances	<u>448,504</u>	<u>-</u>	<u>448,504</u>
Total Liabilities and Fund Balances	\$ <u>506,611</u>	\$ <u>633</u>	\$ <u>507,244</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 Statement of Net Assets*

As of September 30, 2012

Total Fund Balance - Governmental Funds:	\$ 448,504
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)	959,562
Other long-term assets that are not available to pay for current year expenditures are not reported in the governmental funds balance sheet.	14,904
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>(22,863)</u>
Net Assets of Governmental Activities	\$ <u>1,400,107</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, 2012*

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues			
Tax collections, penalties, and interest	\$ 238,309	\$ 9,947	\$ 248,256
Sales tax	152,639	-	152,639
Franchise tax	45,937	-	45,937
Municipal court fines	197,321	-	197,321
Police revenue	31,594	-	31,594
Pool revenue	5,942	-	5,942
Fees and permits	5,164	-	5,164
Interest	842	-	842
Grant revenue	343,279	-	343,279
Contributions	8,508	-	8,508
Miscellaneous	<u>1,246</u>	<u>-</u>	<u>1,246</u>
Total Revenues	<u>1,030,781</u>	<u>9,947</u>	<u>1,040,728</u>
Expenditures			
General government	227,387	-	227,387
Public safety	191,010	-	191,010
Public works	355,526	-	355,526
Municipal court	118,160	-	118,160
Parks and recreation	<u>24,225</u>	<u>-</u>	<u>24,225</u>
Total Expenditures	<u>916,308</u>	<u>-</u>	<u>916,308</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>114,473</u>	<u>9,947</u>	<u>124,420</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, 2012*

	General Fund	Debt Service Fund	Total Governmental Funds
Other Financing Sources (Uses)			
Transfers	1,641	(1,641)	-
Debt service	-	(8,000)	(8,000)
Interest expense	<u>-</u>	<u>(306)</u>	<u>(306)</u>
Total Other Financing Sources (Uses)	<u>1,641</u>	<u>(9,947)</u>	<u>(8,306)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	116,114	-	116,114
Fund Balance - Beginning of Year	<u>332,390</u>	<u>-</u>	<u>332,390</u>
Fund Balance - End of Year	\$ <u><u>448,504</u></u>	\$ <u><u>-</u></u>	\$ <u><u>448,504</u></u>

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

City of Florence, Texas

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

For the Year Ended September 30, 2012

Net Change in Fund Balance - Governmental Funds	\$ 116,114
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)	281,413
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(653)
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)	<u>14,265</u>
Change in Net Assets of Governmental Activities	\$ <u>411,139</u>

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, 2012*

	Business-Type Activities Enterprise <u>Fund</u>
Assets	
Current Assets	
Cash and cash equivalents	\$ 266,452
Accounts receivable	<u>64,421</u>
Total Current Assets	330,876
Capital Assets	
Fixed assets (net of accumulated depreciation when applicable)	<u>2,193,538</u>
Total Assets	\$ <u>2,524,411</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 29,926
Accrued liabilities	18,282
Customer deposits	38,219
Current portion of long-term debt	<u>4,021</u>
Total Current Liabilities	90,448
Non-Current Liabilities	
Notes Payable	<u>126,475</u>
Total Liabilities	<u>216,923</u>
Net Assets	
Invested in capital assets, net of related debt	2,063,042
Unrestricted net assets (deficit)	<u>244,446</u>
Total Net Assets	<u>2,307,488</u>
Total Liabilities and Net Assets	\$ <u>2,524,411</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, 2012*

	Business-Type Activities Enterprise <u>Fund</u>
Revenues	
Charges for services	\$ <u>587,291</u>
Total Revenues	<u>587,291</u>
Expenses	
Wages and benefits	156,107
Contractual service	134,880
Utilities	57,574
Water purchase	31,250
Administration	25,451
Repairs and maintenance	82,078
State fees	8,007
Depreciation	<u>92,304</u>
Total Expenses	<u>587,651</u>
Net Operating Income (Loss)	<u>(360)</u>
Non-Operating Revenue and (Expenses)	
Interest revenue	491
Interest expense	(4,032)
Grant revenue	<u>83,605</u>
Total Non-Operating Revenue and (Expenses)	<u>80,064</u>
Net Income (Loss)	79,704
Total Net Assets, Beginning of Year	<u>2,227,784</u>
Total Net Assets, End of Year	\$ <u><u>2,307,488</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, 2012*

	Business-Type Activities Enterprise <u>Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 578,406
Payments to suppliers	(338,131)
Payments to employees	(141,557)
Net cash provided (used) by operating activities	<u>98,718</u>
Cash Flows from Capital and Related Financing Activities	
Grant revenue	83,605
Note payments	(3,904)
Interest on debt	(4,032)
Acquisition of capital assets	(160,434)
Net cash provided (used) by capital and related financing activities	<u>(84,765)</u>
Cash Flows from Investing Activities	
Interest on investments	<u>491</u>
Net cash provided (used) by investing activities	<u>491</u>
Net (Decrease) Increase in Cash and Cash Equivalents	14,444
Cash and Cash Equivalents at Beginning of Year	<u>252,008</u>
Cash and Cash Equivalents at End of Year	\$ <u>266,452</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, 2012*

	Business-Type Activities Enterprise <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (360)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	92,304
(Increase) decrease in accounts receivable	(8,626)
(Increase) decrease in grant receivable	108,429
Increase (decrease) in accounts payable	(101,939)
Increase (decrease) in accrued expenses	5,885
Increase (decrease) in customer deposits	<u>3,025</u>
Net cash provided by operating activities	\$ <u>98,718</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 unit discussed below has 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

The City follows GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. 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 two 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.

Fund Balance Classification

The City follows GASB No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.
- Restricted - includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Committed - includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Council, the City's highest level of decision making authority. Commitments may be modified or rescinded only through ordinances approved by the Council.
- Assigned - includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.
- Unassigned - includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The District reports all amounts that meet the unrestricted General Fund Balance Policy as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

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 current reporting model, governments provide budgetary comparison information in their annual reports including the original budget with the comparison of the final budget and actual results.

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).

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

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.

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

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 and the full accrual basis. 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.

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 fund balance. 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.

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,

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 restricted cash and cash equivalents. The carrying amounts for cash and cash equivalents approximates fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables include amounts due from customers for water and sanitation services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with accounts receivable were \$68,578 for the year ended September 30, 2012.

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.

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
Street improvements	10-20 years
Water and sewer system	10-50 years

General Obligation Proprietary Fund Bonds

At times, the Proprietary Fund provides the annual debt service requirements on certain general obligation proprietary fund bonds (not secured by system revenues) issued to finance system improvements. Since the Proprietary Fund provides the annual debt service on these general obligation bonds, the bonds are considered to be obligations of the Proprietary Fund and have been reported on the balance sheet of the Proprietary Fund, when applicable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012.

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 revenues and expenses during the reporting year. Actual results could differ from those estimates.

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, 2012, 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, 2012, and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011 sets a tax levy at \$0.741697 per \$100 of assessed valuation at 100 percent of market value. Of this amount, \$0.029717 was allocated to debt service.

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, 2012, accrued vacation benefits related to employees of the General Fund totaling \$6,336 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 \$2,523.

NOTE 4 - DEPOSITS

Deposits

The City maintains its cash deposits in interest bearing accounts which are insured to a limit of \$250,000 by the FDIC and the remainder is secured by pledged collateral. As of the balance sheet date, the City's and library's deposits totaled \$764,777, and the bank balance was \$704,561. At September 30, 2012 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>5,554</u>
	\$ <u>5,554</u>

NOTE 6 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS

Changes in governmental capital assets during the year ended September 30, 2012, were as follows:

	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012
Capital Assets Not Being Depreciated				
Land	\$ <u>142,966</u>	\$ -	\$ -	\$ <u>142,966</u>
Other Capital Assets				
Machinery and equipment	394,876	5,220	-	400,096
Buildings and improvements	409,835	3,600	-	413,435
Street improvements	162,518	392,811	-	555,329
Construction in progress	<u>44,006</u>	<u>-</u>	<u>44,006</u>	<u>-</u>
Total Other Capital Assets	1,011,235	401,631	44,006	1,368,860
Less accumulated depreciation	<u>(476,052)</u>	<u>(76,212)</u>	<u>-</u>	<u>(552,264)</u>
Other Capital Assets, Net	<u>535,183</u>	<u>325,419</u>	<u>44,006</u>	<u>816,596</u>
Total Capital Assets, Net of Depreciation	\$ <u>678,149</u>	\$ <u>325,419</u>	\$ <u>44,006</u>	\$ <u>959,562</u>

NOTE 6 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS (Continued)

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

Governmental Activities:	
General government	\$ 17,576
Public safety	33,871
Public works	17,647
Municipal court	2,249
Parks and recreation	<u>4,869</u>
 Total depreciation expense - Governmental Activities	 \$ <u>76,212</u>

NOTE 7 - CHANGES IN BUSINESS-TYPE CAPITAL ASSETS

Changes in business-type capital assets during the year ended September 30, 2012, were as follows:

	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012
Capital Assets Not Being Depreciated				
Land	\$ <u>8,802</u>	\$ -	\$ -	\$ <u>8,802</u>
Other Capital Assets				
Machinery and equipment	193,363	-	-	193,363
Water system	1,712,639	90,436	-	1,803,075
Sewer system	1,427,547	227,194	-	1,654,741
Construction in progress	<u>167,921</u>	<u>-</u>	<u>157,196</u>	<u>10,725</u>
Total Other Capital Assets	3,501,470	317,630	157,196	3,661,904
Less accumulated depreciation	<u>(1,384,864)</u>	<u>(92,304)</u>	<u>-</u>	<u>(1,477,168)</u>
Other Capital Assets, Net	<u>2,116,606</u>	<u>225,326</u>	<u>157,196</u>	<u>2,184,736</u>
Total Capital Assets, Net of Depreciation	\$ <u>2,125,408</u>	\$ <u>225,326</u>	\$ <u>157,196</u>	\$ <u>2,193,538</u>

NOTE 8 - CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES

The following is a summary of long-term debt transactions in the governmental activities for the year ended September 30, 2012:

	Balance			Balance
	October 1, 2011	Additions	Reductions	September 30, 2012
Notes and leases payable	\$ 29,128	\$ -	\$ 6,265	\$ 22,863
Time warrants	<u>8,000</u>	<u>-</u>	<u>8,000</u>	<u>-</u>
	\$ <u>37,128</u>	\$ <u>-</u>	\$ <u>14,265</u>	\$ <u>22,863</u>

Long-term debt in the governmental activities consists of the following at September 30, 2012:

<u>Payee and Terms</u>	<u>Balance at September 30, 2012</u>
Note payable to Union State Bank, secured by a vehicle, payable in monthly installments of \$643 including interest at 5.5%, with final payment due December 2015.	\$ <u>22,863</u>
Total	22,863
Less current portion	<u>(6,623)</u>
Total Long-Term Debt	\$ <u>16,240</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2012, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 6,623	\$ 1,094	\$ 7,717
2014	6,997	720	7,717
2015	7,393	324	7,717
2016	<u>1,850</u>	<u>17</u>	<u>1,867</u>
	\$ <u>22,863</u>	\$ <u>2,155</u>	\$ <u>25,018</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, 2012:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012
Notes payable	\$ <u>134,400</u>	\$ <u>-</u>	\$ <u>3,904</u>	\$ <u>130,496</u>
	\$ <u>134,400</u>	\$ <u>-</u>	\$ <u>3,904</u>	\$ <u>130,496</u>

Long-term debt in the business-type activities consists of the following at September 30, 2012:

<u>Payee and Terms</u>	<u>Balance at September 30, 2012</u>
Note payable to the Texas Department of Transportation, payable in annual installments of \$7,936 including interest at 3%, with final payment due July 2035.	\$ <u>130,496</u>
Total	130,496
Less current portion	<u>(4,021)</u>
Total Long-Term Debt	\$ <u>126,475</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2012, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 4,021	\$ 3,915	\$ 7,936
2014	4,142	3,794	7,936
2015	4,266	3,670	7,936
2016	4,394	3,542	7,936
2017	4,526	3,410	7,936
2018 to 2022	24,749	14,931	39,680
2023 to 2027	28,690	10,990	39,680
2028 to 2032	33,260	6,420	39,680
2033 to 2035	<u>22,448</u>	<u>1,361</u>	<u>23,809</u>
	\$ <u>130,496</u>	\$ <u>52,033</u>	\$ <u>182,529</u>

NOTE 10 - RESTRICTED FUND BALANCES

Certain amounts have been segregated within the equity section of the governmental fund type balance sheets as restricted for specific purposes as imposed by external parties.

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.

Interfund activity as of September 30, 2012, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 9,947	\$ 8,036	\$ -	\$ -
Debt Service Fund	<u>8,306</u>	<u>9,947</u>	<u>-</u>	<u>-</u>
Total Operating Transfers	\$ <u>18,253</u>	\$ <u>18,263</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 12 - PENSION PLANS**Plan Description**

The City provides pension benefits for all of its eligible employees through a nontraditional, 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 state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

NOTE 12 - PENSION PLANS (Continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statues governing TMRS.

Plan provisions for the City were as follows:

	<u>Plan Year 2012</u>	<u>Plan Year 2011</u>
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City 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 (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credit and Annuity Increases.

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

The annual pensions cost and net pension obligation are as follows:

	<u>9/30/12</u>	<u>9/30/11</u>	<u>9/30/10</u>
Net Pension Obligation (NPO)	\$ -0-	\$ -0-	\$ -0-
Annual Pension Costs (APC)	\$ 9,296	\$ 14,637	\$ 14,072
Percent of APC Contributed	100%	100%	100%

NOTE 12 - PENSION PLANS (Continued)

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
<u>Actuarial Information</u>			
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
GASB 25 Equivalent Single			
Amortization period	16 years-closed period	20.5 years-closed period	23.3 years-closed period
Amortization Period for			
new gains/losses	14 years	14 years	25 years
Asset valuation method	10 year smoothed market	10 year smoothed market	10 year smoothed market
Assumptions			
Investment rate of return	7.0%	7.0%	7.5%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
<u>Schedule of Funding Information</u>			
Actuarial valuation date	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial value of assets	\$ 225,489	\$ 189,606	\$ 140,535
Actuarial accrued liability (AAL)	\$ 229,250	\$ 208,138	\$ 177,840
Unfunded/(Overfunded)			
actuarial accrued liability			
(UAAL or OAAL)	\$ 3,761	\$ 18,532	\$ 37,305
Funded ratio	98.4%	91.1%	79.0%
Annual covered payroll			
(actuarial)	\$ 299,722	\$ 286,086	\$ 294,039
UAAL or OAAL as % of			
covered payroll	1.3%	6.5%	12.7%

NOTE 12 - PENSION PLANS (Continued)

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuations and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NOTE 13 - SUPPLEMENTAL DEATH BENEFITS PLAN

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

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

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

TMRS records indicate the following amount being fully contributed by the City (as employer contributions) for the following fiscal years ending:

	<u>SDBF</u>
09/30/2012	0.02%
09/30/2011	0.01%
09/30/2010	0.02%

NOTE 14 - GRANT FUNDED PROGRAMS

In fiscal year 2010 the City (Enterprise Fund) was awarded a grant, Contract No. 710221, 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. As of September 30, 2012, \$241,676 has been spent and reimbursed.

During the year ended September 30, 2008, the City was awarded a grant of \$400,158 for sidewalks. As of September 30, 2012 \$387,285 has been spent and reimbursed.

In the fiscal year ended September 30, 2009, the City was awarded two grants totaling \$391,215 from Williamson County and the Texas Parks and Wildlife for park projects. As of September 30, 2012 no money has been reimbursed.

NOTE 15 - SUBSEQUENT EVENTS

The District did not have any subsequent events through May 8, 2013, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the fiscal year ended September 30, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

City of Florence, Texas

*Budgetary Comparison Schedule
General Fund*

For the Year Ended September 30, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Revenues				
Tax collections, penalties and interest	\$ 199,000	\$ 199,000	\$ 238,309	\$ 39,309
Sales tax	126,876	126,876	152,639	25,763
Franchise tax	42,500	42,500	45,937	3,437
Municipal court fines	225,000	225,000	197,321	(27,679)
Police revenue	20,400	20,400	31,594	11,194
Pool revenue	6,000	6,000	5,942	(58)
Fees and permits	9,800	9,800	5,164	(4,636)
Interest	450	450	842	392
Grant revenue	-	-	343,279	343,279
Contributions	-	-	8,508	8,508
Miscellaneous	<u>500</u>	<u>500</u>	<u>1,246</u>	<u>746</u>
Total Revenues	<u>630,526</u>	<u>630,526</u>	<u>1,030,781</u>	<u>400,255</u>
Expenditures				
General government	251,729	251,729	227,387	24,342
Public safety	182,963	182,963	191,010	(8,047)
Public works	14,300	14,300	355,526	(341,226)
Municipal court	158,234	158,234	118,160	40,074
Parks and recreation	<u>23,300</u>	<u>23,300</u>	<u>24,225</u>	<u>(925)</u>
Total Expenditures	<u>630,526</u>	<u>630,526</u>	<u>916,308</u>	<u>(285,782)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>114,473</u>	<u>114,473</u>
Other Financing Sources (Uses):				
Transfers	<u>-</u>	<u>-</u>	<u>1,641</u>	<u>1,641</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,641</u>	<u>1,641</u>
Excess (Deficiencies) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>\$ -</u>	<u>\$ -</u>	116,114	<u>\$ 116,114</u>
Fund Balance - Beginning of Year			<u>332,390</u>	
Fund Balance - End of Year			<u>\$ 448,504</u>	