

CITY OF VENUS, TEXAS
SEPTEMBER 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

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 then ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

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, 2013, 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.

Emphasis of Matter

As discussed in note A5 to the basic financial statements, in 2013, the City adopted Governmental Accounting Standards Board Statements No. 65, *Items Previously Reported as Assets and Liabilities*, and No. 61, *The Financial Reporting Entity, Omnibus*. Our opinion is not modified with respect to these matters.

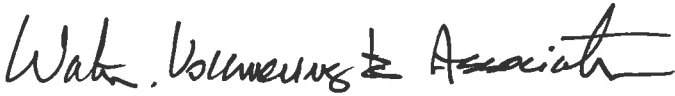
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 to 17, the budgetary comparison information on pages 46 and 47, and the schedule of funding progress for the retirement plan on page 48 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Waters, Vollmering & Associates", with a stylized flourish at the end.

Waters, Vollmering & Associates, LLP

February 26, 2014

2013 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, 2013. 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 \$7,644,868 (net assets). Of this amount, \$3,542,561 (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 \$3,156,166. Approximately 88% of this, \$2,774,338, is available for spending at the City's discretion (unreserved fund balance.)
- The City of Venus' total debt obligations decreased by \$306,359 (9.7%) 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 \$7,664,868 at the close of the most recent fiscal year.

By far the largest portion of the City of Venus' net assets, (51.7%) 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

2013 CITY OF VENUS NET POSITION

	2012 Governmental Activities	2013 Governmental Activities	2012 Business Activities	2013 Business Activities	2012 Totals	2013 Totals
ASSETS						
Current & Other Assets	\$3,108,086	\$3,256,691	\$772,326	\$718,946	\$3,880,412	\$3,975,637
Capital Assets	\$1,507,825	\$1,480,180	\$5,829,207	\$5,760,975	\$7,337,032	\$7,241,155
Total Assets	\$4,615,911	\$4,736,871	\$6,601,533	\$6,479,921	\$11,217,444	\$11,216,792
LIABILITIES						
Current Liabilities	\$224,615	\$382,229	\$339,620	\$365,938	\$564,235	\$748,167
Long-term Liabilities	\$60,116	\$9,607	\$3,068,000	\$2,814,150	\$3,128,116	\$2,823,757
Total Liabilities	\$284,731	\$391,836	\$3,407,620	\$3,180,088	\$3,692,351	\$3,571,924
NET POSITION						
Invested in capital assets						
Net of related debt	\$1,202,589	\$1,188,869	\$2,474,147	\$2,762,809	\$3,676,736	\$3,951,678
Restricted	\$178,043	\$150,629			\$178,043	\$150,629
Unrestricted	\$2,950,548	\$3,005,537	\$719,766	\$537,024	\$3,670,314	\$3,542,561
TOTAL NET POSITION	\$4,331,180	\$4,345,035	\$3,193,913	\$3,299,833	\$7,525,093	\$7,644,868

The \$3,542,561 *Unrestricted Net Position* portion of the City of Venus' Net Position, 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.

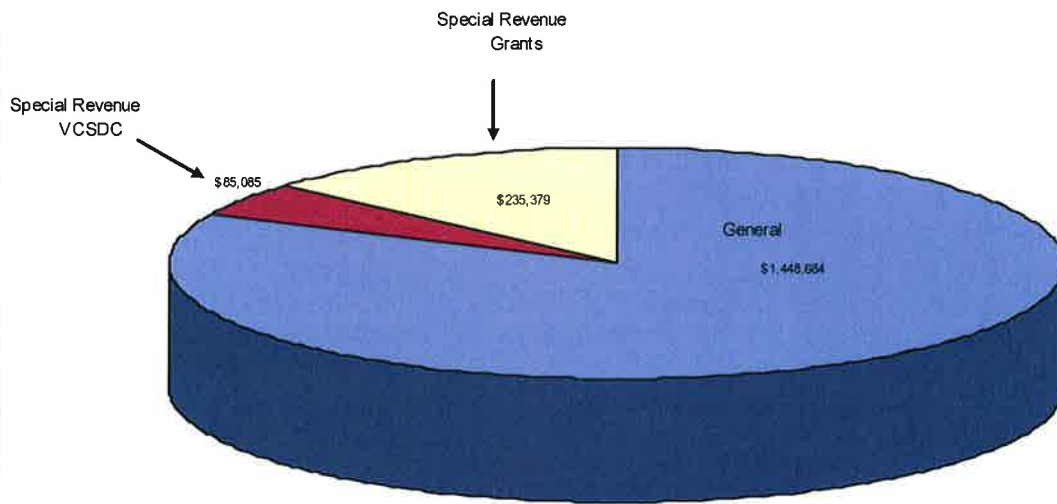
The City's revenues increased when compared to the prior year by \$285,231 (9.7%). The primary reason for this increase was an increase in intergovernmental revenues.

Governmental activities increased the City of Venus' fund balances by \$245,069.

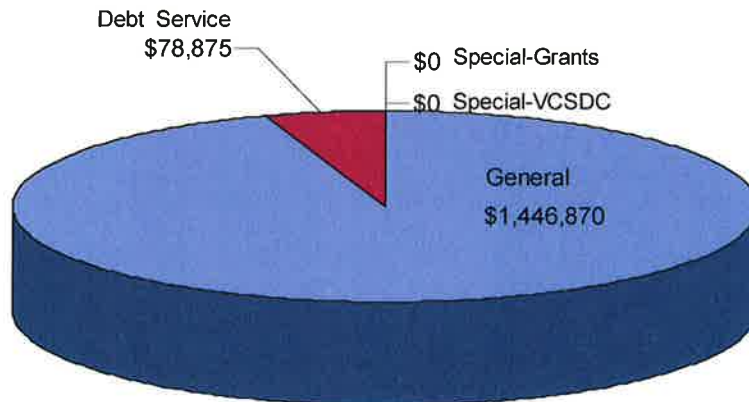
2013 CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
REVENUES						
Services	\$3,697	\$1,317	\$1,290,658	\$1,395,528	\$1,294,355	\$1,396,845
Fines and fees	\$264,465	\$269,368			\$264,465	\$269,368
Taxes	\$1,222,301	\$1,188,809			\$1,222,302	\$1,188,809
Miscellaneous Revenue	\$106,236	\$74,033	\$6,346	\$38,377	\$112,582	\$112,410
Intergovernmental	\$24,525	\$235,379			\$24,525	\$235,379
Penalties and Interest	\$247	\$242	\$15,212	\$15,866	\$15,459	\$16,108
Total Revenues	\$1,621,472	\$1,769,148	\$1,312,216	\$1,449,771	\$2,933,688	\$3,218,919
EXPENDITURES						
Current-						
Administrative	\$348,985	\$400,646			\$348,985	\$400,646
Police Department	\$403,914	\$419,678			\$403,914	\$419,678
Municipal Court	\$107,472	\$95,786			\$107,472	\$95,786
Public Works	\$230,786	\$508,391	\$1,139,148	\$1,269,766	\$1,369,934	\$1,778,157
Debt Service-						
Principal Retirement	\$24,000	\$26,000			\$24,000	\$26,000
Interest and Fiscal Charges	\$7,134	\$8,790	\$192,132	\$178,339	\$199,266	\$187,129
Capital Leases	\$43,774	\$44,085			\$43,774	\$44,085
Capital Outlay	\$272,405	\$22,369			\$272,405	\$22,369
Total Expenditures	\$1,438,470	\$1,525,745	\$1,331,280	\$1,448,105	\$2,769,750	\$2,973,850
Excess (deficiency) of Revenues						
Over (under) Expenditures	\$183,002	\$243,403	(\$19,064)	\$1,666	\$163,938	\$245,069
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	\$210,352	\$269,056	\$21,800	\$212,188	\$232,152	\$481,244
Operating Transfers Out	(\$232,152)	(\$481,244)			(\$232,152)	(\$481,244)
Bond Issuance						
Total Other Sources (uses)						
Net Change in Fund Balances	\$161,202	\$31,215	\$2,736	\$213,854	\$163,938	\$245,069
Fund Balances-Beginning	\$2,967,389	\$3,124,951	\$3,191,177	\$3,085,979	\$6,158,566	\$6,210,930
Fund Balances-Ending	\$3,128,591	\$3,156,166	\$3,193,913	\$3,299,833	\$6,322,504	\$6,455,999

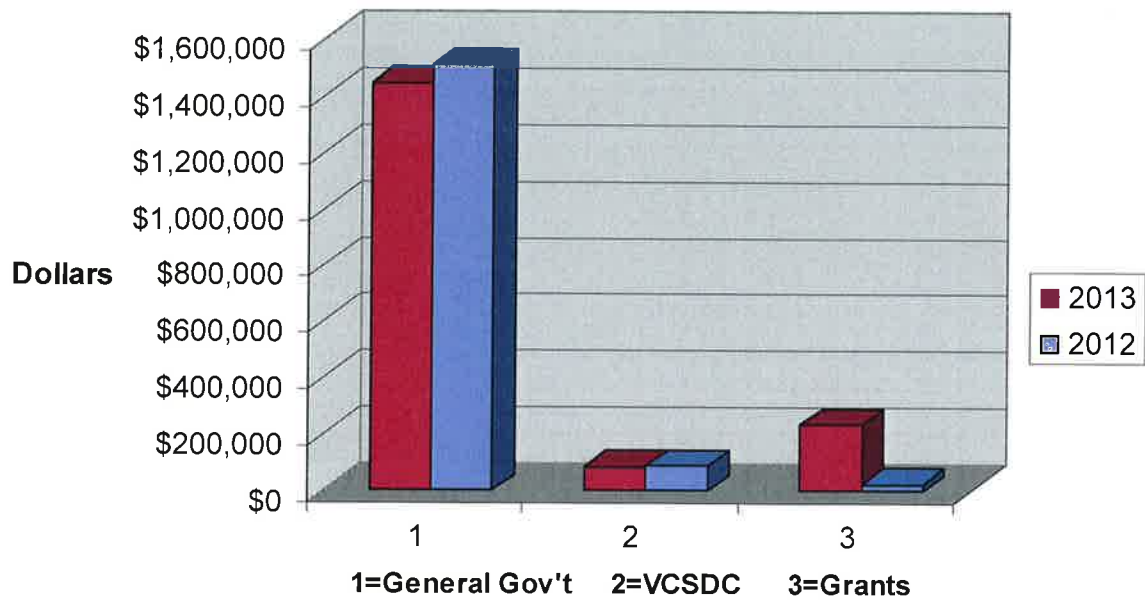
Governmental Revenues by Source



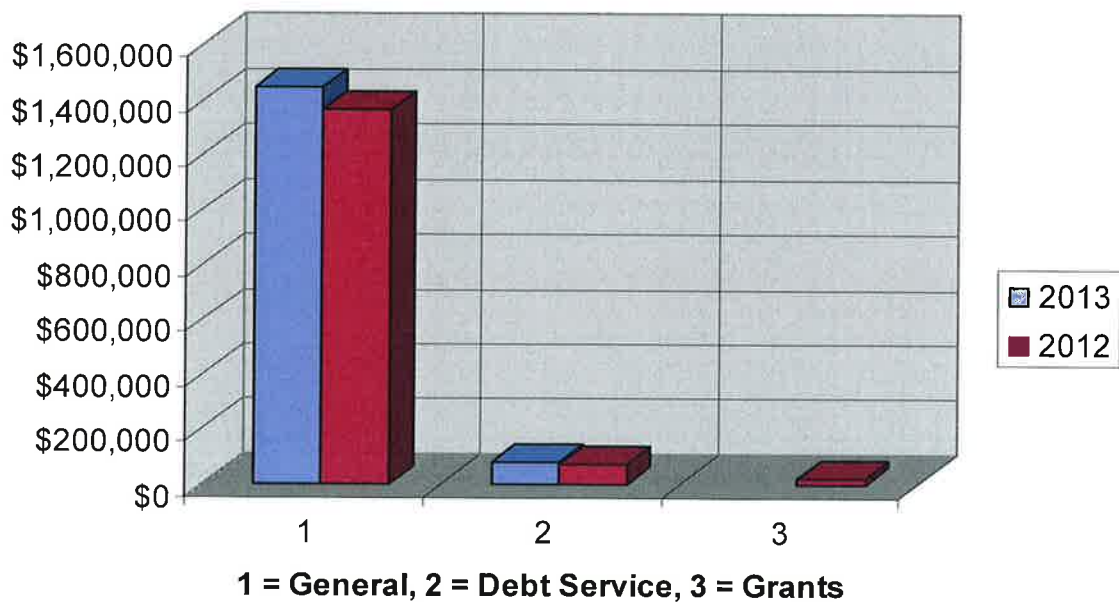
Governmental Expenditures by Source



Comparative Revenues-Governmental



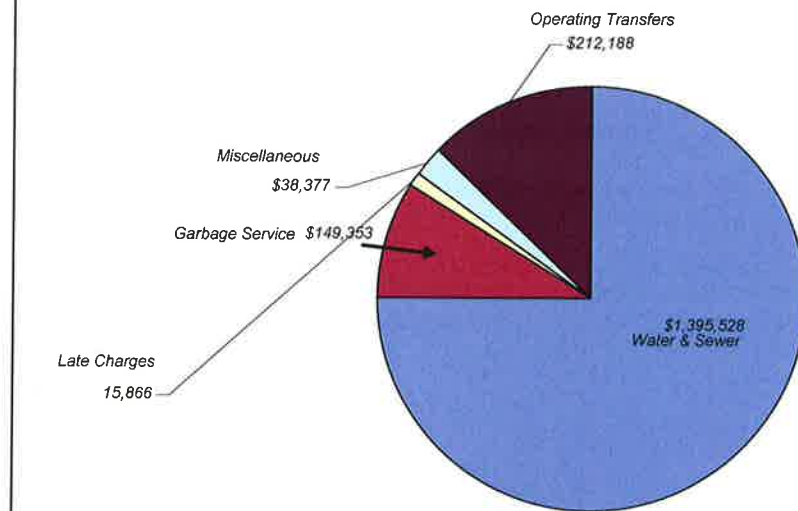
Comparative Expenses-Governmental



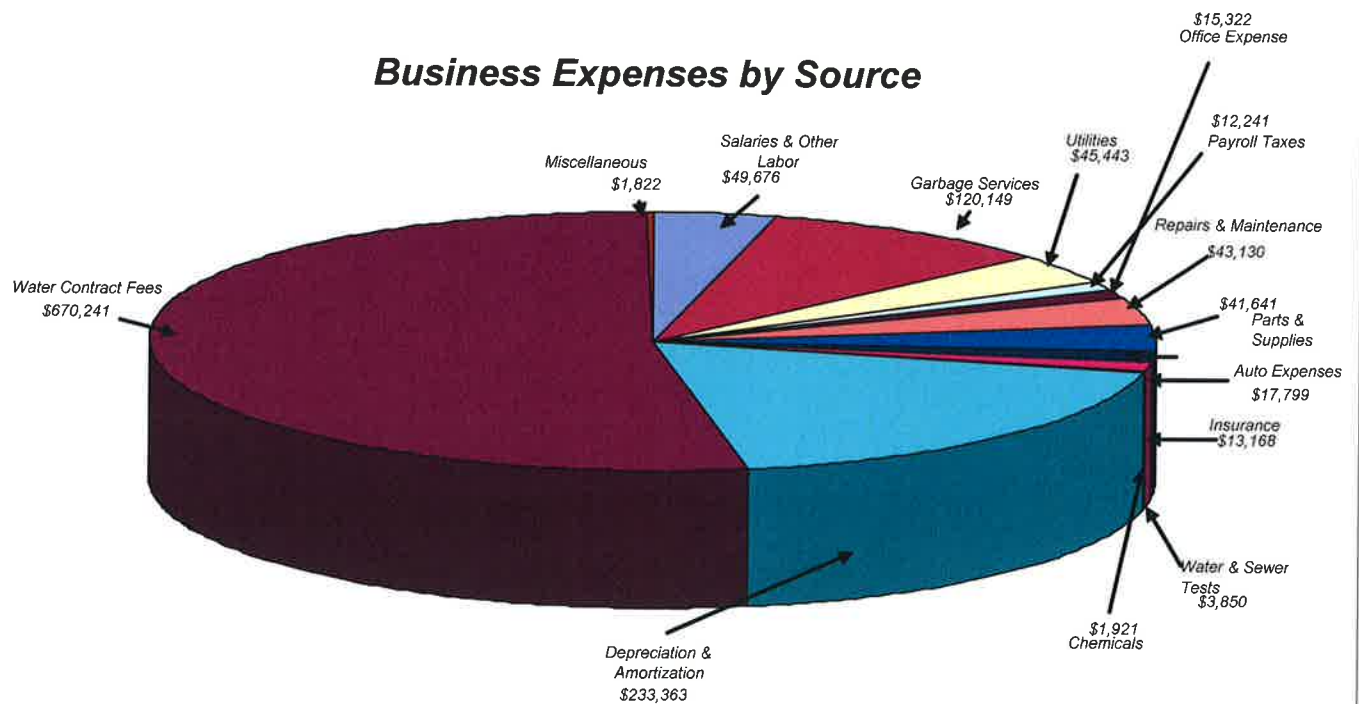
Business-type activities.

Revenues of the City's business-type activities were \$1,449,771 for the fiscal year ending September 30, 2013. Expenses for the City's business-type activities were \$1,448,105 for the year, resulting in income before transfers of \$1,666.

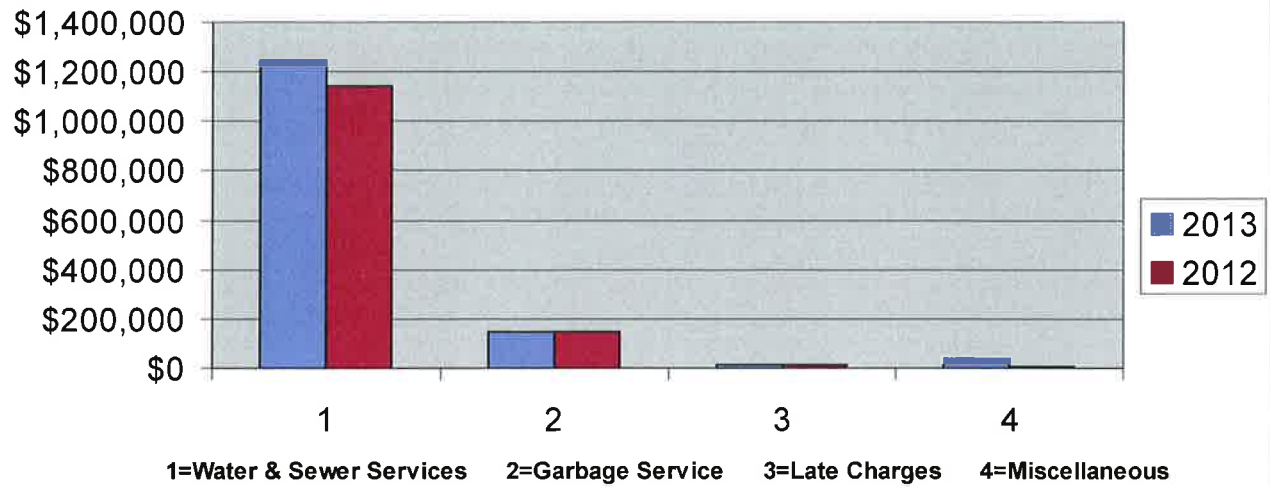
Business Revenues By Source



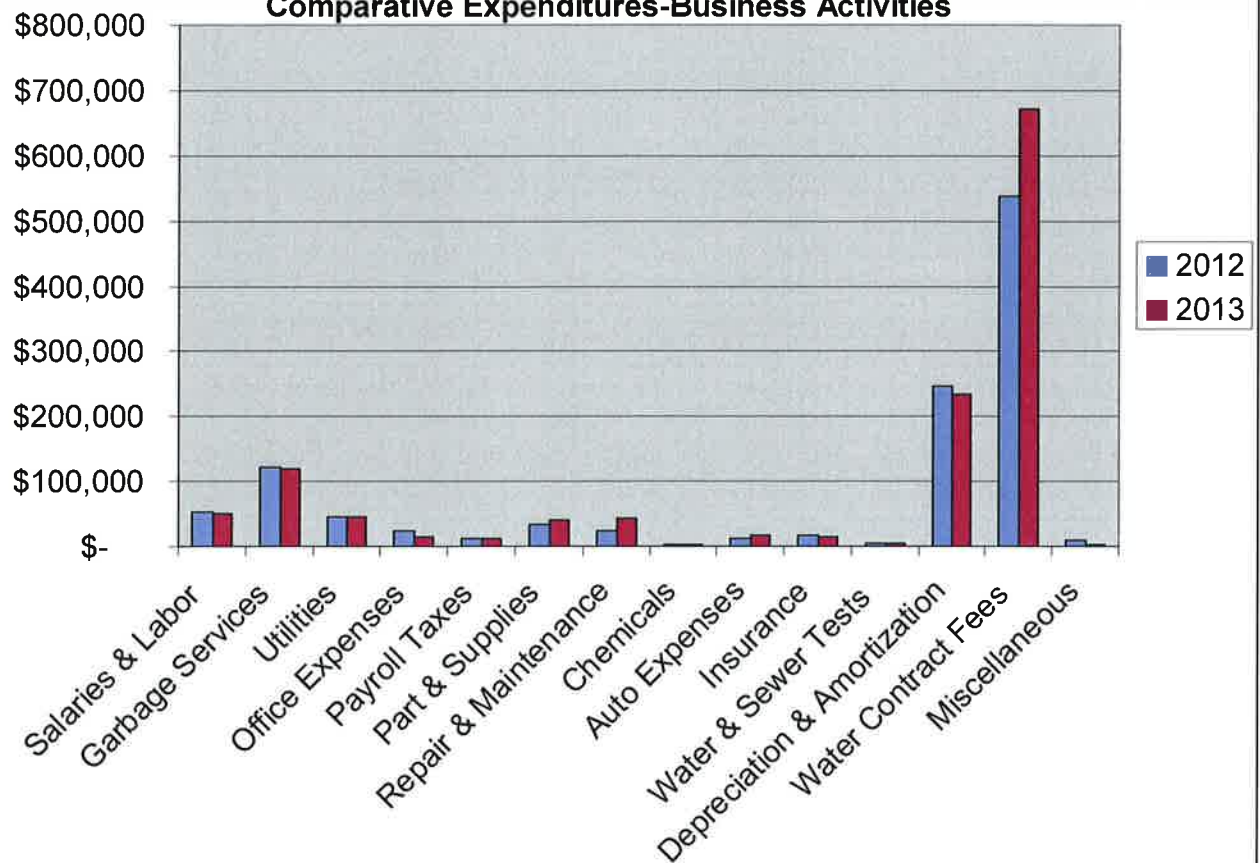
Business Expenses by Source



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 \$3,156,166, an increase of \$27,575 in comparison with the prior year. Approximately 88% percent of this total amount, \$2,774,338 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 \$2,774,338. 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 \$31,215 during fiscal year 2013.

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 \$537,024 a 25% decrease. The most significant factor affecting the performance of these activities is the increase in Investment in Capital Assets.

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, 2013, amounts to \$6,986,790 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and other facilities.

Capital Assets

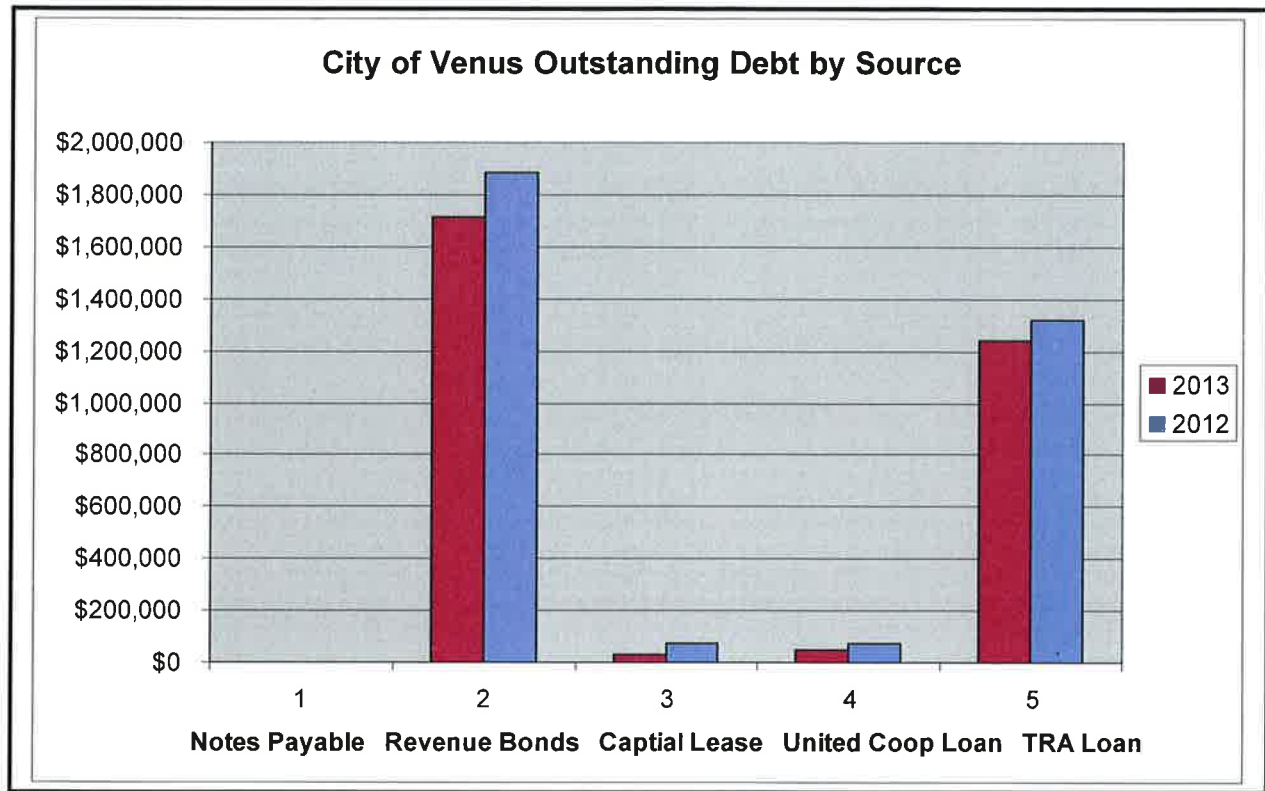
	<u>2012</u>	<u>2013</u>
Land	\$100,970	\$100,970
Building & Improvements	\$1,590,203	\$1,575,243
Vehicles & Equipment	\$548,427	\$567,100
Computer Equipment	\$230,757	\$245,717
Other Equipment	\$25,973	\$29,700
Water & Sewer System	\$5,742,803	\$6,039,128
Mountain Creek Waste Water Contract	<u>\$2,014,700</u>	<u>\$2,014,700</u>
 Total Fixed Assets	 \$10,275,633	 \$10,572,558
 Less Depreciation	 <u>(\$3,246,201)</u>	 <u>(\$3,585,768)</u>
 Net Fixed Assets	 <u>\$7,029,432</u>	 <u>\$6,986,790</u>

For additional information on the City of Venus' capital assets, see page 36 and 37 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 \$3,035,112. Of this amount, \$1,290,000 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>2012</u>	<u>Government</u> <u>2013</u>	<u>Business</u> <u>2012</u>	<u>Business</u> <u>2013</u>	<u>Total</u> <u>2012</u>	<u>Total</u> <u>2013</u>
Revenue Bonds	\$54,000	\$28,000	\$1,830,000	\$1,685,000	\$1,884,000	\$1,713,000
Capital Lease	\$76,196	\$32,112	\$0	\$0	\$76,196	\$32,112
United Coop Loan	\$0	\$0	\$75,000	\$50,000	\$75,000	\$50,000
TRA	<u>\$0</u>	<u>\$0</u>	<u>\$1,317,500</u>	<u>\$1,240,000</u>	<u>\$1,317,500</u>	<u>\$1,240,000</u>
 Totals	 <u>\$130,196</u>	 <u>\$60,112</u>	 <u>\$3,222,500</u>	 <u>\$2,975,000</u>	 <u>\$3,352,696</u>	 <u>\$3,035,112</u>



The City of Venus' total debt decreased by \$317,584 or 9.5% during the current fiscal year. The key factor in this decrease was the payoff of Revenue Bond and TRA indebtedness.

Economic Factors and Next Year's Budget and Rates

The City of Venus Economy

- New residential construction has added 12 new homes to the community in 2013 with the average price being over \$100,000.
- Our property tax rate increased in 2013.
- Our city's tax evaluation decreased slightly in 2013.
- Local inflation factors remained low while median income rose.
- Three new small businesses opened in the city in 2013.
- A new 20 home PD (Meadow Ridge III) is starting in 2014.
- A new 300 unit mobile home park has been proposed to the council.

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.

FINANCIAL STATEMENTS

City of Venus, Texas
Statement of Net Position
September 30, 2013

ASSETS	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash	\$ 306,851	\$ 444,472	\$ 751,323
Investments	2,938,861	157,803	3,096,664
Delinquent taxes	35,917	-	35,917
Accounts receivable	10,979	146,393	157,372
Less: Allowance for uncollectible accounts	(35,917)	(29,722)	(65,639)
Total current assets	<u>3,256,691</u>	<u>718,946</u>	<u>3,975,637</u>
Noncurrent assets:			
Restricted assets:			
Cash	231,199	-	231,199
Capital assets	2,257,355	8,315,203	10,572,558
Accumulated depreciation & amortization	(1,008,374)	(2,577,394)	(3,585,768)
Deposits	-	23,166	23,166
Total noncurrent assets	<u>1,480,180</u>	<u>5,760,975</u>	<u>7,241,155</u>
Total assets	<u>4,736,871</u>	<u>6,479,921</u>	<u>11,216,792</u>
LIABILITIES			
Current liabilities:			
Accounts payable	270,151	109,438	379,589
Accrued liabilities	61,573	-	61,573
Current portion:			
General obligation debt payable	28,000	154,000	182,000
Note payable	-	102,500	102,500
Capital leases	22,505	-	22,505
Total current liabilities	<u>382,229</u>	<u>365,938</u>	<u>748,167</u>
Noncurrent liabilities			
Revenue bonds payable	-	1,531,000	1,531,000
General obligation debt payable	-	1,187,500	1,187,500
Capital leases	9,607	-	9,607
Water deposits	-	95,650	95,650
Total noncurrent liabilities	<u>9,607</u>	<u>2,814,150</u>	<u>2,823,757</u>
Total liabilities	<u>391,836</u>	<u>3,180,088</u>	<u>3,571,924</u>
NET POSITION			
Net investment in capital assets	1,188,869	2,762,809	3,951,678
Restricted for:			
Debt service	150,629	-	150,629
Grant fund	-	-	-
Unrestricted	3,005,537	537,024	3,542,561
Total net position	<u>\$ 4,345,035</u>	<u>\$ 3,299,833</u>	<u>\$ 7,644,868</u>

See accompanying notes and auditor's report

City of Venus, Texas
Statement of Activities
For the Year Ended September 30, 2013

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	\$ 433,556	\$ 1,317	\$ -	\$ -	\$ (432,239)	\$ -	\$ (432,239)
Total administrative	433,556	1,317	-	-	(432,239)	-	(432,239)
Public safety and judiciary:							
Police department	441,502	269,368	-	-	(172,134)	-	(172,134)
Municipal court	95,786	-	-	-	(95,786)	-	(95,786)
Cultural, parks and recreation:							
Public works	568,620			-	(568,620)	-	(568,620)
Total cultural, parks and recreation:	568,620	-	-	-	(568,620)	-	(568,620)
Total governmental activities:	1,539,464	270,685	-	-	(1,268,779)	-	(1,268,779)
Business-type activities:							
Water and sewer service	1,327,956	1,262,041	-	-	-	(65,915)	(65,915)
Garbage service	120,149	149,353	-	-	-	29,204	29,204
Total business-type activities	1,448,105	1,411,394	-	-		(36,711)	(36,711)
Total	\$ 2,987,569	\$ 1,682,079	\$ -	\$ -	\$ (1,268,779)	\$ (36,711)	\$ (1,305,490)
General revenues:							
Property taxes					845,607	-	845,607
Sales taxes					254,529	-	254,529
Franchise taxes					83,220	-	83,220
Other taxes					5,696	-	5,696
Intergovernmental					235,379	-	235,379
Miscellaneous					74,031	38,377	112,408
Transfers-Internal activity					(212,188)	212,188	-
Total general revenues and transfers					1,286,274	250,565	1,536,839
Change in net assets					17,495	213,854	231,349
Net position - beginning of period as adjusted (Note A5)					4,327,540	3,085,979	7,413,519
Net position - ending					\$ 4,345,035	\$ 3,299,833	\$ 7,644,868

See accompanying notes and auditor's report

**City of Venus, Texas
Balance Sheet
Governmental Funds
September 30, 2013**

	General	Debt Service	Special Revenue		Total Governmental Funds
			VCSDC	Grants	
ASSETS					
Cash	\$ 237,534	\$ 6,274	\$ 63,043	\$ -	\$ 306,851
Investments	2,831,859	-	107,002	-	2,938,861
Receivables					
Delinquent taxes	35,917	-	-	-	35,917
Other receivables	10,979	-	-	-	10,979
Less: Allowance for uncollectible accounts	(35,917)	-	-	-	(35,917)
Restricted assets					
Cash	231,199	-	-	-	231,199
Total assets	<u>\$ 3,311,571</u>	<u>\$ 6,274</u>	<u>\$ 170,045</u>	<u>\$ -</u>	<u>\$ 3,487,890</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	244,461	-	25,690	-	270,151
Accrued liabilities	61,573	-	-	-	61,573
Total liabilities	<u>306,034</u>	<u>-</u>	<u>25,690</u>	<u>-</u>	<u>331,724</u>
Fund balances:					
Nonspendable fund balance					
Not in spendable form	-	-	-	-	-
Restricted fund balance	231,199	6,274	144,355	-	381,828
Committed fund balance	-	-	-	-	-
Assigned fund balance	-	-	-	-	-
Unassigned fund balance	2,774,338	-	-	-	2,774,338
Total fund balances	<u>3,005,537</u>	<u>6,274</u>	<u>144,355</u>	<u>-</u>	<u>3,156,166</u>
Total liabilities & fund balances	<u>\$ 3,311,571</u>	<u>\$ 6,274</u>	<u>\$ 170,045</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	1,248,981
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>(60,112)</u>
Net position of governmental activities	<u>\$ 4,345,035</u>

City of Venus, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the year ended September 30, 2013

	General	Debt Service	Special Revenue		Total Governmental Funds
			VCSDC	Grants	
REVENUES					
Services	\$ 1,317	\$ -	\$ -	\$ -	\$ 1,317
Fines and fees	269,368	-	-	-	269,368
Taxes	1,103,966	-	84,843	-	1,188,809
Miscellaneous revenue	74,033	-	-	-	74,033
Intergovernmental	-	-	-	235,379	235,379
Penalties and interest	-	-	242	-	242
Total revenues	1,448,684	-	85,085	235,379	1,769,148
EXPENDITURES					
Current -					
Administrative	400,646	-	-	-	400,646
Police department	419,678	-	-	-	419,678
Municipal court	95,786	-	-	-	95,786
Public works	508,391	-	-	-	508,391
Debt service -					
Principal retirement	-	26,000	-	-	26,000
Interest and fiscal charges	-	8,790	-	-	8,790
Capital leases	-	44,085	-	-	44,085
Capital outlay	22,369	-	-	-	22,369
Total expenditures	1,446,870	78,875	-	-	1,525,745
Excess (deficiency) of revenues over (under) expenditures	1,814	(78,875)	85,085	235,379	243,403
OTHER FINANCING SOURCES (USES)					
Operating transfers in	190,106	78,875	75	-	269,056
Operating transfers out	(133,291)	(3,359)	(106,490)	(238,104)	(481,244)
Total other sources (uses)	56,815	75,516	(106,415)	(238,104)	(212,188)
Net change in fund balances	58,629	(3,359)	(21,330)	(2,725)	31,215
Fund balances - beginning	2,946,908	9,633	165,685	2,725	3,124,951
Fund balances - ending	\$ 3,005,537	\$ 6,274	\$ 144,355	\$ -	\$ 3,156,166

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, 2013

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

Net change in fund balances - total governmental funds	\$ 31,215
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 \$0.	22,369
Governmental funds report capital outlays as expenditures. However, in estimated useful lives and reported as depreciation expense. This is the amount for depreciation in the current period.	(106,174)
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.	70,085
Changes in net position of governmental activities	<hr/> <hr/> \$ 17,495

City of Venus, Texas
Statement of Net Position
Proprietary Funds
September 30, 2013

ASSETS

Current assets:

Cash	\$ 444,472
Investments	157,803
Receivables	
Accounts receivable	146,393
Less: Allowance for uncollectible accounts	(29,722)
Total current assets	<u>718,946</u>

Noncurrent assets:

Capital assets (net of accumulated depreciation and amortization, where applicable)	5,737,809
Deposits	<u>23,166</u>
Total noncurrent assets	<u>5,760,975</u>
Total assets	<u>6,479,921</u>

LIABILITIES

Current liabilities:

Accounts payable	109,438
Current portion:	
Revenue bonds payable	154,000
General obligation payable	<u>102,500</u>
Total current liabilities	<u>365,938</u>

Noncurrent liabilities:

Revenue bonds payable	1,531,000
General obligation debt payable	1,187,500
Water deposits	<u>95,650</u>
Total noncurrent liabilities	<u>2,814,150</u>
Total liabilities	<u>3,180,088</u>

NET POSITION

Net investment in capital assets	2,762,809
Unrestricted	<u>537,024</u>
Total net Position	<u>\$ 3,299,833</u>

See accompanying notes and auditor's report

City of Venus
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended September 30, 2013

	Water and Sewer
Operating revenues:	
Water and sewer service	\$ 1,246,175
Garbage service	149,353
Late charges	15,866
Miscellaneous	38,377
Total operating revenues	<u>1,449,771</u>
Operating expenses:	
Salaries and other labor	49,676
Garbage services	120,149
Utilities	45,443
Office expenses	15,322
Payroll taxes	12,241
Parts and supplies	41,641
Repairs and maintenance	43,130
Chemicals	1,921
Auto expenses	17,799
Insurance	13,168
Water and sewer tests	3,850
Depreciation and amortization	233,363
Water contract fees	670,241
Miscellaneous	1,822
Total operating expenses	<u>1,269,766</u>
Operating income	180,005
Non-operating revenues (expenses):	
Interest expense	<u>(178,339)</u>
Income before transfers	1,666
Operating transfers:	
Operating transfers in (out)	<u>212,188</u>
Change in net position	213,854
Net Position - beginning of period as adjusted (NOTE A5)	3,085,979
Net Position - ending	<u><u>\$ 3,299,833</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, 2013

	<u>Water and Sewer Fund</u>	
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,445,038	
Payments to suppliers	(954,518)	
Payments to employees	(61,917)	
Net cash provided (used) by operating activities		\$ 428,603
CASH FLOWS FROM NONCAPITAL FINANCING SOURCES		
Operating transfers	212,188	
Net cash provided (used) by noncapital and related financing activities		212,188
CASH FLOW FROM CAPITAL AND RELATED		
Decrease in revenue bonds payable	(145,000)	
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	(178,339)	
Acquisition of capital assets	(274,525)	
Increase in water contract reserve	1,460	
Net cash provided (used) in capital and related financing activities		(698,904)
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in Texpool Fund	74,796	
Net cash provided (used) in invested activities		74,796
Net decrease in cash and cash equivalents		16,683
Cash and cash equivalents at beginning of year		427,789
Cash and cash equivalents at end of year		\$ 444,472
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income		\$ 180,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 233,363	
Increase in accounts receivable	(4,733)	
Increase in accounts payable	17,318	
Increase in water deposits payable	2,650	
Total adjustments		248,598
Net cash provided (used) by operating activities		\$ 428,603

See accompanying notes and auditor's report

CITY OF VENUS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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. Basis of Presentation

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, 2013 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 2013.

Deferred Outflows/Inflows of Resources

The deferred inflows of resources are an acquisition of net assets by the City that is applicable to a future reporting period and consist of deferred property tax revenues in the general fund. The deferred outflows of resources are a consumption of net assets by the City that is applicable to a future reporting period. For the current year, the City reported no deferred outflows/inflows of resources.

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. In the current year, the City has elected not to accrue property tax revenues beyond the end of the year for purposes of current measurement.

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)

Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB *Accounting Standard Codification Topic (ASC)825-10*, “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, 2013. 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. Change in Accounting Principle

In March 2012, GASB issued 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 assets and liabilities and recognized as outflows of resources or inflow of resources, certain items which were previously reported as assets and liabilities. As a result, costs related to the issuance of bonds which were previously deferred have been reclassified as if they had been reported as an outflow of resources when incurred.

	Governmental Activities	Business-Type Activities
Net Position – beginning of period, as previously reported	\$4,331,180	\$3,193,913
GASB 65 – unamortized bond costs	(3,640)	(107,934)
Net Position – beginning of period, as adjusted	\$4,327,540	\$3,085,979

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Implementation of new accounting principle:

Pronouncements Effective for the 2013 Financial Statements – With this financial report the City has changed its financial reporting to comply with Government Accounting Standards Board (GASB):

Statement No. 61, “*The Financial Reporting Entity: Omnibus an amendment of GASB No. 14 and 34*” modifies current requirements for assessing potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. Application is effective for financial statements whose fiscal year began after June 15, 2012. The impact of the pronouncement did not have a material effect on the financial statements

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 Standard 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. Application is effective for financial statements whose fiscal year begins after December 15, 2011. The pronouncement did not have an impact on the 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. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The City implemented GASB 63 during FY 2013. This statement had no significant impact on the City.

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. (See note A5)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 FASBA 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 – and 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.

Statement No. 69, *“Government Combinations and Disposal of Government Operations”* The object of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. 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.

Statement No. 70, *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”* This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions extended or received by a state or local government. 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. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68”* This Statement amends paragraph 137 of Statement 68. The requirements of this Statement apply to all state and local governments that are required to apply the provisions of Statement 68 for defined benefit pensions. The provision of this Statement should be applied simultaneously with the provisions of Statement 68. 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 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 \$60,112 difference are as follows:

Bond payable	\$28,000
Capital leases	<u>32,112</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$60,112</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, 2013, the carrying amount of the City's cash deposits at the bank was \$1,036,534 and the cash balance per the City's books was \$982,522. 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 statutes, 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, 2013, 85% of the City's Investments were in Certificate of Deposits held in various banking institutions and 15% 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, 2013 are:

Investments:	Fair Value	Effective Duration	Credit Risk
Government Pools	\$468,906	N/A	AAAM
Bank Institutions	2,627,758	Various	AAAA
	<u>\$3,096,664</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 9/30/12	Additions	Retirements	Balance 9/30/13
Land	\$75,700	\$ -0-	\$ (-0-)	\$75,700
Building & Improvements	1,476,913	-0-	(-0-)	1,476,913
Vehicles & Equipment	410,683	18,642	(-0-)	429,325
Computer Equipment	245,717	-0-	(-0-)	245,717
Other Equipment	25,973	3,727	(-0-)	29,700
Total Fixed Assets	2,234,986	22,369	(-0-)	2,257,355
Less Depreciation	(902,201)	(106,173)	(-0-)	(1,008,374)
Total Fixed Assets	<u>\$1,332,785</u>	<u>\$ (83,804)</u>	<u>\$ (-0-)</u>	<u>\$1,248,981</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 9/30/12	Additions	Retirements	Balance 9/30/13
Land	\$25,270	\$ -0-	\$ (-0-)	\$25,270
Buildings	71,099	-0-	(-0-)	71,099
Improvements	27,231	-0-	(-0-)	27,231
Equipment	137,775	-0-	(-0-)	137,775
Construction in Process	21,800	-0-	(21,800)	-0-
Water and Sewer System	5,742,803	296,325	(-0-)	6,039,128
Mountain Creek Waste Water Contract	2,014,700	-0-	(-0-)	2,014,700
Total Fixed Assets	8,040,678	296,325	(21,800)	8,315,203
Less Depreciation & Amortization	(2,344,031)	(233,363)	(-0-)	(2,577,394)
Net Capital Assets	<u>\$5,696,647</u>	<u>\$ 62,962</u>	<u>\$ (21,800)</u>	<u>\$5,737,809</u>

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

Governmental activities:

General government	\$ 24,120
Public safety	21,823
Public works	60,230
Total depreciation expense – governmental activities	<u>\$106,173</u>

Business-type activities:

Water and sewer	<u>\$233,363</u>
Total depreciation – business activities	<u>\$233,363</u>

NOTE E – OPERATING TRANSFERS

The composition of interfund balances as of September 30, 2013 is as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$190,106	\$133,291
Debt Service Fund	78,875	3,359
Water & Sewer Fund	238,104	25,916
Grant Fund	-0-	238,104
Special Revenue Fund	75	106,490
	<u>\$507,160</u>	<u>\$507,160</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, 2013.

	Balance 9/30/12	Borrowings	Payments	Balance 9/30/13
Note Payable	\$ -0-	\$ -0-	\$ (-0-)	\$ -0-
Revenue Bonds – 2009 Refunding	54,000	-0-	(26,000)	28,000
Subtotal	54,000	-0-	(26,000)	28,000
Capital Lease	76,196	-0-	(44,084)	32,112
Total	\$130,196	\$ -0-	\$(70,084)	\$60,112

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 started 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.	\$ 28,000
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.	18,711
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.	13,401
Total Debt	60,112
Less Current Portion	(50,505)
Total Long-Term Debt	\$ 9,607

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

Current Portion

Note Payable	\$-0-
Revenue bond payable	28,000
Capital Leases	22,505
Subtotal	50,505
Note Payable	-0-
Revenue Bonds Payable	-0-
Capital Leases	9,607
Total	\$ 60,112

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

Year Ending Sept. 30	Principal	Interest	Total
2014	\$ 50,505	\$ 2,676	\$ 53,181
2015	9,607	528	10,135
2016	-0-	-0-	-0-
2017	-0-	-0-	-0-
2018	-0-	-0-	-0-
Total	\$ 60,112	\$ 3,204	\$ 63,316

Business-type activities -

The following is a summary of debt transactions of the City for the year ended September 30, 2013.

	Balance 9/30/12	Borrowings	Payments	Balance 9/30/13
Revenue Bonds:				
Series 2005	\$458,000	\$-0-	\$(57,000)	\$401,000
Series 2009 Refunding	1,372,000	-0-	(88,000)	1,284,000
JCEC / United Cooperative	75,000	-0-	(25,000)	50,000
Trinity River Authority (MCWRS)	1,317,500	-0-	(77,500)	1,240,000
Total	\$3,222,500	\$-0-	\$(247,500)	\$2,975,000

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.	\$50,000
\$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.	1,284,000
\$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.	401,000
\$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>1,240,000</u>
Total Debt	2,975,000
Less: Current Portion	<u>(256,500)</u>
Total Long-Term Debt	<u>\$2,718,500</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	154,000
Subtotal	256,500
General Obligation Payable	1,187,500
Revenue Bonds Payable	1,531,000
Total	<u>\$2,975,000</u>

The annual requirements to amortize enterprise fund debt outstanding as of September 30, 2013 follows:

Year Ending Sept. 30	Principal	Interest	Total
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	270,500	108,578	379,078
2019-2023	1,208,500	321,095	1,529,595
2024-2028	387,500	85,250	472,750
2029-2033	77,500	4,262	81,762
Total	<u>\$2,975,000</u>	<u>\$1,098,153</u>	<u>\$4,073,153</u>

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 cannot 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.

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

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, 2012 valuation is effective for rates beginning after January 2013).

NOTE G – TMRS PENSION PLAN (Continued)

Following is the Schedule of Actuarial Liabilities and Funding Progress for the year ended September 30, 2013

Actuarial Valuation Date	12/31/12	12/31/11	12/31/10
Actuarial Value of Assets	\$ 936,327	\$ 849,387	\$ 718,338
Actuarial Value of Liability	1,102,859	1,039,977	901,370
Percentage Funded	84.9%	81.7%	79.7%
Unfunded Actuarial Accrued Liability (UAAL)	166,221	190,590	183,032
Annual Covered Payroll	557,959	577,253	558,204
UAAL as a Percentage of Covered Payroll	29.8%	32.0%	32.8%
Net Pension Obligation (NPO) at the Beginning of Period	-0-	-0-	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	39,057	38,602	37,225
Interest on NPO	-0-	-0-	-0-
Adjustment to the ARC	-0-	-0-	-0-
Contributions Made	(39,057)	(38,602)	(37,225)
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	12/31/12	12/31/11	12/31/10
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	19.9 years; closed period	21.0 years; closed period	22.1 years; closed period
Amortization Period for new Gains/Losses	19 years	19 years	19 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%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	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 12/31/12 valuations and a complete list of changes are contained in the 2012 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, 2013 was \$3,359 for these leases. Future minimum rental payments are as follows:

<u>Year Ending Sept. 30</u>	<u>Payment</u>
2014	\$3,359

NOTE J – CONCENTRATIONS

Approximately 52% of the proprietary fund's revenues are from two customers.

NOTE K – SUBSEQUENT EVENTS

The City evaluated subsequent events through February 26, 2014, 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, 2013 related to the Midlothian Surface Water contract was \$324,490.

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, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Services	\$ 3,450	\$ 3,450	\$ 1,317	\$ (2,133)
Fines & Fees	254,500	254,500	269,368	14,868
Taxes:				
Property	835,000	835,000	845,607	10,607
Sales	229,000	229,000	169,686	(59,314)
Franchise	94,000	94,000	83,220	(10,780)
Other	144,400	144,400	5,453	(138,947)
Miscellaneous	87,300	87,300	74,033	(13,267)
Total revenues	<u>1,647,650</u>	<u>1,647,650</u>	<u>1,448,684</u>	<u>(198,966)</u>
EXPENDITURES				
Current:				
General government	452,457	452,457	400,646	51,811
Public safety and judiciary	769,008	769,008	515,464	253,544
Cultural, parks, and recreation	491,755	491,755	508,391	(16,636)
Capital Outlay	-	-	22,369	(22,369)
Total expenditures	<u>1,713,220</u>	<u>1,713,220</u>	<u>1,446,870</u>	<u>266,350</u>
Excess of (expenditures) over revenues	<u>(65,570)</u>	<u>(65,570)</u>	<u>1,814</u>	<u>67,384</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	0	0	190,106	190,106
Transfers out	<u>(146,425)</u>	<u>(146,425)</u>	<u>(133,291)</u>	<u>13,134</u>
Total other financing sources and uses	<u>(146,425)</u>	<u>(146,425)</u>	<u>56,815</u>	<u>203,240</u>
Net change in fund balances	<u>(211,995)</u>	<u>(211,995)</u>	<u>58,629</u>	<u>270,624</u>
Fund balances - beginning	1,637,244	1,637,244	2,946,908	1,309,664
Fund balances - ending	<u>\$ 1,425,249</u>	<u>\$ 1,425,249</u>	<u>\$ 3,005,537</u>	<u>\$ 1,580,288</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, 2013

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 \$198,966 and expenditures did not exceed the budget by \$266,350.

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)
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%
2012	\$936,327	\$1,102,548	84.90%	\$166,221	\$557,959	29.8%

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.tmr.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>
12/30/10	\$37,225	100%
12/30/11	\$38,602	100%
12/30/12	\$39,057	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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Venus, Texas basic financial statements and have issued our report thereon dated February 26, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Venus, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Venus, Texas' internal control.

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.

City management cannot 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 cannot 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.

Financial statement close process

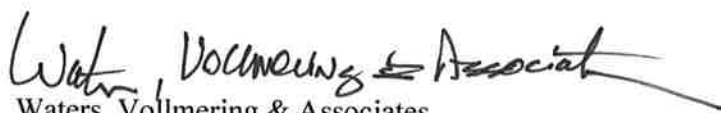
The Organization struggled to close their financial statements in an accurate and timely manner. This was due in part to the lack of properly reconciling all bank accounts and recording reconciling entries in a timely manner. We recommend that management complete their closing procedure checklist in a timely manner for both interim and end of year closings. Senior management should then review and approve period end closings. Implementing these refinements will allow for more accurate interim and end of year financial statements.

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Waters, Vollmering & Associates

Mansfield, Texas

February 26, 2014