

**City of Florence, Texas
Financial Statements
For the Year Ended
September 30, 2013**

Taber & Burnett, 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, 2013. 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 position of the City's governmental activities increased by \$362,626 as a result of the current year's operations. Net position at year end consisted of invested in capital assets (net of related debt) of \$1,251,922, restricted net position for various purposes of \$185,231, and unrestricted net position of \$325,580, for total net position of \$1,762,733.
- The City's business-type activities net position increased by \$109,416 as a result of the current year's operations. Business-type net position consisted of invested in capital position (net of related debt) of \$2,056,260, and unrestricted net position of \$360,644, for total net position of \$2,416,904 at the end of the year.
- Total revenues from all sources were \$1,710,596. This represents a decrease of \$866 due to increased taxes and decreased grant revenues.
- Total costs of all programs were \$1,238,554. This represents an increase of \$17,935 due primarily to increases in court and street expenditures.
- As of September 30, 2013, the City's governmental funds reported an ending fund balance of \$493,545, of which \$308,314 is unassigned and \$185,231 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 Position* presents information on all of the assets and liabilities of the City. The difference between assets and liabilities is reported as net position. Over time, increases or decreases in net position 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 position 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 Position 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 12. The following table is a summary of net position as of September 30, 2013:

**Table 1
Net Position**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>Primary</u>	<u>Government</u>
Current and other assets	\$ 534,278	\$ 502,191	\$ 474,180	\$ 330,873	\$ 1,008,458	\$ 833,064
Capital assets, net	1,268,162	959,562	2,182,735	2,193,538	3,450,897	3,153,100
Restricted assets	-	5,554	-	-	-	5,554
Total assets	<u>1,802,440</u>	<u>1,467,307</u>	<u>2,656,915</u>	<u>2,524,411</u>	<u>4,459,355</u>	<u>3,991,718</u>
Current liabilities	23,467	44,337	113,536	86,427	137,003	130,764
Noncurrent liabilities	16,240	22,863	126,475	130,496	142,715	153,359
Total liabilities	<u>39,707</u>	<u>67,200</u>	<u>240,011</u>	<u>216,923</u>	<u>279,718</u>	<u>284,123</u>
Net position:						
Invested in capital assets, net of related debt	1,251,922	936,699	2,056,260	2,063,042	3,308,182	2,999,741
Restricted for:						
Child and safety	12,498	7,408	-	-	12,498	7,408
Court	17,877	29,374	-	-	17,877	29,374
Debt Service	-	5,554	-	-	-	5,554
Parks	13,965	8,946	-	-	13,965	8,946
Police department	28,006	25,618	-	-	28,006	25,618
Streets	102,346	76,801	-	-	102,346	76,801
Veterans memorial	10,539	11,659	-	-	10,539	11,659
Unrestricted	<u>325,580</u>	<u>298,048</u>	<u>360,644</u>	<u>244,446</u>	<u>686,224</u>	<u>542,494</u>
	<u>\$ 1,762,733</u>	<u>\$ 1,400,107</u>	<u>\$ 2,416,904</u>	<u>\$ 2,307,488</u>	<u>\$ 4,179,637</u>	<u>\$ 3,707,595</u>

The following table is a summary of changes in net position for the year ended September 30, 2013:

**Table 2
Changes in Net Position**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 305,436	\$ 240,021	\$ 608,461	\$ 587,291	\$ 913,897	\$ 827,312
Operating grants and contributions	9,242	7,007	-	-	9,242	7,007
Capital grants and contributions	251,875	344,779	46,350	83,605	298,225	428,384
General revenues:						
Property taxes	258,601	248,256	-	-	258,601	248,256
Sales taxes	184,694	151,987	-	-	184,694	151,987
Franchise taxes	42,611	45,937	-	-	42,611	45,937
Miscellaneous	2,282	1,246	-	-	2,282	1,246
Investment earnings	1,063	842	553	491	1,616	1,333
Sale of assets	(572)	-	-	-	(572)	-
Total revenues	<u>1,055,232</u>	<u>1,040,075</u>	<u>655,364</u>	<u>671,387</u>	<u>1,710,596</u>	<u>1,711,462</u>
Expenses:						
General government	238,618	246,544	-	-	238,618	246,544
Public safety	188,222	216,092	-	-	188,222	216,092
Public works	58,777	21,592	-	-	58,777	21,592
Municipal court	164,704	119,214	-	-	164,704	119,214
Parks and recreation	37,285	25,494	-	-	37,285	25,494
Water and sewer	-	-	<u>550,948</u>	<u>591,683</u>	<u>550,948</u>	<u>591,683</u>
Total expenses	<u>687,606</u>	<u>628,936</u>	<u>550,948</u>	<u>591,683</u>	<u>1,238,554</u>	<u>1,220,619</u>
Increase in net position before transfers	367,626	411,139	104,416	79,704	472,042	490,843
Transfers	<u>(5,000)</u>	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in net position	362,626	411,139	109,416	79,704	472,042	490,843
Net position - October 1	<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>
Net position - September 30	\$ <u>1,762,733</u>	\$ <u>1,400,107</u>	\$ <u>2,416,904</u>	\$ <u>2,307,488</u>	\$ <u>4,179,637</u>	\$ <u>3,707,595</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 15, 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 20.

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 24 through 43 of this report.

General Fund Budgetary Highlights

The City's original budget was amended during the year ended September 30, 2013 to increase City Hall maintenance costs and to decrease salaries.

The City's overall actual revenue was 73 percent more than budgeted. This mainly resulted from unbudgeted grant revenue and increased tax collections and court fines. The City's overall actual expenses were 66 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, 2013, amounts to \$1,268,162 and for the City's business-type activities \$2,182,735. 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 2013	Total 2012
Land	\$ 142,966	\$ 8,802	\$ 151,768	\$ 151,768
Machinery and equipment	106,786	8,843	115,629	96,718
Buildings and improvements	564,122	-	564,122	223,766
Street improvements	454,288	-	454,288	501,854
Water system	-	1,119,882	1,119,882	1,122,374
Sewer system	-	1,045,208	1,045,208	1,056,620
Total	\$ <u>1,268,162</u>	\$ <u>2,182,735</u>	\$ <u>3,450,897</u>	\$ <u>3,153,100</u>

Major capital asset additions during the year included the following:

Park Improvements	\$ 352,933
Wastewater Grant	32,250
Water Grant	<u>38,100</u>
	\$ <u>423,283</u>

During the year ended September 30, 2013, unused assets were disposed of.

Additional information on the City's capital assets can be found in Notes 5 and 6 beginning on page 35 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 2013	Total 2012
Notes Payable	\$ <u>16,240</u>	\$ <u>126,475</u>	\$ <u>142,715</u>	\$ <u>153,359</u>
Total	\$ <u>16,240</u>	\$ <u>126,475</u>	\$ <u>142,715</u>	\$ <u>153,359</u>

During the year, the City assumed no new debt.

The City incurred \$5,009 of interest expense during the year ended September 30, 2013, 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 7 and 8 beginning on page 37 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 the new Florence Community Park. The City of Florence also received a new CDBG grant for wastewater line upgrades and is in the process of implementing the grant. Both these projects are scheduled to be completed by August 2014.

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 City will be issuing \$700,000 in certificate of obligations to construct the facilities for our surface water and the project is scheduled for completion in October 2014.

The State Highway 195 Loop around Florence will also be completed in August 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.

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*A Professional Corporation
Certified Public Accountants*

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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 (the City), as of and for the year ended September 30, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the City of Florence as of September 30, 2013, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule on pages 2 through 9 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplemental information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Taber & Burnett, P.C.

Burnet, Texas
September 2, 2014

City of Florence, Texas

Statement of Net Position

As of September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 487,194	\$ 380,873	\$ 868,067	\$ 80,004
Receivables	47,084	93,307	140,391	-
Capital assets, net	<u>1,268,162</u>	<u>2,182,735</u>	<u>3,450,897</u>	<u>-</u>
Total assets	<u>1,802,440</u>	<u>2,656,915</u>	<u>4,459,355</u>	<u>80,004</u>
Liabilities				
Accounts payable	3,339	58,917	62,441	-
Accrued expenses	20,128	10,259	30,202	-
Customer deposits	-	44,360	44,360	-
Noncurrent liabilities				
Due within one year	6,997	4,142	11,139	-
Due in more than one year	<u>9,243</u>	<u>122,333</u>	<u>131,576</u>	<u>-</u>
Total liabilities	<u>39,707</u>	<u>240,011</u>	<u>279,718</u>	<u>-</u>
Net Position				
Invested in capital assets, net of related debt	1,251,922	2,056,260	3,308,182	-
Restricted for:				
Child and safety	12,498	-	12,498	-
Court	17,877	-	17,877	-
Parks	13,965	-	13,965	-
Police department	28,006	-	28,006	-
Streets	102,346	-	102,346	-
Veterans memorial	10,539	-	10,539	-
Library	-	-	-	80,004
Unrestricted	<u>325,580</u>	<u>360,644</u>	<u>686,224</u>	<u>-</u>
Total net position	<u>\$ 1,762,733</u>	<u>\$ 2,416,904</u>	<u>\$ 4,179,637</u>	<u>\$ 80,004</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	\$ 238,618	\$ 1,548	\$ 4,142	\$ 241,875
Public safety	188,222	376	-	10,000
Public works	58,777	-	-	-
Municipal court	164,704	298,753	-	-
Parks and recreation	<u>37,285</u>	<u>4,759</u>	<u>5,100</u>	<u>-</u>
Total governmental activities	\$ <u>687,606</u>	\$ <u>305,436</u>	\$ <u>9,242</u>	\$ <u>251,875</u>
Business-type activities:				
Water and sewer	\$ <u>550,948</u>	\$ <u>608,461</u>	\$ <u>-</u>	\$ <u>46,350</u>
Total primary government	\$ <u>1,238,554</u>	\$ <u>913,897</u>	\$ <u>9,242</u>	\$ <u>298,225</u>
Component Unit:				
Library	\$ <u>7,763</u>	\$ <u>-</u>	\$ <u>10,580</u>	\$ <u>-</u>

For the Year Ended September 30, 2013

<u>Net (Expense) Revenue and Changes in Net Position</u>			
<u>Primary Government</u>			
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component</u>
<u>Activities</u>	<u>Activities</u>		<u>Unit</u>
\$ 8,947	\$ -	\$ 8,947	\$ -
(177,846)	-	(177,846)	-
(58,777)	-	(58,777)	-
134,049	-	134,049	-
<u>(27,426)</u>	<u>-</u>	<u>(27,426)</u>	<u>-</u>
\$ <u>(121,053)</u>	\$ <u>-</u>	\$ <u>(121,053)</u>	\$ <u>-</u>
\$ <u>-</u>	\$ <u>103,863</u>	\$ <u>103,863</u>	\$ <u>-</u>
\$ <u>(121,053)</u>	\$ <u>103,863</u>	\$ <u>(17,190)</u>	\$ <u>-</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,817</u>
General revenues:			
Taxes:			
Property taxes	258,601	-	258,601
Sales taxes	184,694	-	184,694
Franchise taxes	42,611	-	42,611
Miscellaneous	2,282	-	2,282
Investment earnings	1,063	553	1,616
Gain (loss) on disposition of assets	(572)	-	(572)
Transfers	<u>(5,000)</u>	<u>5,000</u>	<u>-</u>
Total general revenues	<u>483,679</u>	<u>5,553</u>	<u>489,232</u>
Change in net position	362,626	109,416	472,042
Net Position, Beginning of Year	<u>1,400,107</u>	<u>2,307,488</u>	<u>3,707,595</u>
Net Position, End of Year	\$ <u>1,762,733</u>	\$ <u>2,416,904</u>	\$ <u>4,179,637</u>

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

City of Florence, Texas*Balance Sheet - Governmental Funds**As of September 30, 2013*

	Governmental Funds General <u>Fund</u>	Total Governmental <u>Funds</u>
Assets		
Cash and savings	\$ 487,194	\$ 487,194
Receivables:		
Property and sales taxes	29,040	29,040
Grant	<u>11,933</u>	<u>11,933</u>
Total Assets	\$ <u>528,167</u>	\$ <u>528,167</u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 3,339	\$ 3,339
Accrued liabilities	20,128	20,128
Deferred revenues	<u>11,155</u>	<u>11,155</u>
Total Liabilities	<u>34,622</u>	<u>34,622</u>
Fund Balances:		
Restricted for:		
Child & Safety	12,498	12,498
Court	17,877	17,877
Parks	13,965	13,965
Police Department	28,006	28,006
Streets	102,346	102,346
Veterans Memorial	10,539	10,539
Unassigned	<u>308,314</u>	<u>308,314</u>
Total Fund Balances	<u>493,545</u>	<u>493,545</u>
Total Liabilities and Fund Balances	\$ <u>528,167</u>	\$ <u>528,167</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 Position*

As of September 30, 2013

Total Fund Balance - Governmental Funds:	\$ 493,545
Amounts reported for governmental activities in the Statement of Net Position 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 5)	1,268,162
Other long-term assets that are not available to pay for current year expenditures are not reported in the governmental funds balance sheet.	17,266
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 7)	<u>(16,240)</u>
Net Position of Governmental Activities	\$ <u>1,762,733</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, 2013*

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Tax collections, penalties, and interest	\$ 258,601	\$ 258,601
Sales tax	182,332	182,332
Franchise tax	42,611	42,611
Municipal court fines	298,753	298,753
Police revenue	376	376
Pool revenue	4,759	4,759
Fees and permits	1,548	1,548
Interest	1,063	1,063
Grant revenue	251,875	251,875
Contributions	9,242	9,242
Miscellaneous	<u>2,282</u>	<u>2,282</u>
Total Revenues	<u>1,053,442</u>	<u>1,053,442</u>
Expenditures		
General government	246,352	246,352
Public safety	182,620	182,620
Public works	20,721	20,721
Municipal court	173,271	173,271
Parks and recreation	<u>380,437</u>	<u>380,437</u>
Total Expenditures	<u>1,003,401</u>	<u>1,003,401</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>50,041</u>	<u>50,041</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, 2013*

	General <u>Fund</u>	Total Governmental <u>Funds</u>
Other Financing Sources (Uses)		
Transfers	(5,000)	(5,000)
Debt service	-	-
Interest expense	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>(5,000)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	45,041	45,041
Fund Balance - Beginning of Year	<u>448,504</u>	<u>448,504</u>
Fund Balance - End of Year	\$ <u><u>493,545</u></u>	\$ <u><u>493,545</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, 2013

Net Change in Fund Balance - Governmental Funds	\$ 45,041
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 5)	308,600
Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,362
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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items. (See Note 7)	<u>6,623</u>
Change in Net Position of Governmental Activities	\$ <u>362,626</u>

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

City of Florence, Texas*Statement of Net Position
Proprietary Fund**As of September 30, 2013*

	Business-Type Activities Proprietary Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 380,873
Accounts receivable	<u>93,307</u>
Total Current Assets	474,180
Capital Assets	
Fixed assets (net of accumulated depreciation when applicable)	<u>2,182,735</u>
Total Assets	\$ <u>2,656,915</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 58,917
Accrued liabilities	10,259
Customer deposits	44,360
Current portion of long-term debt	<u>4,142</u>
Total Current Liabilities	117,678
Non-Current Liabilities	
Long-term debt	<u>122,333</u>
Total Liabilities	<u>240,011</u>
Net Position	
Invested in capital assets, net of related debt	2,056,260
Unrestricted net position (deficit)	<u>360,644</u>
Total Net Position	<u>2,416,904</u>
Total Liabilities and Net Position	\$ <u>2,656,915</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 Position
Proprietary Fund**For the Year Ended September 30, 2013*

	Business-Type Activities Proprietary <u>Fund</u>
Revenues	
Charges for services	\$ <u>608,461</u>
Total Revenues	<u>608,461</u>
Expenses	
Wages and benefits	123,127
Contractual service	132,763
Utilities	57,225
Water purchase	31,250
Administration	22,147
Repairs and maintenance	72,020
State fees	6,467
Depreciation	<u>102,034</u>
Total Expenses	<u>547,033</u>
Net Operating Income (Loss)	<u>61,428</u>
Non-Operating Revenue and (Expenses)	
Interest revenue	553
Interest expense	(3,915)
Grant revenue	<u>46,350</u>
Total Non-Operating Revenue and (Expenses)	<u>42,988</u>
Interfund Transfers	
Transfers in	<u>5,000</u>
Total Interfund Transfers	<u>5,000</u>
Net Income (Loss)	109,416
Total Net Position, Beginning of Year	<u>2,307,488</u>
Total Net Position, End of Year	\$ <u>2,416,904</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, 2013*

	Business-Type Activities Proprietary <u>Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$ 615,110
Payments to suppliers	(337,287)
Payments to employees	(116,138)
Net cash provided (used) by operating activities	<u>161,685</u>
Cash Flows from Non-Capital Financing Activities	
Transfer to other funds	<u>5,000</u>
Net Cash provided (used) by non-capital financing activities	<u>5,000</u>
Cash Flows from Capital and Related Financing Activities	
Grant revenue	46,350
Note principal payments	(4,021)
Interest on debt	(3,915)
Acquisition of capital assets	<u>(91,231)</u>
Net cash provided (used) by capital and related financing activities	<u>(52,817)</u>
Cash Flows from Investing Activities	
Interest on investments	<u>553</u>
Net cash provided (used) by investing activities	<u>553</u>
Net (Decrease) Increase in Cash and Cash Equivalents	114,421
Cash and Cash Equivalents at Beginning of Year	<u>266,452</u>
Cash and Cash Equivalents at End of Year	\$ <u>380,873</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, 2013

	Business-Type Activities Proprietary <u>Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ 61,428
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	102,034
(Increase) decrease in accounts receivable	(28,886)
Increase (decrease) in accounts payable	28,991
Increase (decrease) in accrued expenses	(8,023)
Increase (decrease) in customer deposits	<u>6,141</u>
Net cash provided by operating activities	\$ <u>161,685</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 a "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 Position

The Statement of Net Position 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 Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position 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. As of September 30, 2013, the debt service fund is not needed.

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 accounts 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 Position, 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 statement of net position and statement 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 position or the statement of net position-proprietary funds.

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.

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 position. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 for the business-type activities 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 \$75,436 for the year ended September 30, 2013.

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements and the proprietary fund 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, 2013.

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, 2013, 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, 2013, 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, 2012 sets a tax levy at \$0.784714 per \$100 of assessed valuation at 100 percent of market value.

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, 2013, accrued vacation benefits related to employees of the General Fund totaling \$8,425 have been recorded on the General Fund. Accrued vacation benefits related to Proprietary Fund employees have been recorded on the Proprietary Fund in the amount of \$3,493.

NOTE 4 - 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 \$948,071, and the bank balance was \$1,010,392. At September 30, 2013 all of the City's balances are either insured by the FDIC or are collateralized by registered securities.

NOTE 5 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS

Changes in governmental capital assets during the year ended September 30, 2013, were as follows:

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
Capital Assets Not Being Depreciated				
Land	\$ <u>142,966</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>142,966</u>
Other Capital Assets				
Machinery and equipment	400,096	50,471	20,964	429,603
Buildings and improvements	413,435	361,632	-	775,067
Street improvements	<u>555,329</u>	<u>-</u>	<u>-</u>	<u>555,329</u>
Total Other Capital Assets	1,368,860	412,103	20,964	1,759,999
Less accumulated depreciation	<u>(552,264)</u>	<u>(102,931)</u>	<u>(20,392)</u>	<u>(634,803)</u>
Other Capital Assets, Net	<u>816,596</u>	<u>309,172</u>	<u>572</u>	<u>1,125,196</u>
Total Capital Assets, Net of Depreciation	\$ <u>959,562</u>	\$ <u>309,172</u>	\$ <u>572</u>	\$ <u>1,268,162</u>

NOTE 5 - CHANGES IN GOVERNMENTAL CAPITAL ASSETS (Continued)

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

Governmental Activities:	
General government	\$ 15,987
Public safety	18,206
Public works	54,770
Municipal court	2,288
Parks and recreation	<u>11,680</u>
Total depreciation expense - Governmental Activities	\$ <u>102,931</u>

NOTE 6 - CHANGES IN BUSINESS-TYPE CAPITAL ASSETS

Changes in business-type capital assets during the year ended September 30, 2013, were as follows:

	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
Capital Assets Not Being Depreciated				
Land	\$ <u>8,802</u>	\$ -	\$ -	\$ <u>8,802</u>
Other Capital Assets				
Machinery and equipment	193,363	5,575	12,729	186,209
Water system	1,803,075	15,306	-	1,818,381
Sewer system	1,654,741	-	-	1,654,741
Construction in progress	<u>10,725</u>	<u>70,350</u>	<u>-</u>	<u>81,075</u>
Total Other Capital Assets	3,661,904	91,231	12,729	3,740,406
Less accumulated depreciation	<u>(1,477,168)</u>	<u>(102,034)</u>	<u>(12,729)</u>	<u>(1,566,473)</u>
Other Capital Assets, Net	<u>2,184,736</u>	<u>(10,803)</u>	<u>-</u>	<u>2,173,933</u>
Total Capital Assets, Net of Depreciation	\$ <u>2,193,538</u>	\$ <u>(10,803)</u>	\$ <u>-</u>	\$ <u>2,182,735</u>

NOTE 7 - 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, 2013:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013
Notes payable	\$ <u>22,863</u>	\$ -	\$ <u>6,623</u>	\$ <u>16,240</u>
	\$ <u>22,863</u>	\$ -	\$ <u>6,623</u>	\$ <u>16,240</u>

Long-term debt in the governmental activities consists of the following at September 30, 2013:

<u>Payee and Terms</u>	<u>Balance</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>16,240</u>
Total	16,240
Less current portion	<u>(6,997)</u>
Total Long-Term Debt	\$ <u>9,243</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2013, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>16,240</u>	\$ <u>1,061</u>	\$ <u>17,301</u>

NOTE 8 - 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, 2013:

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013
Notes payable	\$ <u>130,496</u>	\$ <u>-</u>	\$ <u>4,021</u>	\$ <u>126,475</u>
	\$ <u>130,496</u>	\$ <u>-</u>	\$ <u>4,021</u>	\$ <u>126,475</u>

Long-term debt in the business-type activities consists of the following at September 30, 2013:

<u>Payee and Terms</u>	<u>Balance</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>126,475</u>
Total	126,475
Less current portion	<u>(4,142)</u>
Total Long-Term Debt	\$ <u>122,333</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2013, are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,662	3,274	7,936
2019 to 2023	25,491	14,189	39,680
2024 to 2028	29,551	10,129	39,680
2029 to 2033	34,258	5,422	39,680
2034 to 2035	<u>15,185</u>	<u>686</u>	<u>15,871</u>
	\$ <u>126,475</u>	\$ <u>48,116</u>	\$ <u>174,591</u>

NOTE 9 - 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 10 - 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, 2013, is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Due To</u>	<u>Due From</u>
General Fund	\$ -	\$ 5,000	\$ -	\$ -
Utility Fund	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Transfers	\$ <u>5,000</u>	\$ <u>5,000</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 11 - 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 11 - 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 2013</u>	<u>Plan Year 2012</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>9/30/13</u>	<u>9/30/12</u>	<u>9/30/11</u>
Net Pension Obligation (NPO)	\$ -0-	\$ -0-	\$ -0-
Annual Pension Costs (APC)	\$ 7,623	\$ 9,296	\$ 14,637
Percent of APC Contributed	100%	100%	100%

NOTE 12 - PENSION PLANS (Continued)

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</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	14.4 years-closed period	16 years-closed period	20.5 years-closed period
Amortization Period for			
new gains/losses	13 years	14 years	14 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%	7.0%
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, 2012, the most recent actuarial valuation date, is presented as follows:

	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>
<u>Schedule of Funding Information</u>			
Actuarial valuation date			
Actuarial value of assets	\$ 258,989	\$ 225,489	\$ 189,606
Actuarial accrued liability (AAL)	\$ 263,807	\$ 229,450	\$ 208,138
Unfunded/(Overfunded)			
actuarial accrued liability			
(UAAL or OAAL)	\$ 4,818	\$ 3,761	\$ 18,532
Funded ratio	98.2%	98.4%	91.1%
Annual covered payroll			
(actuarial)	\$ 270,358	\$ 299,722	\$ 286,086
UAAL or OAAL as % of			
covered payroll	1.8%	1.3%	6.5%

NOTE 11 - 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 12 - 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 percentages have been fully contributed by the City (as employer contributions) for the following fiscal years ending:

	<u>SDBF</u>
09/30/2013	0.02%
09/30/2012	0.02%
09/30/2011	0.01%

NOTE 13 - GRANT FUNDED PROGRAMS

In fiscal year 2013 the City (Proprietary Fund) was awarded a grant, Contract No. 712111, in the amount of \$275,000, 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 \$27,500. As of September 30, 2013, \$32,250 has been spent.

In fiscal year 2013, the City (Proprietary Fund) was awarded a grant, Contract No. 712117, in the amount of \$350,000, funded through the Office of Rural Community Affairs. These funds are designated for water system improvements. The grant requires the City to provide matching funds of \$327,500. As of September 30, 2013, \$38,100 has been spent.

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, 2013, \$241,875 has been reimbursed under these grants.

NOTE 14 - SUBSEQUENT EVENTS

Subsequent to year end, the City approved issuing \$700,000 of certificates of obligations to fund various water projects and grant requirements.

Other than mentioned above, the City did not have any other subsequent events through September 2, 2014, 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, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

City of Florence, Texas

*Budgetary Comparison Schedule
General Fund*

For the Year Ended September 30, 2013

	General Fund			Variance with Final Budget Positive (Negative)
	Budget		Actual	
	Original	Final		
Revenues				
Tax collections, penalties and interest	\$ 222,489	\$ 222,489	\$ 258,601	\$ 36,112
Sales tax	126,876	126,876	182,332	55,456
Franchise tax	42,500	42,500	42,611	111
Municipal court fines	200,000	200,000	298,753	98,753
Police revenue	400	400	376	(24)
Pool revenue	6,500	6,500	4,759	(1,741)
Fees and permits	9,800	9,800	1,548	(8,252)
Interest	600	600	1,063	463
Grant revenue	-	-	251,875	251,875
Contributions	-	-	9,242	9,242
Miscellaneous	<u>500</u>	<u>500</u>	<u>2,282</u>	<u>1,782</u>
Total Revenues	<u>609,665</u>	<u>609,665</u>	<u>1,053,442</u>	<u>443,777</u>
Expenditures				
General government	244,738	259,888	246,352	13,536
Public safety	172,833	172,833	182,620	(9,787)
Public works	14,300	14,300	20,721	(6,421)
Municipal court	148,494	133,344	173,271	(39,927)
Parks and recreation	<u>24,300</u>	<u>24,300</u>	<u>380,437</u>	<u>(356,137)</u>
Total Expenditures	<u>604,665</u>	<u>604,665</u>	<u>1,003,401</u>	<u>(398,736)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,000</u>	<u>5,000</u>	<u>50,041</u>	<u>45,041</u>
Other Financing Sources (Uses):				
Transfers	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>-</u>
Excess (Deficiencies) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	\$ <u>-</u>	\$ <u>-</u>	45,041	\$ <u>45,041</u>
Fund Balance - Beginning of Year			<u>448,504</u>	
Fund Balance - End of Year			\$ <u>493,545</u>	