

REPORT OF EXAMINATION

**VILLAGE OF
VOLENTE**

Volente, Texas

For the Year Ended
September 30, 2012

VILLAGE OF VOLENTE, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2012

VILLAGE OF VOLENTE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Independent Auditors' Report	1
	Management's Discussion and Analysis	3
	 <u>Basic Financial Statements</u>	
	Government Wide Statements:	
A-1	Statement of Net Assets	8
B-1	Statement of Activities.....	9
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	11
C-2	Reconciliation for C-1	12
C-3	Statement of Revenues, Expenditures and Changes in Fund Balance.....	13
C-4	Reconciliation for C-3.....	14
	Notes to the Financial Statements.....	15
	 <u>Supplementary Information</u>	
G-1	Budgetary Comparison Schedule - General Fund.....	21

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor and Council
Village of Volente, Texas
Volente, TX 78641

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Volente, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Volente, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2013, on our consideration of the Village of Volente, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational,

economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Neffendorf, Knopp, Dooss + Company, P.C.
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

May 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Village of Volente, we offer readers of the Village's financial statements this narrative overview and analysis of the financial statements of the Village for the year ended September 30, 2012. Please read it in conjunction with the independent auditors' report on page 1, and Village's Basic Financial Statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$ 970,855 (net assets). Of this amount, \$ 764,605 (unrestricted net assets) may be used to meet the Village's ongoing obligations to citizen's and creditors.
- The Village's net assets increased by \$ 166,672 as a result of this year's operations.
- At September 30, 2012, the Village's governmental funds reported an ending fund balance of \$ 756,343, an increase of \$32,932 in comparison with the prior year. The increase in fund balance was due to the revenues exceeded expenditures.
- At September 30, 2012, the unreserved fund balance of the general fund was \$ 756,343 or 217 percent of total general fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 8 and 9). These provide information about the activities of the Village as a whole and present a longer-term view of the Village's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (on pages 11 & 13) report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 15) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) is presented as required supplementary information on page 21.

Reporting the Village as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the Village's overall financial condition and operations begins on page 8. Its primary purpose is to show whether the Village is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the Village's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the Village's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the Village's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

In the Statement of Net Assets and the Statement of Activities, the Village has one kind of activity:

- Governmental activity - The Village's basic services are reported here, including the public safety, public works, and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.

Reporting the Village's Most Significant Funds

Fund Financial Statements

The fund financial statements on pages 11 & 13 provide detailed information about the most significant funds - not the Village as a whole. Governmental fund types include the general fund.

- Governmental funds - All of the Village's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Village's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in Note II to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the Village's governmental activities.

Net assets of the Village's governmental activities increased from \$ 804,183 to \$ 970,855. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$ 764,605 at September 30, 2012. This increase in governmental net assets was the result of three factors. First, the Village's revenues exceeded the expenditures by \$32,932. Second, the Village acquired capital assets in the amount of \$143,879. Third, the Village recorded depreciation in the amount of \$8,441.

Table I
VILLAGE OF VOLENTE

NET ASSETS
in thousands

	Governmental Activities	
	2012	2011
Current and Other Assets	\$ 772	\$ 740
Capital Assets	206	71
Total Assets	\$ 978	\$ 811
Other Liabilities	\$ 7	\$ 7
Total Liabilities	\$ 7	\$ 7
Net Assets:		
Invested in Capital Assets		
Net of Related Debt	\$ 206	\$ 71
Unrestricted	765	733
Total Net Assets	\$ 971	\$ 804

Table II
VILLAGE OF VOLENTE
CHANGES IN NET ASSETS
in thousands

	Governmental Activities	
	2012	2011
Revenues:		
Maintenance & Operations Taxes	\$ 197	\$ 189
Other Taxes	82	76
Investment Earnings	2	26
Grants	84	38
Miscellaneous	15	34
Total Revenue	\$ 380	\$ 363
Expenses:		
General Government	\$ 210	\$ 170
Public Works	3	3
Total Expenses	\$ 213	\$ 173
Increase in Net Assets Before	\$ 167	\$ 191
Net Assets, Beginning	804	613
Net Assets, Ending	\$ 971	\$ 804

The cost of all governmental activities this year was \$ 212,900. Total revenues for the Village were \$379,572 which consisted of property taxes (\$196,506), other taxes (\$81,918), grants (\$84,010), licenses and permits (\$12,065), interest earnings (\$1,972) and miscellaneous (\$15,166).

THE VILLAGE'S FUNDS

As the Village completed the year, its governmental fund (as presented in the balance sheet on page 11) reported a fund balance of \$ 756,343, which is more than last year's total of \$723,411.

The Village adopted the General Fund budget. Actual revenues were more than the budgeted amount by \$76,626 while actual expenditures were less than the budgeted amount by \$155,020.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2012, the Village had \$ 228,743 invested in capital assets, including buildings, equipment and other improvements. This amount represents a net increase of \$143,879, or 170 percent, more than last year.

This year's major additions included:

Road Improvements	\$	139,917
-------------------	----	---------

More detailed information about the Village's capital assets is presented in Note C to the financial statements.

DEBT

At year-end, the Village had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village's elected and appointed officials considered many factors when setting the fiscal-year 2013 budget and tax rates. The major factors are the assessed property values and population growth. These indicators were taken into account when adopting the General Fund budget for 2013. Amounts available for appropriation in the General Fund budget are \$371,059 and expenditures are estimated to be \$420,600.

If these estimates are realized, the Village's budgetary General fund balance is expected to decrease by the close of fiscal year 2013.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village's business office, at Village of Volente, Volente, Texas.

BASIC FINANCIAL STATEMENTS

VILLAGE OF VOLENTE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government
	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 679,373
Receivables (net of allowance for uncollectibles)	92,683
Capital Assets:	
Infrastructure, net	173,825
Buildings, net	19,721
Machinery and Equipment, net	12,704
Total Assets	978,306
LIABILITIES	
Accounts Payable	7,451
Total Liabilities	7,451
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	206,250
Unrestricted Net Assets	764,605
Total Net Assets	\$ 970,855

The notes to the Financial Statements are an integral part of this statement.

VILLAGE OF VOLENTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 209,818	\$ -	\$ -
Public Works	3,082	-	-
Capital Outlay	-	-	-
TOTAL PRIMARY GOVERNMENT:	\$ 212,900	\$ -	\$ -

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Sales Taxes
- Franchise Taxes
- Other Taxes
- Miscellaneous Revenue
- Investment Earnings

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets	
Capital Grants and Contributions	Primary Government Governmental
\$ -	\$ (209,818)
-	(3,082)
84,010	84,010
<u>\$ 84,010</u>	<u>(128,890)</u>

196,506
42,463
36,236
3,219
15,166
1,972
<u>295,562</u>
166,672
804,183
<u>\$ 970,855</u>

VILLAGE OF VOLENTE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	General Fund
ASSETS	
Cash and Cash Equivalents	\$ 679,373
Taxes Receivable	8,518
Allowance for Uncollectible Taxes (credit)	(256)
Receivables (Net)	84,421
Total Assets	<u>\$ 772,056</u>
LIABILITIES	
Accounts Payable	\$ 7,450
Deferred Revenues	8,263
Total Liabilities	<u>15,713</u>
FUND BALANCES	
Unassigned Fund Balance	<u>756,343</u>
Total Fund Balances	<u>756,343</u>
Total Liabilities and Fund Balances	<u>\$ 772,056</u>

The notes to the Financial Statements are an integral part of this statement.

VILLAGE OF VOLENTE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2012

Total Fund Balances - Governmental Funds	\$	756,343
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$84,863 and the accumulated depreciation was \$14,052. The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net assets.		70,812
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2012 capital outlays is to increase net assets.		143,879
The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(8,441)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue. The net effect of these reclassifications and recognitions is to increase net assets.		8,262
Net Assets of Governmental Activities	<u>\$</u>	<u>970,855</u>

The notes to the Financial Statements are an integral part of this statement.

VILLAGE OF VOLENTE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT C-3

	General Fund
REVENUES:	
Taxes:	
Property Taxes	\$ 198,204
General Sales and Use Taxes	42,463
Franchise Tax	36,236
Other Taxes	3,219
Licenses and Permits	12,065
Intergovernmental Revenue and Grants	84,010
Investment Earnings	1,972
Other Revenue	3,101
Total Revenues	381,270
EXPENDITURES:	
Current:	
General Government	205,339
Public Works	3,082
Capital Outlay:	
Capital Outlay	139,917
Total Expenditures	348,338
Net Change in Fund Balances	32,932
Fund Balance - October 1 (Beginning)	723,411
Fund Balance - September 30 (Ending)	\$ 756,343

The notes to the Financial Statements are an integral part of this statement.

VILLAGE OF VOLENTE
 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

Total Net Change in Fund Balances - Governmental Funds	\$	32,932
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2012 capital outlays is to increase net assets.		143,879
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(8,441)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy. The net effect of these reclassifications and recognitions is to decrease net assets.		(1,698)
Change in Net Assets of Governmental Activities	\$	166,672

The notes to the Financial Statements are an integral part of this statement.

VILLAGE OF VOLENTE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Volente, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The *Government Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the Village's accounting policies are described below:

A. Reporting Entity

The Village was duly incorporated as a municipality on February 3, 2002. The Village is a general law Village, which operates under a council form of government. The Mayor is the chief administrative officer of the Village. The Village provides the following services: Community Development, Public Improvements, and General Administrative Services.

In evaluating how to define the Village, for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

B. Government-Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Village of Volente nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the Village operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the Village. The "grants and contributions" column includes amounts paid by organizations outside the Village to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the Village's functions. Taxes are always general revenues.

The fund financial statements provide reports on the financial condition and results of operations for governmental funds. The Village considers both governmental funds major and reports their financial condition and results of operations in a separate column.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The Village considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The Village considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the Village to refund all or part of the unused amount.

D. Fund Accounting

The Village reports the following major governmental funds:

1. **The General Fund** - The general fund is the Village's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

E. Other Accounting Policies

1. Capital assets, which include land, buildings, furniture, equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the Village are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	15-30
Infrastructure	20
Improvements	10-20
Machinery & Equipment	5-7

Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

2. Beginning with fiscal year end September 30, 2011, the Village implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Village itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the Village takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Village intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance . This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

3. When the Village incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
4. The original budget is adopted by the Village Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

5. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that

affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

At September 30, 2012, the carrying amount of the Village's deposits was \$679,373 and the bank balance was \$682,710. The Village's cash deposits at September 30, 2012 and during the year ended September 30, 2012 were covered by FDIC insurance or by pledged collateral held by the Village's agent bank in the Village's name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Village to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Village to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Village to have independent auditors perform test procedures related to investment practices as provided by the Act.

Policies Governing Deposits and Investments

In compliance with GASB Statement No. 45, the Village discloses the following:

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2012 were covered by depository insurance or by pledged collateral held by the Village's agent bank in the Village's name.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2012, the District was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the Village in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the Village fiscal year.

The Travis County Appraisal District appraises and collects taxes for the Village. For 2012, the Village of Volente had property with an assessed valuation of \$150,752,413. The tax rate was \$.1286 per \$100 valuation (general fund only). A summary of taxes receivable by years follows:

Tax Roll	Taxes	Taxes	Collections	Taxes
	Receivable	Assessed	and	Receivable
	01/10/11		Adjustments	09/30/12
2011	\$	\$ 194,173	\$ 191,514	\$ 2,659
2010	5,026		3,104	1,922
2009	4,295		2,390	1,905
2008	703		326	377
2007	701		25	676
2006	679		5	674
2005	307		4	303
2004	5		5	-
2003	2		-	2
TOTAL	\$ <u>11,718</u>	\$ <u>194,173</u>	\$ <u>197,373</u>	\$ <u>8,518</u>

C. Capital Asset Activity

Capital asset activity for the Village for the year ended September 30, 2012, was as follows:

	Primary Government			
	Beginning			Ending
	Balance	Additions	Retirements	Balance
Governmental Activities:				
Buildings and Improvements	\$ 43,463	\$ 141,797	\$	\$ 185,260
Furniture & Equipment	41,401	2,082		43,483
	-	-	-	-
Totals at Historic Cost	\$ <u>84,864</u>	\$ <u>143,879</u>	\$ <u>-</u>	\$ <u>228,743</u>
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(2,960)	(2,927)		(5,887)
Furniture & Equipment	(11,092)	(5,514)		(16,606)
Total Accumulated Depreciation	\$ <u>(14,052)</u>	\$ <u>(8,441)</u>	\$ <u>-</u>	\$ <u>(22,493)</u>
Governmental Activities				
Capital Assets, Net	\$ <u>70,812</u>	\$ <u>135,438</u>	\$ <u>-</u>	\$ <u>206,250</u>

D. Risk Management

The Village of Volente is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God and personnel risks which relate to workers compensation.

The Village contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the Village is generally limited to the contributed amounts. Contributions for the year ended September 30, 2012 were \$775.

E. Contingent Liabilities

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

The Village is involved in a lawsuit. Management is of the opinion that the Village's liability in the case will not have a material effect on the Village's financial position.

F. Subsequent Events

The Village has evaluated subsequent events through May 15, 2013, the date which the financial statements were available to be issued. The Village is not aware of any subsequent events that materially impact the financial statements.

SUPPLEMENTARY INFORMATION

VILLAGE OF VOLENTE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 187,044	\$ 187,044	\$ 198,204	\$ 11,160
General Sales and Use Taxes	30,000	30,000	42,463	12,463
Franchise Tax	25,000	25,000	36,236	11,236
Other Taxes	3,500	3,500	3,219	(281)
Licenses and Permits	23,500	23,500	12,065	(11,435)
Intergovernmental Revenue and Grants	29,000	29,000	84,010	55,010
Investment Earnings	3,500	3,500	1,972	(1,528)
Other Revenue	3,100	3,100	3,101	1
Total Revenue	<u>304,644</u>	<u>304,644</u>	<u>381,270</u>	<u>76,626</u>
EXPENDITURES:				
Current:				
GENERAL GOVERNMENT				
Staff				
Salaries	43,000	43,000	43,409	(409)
Payroll Taxes	3,000	3,000	3,968	(968)
Benefits	14,100	14,100	13,085	1,015
Total Staff	<u>60,100</u>	<u>60,100</u>	<u>60,462</u>	<u>(362)</u>
Consultant				
Attorney	20,000	20,000	41,249	(21,249)
Professional Services	15,100	15,100	16,980	(1,880)
Development Inspection	10,000	10,000	2,340	7,660
Development Plan Review	10,000	10,000	6,776	3,224
Zoning & Code Enforcement	15,000	15,000	13,882	1,118
Contract Labor	500	500	200	300
Audit	5,700	5,700	5,700	-
Police Service - Contract	3,000	3,000	20,057	(17,057)
Special Consultant - Engineer	25,000	25,000	13,006	11,994
Travis CAD	1,787	1,787	1,442	345
Total Consultant	<u>106,087</u>	<u>106,087</u>	<u>121,632</u>	<u>(15,545)</u>
Operations				
Elections	1,000	1,000		1,000
Events	9,500	9,500	1,670	7,830
Bank Charges	100	100		100
Office Supplies & Postage	6,000	6,000	5,108	892
Equipment Lease	3,300	3,300		3,300
Website Maintenance	4,000	4,000	1,407	2,593
Dues, Fees & Subscriptions	1,000	1,000	1,589	(589)
Rent	2,000	2,000	3,349	(1,349)
Utilities & Telephone	3,300	3,300	2,518	782
Insurance	2,550	2,550	1,364	1,186
Advertising	1,000	1,000	528	472
Training & Education	2,764	2,764	1,235	1,529
Municipal Court	1,000	1,000	190	810
Books & Publications	250	250	229	21
Miscellaneous	2,000	2,000	96	1,904
Public Works	21,500	21,500	3,082	18,418
Capital Outlay	260,000	260,000	143,879	116,121
Total Operations	<u>321,264</u>	<u>321,264</u>	<u>166,244</u>	<u>155,020</u>
Total Expenditures	<u>487,451</u>	<u>487,451</u>	<u>348,338</u>	<u>139,113</u>
Net Change in Fund Balances	<u>(182,807)</u>	<u>(182,807)</u>	<u>32,932</u>	<u>215,739</u>
Fund Balance - October 1 (Beginning)	723,411	723,411	723,411	
Fund Balance - September 30 (Ending)	<u>\$ 540,604</u>	<u>\$ 540,604</u>	<u>\$ 756,343</u>	<u>\$ 215,739</u>

The notes to the Financial Statements are an integral part of this statement.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Honorable Mayor and Council
Village of Volente, Texas
Volente, TX 78641

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Volente, Texas, as of and for the year ended September 30, 2012, which collectively comprise the Village of Volente, Texas's basic financial statements and have issued our report thereon dated May 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Volente, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Village of Volente, Texas, in a separate letter dated May 15, 2013.

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

Neffendorf, Knopp, Doss + Company, P.C.
NEFFENDORF, KNOPP, DOSS & COMPANY, PC
Fredericksburg, Texas

May 15, 2013

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

May 15, 2013

Honorable Mayor and Council
Village of Volente, Texas
Volente, TX 78641

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Volente, Texas for the year ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 8, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Village of Volente, Texas are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 15, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recommendations

The Village uses a debit card for purchases but invoices for the purchases are not required. We again recommend invoices be required and approved for the debit card purchases.

This information is intended solely for the use of the Council and management of Village of Volente and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Neffendorf, Knopp, Dooss & Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Fredericksburg, Texas

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Honorable Mayor and Council
Village of Volente, Texas
Volente, TX 78641

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Volente, Texas, as of and for the year ended September 30, 2012, which collectively comprise the Village of Volente, Texas's basic financial statements and have issued our report thereon dated May 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Volente, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Village of Volente, Texas, in a separate letter dated May 15, 2013.

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

Neffendorf, Knopp, Dooss + Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, PC
Fredericksburg, Texas

May 15, 2013