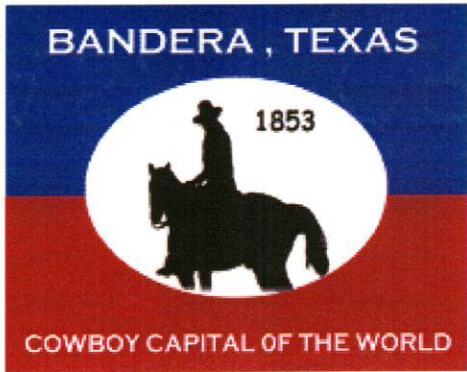


CITY OF BANDERA, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2012**



CITY OF BANDERA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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CITY OF BANDERA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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CITY OF BANDERA
PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

DON CLARK

MAYOR PRO-TEM

JOHN HEGEMIER

CITY COUNCIL

JIM HANNAH

BINKY L. ARCHER

MAGGIE SCUMACHER

BRANDI MORGAN

CITY ADMINISTRATOR

MIKE CARDENAS

ATTORNEY

AKERS LAW FIRM, LLP

AUDITOR

ARMSTRONG, VAUGHAN & ASSOCIATES, P.C.

SHAREHOLDERS:
Nancy L. Vaughan, CPA
Deborah F. Fraser, CPA



Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Bandera

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Bandera, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bandera's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Bandera, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

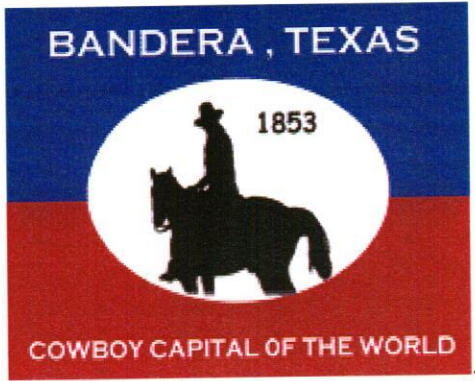
Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information and schedule of funding progress on pages 3 through 9 and 43 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Bandera's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

April 12, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Bandera's comprehensive annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

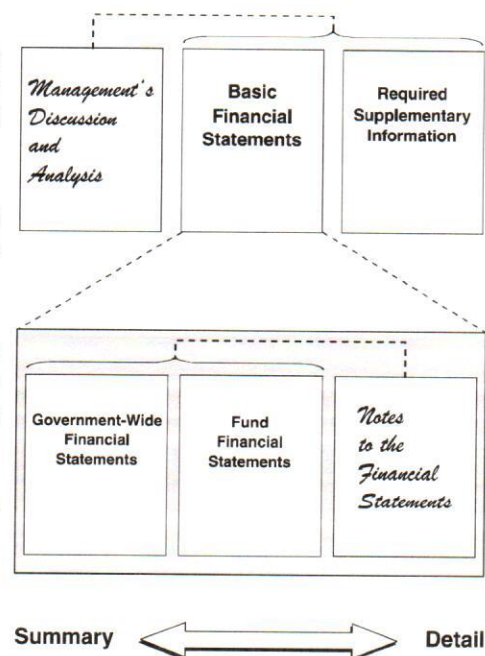
- The City's total combined net assets were \$5,345,046 at September 30, 2012.
- During the year, the City's governmental expenses were \$151,507 less than the \$1,035,030 generated in general and program revenues for governmental funds, including transfers.
- The general fund reported a fund balance this year of \$1,364,460, an increase of 6.0%. A portion of this fund balance \$7,643 has been restricted for court technology and security expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the city that are not proprietary or fiduciary	Activities the City operates similar to private businesses: water and sewer
<i>Required financial statements</i>	• Statement of net assets	• Balance Sheet	• Statement of net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in net assets • Statement of cash flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, parks, public works, public safety, and interest on long-term debt. Property taxes, sales and use taxes, and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets: The City's combined net assets were \$5,345,046 at September 30, 2012. (See Table A-1).

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change Based on Actual 2012 - 2011
	2012	2011	2012	2011	2012	2011	
<i>Assets:</i>							
Current and Other Assets	\$ 1,598,837	\$ 1,540,117	\$ 448,065	\$ 413,208	\$ 2,046,902	\$ 1,953,325	4.8
Capital Assets (net)	1,740,612	1,693,137	3,328,833	3,433,816	5,069,445	5,126,953	(1.1)
Total Assets	3,339,449	3,233,254	3,776,898	3,847,024	7,116,347	7,080,278	0.5
<i>Liabilities:</i>							
Current Liabilities	201,606	221,086	304,506	319,396	506,112	540,482	(6.4)
Long-Term Liabilities	-	34,637	1,265,189	1,454,854	1,265,189	1,489,491	(15.1)
Total Liabilities	201,606	255,723	1,569,695	1,774,250	1,771,301	2,029,973	(12.7)
<i>Net Assets:</i>							
Invested in Capital Assets	1,705,975	1,631,454	1,864,894	1,788,962	3,570,869	3,420,416	4.4
Restricted	21,328	29,560	-	-	21,328	29,560	(27.8)
Unrestricted	1,410,540	1,316,517	342,309	283,812	1,752,849	1,600,329	9.5
Total Net Assets	\$ 3,137,843	\$ 2,977,531	\$ 2,207,203	\$ 2,072,774	\$ 5,345,046	\$ 5,050,305	5.8

The unrestricted net assets represent resources available to fund the programs of the City next year.

Change in Net Assets: The City's total revenues were \$2,173,484. A significant portion \$1,138,084 or 52.4%, of the City's revenue comes from Utility Operations. (See Table A-2.)

Table A-2
Changes in City's Net Assets

	Governmental Activities		Business-Type Activities		Total		Percentage Change 2012 - 2011
	2012	2011	2012	2011	2012	2011	
<i>Program Revenues:</i>							
Charges for Services	\$ 132,214	\$ 159,166	\$ 1,138,084	\$ 1,189,850	\$ 1,270,298	\$ 1,349,016	(5.8)
Operating Grants and Contributions	-	82,993	-	-	-	82,993	(100.0)
Capital Grants and Contributions	-	-	-	6,009	-	6,009	(100.0)
<i>General Revenues:</i>							
Taxes	875,530	842,784	-	-	875,530	842,784	3.9
Interest Earnings	11,767	19,378	370	454	12,137	19,832	(38.8)
Miscellaneous	15,519	11,988	-	-	15,519	11,988	29.5
TOTAL REVENUES	1,035,030	1,116,309	1,138,454	1,196,313	2,173,484	2,312,622	(6.0)
<i>Program Expenses:</i>							
General Government	348,153	246,426	-	-	348,153	246,426	41.3
Parks	73,810	81,834	-	-	73,810	81,834	(9.8)
Public Works	217,494	300,002	-	-	217,494	300,002	(27.5)
Public Safety							
Marshal/Police Protection	154,935	280,345	-	-	154,935	280,345	(44.7)
Municipal Court	69,105	95,139	-	-	69,105	95,139	(27.4)
Fire Apparatus	-	25,629	-	-	-	25,629	(100.0)
Fire Department Donation	17,203	16,481	-	-	17,203	16,481	4.4
Interest in Debt	2,823	4,291	-	-	2,823	4,291	(34.2)
Water and Sewer Fund	-	-	1,004,025	971,037	1,004,025	971,037	3.4
TOTAL EXPENSES	883,523	1,050,147	1,004,025	971,037	1,887,548	2,021,184	(6.6)
Increase (Decrease) in Net Assets	<u>\$ 151,507</u>	<u>\$ 66,162</u>	<u>\$ 134,429</u>	<u>\$ 225,276</u>	<u>\$ 285,936</u>	<u>\$ 291,438</u>	(1.9)

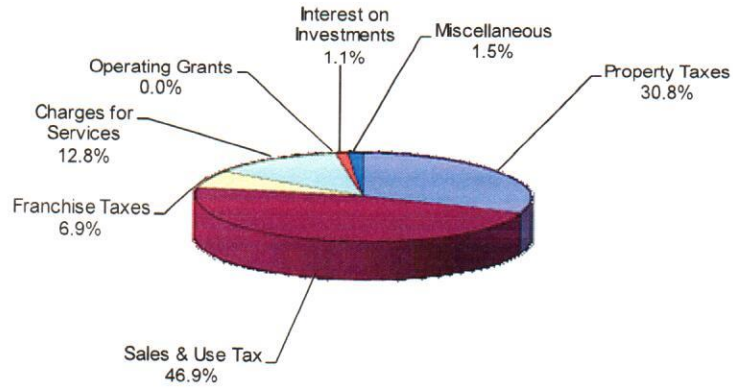
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities for fiscal year 2012.

Governmental Activities

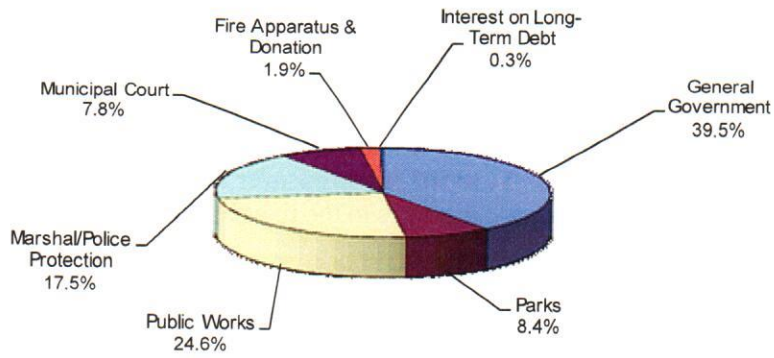
Sales taxes allocated to the City of Bandera by the State of Texas were up \$15,649 from the prior year and Franchise Taxes were down from the previous year \$2,865. Property taxes were up \$4,577.

Decreases in expenses were brought about by the City restructuring the City employees resulting in a reduction of salaries and wages.

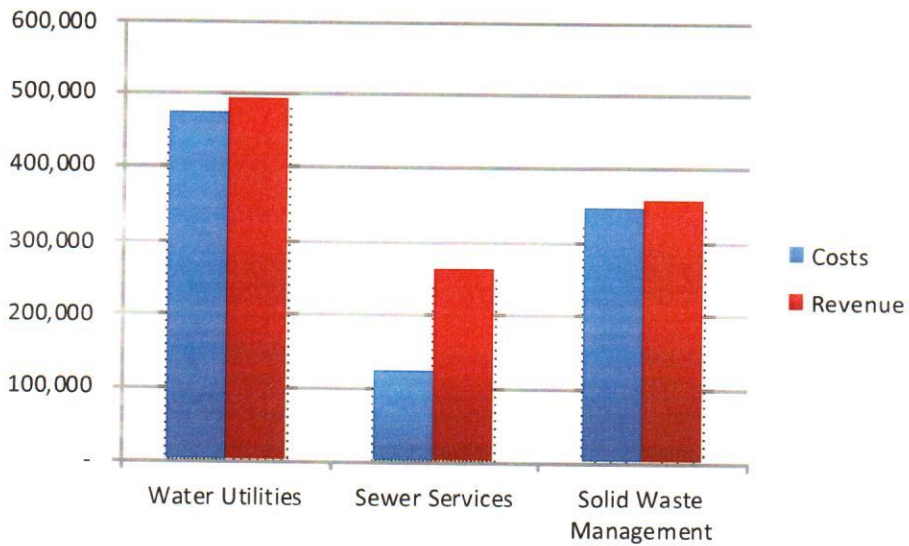
2012 Governmental Revenues



2012 Governmental Function Expenses



Business-Type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$1,025,966, a decrease of 8.0% from the preceding year. The most significant increases were in sales taxes, property taxes, and occupancy taxes, however, there was a substantial decrease in intergovernmental revenues. Expenditures from governmental fund types totaled \$951,242 including debt service expenditures of \$30,500. Total expenditures decreased \$200,022 or 17.4% from prior year. The most significant decreases included salaries and wages as the City restructured the departments within the City.

General Fund Budgetary Highlights

The City approved amendments to the original budget over the course of the fiscal year to increase expenditures by \$62,157 in various departments. The City's actual revenues in the general fund were \$41,704 more than budgeted amounts. The City's actual expenditures in the general fund were \$97,281 less than budgeted amounts. Park and Public Safety expenses exceeded budget by \$20,802 and \$25,563, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2012, the City had invested \$8,326,749 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$130,561 or 1.6% over last year. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Table A-3
City's Capital Assets
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012 - 2011
	2012	2011	2012	2011	2012	2011	
Land	\$ 457	\$ 457	\$ 11	\$ 11	\$ 468	\$ 468	(0.0)
Buildings and Improvements	403	403	36	36	439	439	0.0
Utility Improvements	-	-	5,170	5,170			
Equipment	672	657	211	221	883	878	0.5
Infrastructure	1,367	1,241	-	-	1,367	1,241	10.2
Totals at Historical Cost	2,899	2,758	5,428	5,438	8,327	8,196	1.6
Total Accumulated Depreciation	(1,159)	(1,065)	(2,099)	(2,004)	(3,257)	(3,069)	6.1
Net Capital Assets	\$ 1,741	\$ 1,693	\$ 3,329	\$ 3,434	\$ 5,069	\$ 5,127	(1.1)

Long Term Debt

At year-end the City had \$1,498,576 in bonds and capital leases outstanding as shown in Table A-4. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-4
City's Long-Term Debt
(in thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012 - 2011
	2012	2011	2012	2011	2012	2011	
Bonds Payable	\$ -	\$ -	\$ 1,464	\$ 1,645	\$ 1,464	\$ 1,645	(11.0)
Capital Lease	35	62	-	-	35	62	(43.5)
Total Long-Term Debt	<u>\$ 35</u>	<u>\$ 62</u>	<u>\$ 1,464</u>	<u>\$ 1,645</u>	<u>\$ 1,499</u>	<u>\$ 1,707</u>	(12.2)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Overall, revenues and expenditures are budgeted to remain fairly consistent with the current year. The property tax rate did not change for 2013.

In 2013, the City began paying life insurance based on a match of employee wages rather than a flat amount.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at (830) 796-3765. Point of contact is Mae Vion Meyer, Interim City Treasurer.



CITY OF BANDERA
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2012

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF BANDERA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and Cash Equivalents	\$ 401,565	\$ 229,909	\$ 631,474	\$ 261,075
Investments	1,055,488	-	1,055,488	275,760
Receivables (net of allowances for uncollectibles)				
Ad Valorem Taxes	19,082	-	19,082	-
Other	49,125	108,714	157,839	37,735
Due from Other Governments	77,147	-	77,147	-
Due from Component Unit	-	12,482	12,482	-
Due from Primary Government	-	-	-	128,378
Inventory	-	3,000	3,000	-
Internal Balances	(3,570)	3,570	-	-
Restricted Assets:				
Cash and Cash Equivalents	-	57,101	57,101	-
Deferred Charges	-	33,289	33,289	4,449
Capital Assets:				
Land	457,000	10,934	467,934	120,956
Building and Improvements	403,157	36,012	439,169	63,747
Utility Improvements	-	5,169,925	5,169,925	-
Vehicles and Equipment	671,866	210,710	882,576	43,813
Infrastructure	1,367,145	-	1,367,145	384,818
Accumulated Depreciation	(1,158,556)	(2,098,748)	(3,257,304)	(135,411)
TOTAL ASSETS	\$ 3,339,449	\$ 3,776,898	\$ 7,116,347	\$ 1,185,320

See accompanying notes to basic financial statements.

CITY OF BANDERA
STATEMENT OF NET ASSETS (CONTINUED)
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
LIABILITIES AND NET ASSETS				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 22,745	\$ 30,066	\$ 52,811	\$ -
Accrued Expenses	6,480	-	6,480	-
Accrued Interest Payable	808	8,481	9,289	1,966
Due to Primary Government	-	-	-	12,482
Due to Component Unit	128,378	-	128,378	-
Deferred/Unearned Revenues	4,306	-	4,306	-
Accrued Vacation/Comp Leave Payable	4,252	10,108	14,360	-
<i>Payable from Restricted Assets:</i>				
Customer Deposits	-	57,101	57,101	-
<i>Noncurrent Liabilities:</i>				
Due within One Year	34,637	198,750	233,387	31,250
Due in more than One Year	-	1,265,189	1,265,189	243,044
TOTAL LIABILITIES	<u>201,606</u>	<u>1,569,695</u>	<u>1,771,301</u>	<u>288,742</u>
<i>Net Assets:</i>				
Invested in Capital Assets, Net of Related Debt	1,705,975	1,864,894	3,570,869	203,629
Restricted for:				
Special Revenues	21,328	-	21,328	-
Unrestricted	1,410,540	342,309	1,752,849	692,949
TOTAL NET ASSETS	<u>3,137,843</u>	<u>2,207,203</u>	<u>5,345,046</u>	<u>896,578</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,339,449</u>	<u>\$ 3,776,898</u>	<u>\$ 7,116,347</u>	<u>\$ 1,185,320</u>

See accompanying notes to basic financial statements.

CITY OF BANDERA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
<i>Governmental Activities:</i>				
General Government	\$ 348,153	\$ 15,124	\$ -	\$ -
Parks	73,810	91,909	-	-
Public Works	217,494	-	-	-
Public Safety				
Marshal/Police Protection	154,935	-	-	-
Municipal Court	69,105	25,181	-	-
Fire Department Donation	17,203	-	-	-
Interest on Long-term Debt	2,823	-	-	-
<i>Total Governmental Activities</i>	<u>883,523</u>	<u>132,214</u>	<u>-</u>	<u>-</u>
<i>Business-Type Activities</i>				
Water and Sewer Fund	1,004,025	1,138,084	-	-
<i>Total Business-Type Activities</i>	<u>1,004,025</u>	<u>1,138,084</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 1,887,548</u>	<u>\$ 1,270,298</u>	<u>\$ -</u>	<u>\$ -</u>
Component Unit				
Economic Development Corp.	<u>\$ 102,707</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Sales and Use Taxes				
Franchise Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets at Beginning of Year				
Prior Period Adjustment				
Net Assets at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
\$ (333,029)	\$ -	\$ (333,029)	
18,099	-	18,099	
(217,494)	-	(217,494)	
(154,935)	-	(154,935)	
(43,924)	-	(43,924)	
(17,203)	-	(17,203)	
(2,823)	-	(2,823)	
<u>(751,309)</u>	<u>-</u>	<u>(751,309)</u>	
-	134,059	134,059	
-	<u>134,059</u>	<u>134,059</u>	
<u>(751,309)</u>	<u>134,059</u>	<u>(617,250)</u>	
-	-	-	\$ (102,707)
318,904	-	318,904	-
485,241	-	485,241	224,381
71,385	-	71,385	-
11,767	370	12,137	2,795
15,519	-	15,519	-
<u>902,816</u>	<u>370</u>	<u>903,186</u>	<u>227,176</u>
151,507	134,429	285,936	124,469
2,977,531	2,072,774	5,050,305	772,109
8,805	-	8,805	-
<u>\$ 3,137,843</u>	<u>\$ 2,207,203</u>	<u>\$ 5,345,046</u>	<u>\$ 896,578</u>

CITY OF BANDERA
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	<u>Major Fund</u> General Fund	<u>Nonmajor Funds</u> Special Revenue	<u>Total</u> Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 392,693	\$ 8,872	\$ 401,565
Investments	1,055,488	-	1,055,488
Receivables (net of allowances for uncollectibles):			
Property Taxes	19,082	-	19,082
Other Receivables	43,913	5,212	49,125
Due from Other Governments	77,147	-	77,147
Due from Other Funds	399	-	399
TOTAL ASSETS	<u>\$ 1,588,722</u>	<u>\$ 14,084</u>	<u>\$ 1,602,806</u>
LIABILITIES AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ 29,225	\$ -	\$ 29,225
Due to Other Funds	3,570	399	3,969
Due to Component Unit	128,378	-	128,378
Deferred/Unearned Revenues	63,089	-	63,089
TOTAL LIABILITIES	<u>224,262</u>	<u>399</u>	<u>224,661</u>
<i>Fund Balances:</i>			
Restricted for:			
Court Security	7,643	-	7,643
Hotel Occupancy	-	9,384	9,384
Police Seizure	-	4,301	4,301
Unassigned	1,356,817	-	1,356,817
<i>Total Fund Balances</i>	<u>1,364,460</u>	<u>13,685</u>	<u>1,378,145</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 1,588,722</u>	<u>\$ 14,084</u>	<u>\$ 1,602,806</u>

See accompanying notes to basic financial statements.

CITY OF BANDERA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 1,378,145
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,740,612
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	58,783
Accrued vacation leave payable is not due and payable in the current period and, therefore, not reported in the funds.	(4,252)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(34,637)
Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds.	(808)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 3,137,843</u>

See accompanying notes to basic financial statements.

CITY OF BANDERA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Major Fund</u> General Fund	<u>Nonmajor Funds</u> Special Revenue	<u>Total</u> Governmental Funds
REVENUES			
Ad Valorem Taxes	\$ 317,030	\$ -	\$ 317,030
Sales Taxes	455,492	-	455,492
Occupancy Tax	-	29,749	29,749
Franchise Fees	71,385	-	71,385
Licenses and Permits	15,124	-	15,124
Fines and Penalties	25,181	-	25,181
Concession Rental	91,909	-	91,909
Interest Income	11,757	10	11,767
Miscellaneous	8,326	3	8,329
TOTAL REVENUES	<u>996,204</u>	<u>29,762</u>	<u>1,025,966</u>
EXPENDITURES			
<i>Current:</i>			
General and Administrative	299,756	32,547	332,303
Parks	72,395	-	72,395
Public Works	122,718	-	122,718
Public Safety			
Marshal/Police Protection	141,988	-	141,988
Municipal Court	61,017	-	61,017
Fire Department Donation	17,203	-	17,203
<i>Capital Outlay</i>	173,118	-	173,118
<i>Debt Service:</i>			
Principal	27,046	-	27,046
Interest and Fiscal Charges	3,454	-	3,454
TOTAL EXPENDITURES	<u>918,695</u>	<u>32,547</u>	<u>951,242</u>
Net Change in Fund Balance	77,509	(2,785)	74,724
Fund Balances at Beginning of Year	1,286,951	7,665	1,294,616
Prior Period Adjustment	-	8,805	8,805
Fund Balances at End of Year	<u>\$ 1,364,460</u>	<u>\$ 13,685</u>	<u>\$ 1,378,145</u>

See accompanying notes to basic financial statements.

CITY OF BANDERA
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 74,724
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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 by which capital outlays exceeded depreciation.</p>		47,475
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		1,874
<p>The repayment of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net assets.</p>		27,046
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Change in Compensated Absences	(243)	
Change in Accrued Interest	631	
	631	388
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES		\$ 151,507

See accompanying notes to basic financial statements.

CITY OF BANDERA
STATEMENT OF NET ASSETS – PROPRIETARY FUND
SEPTEMBER 30, 2012

	Business-Type Activities
	Water and Sewer Fund
ASSETS	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$ 229,909
Receivables (net of allowances for uncollectibles)	108,714
Due from Other Funds	3,570
Due from Component Unit	12,482
Inventory	3,000
<i>Total Current Assets</i>	357,675
 <i>Restricted Assets:</i>	
Cash and Cash Equivalents	57,101
 <i>Non-Current Assets:</i>	
Bond Issuance Costs (Net)	33,289
Capital Assets, Net of Accumulated Depreciation	3,328,833
<i>Total Non-Current Assets</i>	3,362,122
TOTAL ASSETS	\$ 3,776,898
 LIABILITIES AND NET ASSETS	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 30,066
Accrued Interest Payable	8,481
Compensated Absences	10,108
Current Portion of Long Term Debt	198,750
<i>Total Current Liabilities</i>	247,405
 <i>Liabilities Payable from Restricted Assets:</i>	
Customer Deposits	57,101
 <i>Non-Current Liabilities:</i>	
Long Term Debt	1,265,189
TOTAL LIABILITIES	1,569,695
 <i>Net Assets:</i>	
Invested in Capital Assets, Net of Related Debt	1,864,894
Unrestricted	342,309
TOTAL NET ASSETS	2,207,203
TOTAL LIABILITIES & NET ASSETS	\$ 3,776,898

See accompanying notes to basic financial statements.

CITY OF BANDERA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities
	Water and Sewer Fund
OPERATING REVENUES	
Charges for Services	
Water Utilities	\$ 488,987
Sewer Services	262,458
Garbage Fee	354,757
Installation and Inspection Fees	17,448
Miscellaneous Fees	14,434
TOTAL OPERATING REVENUES	1,138,084
OPERATING EXPENSES	
Personnel Services	
Administrative	82,198
Water Department	104,816
Sewer Department	39,141
Non Departmental Fringe Benefits	63,326
Total Personnel Services	289,481
Other Services and Charges	
Administrative	34,849
Water Department	95,583
Sewer Department	41,328
Garbage Contract	344,318
Total Other Services and Charges	516,078
Supplies	
Administrative	1,568
Water Department	18,224
Sewer Department	6,736
Total Supplies	26,528
Depreciation	104,983
TOTAL OPERATING EXPENSES	937,070
OPERATING INCOME (LOSS)	\$ 201,014

See accompanying notes to basic financial statements.

CITY OF BANDERA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS (CONTINUED)
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities
	Water and Sewer Fund
NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 370
Interest and Fiscal Charges	(66,955)
TOTAL NONOPERATING REVENUES (EXPENSES)	(66,585)
 CHANGE IN NET ASSETS	 134,429
 NET ASSETS AT BEGINNING OF YEAR	 <u>2,072,774</u>
 NET ASSETS AT END OF YEAR	 <u><u>\$ 2,207,203</u></u>

See accompanying notes to basic financial statements.

CITY OF BANDERA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities <u>Water and Sewer Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 1,153,767
Cash Paid to Employee Wages & Benefits	(289,481)
Cash Paid to Suppliers for Goods and Services	(564,872)
Net Cash Provided (Used) by Operating Activities	<u>299,414</u>
Cash Flows From Noncapital Financing Activities:	
Interfund Payables	43,380
Funds loaned to Component Unit	(5,984)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>37,396</u>
Cash Flows From Capital and Related Financing Activities:	
Principal Payments on Revenue Bonds	(190,000)
Interest and Fiscal Charges Paid	(59,774)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(249,774)</u>
Cash Flows From Investing Activities:	
Investment Interest Received	370
Net Cash Provided (Used) by Investing Activities	<u>370</u>
Net Increase (Decrease) in Cash and Cash Equivalents	87,406
Cash and Investments at Beginning of Year:	
Cash and Investments	145,911
Restricted Cash and Investments	53,693
	<u>199,604</u>
Cash and Investments at End of Year:	
Cash and Investments	229,909
Restricted Cash and Investments	57,101
	<u>\$ 287,010</u>

See accompanying notes to basic financial statements.

CITY OF BANDERA
 STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities
	Water and Sewer Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 201,014
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	104,983
(Increase) Decrease in Operating Assets:	
Accounts Receivable	10,178
Increase (Decrease) in Current Liabilities:	
Accounts Payable	(22,266)
Customer Deposits	5,505
Total Adjustments to Reconcile Operating Activities	98,400
 Net Cash Provided (Used) by Operating Activities	 \$ 299,414

See accompanying notes to basic financial statements.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bandera, Texas ("City"), was incorporated in 1964. The City is a municipal corporation governed by an elected mayor and five members of the city council, and provides the following services: public safety (law enforcement), public transportation (streets), health, culture, recreation, public facilities, water and sewer, legal, election functions, and general administrative services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

Component Units

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. As of September 30, 2012, the City had one component unit that is discretely presented in these financial statements:

Bandera Economic Development Corporation

The City appoints a voting majority to, and exerts significant control over, the Economic Development Corporation (EDC), a legally separate entity. This qualifies the EDC as a component unit, which is presented in a separate column in the government-wide financial statements. The EDC collects a 1/2 cent sales tax to promote the economic growth in the City of Bandera. The EDC issues standalone financial statements that can be obtained by contacting the Bandera Economic Development Corporation at 511 Main Street, Bandera, Texas 78023.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net assets and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The statement of activities reflects the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types which have been accrued consist of revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The government reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property and sales taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public works, parks, capital acquisition, and debt service.

The government reports the following nonmajor governmental funds:

Special Revenue Funds are used to account for resources which are legally or contractually restricted to specific expenditures:

Hotel Occupancy Tax Fund
Police Forfeiture Fund

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Water and Sewer Fund (used to account for the operating activities of the City's water utilities, sewer services, and solid waste management).

The **Proprietary Fund** is accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City has all its monies in interest bearing checking accounts, savings accounts, government investment pools, and certificates of deposit. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair market value except for certificates of deposit which are carried at amortized cost.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2011 and past due after January 31, 2012. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are shown net of an allowance for uncollectible accounts in the amount of zero.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Revenues for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are billable services for certain contracts, and billable services for the City's water utilities, sewer services, and solid waste management. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible utility customer accounts is \$52,142 as of September 30, 2012. The allowance for uncollectible property taxes is zero as management believes all accounts to be collectible.

CITY OF BANDERA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

8. RESTRICTED ASSETS

Certain resources are set aside for customer meter deposits. Deposits are classified as restricted assets on the balance sheet because they may be refunded at a point in time if the customer is in good standing with the water/sewer department.

9. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sewer, sidewalks, curbs and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Buildings and improvements	10 to 45 years
Machinery and equipment	5 to 10 years
Infrastructure	20 to 30 years
Utility system	5 to 50 years

10. COMPENSATED ABSENCES

Employees earn vacation leave at varying rates depending on length of service: 5 days leave for year 1 (not available for use until first year of service is completed), an additional 5 days for each year from year 2 through 5, and an additional day per year of service thereafter up to a maximum of 20 days per year. Annual leave exceeding 5 days will not be carried over, except with City Administrator approval.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. COMPENSATED ABSENCES (Continued)

Employees earn sick leave at the rate of 1 day per month starting on date of employment. No sick leave days are paid when an employee leaves city employment and no liability is reported for unpaid sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

11. DEFERRED/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue and municipal court payments not expected to be available for the current period are reflected as deferred revenue. Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue.

12. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net assets. On new bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

13. FUND EQUITY

Fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted – Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. FUND EQUITY (Continued)

Committed – Represents amounts that can be used only for a specific purpose determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned – Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council is the only entity that may make assignments at this time as the Council has not designated any other individuals with the authority to make assignments.

Unassigned – Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, and assigned third.

14. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

15. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

16. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for water and sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as non-operating.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

NOTE B -- DEPOSITS AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Deposits

At September 30, 2012, the carrying amount of the primary government's (the City) cash on hand was \$600 and the carrying amount of deposits in bank was \$1,743,463 and the bank balance was \$1,821,284. Of the bank balance, \$250,000 was covered by federal deposit insurance at Bandera Bank, Bandera First State Bank, and Hondo Bank and the City's depository had pledged securities having a face value of \$1,500,000 and market value of \$1,500,000 as collateral for the City's deposits. The City also had pledged securities having a face value of \$175,000 and \$1,500,000 and market value of \$176,892 and \$411,824 at Hondo National Bank and Bandera First State Bank, respectively. All of the City's cash was fully collateralized.

As of September 30, 2012, the carrying amount of the component unit's deposits in bank (including certificates of deposit) was \$536,835. Of the bank balance, \$250,000 was covered by federal deposit insurance at Bandera Bank and the component unit's depository had pledged securities having a face value of \$500,000 and market value of \$500,000 as collateral for the component unit's deposits. All of the component unit's cash was fully collateralized.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

2. Investments (Continued)

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. The Act requires that the Council review the investment policy at least annually, investment officers obtain minimum investment training, and investment officers sign quarterly investment reports submitted to Council. Audit procedures in this area, conducted as part of the basic financial statements, disclosed that investment training had not been obtained as required by the Act and investment reports have not been prepared.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City's investments at September 30, 2012 were \$1,055,488 invested in certificates of deposit. The Economic Development Corporation (component unit) also had certificates of deposit totaling \$275,760.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

3. Analysis of Specific Deposit and Investment Risks (Continued)

b. Custodial Credit Risk (Continued)

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of September 30, 2012, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City had no exposure to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

4. Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF BANDERA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Bandera County Central Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2011, upon which the fiscal 2012 levy was based, was \$79,354,797 (i.e., market value less exemptions). The estimated market value was \$106,404,375, making the taxable value 74.6% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2012, was \$0.403310 per \$100 of assessed value, which means that the City has a tax margin of \$2.09669 for each \$100 value and could increase its annual tax levy by approximately \$1,663,824 based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate.

NOTE D -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2012 are as follows:

Primary Government

	General Fund	Special Revenue Funds	Total
Sales Tax	\$ 75,469	\$ -	\$ 75,469
Mixed Beverage	1,678	-	1,678
Municipal Court	39,701	-	39,701
Occupancy Tax	-	5,212	5,212
Miscellaneous	4,212	-	4,212
Total Other Receivables and Due from Other Governments	<u>\$ 121,060</u>	<u>\$ 5,212</u>	<u>\$ 126,272</u>

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE E -- INTERFUND RECEIVABLE/PAYABLE

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. As of September 30, 2012, the following balances were due between funds:

	Due From	Due To
General Fund:		
Nonmajor Funds	\$ 399	\$ -
Water and Sewer Fund	-	3,570
Nonmajor Funds:		
General Fund	-	399
Water and Sewer Fund:		
General Fund	3,570	-
	\$ 3,969	\$ 3,969

NOTE F -- CAPITAL ASSETS

Primary Government

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

<u>Governmental Activities</u>	Balance 10/1/2011	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2012
Land	\$ 457,000	\$ -	\$ -	\$ 457,000
Buildings and Improvements	403,157	-	-	403,157
Vehicles and Equipment	657,019	38,584	(23,737)	671,866
Infrastructure	1,240,948	126,197	-	1,367,145
	2,758,124	164,781	(23,737)	2,899,168
Less Accumulated Depreciation				
Buildings and Improvements	(164,154)	(13,692)	-	(177,846)
Vehicles and Equipment	(523,589)	(47,866)	23,737	(547,718)
Infrastructure	(377,244)	(55,748)	-	(432,992)
	(1,064,987)	(117,306)	23,737	(1,158,556)
Governmental Capital Assets, Net	\$ 1,693,137	\$ 47,475	\$ -	\$ 1,740,612

Land is not depreciated.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE F -- CAPITAL ASSETS (Continued)

Primary Government (Continued)

<u>Business-Type Activities</u>	Balance 10/1/2011	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2012
Land	\$ 10,934	\$ -	\$ -	\$ 10,934
Buildings and Improvements	36,012	-	-	36,012
Utility Improvements	5,169,925	-	-	5,169,925
Vehicles and Equipment	221,193	-	(10,483)	210,710
	<u>5,438,064</u>	<u>-</u>	<u>(10,483)</u>	<u>5,427,581</u>
Less Accumulated Depreciation				
Buildings and Improvements	(26,720)	(1,690)	-	(28,410)
Utility Improvements	(1,781,239)	(94,945)	-	(1,876,184)
Vehicles and Equipment	(196,289)	(8,348)	10,483	(194,154)
	<u>(2,004,248)</u>	<u>(104,983)</u>	<u>10,483</u>	<u>(2,098,748)</u>
Business-Type Capital Assets, Net	<u>\$ 3,433,816</u>	<u>\$ (104,983)</u>	<u>\$ -</u>	<u>\$ 3,328,833</u>

Land is not depreciated.

Discretely Presented Component Unit

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

<u>Economic Development Corporation</u>	Balance 10/1/2011	Additions/ Transfer In	Disposals/ Transfer Out	Balance 9/30/2012
Land	\$ 120,956	\$ -	\$ -	\$ 120,956
Buildings and Improvements	63,747	-	-	63,747
Vehicles and Equipment	43,813	-	-	43,813
Infrastructure	379,056	5,762	-	384,818
	<u>607,572</u>	<u>5,762</u>	<u>-</u>	<u>613,334</u>
Less Accumulated Depreciation				
Buildings and Improvements	-	(3,187)	-	(3,187)
Vehicles and Equipment	(30,175)	(5,463)	-	(35,638)
Infrastructure	(77,346)	(19,240)	-	(96,586)
	<u>(107,521)</u>	<u>(27,890)</u>	<u>-</u>	<u>(135,411)</u>
Economic Development Corporation Capital Assets, Net	<u>\$ 500,051</u>	<u>\$ (22,128)</u>	<u>\$ -</u>	<u>\$ 477,923</u>

Land is not depreciated.

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE F -- CAPITAL ASSETS (Continued)

Depreciation expense was charged to the governmental functions as follows:

Governmental Activities:

General Government	\$	12,636
Public Works		94,037
Public Safety		
Marshal		7,172
Municipal Court		1,461
Parks		<u>2,000</u>
Total Depreciation Expense - Governmental Activities		<u><u>\$ 117,306</u></u>

NOTE G -- LONG-TERM DEBT

Changes in Long-Term Debt

	Original Amount	Interest Rates	Balance 10/1/2011	Additions	Reductions	Balance 9/30/2012	Due Within One Year
<i>Governmental Activities:</i>							
Capital Leases	\$ 215,000	5.60%	\$ 61,683	\$ -	\$ (27,046)	\$ 34,637	\$ 34,637
Compensated Absences			4,009	4,252	(4,009)	4,252	4,252
<i>Total Governmental Activities</i>			<u>65,692</u>	<u>4,252</u>	<u>(31,055)</u>	<u>38,889</u>	<u>38,889</u>
<i>Business-Type Activities:</i>							
2006 Refunding Bonds	\$ 1,098,750	4.03%	\$ 967,500	\$ -	\$ (90,000)	\$ 877,500	\$ 93,750
Deferred Loss on Refunding			(63,663)	-	7,802	(55,861)	-
2010 Refunding Bonds	845,000	1.0-3.0%	750,000	-	(100,000)	650,000	105,000
Deferred Loss on Refunding			(8,983)	-	1,283	(7,700)	-
Compensated Absences			10,108	10,108	(10,108)	10,108	10,108
<i>Total Business-Type Activities</i>			<u>1,654,962</u>	<u>10,108</u>	<u>(191,023)</u>	<u>1,474,047</u>	<u>208,858</u>
Total Primary Government			<u>\$ 1,720,654</u>	<u>\$ 14,360</u>	<u>\$ (222,078)</u>	<u>\$ 1,512,936</u>	<u>\$ 247,747</u>
<i>Discretely Presented Component Unit:</i>							
2006 Refunding Bonds	\$ 366,250	4.03%	\$ 322,500	\$ -	\$ (30,000)	\$ 292,500	\$ 31,250
Deferred Loss on Refunding			(20,806)	-	2,600	(18,206)	-
<i>Total Economic Development Corporation</i>			<u>\$ 301,694</u>	<u>\$ -</u>	<u>\$ (27,400)</u>	<u>\$ 274,294</u>	<u>\$ 31,250</u>

During the year ended September 30, 2011, the City issued \$845,000 of revenue bonds to provide resources to pay the 1998 Certificates of Obligation in full. As a result, the refunded portion of the Certificates of Obligation has been removed from the Statement of Net Assets and is considered defeased.

CITY OF BANDERA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE G -- LONG-TERM DEBT (Continued)

The City entered into a capital lease for the purchase of a fire truck for use by the Volunteer Fire Department. The lease qualifies as a capital lease for accounting purposes as defined under the Financial Accounting Standards Board Statement No. 13, Accounting for Leases, and therefore has been recorded at the present value of future minimum lease payments at the date of inception, April 26, 2002. The Volunteer Fire Department has contributed \$15,250 toward the lease payment for the year ended September 30, 2012.

Future minimum lease payments are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2013	\$ 34,637	\$ 1,940	\$ 36,577
	<u>\$ 34,637</u>	<u>\$ 1,940</u>	<u>\$ 36,577</u>

The following is an analysis of the property under capital lease as of September 30, 2012:

Fire Truck	\$ 256,291
Less: Accumulated Depreciation	(256,291)
Net Leased Property	<u>\$ -</u>

Annual requirements to amortize all bonded debt outstanding as of September 30, 2012 are as follows:

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2013	\$ 198,750	\$ 48,080	\$ 246,830
2014	202,500	42,258	244,758
2015	206,250	36,022	242,272
2016	218,750	29,234	247,984
2017	222,500	21,889	244,389
2018 - 2020	478,750	24,167	502,917
	<u>\$ 1,527,500</u>	<u>\$ 201,650</u>	<u>\$ 1,729,150</u>

Year Ending September 30,	Economic Development Corporation		
	Principal	Interest	Total
2013	\$ 31,250	\$ 11,158	\$ 42,408
2014	32,500	9,873	42,373
2015	33,750	8,539	42,289
2016	36,250	7,128	43,378
2017	37,500	5,642	43,142
2018 - 2020	121,250	7,481	128,731
	<u>\$ 292,500</u>	<u>\$ 49,821</u>	<u>\$ 342,321</u>

CITY OF BANDERA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS

A. Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ratio (City to	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

B. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, 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 amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the 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 to budget for it, 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.

Fiscal Year Ending September 30,	Annual Pension Cost	Actual Contribution Made	Percentage of APC Contribution	Net Pension Obligation (Asset)
2010	\$ 68,219	\$ 69,682	102%	\$ (1,463)
2011	74,328	72,865	98%	1,463
2012	52,568	52,568	100%	-

CITY OF BANDERA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

B. Contributions (Continued)

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

	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial Valuation Date	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Actuarial Cost Method	Level percent of payroll	Level Percent of Payroll	Level percent of payroll
Amortization Method	28.2 years - Closed Period	27.2 years - Closed Period	26.1 years - Closed Period
Remaining Amortization Period	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Asset Valuation Method	7.5%	7.0%	7.0%
Investment Rate of Return	Varies by age and service	Varies by age and service	Varies by age and service
Projected Salary Increases	3.0%	3.0%	3.0%
Inflation Rate	2.1%	2.1%	2.1%
Cost-of-Living Adjustments			

Funded Status and Funding Progress – The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ 1,459,285	\$ 1,549,040	94.2%	\$ 89,755	\$ 514,179	17.5%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used to include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

C. Other Post-Employment Benefits

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

CITY OF BANDERA
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)

C. Other Post-Employment Benefits (Continued)

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

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

The City's contributions to the TMRS SDBF for the years ended September 30, 2012, 2011, and 2010 were \$2,207, \$3,366, and \$3,001, respectively, which equaled the required contributions each year.

NOTE I -- COMMITMENTS AND CONTINGENCIES

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

NOTE J -- RISK MANAGEMENT

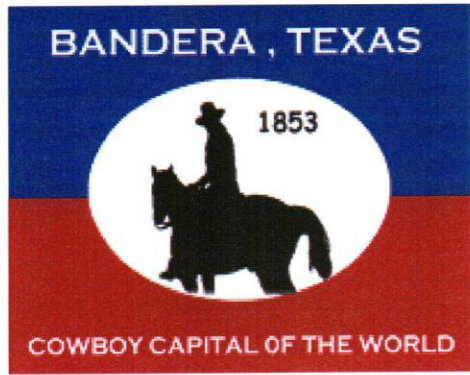
The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to \$1,000,000. Annual contributions for the year ended September 30, 2012 were \$32,910 for property and casualty and workers compensation coverage.

CITY OF BANDERA
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE K -- PRIOR PERIOD ADJUSTMENT

The following adjustment was necessary to correct prior year accounts payable that was overstated in the period ending September 30, 2011:

	Governmental Activities
Beginning Net Assets	\$ 2,977,531
Accounts Payable Overstated	8,805
Restated Beginning Net Assets	\$ 2,986,336
	Nonmajor Fund Special Revenue
Beginning Fund Balance	\$ 7,665
Accounts Payable Overstated	8,805
Restated Beginning Fund Balance	\$ 16,470



REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Funding Progress – Defined Benefit

CITY OF BANDERA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012
 (WITH COMPARATIVE ACTUAL TOTALS FOR 2011)

	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)	2011
	Original	Final			
REVENUES					
Ad Valorem Taxes	\$ 308,000	\$ 308,000	\$ 317,030	\$ 9,030	\$ 312,453
Sales Taxes	406,000	406,000	455,492	49,492	439,843
Franchise Fees	78,000	78,000	71,385	(6,615)	74,250
Licenses and Permits	17,500	17,500	15,124	(2,376)	16,989
Fines and Penalties	60,000	60,000	25,181	(34,819)	69,930
Concession Rental	60,000	60,000	91,909	31,909	68,442
Interest Income	20,000	20,000	11,757	(8,243)	19,360
Intergovernmental	-	-	-	-	67,743
Miscellaneous	5,000	5,000	8,326	3,326	8,673
TOTAL REVENUES	<u>954,500</u>	<u>954,500</u>	<u>996,204</u>	<u>41,704</u>	<u>1,077,683</u>
EXPENDITURES					
<i>General Government:</i>					
Administration	194,515	214,218	213,085	1,133	231,430
Animal Control	20,128	20,728	12,768	7,960	296
Fringe Benefits	128,642	129,242	73,903	55,339	15,988
<i>Total General Government</i>	<u>343,285</u>	<u>364,188</u>	<u>299,756</u>	<u>64,432</u>	<u>247,714</u>
<i>Park</i>	<u>50,810</u>	<u>51,593</u>	<u>72,395</u>	<u>(20,802)</u>	<u>79,249</u>
<i>Public Works</i>	<u>146,036</u>	<u>167,441</u>	<u>122,718</u>	<u>44,723</u>	<u>214,277</u>
<i>Public Safety:</i>					
Marshal/Police Protection	118,961	116,471	141,988	(25,517)	276,442
Municipal Court	68,078	60,971	61,017	(46)	94,862
<i>Total Public Safety</i>	<u>187,039</u>	<u>177,442</u>	<u>203,005</u>	<u>(25,563)</u>	<u>371,304</u>
<i>Fire Department Donation</i>	<u>16,910</u>	<u>16,809</u>	<u>17,203</u>	<u>394</u>	<u>16,481</u>
<i>Capital Outlay</i>	<u>193,700</u>	<u>222,464</u>	<u>173,118</u>	<u>49,346</u>	<u>154,444</u>
<i>Debt Service:</i>					
Principal	10,362	10,362	27,046	(16,684)	10,362
Interest	4,889	4,889	3,454	1,435	4,889
<i>Total Debt Service</i>	<u>15,251</u>	<u>15,251</u>	<u>30,500</u>	<u>(15,249)</u>	<u>15,251</u>
TOTAL EXPENDITURES	<u>953,031</u>	<u>1,015,188</u>	<u>918,695</u>	<u>97,281</u>	<u>1,098,720</u>
Net Change in Fund Balance	1,469	(60,688)	77,509	138,197	(21,037)
Fund Balance - Beginning of Year	<u>1,286,951</u>	<u>1,286,951</u>	<u>1,286,951</u>	-	<u>1,307,988</u>
Fund Balance - End of Year	<u>\$ 1,288,420</u>	<u>\$ 1,226,263</u>	<u>\$ 1,364,460</u>	<u>\$ 138,197</u>	<u>\$ 1,286,951</u>

CITY OF BANDERA
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL - GENERAL FUND
SEPTEMBER 30, 2012

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.

CITY OF BANDERA
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT
 LAST THREE CALENDAR YEARS

<u>CALENDAR YEAR</u>	<u>ACTUARIAL VALUE OF ASSETS **</u>	<u>ACTUARIAL ACCRUED LIABILITY*</u>	<u>FUNDING RATIO (1)/(2)</u>	<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>	<u>ANNUAL COVERED PAYROLL</u>	<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL</u>
2009	\$ 1,050,653	\$ 1,252,155	83.9%	\$ 201,502	\$ 531,215	37.9%
2010	1,301,915	1,432,332	90.9%	130,417	546,726	23.9%
2011	1,459,285	1,549,040	94.2%	89,755	514,179	17.5%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated at cost as of December 31 of the preceding year.

SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such statements and schedule include:

- Comparative Statements – General Fund
- Comparative Statements – Special Revenue Fund
- Comparative Statements – Proprietary Sewer Fund

CITY OF BANDERA
 COMPARATIVE BALANCE SHEETS
 GENERAL FUND
 SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 392,693	\$ 1,870
Investments	1,055,488	1,394,150
Receivables (net of allowances for uncollectibles):		
Property Taxes	19,082	17,208
Other Receivables	43,913	49,374
Due from Other Governments	77,147	107,995
Due from Other Funds	399	-
	\$ 1,588,722	\$ 1,570,597
 LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Accounts Payable	\$ 29,225	\$ 24,608
Accrued Expenses	-	13,255
Due to Other Funds	3,570	46,950
Due to Component Unit	128,378	138,022
Deferred/Unearned Revenues	63,089	60,811
	224,262	283,646
 <i>Total Liabilities</i>		
 <i>Fund Balances:</i>		
Restricted for:		
Court Security	7,643	7,643
Court Technology	-	14,252
Unassigned	1,356,817	1,265,056
	1,364,460	1,286,951
 <i>Total Fund Balance</i>		
	\$ 1,588,722	\$ 1,570,597
 TOTAL LIABILITIES & FUND BALANCES	\$ 1,588,722	\$ 1,570,597

CITY OF BANDERA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 GENERAL FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

REVENUES	<u>2012</u>	<u>2011</u>
Ad Valorem Taxes	\$ 317,030	\$ 312,453
Sales Taxes	455,492	439,843
Franchise Fees	71,385	74,250
Licenses and Permits	15,124	16,989
Fines and Penalties	25,181	69,930
Concession Rental	91,909	68,442
Interest Income	11,757	19,360
Intergovernmental	-	67,743
Miscellaneous	8,326	8,673
TOTAL REVENUES	<u>996,204</u>	<u>1,077,683</u>
EXPENDITURES		
<i>Current:</i>		
General Government	299,756	247,714
Parks	72,395	79,249
Public Works	122,718	214,277
Public Safety		
Marshal/Police Protection	141,988	276,442
Municipal Court	61,017	94,862
Fire Department Donation	17,203	16,481
<i>Capital Projects/Outlay</i>	173,118	154,444
<i>Debt Service:</i>		
Principal	27,046	10,362
Interest	3,454	4,889
TOTAL EXPENDITURES	<u>918,695</u>	<u>1,098,720</u>
Net Change in Fund Balance	77,509	(21,037)
Fund Balances at Beginning of Year	<u>1,286,951</u>	<u>1,307,988</u>
Fund Balances at End of Year	<u>\$ 1,364,460</u>	<u>\$ 1,286,951</u>

CITY OF BANDERA
 COMPARATIVE BALANCE SHEETS
 SPECIAL REVENUE FUNDS
 SEPTEMBER 30, 2012 AND 2011

	2012	Restated* 2011
ASSETS		
Cash and Cash Equivalents	\$ 8,872	\$ 8,869
Other Receivables	5,212	7,601
TOTAL ASSETS	\$ 14,084	\$ 16,470
LIABILITIES AND FUND BALANCES		
<i>Liabilities:</i>		
Due to Other Funds	\$ 399	\$ -
<i>Total Liabilities</i>	399	-
<i>Fund Balances:</i>		
Restricted for:		
Hotel Occupancy	9,384	12,169
Police Seizure	4,301	4,301
<i>Total Fund Balances</i>	13,685	16,470
TOTAL LIABILITIES & FUND BALANCES	\$ 14,084	\$ 16,470

Restated to reflect prior period adjustment in Note K.

CITY OF BANDERA
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

REVENUES	<u>2012</u>	<u>Restated* 2011</u>
Occupancy Tax	\$ 29,749	\$ 19,578
Interest Income	10	18
Miscellaneous Income	3	3,315
TOTAL REVENUES	<u>29,762</u>	<u>22,911</u>
 EXPENDITURES		
General Government	32,547	37,100
Public Safety - Police	-	194
TOTAL EXPENDITURES	<u>32,547</u>	<u>37,294</u>
 Net Change in Fund Balance	 (2,785)	 (14,383)
 Fund Balances at Beginning of Year	 <u>16,470</u>	 <u>30,853</u>
 Fund Balances at End of Year	 <u>\$ 13,685</u>	 <u>\$ 16,470</u>

Restated to reflect prior period adjustment in Note K.

CITY OF BANDERA
 COMPARATIVE STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 WATER AND SEWER FUND
 SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 229,909	\$ 145,911
Accounts Receivable	108,714	118,892
Due from Other Funds	3,570	46,950
Due from Component Unit	12,482	6,498
Inventory	3,000	3,000
<i>Total Current Assets</i>	357,675	321,251
 <i>Restricted Assets:</i>		
Cash and Cash Equivalents	57,101	53,693
 <i>Non-Current Assets:</i>		
Bond Issuance Costs (Net)	33,289	38,264
Capital Assets, Net of Accumulated Depreciation	3,328,833	3,433,816
<i>Total Non-Current Assets</i>	3,362,122	3,472,080
 TOTAL ASSETS	 \$ 3,776,898	 \$ 3,847,024
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 30,066	\$ 52,332
Accrued Interest Payable	8,481	15,360
Compensated Absences	10,108	10,108
Current Portion of Long Term Debt	198,750	190,000
<i>Total Current Liabilities</i>	247,405	267,800
 <i>Liabilities Payable from Restricted Assets:</i>		
Customer Deposits	57,101	51,596
 <i>Non-Current Liabilities</i>		
Long-Term Debt	1,265,189	1,454,854
 <i>Total Liabilities</i>	 1,569,695	 1,774,250
 <i>Net Assets:</i>		
Invested in Capital Assets, Net of Related Debt	1,864,894	1,788,962
Unrestricted	342,309	283,812
<i>Total Net Assets</i>	2,207,203	2,072,774
 TOTAL LIABILITIES & NET ASSETS	 \$ 3,776,898	 \$ 3,847,024

CITY OF BANDERA
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND – WATER AND SEWER FUND
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Charges for Services		
Water Utilities	\$ 488,987	\$ 526,797
Sewer Services	262,458	273,721
Garbage Fee	354,757	340,101
Installation and Inspection Fees	17,448	22,457
Miscellaneous Fees	14,434	26,774
TOTAL OPERATING REVENUES	1,138,084	1,189,850
OPERATING EXPENSES		
Personnel Services		
Administrative	82,198	75,944
Water Department	104,816	115,584
Sewer Department	39,141	48,882
Non Departmental Fringe Benefits	63,326	7,522
Total Personnel Services	289,481	247,932
Other Services and Charges		
Administrative	34,849	25,604
Water Department	95,583	120,469
Sewer Department	41,328	68,998
Garbage Contract	344,318	298,858
Total Other Services and Charges	516,078	513,929
Supplies		
Administrative	1,568	1,785
Water Department	18,224	17,365
Sewer Department	6,736	12,838
Total Supplies	26,528	31,988
Depreciation	104,983	103,671
TOTAL OPERATING EXPENSES	937,070	897,520
Operating Income (Loss)	\$ 201,014	\$ 292,330

CITY OF BANDERA
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND – WATER AND SEWER FUND (CONTINUED)
 FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
NONOPERATING REVENUES (EXPENSES)		
Interest Income	\$ 370	\$ 454
Interest and Fiscal Charges	<u>(66,955)</u>	<u>(73,517)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(66,585)</u>	<u>(73,063)</u>
Net Income (Loss) before Contributions and Transfers	134,429	219,267
CDBG Grant toward Infrastructure	<u>-</u>	<u>6,009</u>
Change in Net Assets	134,429	225,276
Net Assets at Beginning of Year	<u>2,072,774</u>	<u>1,847,498</u>
Net Assets at End of Year	<u><u>\$ 2,207,203</u></u>	<u><u>\$ 2,072,774</u></u>

BANDERA, TEXAS



COWBOY CAPITAL OF THE WORLD

