

CITY OF VENUS, TEXAS
SEPTEMBER 30, 2012

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Independent Auditor's Report

To the Honorable Mayor, City Council, and City Administrator
City of Venus, Texas

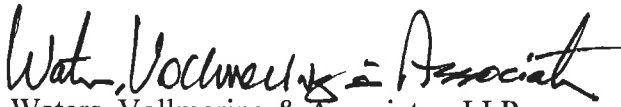
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Venus, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, 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 February 26, 2013, on our consideration of the City of Venus, Texas 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 the 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 conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 16 and the budgetary comparison information on pages 45 and the schedule of funding progress for the retirement plan on page 46 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.

A handwritten signature in cursive script that reads "Waters, Vollmering & Associates".

Waters, Vollmering & Associates, LLP

February 26, 2013

FINANCIAL STATEMENTS

2012 Management's Discussion and Analysis

As management of the City of Venus, we offer readers of the City of Venus' financial statements this narrative overview and analysis of the financial activities of the City of Venus for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the City of Venus exceeded its liabilities at the close of the most recent fiscal year by \$7,525,093 (net assets). Of this amount, \$3,670,314 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Venus' governmental funds reported combined ending fund balances of \$2,950,548. Approximately 94% per cent of this, \$2,775,508, is available for spending at the City's discretion (unassigned served fund balance.)
- The City of Venus' total debt obligations decreased by \$267,513 (7.4%) during the current fiscal year. The City's debt position was improved dramatically.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of Venus that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Venus include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Venus include a Water and Sewer Fund.

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 of Venus, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Venus can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on *balance of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Venus maintains 4 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and two special revenue funds, all of which are considered to be major funds.

Proprietary funds. The City of Venus maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Venus uses an enterprise funds to account for its Water and Sewer Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statement provides separate information for the Water and Sewer fund, which is considered to be a major fund of the City of Venus.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Venus' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Venus, assets exceeded liabilities by \$7,525,093 at the close of the most recent fiscal year.

By far the largest portion of the City of Venus' net assets, (50%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Venus uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Venus' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities

2012 CITY OF VENUS NET ASSETS

	2011 Governmental Activities	2012 Governmental Activities	2011 Business Activities	2012 Business Activities	2011 Totals	2012 Totals
ASSETS						
Current & Other Assets	\$2,887,909	\$3,108,086	\$869,012	\$772,326	\$3,756,921	\$3,880,412
Capital Assets	\$1,277,840	\$1,507,825	\$5,952,108	\$5,829,207	\$7,229,948	\$7,337,032
Total Assets	\$4,165,749	\$4,615,911	\$6,821,120	\$6,601,533	\$10,986,869	\$11,217,444
LIABILITIES						
Current Liabilities	\$112,011	\$224,615	\$317,668	\$339,620	\$429,679	\$564,235
Long-term Liabilities	\$104,080	\$60,116	\$3,312,175	\$3,068,000	\$3,416,255	\$3,128,116
Total Liabilities	\$216,091	\$284,731	\$3,629,843	\$3,407,620	\$3,845,934	\$3,692,351
NET ASSETS						
Invested in capital assets						
Net of related debt	\$982,269	\$1,202,589	\$2,345,634	\$2,474,147	\$3,327,903	\$3,676,736
Restricted	\$149,844	\$178,043			\$149,844	\$178,043
Unrestricted	\$281,754	\$2,950,548	\$845,543	\$719,766	\$1,127,297	\$3,670,314
TOTAL NET ASSETS	\$3,949,658	\$4,331,180	\$3,191,177	\$3,193,913	\$7,140,835	\$7,525,093

The \$3,670,314 *Unrestricted Net Assets* portion of the City of Venus' Net Assets, may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Venus is able to report positive balances both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities.

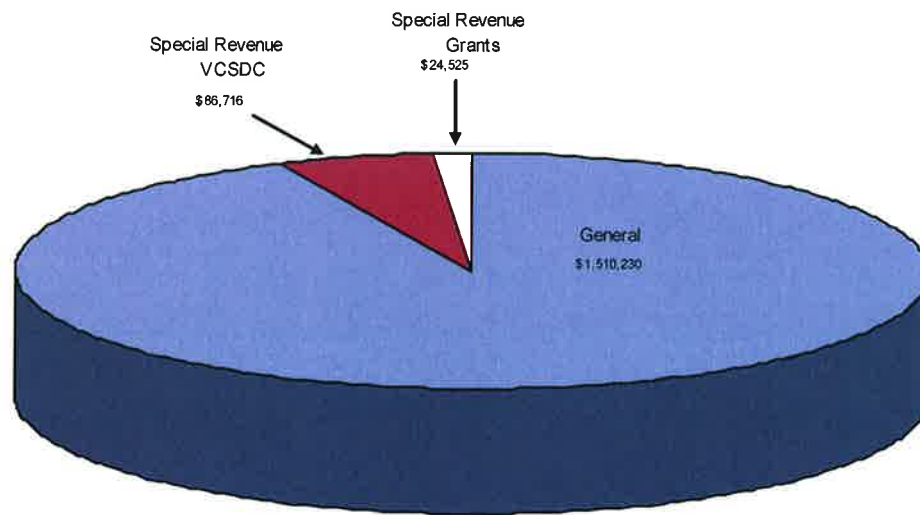
The City's revenues increased when compared to the prior year by 12.5% (\$180,521). The primary reasons for this increase were small increases in tax revenues and miscellaneous revenue.

Governmental activities increased the City of Venus' net change in fund balances assets by \$161,202.

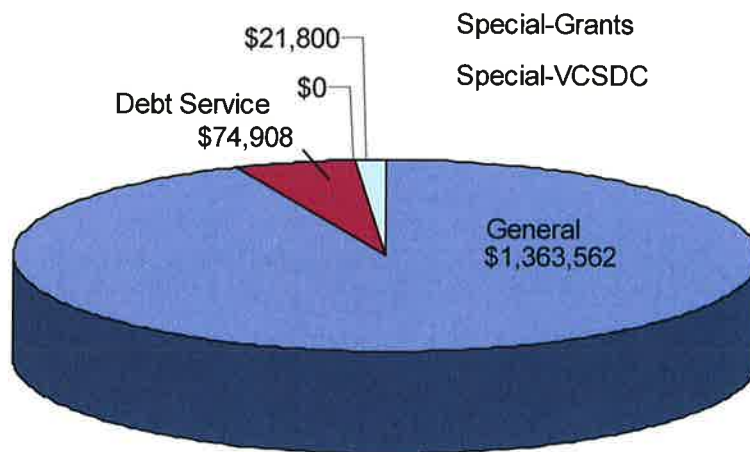
2012 CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2011	2012	2011	2012	2011	2012
REVENUES						
Services	\$6,373	\$3,697	\$1,299,192	\$1,290,658	\$1,305,565	\$1,294,355
Fines and fees	\$208,459	\$264,465			\$208,459	\$264,465
Taxes	\$1,168,508	\$1,222,302			\$1,168,508	\$1,222,302
Miscellaneous Revenue	\$57,314	\$106,236	\$27,786	\$6,346	\$85,100	\$112,582
Intergovernmental		\$24,525				\$24,525
Penalties and Interest	\$296	\$247	\$14,122	\$15,212	\$14,418	\$15,459
Total Revenues	\$1,440,951	\$1,621,472	\$1,341,100	\$1,312,216	\$2,782,050	\$2,933,688
EXPENDITURES						
Current-						
Administrative	\$348,194	\$348,985			\$348,194	\$348,985
Police Department	\$383,963	\$403,914			\$383,963	\$403,914
Municipal Court	\$100,332	\$107,472			\$100,332	\$107,472
Public Works	\$215,345	\$230,786	\$1,082,272	\$1,139,148	\$1,297,617	\$1,369,934
Debt Service-						
Principal Retirement	\$44,513	\$24,000			\$44,513	\$24,000
Interest and Fiscal Charges	\$8,593	\$7,134	\$201,391	\$192,132	\$209,984	\$199,266
Capital Leases	\$40,602	\$43,774			\$40,602	\$43,774
Capital Outlay	\$297,867	\$272,405			\$297,867	\$272,405
Total Expenditures	\$1,439,409	\$1,438,470	\$1,283,663	\$1,331,280	\$2,273,072	\$2,769,750
Excess (deficiency) of Revenues						
Over (under) Expenditures	\$1,541	\$183,002	\$57,437	(\$19,064)	\$58,978	\$163,938
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	\$237,040	\$210,352		\$21,800	\$237,040	\$232,152
Operating Transfers Out	(\$237,040)	(\$232,152)				(\$232,152)
Bond Issuance						
Total Other Sources (uses)						
Net Change in Fund Balances	\$1,542	\$161,202	\$57,437	\$2,736	\$58,979	\$163,938
Fund Balances-Beginning	\$2,965,847	\$2,967,389	\$3,133,740	\$3,191,177	\$6,099,587	\$6,158,566
Fund Balances-Ending	\$2,967,389	\$3,128,591	\$3,191,177	\$3,193,913	\$6,158,566	\$6,322,504

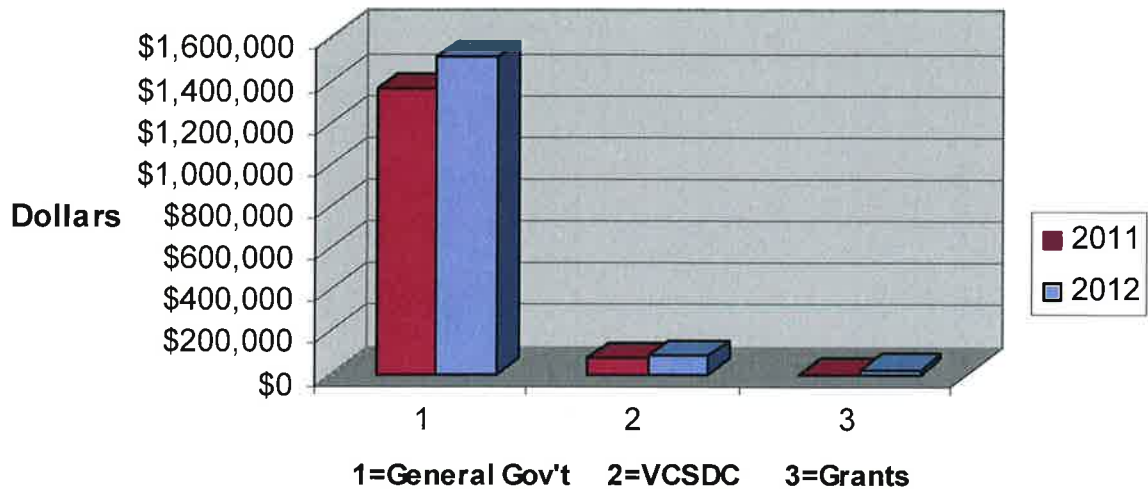
Governmental Revenues by Source



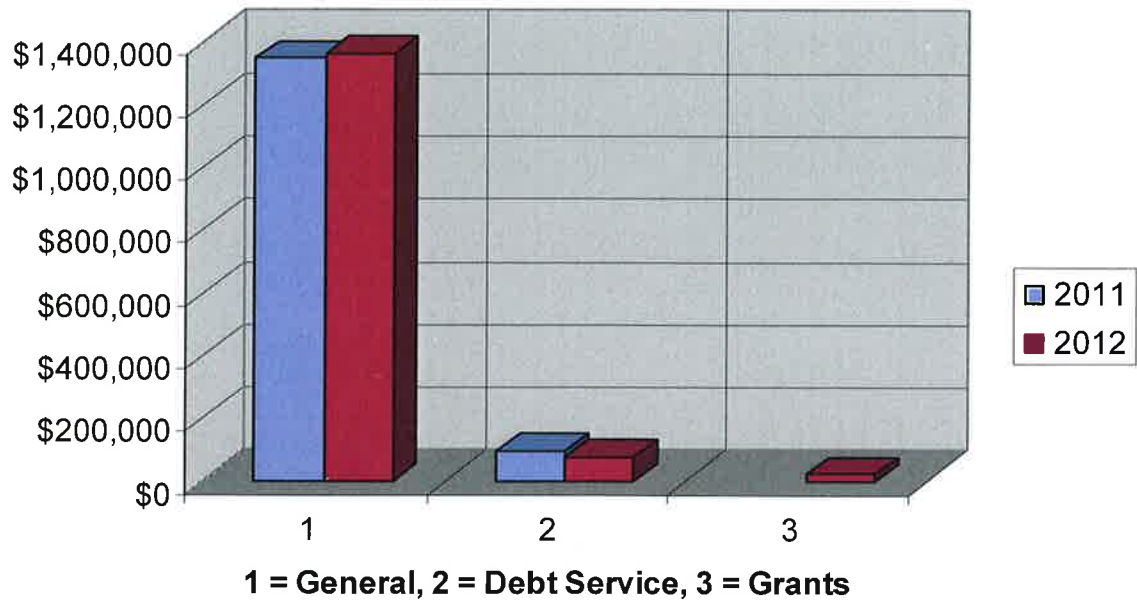
Governmental Expenditures by Source



Comparative Revenues-Governmental



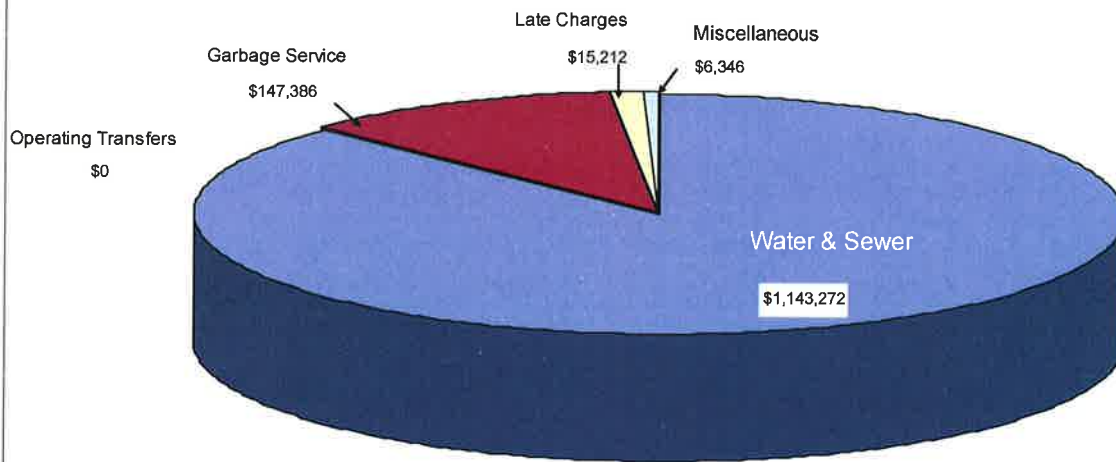
Comparative Expenses-Governmental



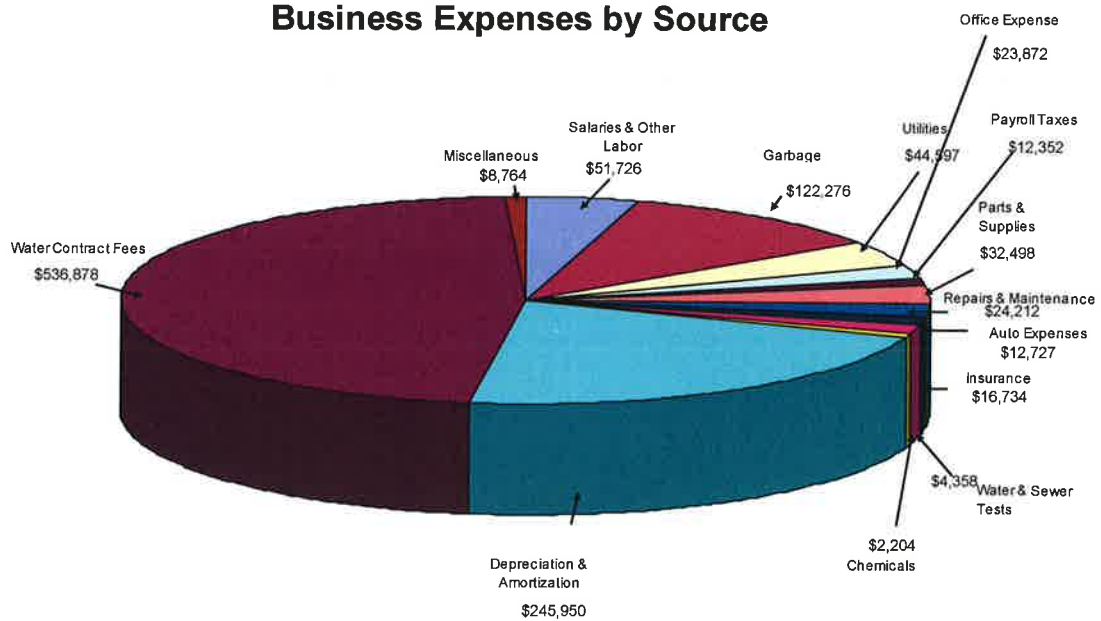
Business-type activities.

Revenues of the City's business-type activities were \$1,312,216 for the fiscal year ending September 30, 2012. Expenses for the City's business-type activities were \$1,331,280 for the year, resulting in a net loss before transfers of \$19,064.

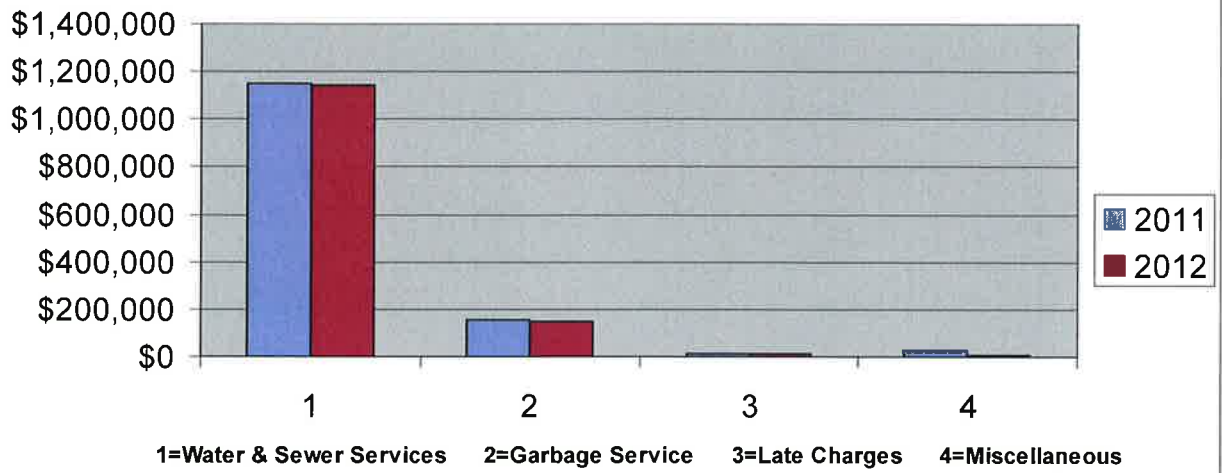
Business Revenues by Source



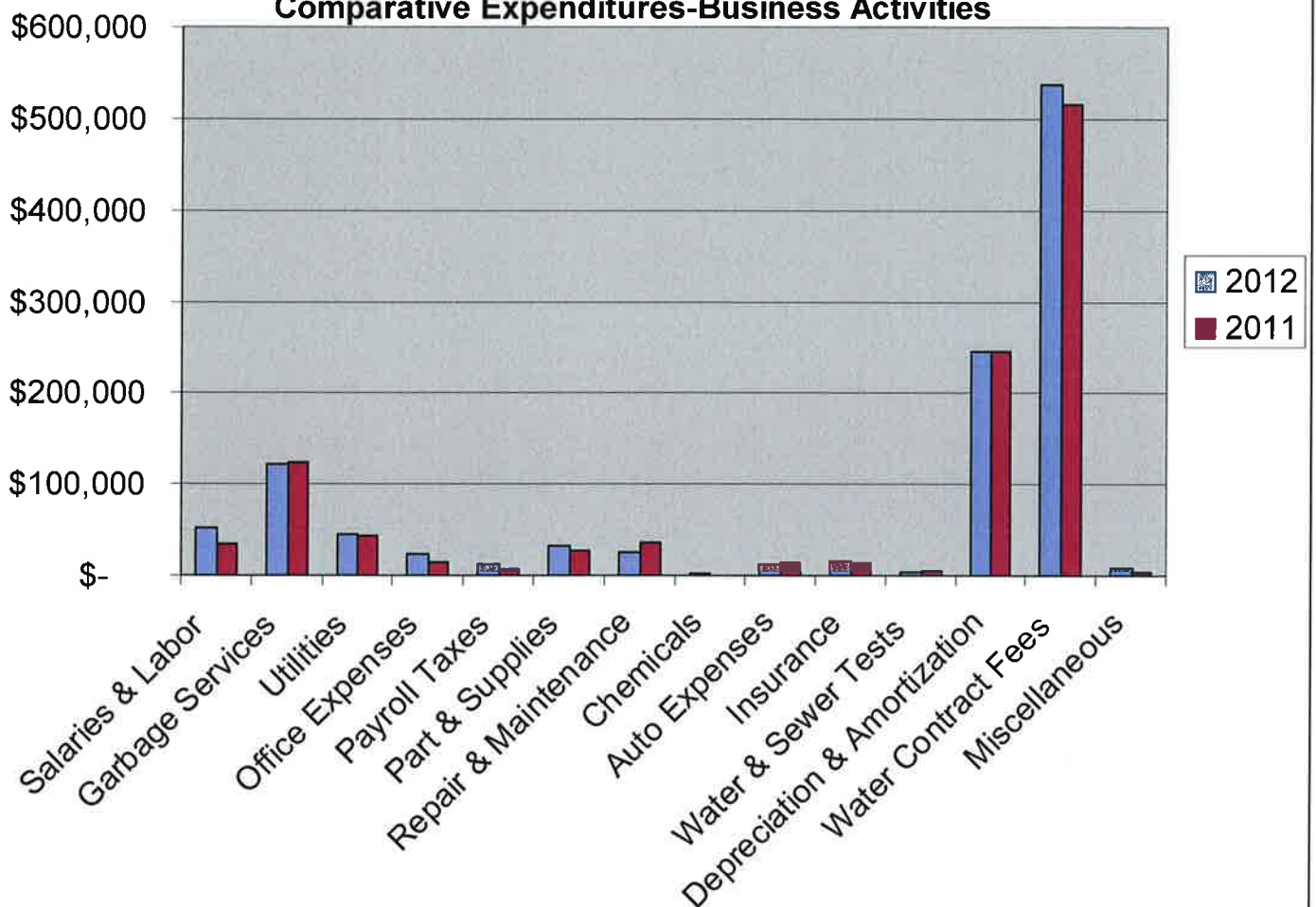
Business Expenses by Source



Comparative Revenues-Business Activities



Comparative Expenditures-Business Activities



Financial Analysis of the Government's Funds

As noted earlier the City of Venus uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Venus' *governmental funds* is to provide information on near term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Venus' financing requirements. In particular *unrestricted fund balances* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Venus' governmental funds reported combined ending fund balances of \$3,128,591, an increase of \$161,202 in comparison with the prior year. Approximately 88% of this total amount, \$2,775,508 constitutes *unrestricted fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City of Venus. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,775,508. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

The fund balance of the City of Venus' general fund increased by \$133,003 during fiscal year 2012.

Proprietary funds. The City of Venus' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$719,766, a 14.8% decrease.

Capital Asset and Debt Administration

Capital Assets. The City of Venus' investment in capital assets for its governmental and business type activities as of September 30, 2012, amounts to \$7,029,432 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and other facilities. The increase in building investments was the primary cause for the increase in capital investments for 2012.

Capital Assets

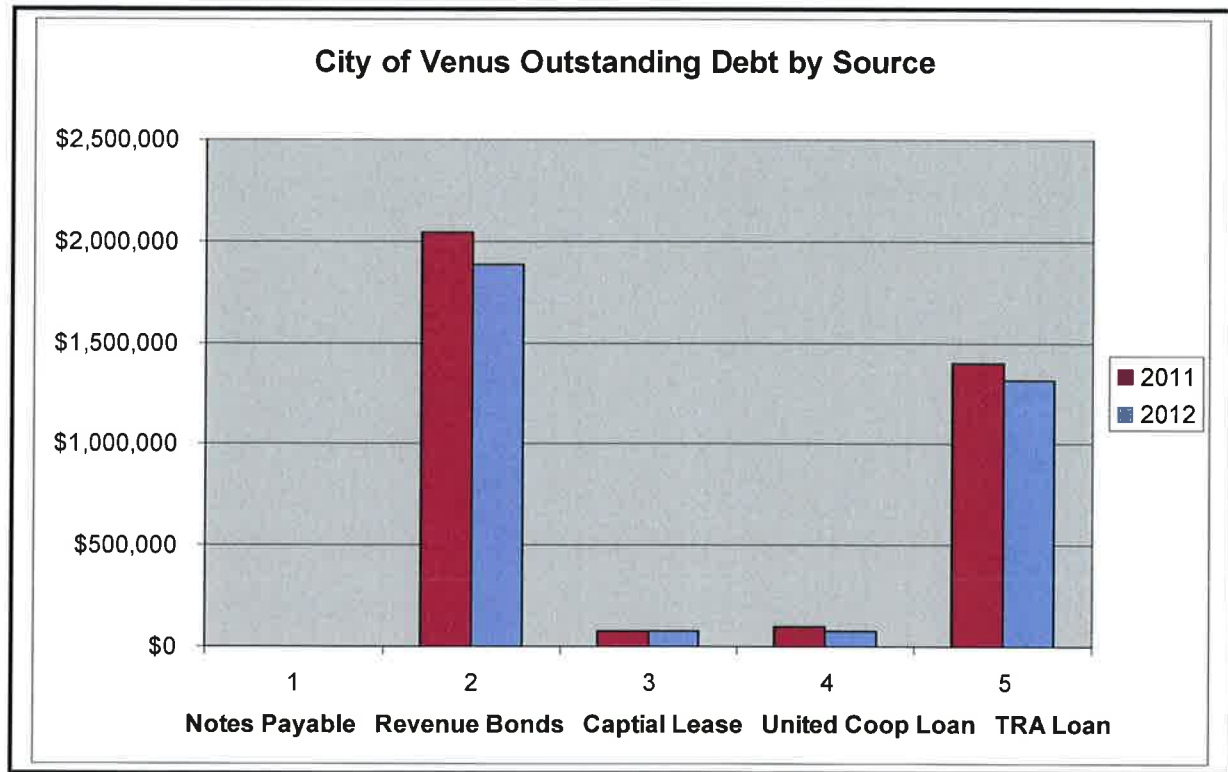
	<u>2011</u>	<u>2012</u>
Land	\$100,970	\$100,970
Building & Improvements	\$1,265,738	\$1,590,203
Vehicles & Equipment	\$577,979	\$548,427
Computer Equipment	\$230,757	\$230,757
Other Equipment	\$25,973	\$25,973
Construction in Process	-0-	\$21,800
Water & Sewer System	\$5,729,303	\$5,742,803
Mountain Creek Waste Water Contract	<u>\$2,014,700</u>	<u>\$2,014,700</u>
 Total Fixed Assets	 \$9,945,420	 \$10,275,633
 Less Depreciation	 <u>(\$2,996,808)</u>	 <u>(\$3,246,201)</u>
 Net Fixed Assets	 <u>\$6,948,612</u>	 <u>\$7,029,432</u>

For additional information on the City of Venus' capital assets, see page 34 and 35 of the basic financial statements.

Long-term debt. At the end of the current fiscal year, the City of Venus had total bonded debt outstanding of \$3,352,696. Of this amount, \$1,392,500 comprises debt backed by the full faith and credit of the government. The remainder of the City of Venus' debt is primarily bonds secured solely by specified revenue sources (i.e. revenue bonds).

CITY OF VENUS OUTSTANDING DEBT BY SOURCE

	<u>Government</u> <u>2011</u>	<u>Government</u> <u>2012</u>	<u>Business</u> <u>2011</u>	<u>Business</u> <u>2012</u>	<u>Total</u> <u>2011</u>	<u>Total</u> <u>2012</u>
Revenue Bonds	\$78,000	\$54,000	\$1,968,000	\$1,830,000	\$2,046,000	\$1,884,000
Capital Lease	\$79,709	\$76,196	\$0	\$0	\$79,709	\$76,196
United Coop Loan	\$0	\$0	\$100,000	\$75,000	\$100,000	\$75,000
TRA	<u>\$0</u>	<u>\$0</u>	<u>\$1,395,000</u>	<u>\$1,317,500</u>	<u>\$1,395,000</u>	<u>\$1,317,500</u>
 Totals	 <u>\$157,709</u>	 <u>\$130,196</u>	 <u>\$3,463,000</u>	 <u>\$3,222,500</u>	 <u>\$3,620,709</u>	 <u>\$3,352,696</u>



The City of Venus' total debt decreased by \$268,013, or 7% during the current fiscal year. The key factor in this decrease was the payoff of Revenue Bond indebtedness.

Economic Factors and Next Year's Budget and Rates

The City of Venus Economy

- New residential construction has added 15 new homes to the community in 2012 with the average price being over \$100,000.
- Our property tax rate will increase for 2013.
- Our city's tax evaluation decreased significantly this year.
- Local inflation factors remained low while median income rose.
- One new small business opened on the city square in 2012.
- New commercial business proposals are being presented to the council often once again after a four-year downturn.

Requests for Information

This financial report is designed to provide a general overview of the City of Venus' finances for all those with an interest in the city's finances. Questions concerning any of the information provided in this report or requests of additional information should be addressed to the City Secretary, City of Venus, P.O.Box 380, Venus, Texas 76084.

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

ASSETS	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash	\$ 72,657	\$ 427,789	\$ 500,446
Investments	3,023,563	232,599	3,256,162
Delinquent taxes	29,479	-	29,479
Accounts receivable	11,866	140,524	152,390
Less: Allowance for uncollectible accounts	(29,479)	(28,586)	(58,065)
Total current assets	<u>3,108,086</u>	<u>772,326</u>	<u>3,880,412</u>
Noncurrent assets:			
Restricted assets:			
Cash	171,036	-	171,036
Capital assets	2,234,986	8,040,647	10,275,633
Accumulated depreciation & amortization	(902,201)	(2,344,000)	(3,246,201)
Deferred bond issuance cost	4,004	107,933	111,937
Deposits	-	24,627	24,627
Total noncurrent assets	<u>1,507,825</u>	<u>5,829,207</u>	<u>7,337,032</u>
Total assets	<u>4,615,911</u>	<u>6,601,533</u>	<u>11,217,444</u>
LIABILITIES			
Current liabilities:			
Accounts payable	89,235	92,120	181,355
Accrued liabilities	65,300	-	65,300
Current portion:			
General obligation debt payable	26,000	145,000	171,000
Note payable	-	102,500	102,500
Capital leases	44,080	-	44,080
Total current liabilities	<u>224,615</u>	<u>339,620</u>	<u>564,235</u>
Noncurrent liabilities			
Revenue bonds payable	28,000	1,685,000	1,713,000
General obligation debt payable	-	1,290,000	1,290,000
Capital leases	32,116	-	32,116
Water deposits	-	93,000	93,000
Total noncurrent liabilities	<u>60,116</u>	<u>3,068,000</u>	<u>3,128,116</u>
Total liabilities	<u>284,731</u>	<u>3,407,620</u>	<u>3,692,351</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,202,589	2,474,147	3,676,736
Restricted for:			
Debt service	175,318	-	175,318
Grant fund	2,725	-	2,725
Unrestricted	2,950,548	719,766	3,670,314
Total net assets	<u>\$ 4,331,180</u>	<u>\$ 3,193,913</u>	<u>\$ 7,525,093</u>

See accompanying notes and auditor's report

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

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government:							
Administrative							
Total administrative	\$ 380,613	\$ 3,697	\$ -	\$ -	\$ (376,916)	\$ -	\$ (376,916)
	380,613	3,697	-	-	(376,916)	-	(376,916)
Public safety and judiciary:							
Police department	444,999	264,465	-	-	(180,534)	-	(180,534)
Municipal court	107,472	-	-	-	(107,472)	-	(107,472)
Total public safety and judiciary	552,471	264,465	-	-	(288,006)	-	(288,006)
Cultural, parks and recreation:							
Public works	285,065	-	-	-	(285,065)	-	(285,065)
Total cultural, parks and recreation:	285,065	-	-	-	(285,065)	-	(285,065)
Total governmental activities:	1,218,149	268,162	-	-	(949,987)	-	(949,987)
Business-type activities:							
Water and sewer service	1,209,004	1,158,484	-	-	-	(50,520)	(50,520)
Garbage service	122,276	147,386	-	-	-	25,110	25,110
Total business-type activities	1,331,280	1,305,870	-	-	(25,410)	(25,410)	(25,410)
Total	\$ 2,549,429	\$ 1,574,032	\$ -	\$ -	\$ (949,987)	\$ (25,410)	\$ (975,397)
General revenues:							
Property taxes					859,939	-	859,939
Sales taxes					259,406	-	259,406
Franchise taxes					96,958	-	96,958
Other taxes					6,245	-	6,245
Intergovernmental					24,525	-	24,525
Miscellaneous					106,236	6,346	112,582
Transfers-Internal activity					(21,800)	21,800	-
Total general revenues and transfers					1,331,509	28,146	1,359,655
Change in net assets					381,522	2,736	384,258
Net assets - beginning					3,949,658	3,191,177	7,140,835
Net assets - ending					\$ 4,331,180	\$ 3,193,913	\$ 7,525,093

**City of Venus, Texas
Balance Sheet
Governmental Funds
September 30, 2012**

	General	Debt Service	Special Revenue		Total Governmental Funds
			VCSDC	Grants	
ASSETS					
Cash	\$ 626	\$ 9,833	\$ 59,473	\$ 2,725	\$ 72,657
Investments	2,916,662	-	106,901	-	3,023,563
Receivables					
Delinquent taxes	29,479	-	-	-	29,479
Other receivables	11,866				11,866
Less: Allowance for uncollectible accounts	(29,479)	-	-	-	(29,479)
Restricted assets					
Cash	171,036	-	-	-	171,036
Deferred bond issuance costs	4,004	-	-	-	4,004
Total assets	<u>\$ 3,104,194</u>	<u>\$ 9,833</u>	<u>\$ 166,374</u>	<u>\$ 2,725</u>	<u>\$ 3,283,126</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	88,346	200	689	-	89,235
Accrued liabilities	65,300	-	-	-	65,300
Total liabilities	<u>153,646</u>	<u>200</u>	<u>689</u>	<u>-</u>	<u>154,535</u>
Fund balances:					
Nonspendable fund balance					
Not in spendable form	4,004	-	-	-	4,004
Restricted fund balance	171,036	9,633	165,685	-	346,354
Committed fund balance	-	-	-	2,725	2,725
Unassigned fund balance	2,775,508	-	-	-	2,775,508
Total fund balances	<u>2,950,548</u>	<u>9,633</u>	<u>165,685</u>	<u>2,725</u>	<u>3,128,591</u>
Total liabilities & fund balances	<u>\$ 3,104,194</u>	<u>\$ 9,833</u>	<u>\$ 166,374</u>	<u>\$ 2,725</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,332,785
Long-term liabilities, including bond payable, are not due and payable in the current period and therefore are not reported in the funds (Note B)	<u>(130,196)</u>
Net assets of governmental activities	<u>\$ 4,331,180</u>

City of Venus, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2012

	General	Debt Service	Special Revenue		Total Governmental Funds
			VCSDC	Grants	
REVENUES					
Services	\$ 3,697	\$ -	\$ -	\$ -	\$ 3,697
Fines and fees	264,465	-	-	-	264,465
Taxes	1,135,833	-	86,469	-	1,222,302
Miscellaneous revenue	106,236	-	-	-	106,236
Intergovernmental	-	-	-	24,525	24,525
Penalties and interest	-	-	247	-	247
Total revenues	1,510,231	-	86,716	24,525	1,621,472
EXPENDITURES					
Current -					
Administrative	348,985	-	-	-	348,985
Police department	403,914	-	-	-	403,914
Municipal court	107,472	-	-	-	107,472
Public works	230,786	-	-	-	230,786
Debt service -					
Principal retirement	-	24,000	-	-	24,000
Interest and fiscal charges	-	7,134	-	-	7,134
Capital leases	-	43,774	-	-	43,774
Capital outlay	272,405	-	-	-	272,405
Total expenditures	1,363,562	74,908	-	-	1,438,470
Excess (deficiency) of revenues over (under) expenditures	146,669	(74,908)	86,716	24,525	183,002
OTHER FINANCING SOURCES (USES)					
Operating transfers in	128,310	82,042	-	-	210,352
Operating transfers out	(141,976)	(3,544)	(64,832)	(21,800)	(232,152)
Total other sources (uses)	(13,666)	78,498	(64,832)	(21,800)	-
Net change in fund balances	133,003	3,590	21,884	2,725	161,202
Fund balances - beginning	2,817,545	6,043	143,801	-	2,967,389
Fund balances - ending	\$ 2,950,548	\$ 9,633	\$ 165,685	\$ 2,725	\$ 3,128,591

See accompanying notes and auditor's report

City of Venus, Texas
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2012

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

Net change in fund balances - total governmental funds	\$ 161,202
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of assets acquired during the year, net of borrowing of \$40,251.	272,405
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount for depreciation in the current period.	(109,547)
The net disposition of capital assets is a decrease a to net assets	(10,302)
Governmental funds report debt proceeds as revenue. However, in the statement of activities the payment of the debt principal reduces the outstanding liability. This is the amount of principal payments during the current period.	67,764
Changes in net assets of governmental activities	<hr/> <u>\$ 381,522</u>

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

ASSETS

Current assets:

Cash	\$ 427,789
Investments	232,599
Receivables	
Accounts receivable	140,524
Less: Allowance for uncollectible accounts	(28,586)
Total current assets	<u>772,326</u>

Noncurrent assets:

Capital assets (net of accumulated depreciation and amortization, where applicable)	5,696,647
Deferred bond issuance costs	107,933
Deposits	24,627
Total noncurrent assets	<u>5,829,207</u>
Total assets	<u>6,601,533</u>

LIABILITIES

Current liabilities:

Accounts payable	92,120
Current portion:	
Revenue bonds payable	145,000
General obligation payable	102,500
Total current liabilities	<u>339,620</u>

Noncurrent liabilities:

Revenue bonds payable (note F)	1,685,000
General obligation debt payable	1,290,000
Water deposits	93,000
Total noncurrent liabilities	<u>3,068,000</u>
Total liabilities	<u>3,407,620</u>

NET ASSETS

Invested in capital assets, net of related debt	2,474,147
Unrestricted	719,766
Total net assets	<u>\$ 3,193,913</u>

See accompanying notes and auditor's report

City of Venus
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2012

	<u>Water and Sewer</u>
Operating revenues:	
Water and sewer service	\$ 1,143,272
Garbage service	147,386
Late charges	15,212
Miscellaneous	6,346
Total operating revenues	<u>1,312,216</u>
Operating expenses:	
Salaries and other labor	51,726
Garbage services	122,276
Utilities	44,597
Office expenses	23,872
Payroll taxes	12,352
Parts and supplies	32,498
Repairs and maintenance	24,212
Chemicals	2,204
Auto expenses	12,727
Insurance	16,734
Water and sewer tests	4,358
Depreciation and amortization	245,950
Water contract fees	536,878
Miscellaneous	8,764
Total operating expenses	<u>1,139,148</u>
Operating income	173,068
Non-operating revenues (expenses):	
Interest expense	<u>(192,132)</u>
Income before transfers	(19,064)
Operating transfers:	
Operating transfers in (out)	<u>21,800</u>
Change in net assets	2,736
Total net assets - beginning	<u>3,191,177</u>
Total net assets - ending	<u><u>\$ 3,193,913</u></u>

See accompanying notes and auditor's report

City of Venus, Texas
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2012

	<u>Water and Sewer Fund</u>	
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,318,602	
Payments to suppliers	(810,943)	
Payments to employees	<u>(64,078)</u>	
Net cash provided (used) by operating activities		\$ 443,581
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Decrease in revenue bonds payable	(138,000)	
Principal paid on bonds, notes and lease obligations	(25,000)	
Principal paid on MCWRS buy-in	(77,500)	
Interest paid on bonds, notes and lease obligations	(192,132)	
Acquisition of capital assets	(123,571)	
Increase in water contract reserve	<u>522</u>	
Net cash provided (used) in capital and related financing activities		(555,681)
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in Texpool Fund	<u>(264)</u>	
Net cash provided (used) in invested activities		<u>(264)</u>
Net decrease in cash and cash equivalents		(90,564)
Cash and cash equivalents at beginning of year		<u>518,353</u>
Cash and cash equivalents at end of year		<u><u>\$ 427,789</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income		\$ 173,068
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 245,950	
Increase in accounts receivable	6,386	
Increase in accounts payable	14,952	
Increase in water deposits payable	<u>3,225</u>	
Total adjustments		<u>270,513</u>
Net cash provided (used) by operating activities		<u><u>\$ 443,581</u></u>

See accompanying notes and auditor's report

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Venus, Texas (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

1. Reporting Entity

The City is a municipal corporation governed by an elected mayor and a six-member Council. As required by generally accepted accounting principles in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and therefore data from these units are combined with data from the primary government. Information regarding blended component units can be obtained at City Hall.

All entities that are not included as "Blended Component Units" below are excluded from the City's financial reporting entity.

Blended Component Units:

Venus Community Service Development Corporation ("VCSDC") - The VCSDC board of directors is appointed by the City Council and the City Management maintains significant continuing management oversight with respect to VCSDC policies. Additionally, the City is ultimately responsible for VCSDC fiscal matters.

2. Government-wide and fund financial statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The previous reporting model emphasized fund types (the total of all funds of a particular type); in the new reporting model as defined by GASB Statement No. 34 the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Police, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, 3) grants and contributions that are restricted to meeting capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.) Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund and special revenue funds. The major enterprise fund is the water and sewer fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major category funds. The City does not have any non-major funds. The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

3. Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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 have been met.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are susceptible to accrual, as soon as they are both measurable and available. Revenues, including grant revenues, are considered to be available when they are collectible within the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment, are recorded only when the obligation has matured and will be paid shortly after year end (not to exceed one month).

Ad valorem, franchise and sales tax revenues recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, as soon as all eligibility requirements have been met, including monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if all eligibility requirements are met.

Business type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating 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 City's water and sewer are charges to customers for sales and services. Operating expenses for the enterprise funds 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 nonoperating revenues and expenses.

The government reports the following major governmental funds:

The General fund is the operating fund of the City. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, the fixed charges, and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The General Obligation Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on general long-term obligation debt. The primary source of revenue is ad valorem taxes, which are levied by the City.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Special Revenue – Grants Fund accounts for the financial resources to be used in the construction of various water and sewer projects. The Fund is financed from grants and is subject to a single audit if certain criteria is met.

The Special Revenue – Venus Community Service Development Corporation (“VCSDC”) accounts for the revenues collected for the civic center. Expenses are reported within general government.

The government reports the following major proprietary funds:

The Water and Sewer Fund accounts for the operation of the City’s water and sewer utility. Activities of the Fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for general obligation and revenue bonds. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

4. Assets, liabilities, and net assets or equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments within a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory consists primarily of supplies, valued at cost. Cost is determined using the weighted average method. Inventory is charged to the user departments and recorded as expenses/expenditures when consumed rather than when purchased.

Prepaid Expenditures/Expenses

Payments made to vendors for services that will benefit periods beyond September 30, 2012 are recorded as prepaid items.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date of donation.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized, while improvements and betterments are capitalized. Assets in the general government are depreciated. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs, and gutters, streets, sidewalks, drainage systems, and lighting systems are capitalized along with other general fixed assets.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Building and Improvement	50 years
Water & Sewer Lines	50 years
Vehicles, Machinery & Equipment	4-10 years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with the interest earned on invested proceeds over the same period. The City capitalized no interest during the fiscal year 2012.

Property Tax

Property taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on October 1st and are due and payable on or before January 31st of the following year. All unpaid taxes become delinquent on February 1st of the following year. The Central Appraisal District of Johnson County bills and collects the City's property taxes. Property tax revenues are recognized when they are both measurable and received. Revenues are considered both measurable and available when they are collectible within the current period or soon thereafter to pay liabilities of the current period.

Compensated Absences

Vested accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the Statement of Net Assets. No expenditure is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting, accumulating rights to receive sick pay benefits. Vacation is earned in varying amounts up to a maximum of fifteen (15) days for employees with 8 or more years of service. Any vacation time not taken by the end of the year will be forfeited. No liability for accrued vacation was recognized.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Bond Issuance Costs

In Government Fund types, bond issuance costs are amortized equally over the term of the bond. Bond issuance costs for Proprietary Fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. In the proprietary fund, amortization expense is included with depreciation expense on the Statement of Revenue, Expenses, and Change in Fund Net Assets - Proprietary Fund Type.

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of AU Section 312, "Disclosures about Fair Value of Financial Instruments". The City, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the companies could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Investments, Accounts Receivable, Accounts Payable and Accrued Expenses – The carrying amounts of these items are a reasonable estimate of their value.

Long-term Debt – Interest rates that are currently available to the City for issuance of debt with similar terms and remaining maturities are used to estimate fair value for debt issues for which no market quotes are available. The carrying amount of this item is a reasonable estimate of fair value.

The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2012. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Interfund Receivable/Payable

All transactions among funds are recorded as operating transfers and such, no interfund receivables/payables exist.

Restricted Assets

Certain proceeds of Enterprise Fund Revenue Bonds, as well as certain resources set aside for their repayment, are classified as Restricted Assets on the balance sheet because their use is limited by applicable bond covenants.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Final settlement amounts could differ from those estimates.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

The preparation of financial statements in conformity with government accounting standards requires management to classify the fund balances. For *committed* fund balance classification, the City Council must take formal action to establish, modify or rescind a fund balance commitment. For *assigned* fund balance classification, the City Manager with a concurrence of the Finance Director is authorized to assign amounts for a specific purpose. The *restricted* fund balance classification includes amounts that have constraints that are externally imposed (creditors, grantors, etc) or imposed by enabling legislation. The *nonspendable* classification includes amounts that are not in spendable for or required to be maintained intact. The *unassigned* fund balance classification represents fund balance that has not been classified to another category. The City considers an amount spent when an expenditure is incurred for purposes for which both *restricted* or *unrestricted* fund balance is available. In addition, the City considers an amount spent when an expenditure is incurred for purposes for which an amount in the *committed*, *assigned*, or *unassigned* amounts could be used.

Budget Control

The City operates as a Type A General Law Municipality under the Texas Local Government Code. As set forth in the City Charter, the City Council adopts an annual budget prepared in accordance with generally accepted accounting principles in the United States of America. The City Council may transfer part or all of any unencumbered appropriation balance among programs within a specific fund, and, any revisions that alter the total expenditures must be approved by the City Council. The City Council may require their approval of these transfers above a limit they wish to establish. The current City Council has not established a limit that they wish to approve on transfers. Council approval is needed only if the expenditures exceed the certain thresholds set by the Council.

The City, for management purposes, adopts budgets for all funds except Special Revenue, and Capital Projects. Legal budgets are adopted for the General Fund and the Debt Service Funds. Capital Projects are funded through the issuance of general obligation debt authorized for a specific purpose.

5. Implementation of new accounting principle:

The GASB has issued the following Statements which will become effective in future years as shown below:

Statement No. 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB No. 14 and 34* " The objective of this Statement is to improve financial reporting for a government financial reporting entity. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements”* The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position”* This Statement provides financial reporting guidance for deferred outflow of resources and deferred inflow of resources. This Statement will become effective for the City in fiscal year 2013. Management has not yet determined the effect of this statement on financial statements.

Statement No. 65, *“Items Previously Reported as Assets and Liabilities”* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement will become effective for the City in fiscal year 2014. Management has not yet determined the effect of this statement on financial statements.

Statement No. 66, *“Technical Corrections – 2012 an amendment of GASB Statements No. 10 and 62”* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No 54 *“Fund Balance Reporting and Governmental Fund Type Definitions”*, and No. 62 *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”* This Statement will become effective for the City in fiscal year 2014. Management has not yet determined the effect of this statement on financial statements.

Statement No. 67, *“Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25”* The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement will become effective for the City in fiscal year 2014. Management has not yet determined the effect of this statement on financial statements.

Statement No. 68, *“Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”* The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement will become effective for the City in fiscal year 2015. Management has not yet determined the effect of this statement on financial statements.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The government fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the governmental-wide statement of net assets. One element of that reconciliation explains, “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$130,196 difference are as follows:

Bond payable	\$54,000
Capital leases	<u>76,196</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$130,196</u>

NOTE C – CASH AND INVESTMENTS

The City maintains separate cash accounts and investment accounts for each fund and is reflected as such on the combined balance sheet as “Cash” and “Investments”. Except for bond-related and other restricted transactions, the City conducts all its banking and investment transactions with the depository bank, Citizens National Bank, Venus

Deposits -

At September 30, 2012, the carrying amount of the City's cash deposits at the bank was \$635,562 and the cash balance per the City’s books was \$563,425. All of the cash bank balance was covered by federal depository insurance. The City does not carry any bank balance over the insured and secured amounts.

Investments -

State statues, city bond ordinances and city resolutions authorize the City’s investments. The City is authorized to invest in obligations of, or guaranteed by governmental entities, certificates of deposits and share certificates, repurchase agreements, banker’s acceptances, commercial paper, mutual funds, investment pools existing investments of the Government Code and any other investment authorized by the State of Texas for cities. As of September 30, 2012, 76% of the City’s Investments were in Certificate of Deposits held in various banking institutions and 24% were with an external government investment pool administered by the State of Texas, which is entitled the TexPool Fund. TexPool operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

NOTE C – CASH AND INVESTMENTS (Continued)

The City's investments carried at fair value as of September 30, 2012 are:

Investments:	Fair Value	Effective Duration	Credit Risk
Government Pools	\$532,042	N/A	AAAM
Bank Institutions	2,724,120	Various	AAAA
	<u>\$3,256,162</u>		

Interest Rate Risk – The City minimizes the interest rate risk, related to the decline in market value of securities due to rising interest rates in the portfolio, by: limiting the effective duration of security types not to exceed 2 years for pooled fund groups and debt service funds, 5 years for debt service reserve funds and the length of the project for special projects or special purpose funds; structuring the portfolio so that securities mature to meet cash requirements for ongoing operations; regular monthly reporting to the Board of Directors by investment officials summarizing the results of the City's investment activity, including information on the current portfolio position, performance, trading activity, interest earnings and collateral; and investing in liquid, short-term instruments with maturities of the investments distributed such that there will be a continuing stream of securities maturing at frequent intervals.

Credit Risk – The City minimizes credit risk losses due to default of a security issuer backing by: diversifying the investment portfolio so that potential losses on individual securities are minimized and limiting investments to the safest types of securities. As noted in the above table, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

NOTE D – CHANGES IN CAPITAL ASSETS

Primary Government

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	Balance 9/30/11	Additions	Retirements	Balance 9/30/12
Land	\$75,700	\$ -0-	\$ (-0-)	\$75,700
Building & Improvements	1,238,507	253,366	(-0-)	1,491,873
Vehicles & Equipment	457,407	59,290	(106,014)	410,683
Computer Equipment	230,757	-0-	(-0-)	230,757
Other Equipment	25,973	-0-	(-0-)	25,973
Total Fixed Assets	2,028,344	312,656	(106,014)	2,234,986
Less Depreciation	(888,366)	(109,547)	95,712	(902,201)
Total Fixed Assets	<u>\$1,139,978</u>	<u>\$203,109</u>	<u>\$ (10,302)</u>	<u>\$1,332,785</u>

NOTE D – CHANGES IN CAPITAL ASSETS (Continued)

Business-Type

The following is a summary of changes in the proprietary fund fixed assets for the fiscal year:

	Balance 9/30/11	Additions	Retirements	Balance 9/30/12
Land	\$25,270	\$ -0-	\$(-0-)	\$25,270
Buildings	-0-	71,099	(-0-)	71,099
Improvements	27,231	-0-	(-0-)	27,231
Equipment	120,572	17,172	(-0-)	137,744
Construction in Process	-0-	21,800	(-0-)	21,800
Water and Sewer System	5,729,303	13,500	(-0-)	5,742,803
Mountain Creek Waste Water Contract	2,014,700	-0-	(-0-)	2,014,700
Total Fixed Assets	7,917,076	123,571	(-0-)	8,040,647
Less Depreciation & Amortization	(2,108,442)	(235,558)	(-0-)	(2,344,000)
Net Capital Assets	<u>\$5,808,634</u>	<u>(\$111,987)</u>	<u>\$(-0-)</u>	<u>\$5,696,647</u>

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

Governmental activities:

General government	\$24,494
Public safety	30,774
Public works	<u>54,279</u>
Total depreciation expense – governmental activities	<u>\$109,547</u>

Business-type activities:

Water and sewer	<u>\$235,558</u>
Total depreciation – business activities	<u>\$235,558</u>

NOTE E – OPERATING TRANSFERS

The composition of interfund balances as of September 30, 2012 is as follows:

Operating transfers:

Fund	Transfers In	Transfers Out
General Fund	\$128,310	\$141,976
Debt Service	82,042	3,544
Water and Sewer	21,800	-0-
Grant Fund	-0-	21,800
Special Revenue	-0-	<u>64,832</u>
	<u>\$232,152</u>	<u>\$232,152</u>

NOTE F - NOTES AND BONDS PAYABLE

Governmental activities -

The following is a summary of debt transactions of the City for the year ended September 30, 2012.

	Balance 9/30/11	Borrowings	Payments	Balance 9/30/12
Note Payable	\$ -0-	\$-0-	\$ (-0-)	\$-0-
Revenue Bonds – 2009 Refunding	78,000	-0-	(24,000)	54,000
Subtotal	78,000	-0-	(24,000)	54,000
Capital Lease	79,709	40,251	(43,764)	76,196
Total	\$157,709	\$40,251	\$(67,764)	\$130,196

Description of Debt	Amount
\$123,000 General Obligation Refunding Bonds, Series 2009, to be used to refinance the City's debt. The \$123,000 is the General Fund's allocation of the total amount of \$1,729,000. Principal payments start in 2010 and are due in annual installments of \$22,000 to \$28,000 through February 2014. The interest payments started January 2010 with semiannual payments of \$2,340 to \$910 through February 2014.	\$54,000
In 2010, the City of Venus acquired a new capital lease for two 2010 Chevy Tahoe Police Vehicles. The lease amount is \$66,432 with three annual payments of \$24,101 at an interest rate of 6% and ends in 2013.	22,740
In 2011, the City of Venus acquired a new capital lease for a Caterpillar Mini-excavator. The lease amount is \$45,656 with five annual payments of \$10,143.10 at an interest rate of 5.5% and ends in 2015.	27,342
In 2012, the City of Venus acquired a new capital lease for a 2012 Chevy Tahoe Police Vehicle. The lease amount is \$42,410 with 3 annual payments of \$14,138 at an interest rate of 5% and ends in 2014.	26,114
Total Debt	130,196
Less Current Portion	(70,080)
Total Long-Term Debt	\$60,116

This debt is presented in the combined balance sheet as follows:

Current Portion

Note Payable	\$-0-
Revenue bond payable	26,000
Capital Leases	44,080
Subtotal	70,080
Note Payable	-0-
Revenue Bonds Payable	28,000
Capital Leases	32,116
Total	\$130,196

The following schedule summarizes the loan obligations of the General Fund:

Year Ending Sept. 30	Principal	Interest	Total
2013	\$ 70,080	\$ 5,543	\$ 75,623
2014	50,505	1,949	52,454
2015	9,611	533	10,144
2016	-0-	-0-	-0-
2017	-0-	-0-	-0-
Total	\$ 130,196	\$ 8,025	\$ 138,221

Business-type activities -

The following is a summary of debt transactions of the City for the year ended September 30, 2012.

	Balance 9/30/11	Borrowings	Payments	Balance 9/30/12
Revenue Bonds:				
Series 2005	\$513,000	\$-0-	\$(55,000)	\$458,000
Series 2009 Refunding	1,455,000	-0-	(83,000)	1,372,000
JCEC / United Cooperative	100,000	-0-	(25,000)	75,000
Trinity River Authority (MCWRS)	1,395,000	-0-	(77,500)	1,317,500
Total	\$3,463,000	\$-0-	\$(240,500)	\$3,222,500

NOTE F - NOTES AND BONDS PAYABLE (Continued)

Description of Debt	Amount
\$250,000 General non-interest bearing obligation debt payable to the United Cooperative Services, for expanding current water system, maturing 2014, requiring annual payments of \$25,000.	\$75,000
\$1,606,000 General Obligation Refunding Bonds, Series 2009, to be used to refinance the City's debt. The \$1,606,000 is the Water & Sewer Fund's allocation of the total amount of \$1,729,000. Principal payments will start in 2010 due in annual installments of \$73,000 to \$169,000 through February 2023. The interest payments started August 2009 with semiannual payments of \$53,356 to \$5,493 through February 2023.	1,372,000
\$513,000 Combination Tax and Revenue Certificates of Obligation, Series 2005, for the acquisition, construction and/or renovation of public works, due in annual installments of \$55,000 to \$75,000 starting in 2012 and terminating in 2019, with interest at 4.5% during term.	458,000
\$1,550,000 was financed in fiscal year 2010 upon the City exercising their option to buy-in as a contracting party to the Mountain Creek Regional Wastewater System. Principal payments started in 2010 and are due in 20 annual installments of \$77,500, with interest at 5.5%.	<u>1,317,500</u>
Total Debt	3,222,500
Less: Current Portion	<u>(247,500)</u>
Total Long-Term Debt	<u>\$2,975,000</u>

NOTE F - NOTES AND BONDS PAYABLE (Continued)

This debt is presented in the combined balance sheet as follows:

Current Portion

General obligation payable	\$102,500
Revenue bonds payable	145,000
Subtotal	247,500
General Obligation Payable	1,290,000
Revenue Bonds Payable	1,685,000
Total	\$3,222,500

The annual requirements to amortize enterprise fund debt outstanding as of September 30, 2012 follows:

Year Ending Sept. 30	Principal	Interest	Total
2013	\$247,500	\$178,110	\$425,610
2014	256,500	165,300	421,800
2015	265,500	151,955	417,455
2016	249,500	138,075	387,575
2017	259,500	123,638	383,138
2018-2022	1,232,500	394,343	1,626,843
2023-2027	556,500	112,055	668,555
2028-2032	155,000	12,787	167,787
Total	\$3,222,500	\$1,276,263	\$4,498,763

NOTE G – TMRS PENSION PLAN

Plan Description

The City provides pension benefits for all its full-time employees (temporary and part-time employees and volunteer firefighters can not enroll in the TMRS) through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. 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 contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortized the unfunded (overfunded) actuarial liability (asset) over 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 Credits and Annuity Increases. The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2011 valuation is effective for rates beginning after January 2012).

NOTE G – TMRS PENSION PLAN (Continued)

Following is the Schedule of Actuarial Liabilities and Funding Progress for the year ended September 30, 2012

Actuarial Valuation Date	12/31/11	12/31/10	12/31/09
Actuarial Value of Assets	\$ 849,387	\$ 718,338	\$ 509,150
Actuarial Value of Liability	1,039,977	901,370	701,672
Percentage Funded	81.7%	79.7%	72.6%
Unfunded Actuarial Accrued Liability (UAAL)	190,590	183,032	192,522
Annual Covered Payroll	577,253	558,204	504,184
UAAL as a Percentage of Covered Payroll	32.0%	32.8%	38.2%
Net Pension Obligation (NPO) at the Beginning of Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	38,602	37,225	34,455
Interest on NPO	-0-	-0-	-0-
Adjustment to the ARC	-0-	-0-	-0-
Contributions Made	(38,602)	(37,225)	(34,455)
Increase in NPO	-0-	-0-	-0-
NPO at the end of the period	\$-0-	\$-0-	\$-0-

NOTE G – TMRS PENSION PLAN (Continued)

Actuarial assumptions

Valuation Date	12/31/11	12/31/10	12/31/09
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	21.0 years; closed period	22.1 years; closed period	23.3 years; closed period
Amortization Period for new Gains/Losses	19 years	19 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.0%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	2.1%	2.1%	2.1%

The City of Venus has their benefit plan administered by TMRS. The City has an annual, individual actuarial valuation performed. All assumptions for the 12/31/11 valuations and a complete list of changes are contained in the 2011 TMRS Comprehensive Annual Financial Report. All pertinent information may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

NOTE H – RISK MANAGEMENT

The City manages its risk through the purchase of insurance from the Texas Municipal League for all risks of loss. Significant losses are covered by the Texas Municipal League for all major programs. For such insured programs, there have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE I – OPERATING LEASES

The majority of the City's leases are categorized as capital with two operating leases for office equipment. Rent and lease expense for the year ended September 30, 2012 was \$5,344 for these leases. Future minimum rental payments are as follows:

<u>Year Ending Sept. 30</u>	<u>Payment</u>
2013	\$3,544

NOTE J – CONCENTRATIONS

Approximately 66% of the proprietary fund's revenues are from two customers.

NOTE K – SUBSEQUENT EVENTS

The City evaluated subsequent events through February 26, 2013, which is the same date that the financial statements were issued and determined that there are no reportable events.

NOTE L – MIDLOTHIAN SURFACE WATER PURCHASE CONTRACT

In 2005, the City of Venus entered in to a contractual agreement with the City of Midlothian to obtain the right to buy surface water for the amount of \$464,700. The agreement entitles the City to purchase water for the Water and Sewer department on a day to day basis with limits on the amount at a rate that ranges depending on the usage of water. This additional water will be used to support the daily operations and expanding community of the City. The cost of the buy-in is reported as an asset which will be amortized over the 37 year life of the agreement. Total water purchase expense for the year ended September 30, 2012 related to the Midlothian Surface Water contract was \$289,894.

Required Supplementary Information

**City of Venus, Texas
General Fund**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the year ended September 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Services	\$ 4,430	\$ 4,430	\$ 3,697	\$ (733)
Fines & Fees	239,500	239,500	264,465	24,965
Taxes:				
Property	790,000	790,000	859,939	69,939
Sales	220,000	220,000	172,937	(47,063)
Franchise	86,000	86,000	96,958	10,958
Other	108,350	108,350	5,999	(102,351)
Miscellaneous	62,800	62,800	106,236	43,436
Total revenues	<u>1,511,080</u>	<u>1,511,080</u>	<u>1,510,231</u>	<u>(849)</u>
EXPENDITURES				
Current:				
General government	456,457	456,457	348,985	107,472
Public safety and judiciary	680,521	680,521	511,386	169,135
Cultural, parks, and recreation	491,595	491,595	230,786	260,809
Capital Outlay	-	-	272,405	(272,405)
Total expenditures	<u>1,628,573</u>	<u>1,628,573</u>	<u>1,363,562</u>	<u>265,011</u>
Excess of (expenditures) over revenues	<u>(117,493)</u>	<u>(117,493)</u>	<u>146,669</u>	<u>264,162</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	5,000	5,000	128,310	123,310
Transfers out	(135,507)	(135,507)	(141,976)	(6,469)
Total other financing sources and uses	<u>(130,507)</u>	<u>(130,507)</u>	<u>(13,666)</u>	<u>116,841</u>
Net change in fund balances	<u>(248,000)</u>	<u>(248,000)</u>	<u>133,003</u>	<u>381,003</u>
Fund balances - beginning	1,885,244	1,885,244	2,817,545	932,301
Fund balances - ending	<u>\$ 1,637,244</u>	<u>\$ 1,637,244</u>	<u>\$ 2,950,548</u>	<u>\$ 1,313,304</u>

The notes to the financial statements is an integral part of this statement.

CITY OF VENUS, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2012

I. Stewardship, compliance, and accountability

A. Budgetary information

As set forth in the City Charter, the City Council adopts an annual budget prepared in accordance with GAAP. The City Administrator may transfer part or all of any unencumbered appropriation balance among programs within a specific fund; however, any revisions that alter the total expenditures of the fund must be approved by the City Council. The City, for management purposes, adopts budgets for all funds except Special Revenue and Capital Projects which the use of these funds is legally restricted for a designated purpose. Legal budgets are adopted for the General Fund and the Debt Service Funds, the legal level of control is the fund level.

Capital Projects are funded through the issuance of general obligation debt authorized for a specific purpose.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for a capital expenditure shall continue in force until the purpose for which it was made has been accomplished or abandoned; the purpose of any such appropriation shall be deemed abandoned if three (3) years pass without any disbursement from or encumbrance of the appropriation. No supplemental budgetary appropriations occurred in the debt service funds or in the General Fund. The revised budgets are used for budget versus actual comparisons. Revenues in the general fund were less than budget by \$849 and expenditures did not exceed the budget by \$265,011.

B. Retirement Plan

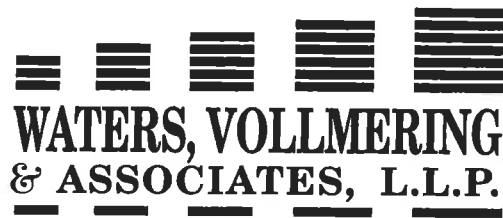
**Texas Municipal Retirement System
Schedule of Funding Progress**

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (1)/(2)	Unfunded AAL (2)-(1)	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
2009	\$509,150	\$701,672	72.60%	\$192,522	\$504,184	38.2%
2010	\$718,338	\$901,370	79.70%	\$183,032	\$558,204	32.8%
2011	\$849,387	\$1,039,977	81.70%	\$190,590	\$577,253	32.0%

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 contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714-9153, or by calling 800-924-8677; in addition, the report is available on the TMRS website at www.tmrs.com.

**Texas Municipal Retirement System
Schedule of Employer Contributions**

	TMRS – Annual Required	Percentage of TMRS
<u>Fiscal Year Ended</u>	<u>Contributions</u>	<u>Contributed</u>
12/30/09	\$34,455	100%
12/30/10	\$37,225	100%
12/30/11	\$38,602	100%



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor, and City Council
City of Venus, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Venus, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of Venus, Texas basic financial statements and have issued our report thereon dated February 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Venus, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Venus, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Venus, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Venus, Texas' 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 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 the 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. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Lack of segregation of duties

A good system of internal control provides for a proper segregation of the accounting functions. The City has a small number of people in their offices performing a variety of duties, some of which may be incompatible. The City does not have the proper segregation of duties over cash receipts and disbursements, accounts receivable, and accounts payable. Proper segregation is not always possible in a small organization, but limited segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud. Also, separating these duties will improve internal controls over cash and other assets and reduce the possibility of irregularities. Management has taken great strides in reviewing and documenting the assignments of the accounting functions and isolating any incompatible accounting functions that are the responsibility of one employee and reassigning the responsibilities for these duties, if practical, or create a supervisory review of these functions. Where possible, duties have been segregated to reduce the risk of errors or fraud.

Certified Public Accountants

City management can not internally create the financial statements according to government accounting standards

The City is not capable of preparing its own financial statements but has the skills and competence to prevent, detect, and correct a misstatement in a timely manner. The City relies on us, the auditors, to prepare the financial statements and related footnotes. However, the auditor can not become part of the City's internal control structure. The City accounts for its operations on a budgetary focus; that is, cash receipts and disbursements in relation to the budget and does so well considering continuing issues with staffing a small city. Transactions such as the incurring and paying of debt, the purchase of assets on debt, period-end accruals or other non cash transactions like depreciation need additional attention and training. We recommend continuing the ongoing training in governmental accounting for the City Secretary / Finance Director on an annual basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City Venus, Texas' 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.

This report is intended solely for the information and use of management, City Council, others within the organization, 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.


Waters, Vollmering & Associates

Mansfield, Texas

February 26, 2013