Report of Examination

CITY OF BANDERA

Bandera, Texas

For the Year Ended
September 30, 2013

CITY OF BANDERA, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013

CITY OF BANDERA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Certified Public Accountants
P.O. BOX 874 · 736 S. WASHINGTON ST.
FREDERICKSBURG, TEXAS 78624-0874
(830) 997-3348
FAX: (830) 997-3333
Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of
the City Council
City of Bandera, Texas
Bandera, TX 78003

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Bandera, Texas, as of and for the year 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. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bandera, Texas, as of September 30, 2013, and the respective changes in financial position

and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the Schedule of Funding Progress for the Retirement Plan on pages 3–8, 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

May 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bandera, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2013. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $5,596,568 (net position). Of this amount, $1,794,403(unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by $251,522 as a result of this year's operations.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of $1,371,158, a decrease of $6,987 in comparison with the prior year.
- At September 30, 2013, the City's Enterprise Funds reported unrestricted net position of $350,982, an increase of $8,673 in comparison with the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 through 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) and the Schedule of Funding Progress for the Retirement Plan are presented as required supplementary information on page 34 and 35.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

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

- Business-type activity - The City's water and sewer system and sanitation are reported as a business-type activity since the fees charged to customers cover the cost of services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the 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.

The City has two kinds of funds:

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

- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's utility fund (Water, Sewer, and Sanitation) is a business-type activity and provides both long and short-term financial information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from $3,137,843 to $3,248,595. Unrestricted net position -.the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was $1,443,421 at September 30, 2013. This increase in governmental net position was the result of four factors. First, the City's expenditures exceeded the revenues by $6,987. Second, the City paid principal on long-term debt of $34,637. Third the City recorded depreciation in the amounts of $136,464 and fourth the City purchased capital assets in the amount of $193,195.

Net position of the City's business-type activities increased from $2,207,203 to $2,347,973. Unrestricted net position was $350,982 at September 30, 2013. This increase in business-type net position was the result of net income of $140,770.

Table I
City of Bandera

NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Restricted Assets	$ 1,583	$ 1,599	$ 457	$ 448	$ 2,040	$ 2,047
Capital Assets	1,797	1,741	3,271	3,329	5,068	5,070
Total Assets	$ 3,380	$ 3,340	$ 3,728	$ 3,777	$ 7,108	$ 7,117
Long-Term Liabilities	$	$	$ 1,274	$ 1,265	$ 1,274	$ 1,265
Other Liabilities	131	202	106	305	237	507
Total Liabilities	$ 131	$ 202	$ 1,380	$ 1,570	$ 1,511	$ 1,772
Deferred Inflow of Resources						
Property Taxes	$ 1	$	$	$	$ 1	$ -
Total Deferred Inflows of Resources	$ 1	$ -	$ -	$ -	$ 1	$ -
Net Position:						
Net Investment in Capital Assets	$ 1,797	$ 1,706	$ 1,997	$ 1,865	$ 3,794	$ 3,571
Restricted	8	21		-	8	21
Unrestricted	1,443	1,411	351	342	1,794	1,753
Total Net Position	$ 3,248	$ 3,138	$ 2,348	$ 2,207	$ 5,596	$ 5,345

Table II
City of Bandera

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Property Taxes	$ 331	$ 319	$	$	$ 331	$ 319
Sales Tax	455	485			455	485
Franchise Tax	70	71			70	71
Charges for Services	138	132	1,103	1,138	1,241	1,270
Miscellaneous	87	16			87	16
Contributions and Donations	18				18	-
Interest Earnings	6	12	19		25	12
Total Revenue	$ 1,105	$ 1,035	$ 1,122	$ 1,138	$ 2,227	$ 2,173
Expenses:						
General and Administrative	$ 331	$ 348	$	$	$ 331	$ 348
Marshal/Police Protection	262	155			262	155
Municipal Court	78	69			78	69
Fire Department Donation	17	17			17	
Public Works	201	217			201	217
Animal Control	10				10	
Parks	65	74			65	
Water and Sewer			1,011	1,004	1,011	1,004
Recreation Fund					-	-
Debt Service - Interest	1	3			1	3
Fiscal Agent's Fees					-	-
Issuance Costs					-	-
Total Expenses	$ 965	$ 883	$ 1,011	$ 1,004	$ 1,976	$ 1,796
Increase (Decrease) in Net Position Before Transfers & Capital Contributions	$ 140	$ 152	$ 111	$ 134	$ 251	$ 286
Transfers	(30)		30		-	
Net Change	110	152	141	134	251	286
Net Position - Beginning	3,138	2,977	2,207	2,073	5,345	5,050
Prior Period Adjustment		9			-	9
Net Position - Ending	$ 3,248	$ 3,138	$ 2,348	$ 2,207	$ 5,596	$ 5,345

The cost of all governmental activities this year was $965,298. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only $786,038, because the other costs were paid by franchise tax ($70,232), user charges ($138,302), interest ($5,886) and other miscellaneous ($61,047).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a fund balance of $1,371,158, which is less than last year's total of $1,378,145. Included in this year's total change in fund balance is a decrease of $1,133 in the City's General Fund. This decrease in the General Fund balance was caused by the excess of expenditures over revenues.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts and actual expenditures were less than the budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2013, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Land and Improvements	$ 457,000	$ 457,000	$ 10,934	$ 10,934	$ 467,934	$ 467,934
Utility Improvements			5,175,960	5,169,925	5,175,960	5,169,925
Buildings and Improvements	403,157	403,157	36,012	36,012	439,169	439,169
Infrastructure	1,524,400	1,367,145			1,524,400	1,367,145
Machinery & Equipment	707,806	671,866	256,645	210,710	964,451	882,576
Total Capital Assets	$ 3,092,363	$ 2,899,168	$ 5,479,551	$ 5,427,581	$ 8,571,914	$ 8,326,749
Less: Accumulated Depreciation	(1,295,020)	(1,158,556)	(2,208,285)	(2,098,748)	(3,503,305)	(3,257,304)
Capital Assets, Net	$ 1,797,343	$ 1,740,612	$ 3,271,266	$ 3,328,833	$ 5,068,609	$ 5,069,445

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

DEBT

At September 30, 2013, the City had the following outstanding debt:

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Bonds Payable	$	$	$ 1,274,274	$ 1,463,939	$ 1,274,274	$ 1,463,939
Capital Leases		34,637			-	34,637
Compensated Absences	4,032	4,252	8,220	10,108	12,252	14,360
Total Outstanding Debt	$ 4,032	$ 38,889	$ 1,282,494	$ 1,474,047	$ 1,286,526	$ 1,512,936

For governmental activities, the City paid $34,637 in principal payments on long-term debt.

For business-type activities, the City paid $198,750 in principal payments on long-term debt.

More detailed information about the City's long-term liabilities is presented in Notes E and F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget and tax rates. The major factors are the assessed property valuation and population growth. These indicators were taken into account when adopting the General Fund budget for 2014. Amounts available for appropriation in the General Fund budget are $1,233,624 and expenditures are estimated to be $1,233,624.

If these estimates are realized, the City's budgetary General fund balance is expected to remain the same by the close of 2014.

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 show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at City of Bandera, Texas.

EXHIBIT A-1

CITY OF BANDERA
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Economic Development Corporation
ASSETS				
Cash and Cash Equivalents	$ 425,951	$ 333,097	$ 759,048	$ 404,140
Investments - Current	1,060,849	-	1,060,849	277,374
Receivables (net of allowance for uncollectibles)	91,420	97,103	188,523	25,892
Internal Balances	4,723	(4,723)	-	-
Due from Component Unit	-	106	106	-
Due from Primary Government	-	-	-	118,378
Inventories	-	3,000	3,000	-
Discount or (Premium) on Issuance of Debt	-	-	-	3,802
Capitalized Debt Issuance Costs	-	28,313	28,313	-
Capital Assets:				
Land	457,000	10,934	467,934	120,956
Infrastructure, net	1,023,575	-	1,023,575	268,991
Utility Improvements	-	3,204,628	3,204,628	-
Buildings, net	210,374	5,914	216,288	54,982
Machinery and Equipment, net	106,393	49,790	156,183	7,070
Total Assets	3,380,285	3,728,162	7,108,447	1,281,585
LIABILITIES				
Accounts Payable	4,030	38,962	42,992	-
Due to Component Unit	118,378	-	118,378	-
Due to Primary Government	-	-	-	106
Accrued Interest Payable	-	7,381	7,381	1,716
Deferred Revenues	3,902	-	3,902	-
Other Current Liabilities	4,770	1,440	6,210	-
Customer Deposits	-	58,131	58,131	-
Noncurrent Liabilities				
Due Within One Year	-	202,500	202,500	32,500
Due in More Than One Year	-	1,071,775	1,071,775	213,134
Total Liabilities	131,080	1,380,189	1,511,269	247,456
DEFERRED INFLOW OF RESOURCES				
Unavailable Revenue - Property Taxes	610	-	610	-
Total Deferred Inflows of Resources	610	-	610	-
NET POSITION				
Net Investment in Capital Assets	1,797,343	1,996,991	3,794,334	206,364
Restricted for Special Revenue	7,831	-	7,831	-
Unrestricted Net Position	1,443,421	350,982	1,794,403	827,766
Total Net Position	$ 3,248,595	$ 2,347,973	$ 5,596,568	$ 1,034,130

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

CITY OF BANDERA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Expenses	Program Revenues Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General and Administrative	$ 330,850	$ 23,177
Marshal/Police Protection	262,317	-
Municipal Court	77,960	41,962
Fire Department Donation	17,339	-
Public Works	201,059	-
Animal Control	10,420	-
Parks	64,853	73,163
Other Debt Interest	500	-
Total Governmental Activities:	965,298	138,302
BUSINESS-TYPE ACTIVITIES:		
Water and Sewer Fund	1,010,827	1,102,875
Total Business-Type Activities:	1,010,827	1,102,875
TOTAL PRIMARY GOVERNMENT:	$ 1,976,125	$ 1,241,177
Component Unit:		
Economic Development Corporation	$ 81,846	$ -
TOTAL COMPONENT UNITS:	$ 81,846	$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes
Sales Taxes
Franchise Taxes
Other Taxes
Grants and Contributions Not Restricted
Miscellaneous Revenue
Investment Earnings
Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

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

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
$ (307,673)	$ -	$ (307,673)	$ -
(262,317)	-	(262,317)	-
(35,998)	-	(35,998)	-
(17,339)	-	(17,339)	-
(201,059)	-	(201,059)	-
(10,420)	-	(10,420)	-
8,310	-	8,310	-
(500)	-	(500)	-
(826,996)	-	(826,996)	-
-	92,048	92,048	-
-	92,048	92,048	-
(826,996)	92,048	(734,948)	-
-	-	-	(81,846)
-	-	-	(81,846)
330,567	-	330,567	-
455,471	-	455,471	217,395
70,232	-	70,232	-
26,582	-	26,582	-
18,289	-	18,289	-
61,047	18,078	79,125	-
5,886	318	6,204	2,003
(30,326)	30,326	-	-
937,748	48,722	986,470	219,398
110,752	140,770	251,522	137,552
3,137,843	2,207,203	5,345,046	896,578
$ 3,248,595	$ 2,347,973	$ 5,596,568	$ 1,034,130

EXHIBIT C-1

CITY OF BANDERA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Other Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	$ 424,406	$ 1,545	$ 425,951
Investments - Current	1,060,849	-	1,060,849
Taxes Receivable	20,331	-	20,331
Receivables (Net)	39,701	6,685	46,386
Due from Other Funds	5,122	-	5,122
Total Assets	$ 1,550,409	$ 8,230	$ 1,558,639
LIABILITIES			
Due to Other Funds	$ -	$ 399	$ 399
Due to Component Unit	118,378	-	118,378
Unearned Revenues	43,603	-	43,603
Other Current Liabilities	4,770	-	4,770
Total Liabilities	166,751	399	167,150
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	20,331	-	20,331
Total Deferred Inflows of Resources	20,331	-	20,331
FUND BALANCES			
Restricted Fund Balance:			
Hotel Occupancy Tax	-	7,831	7,831
Court Security	8,554	-	8,554
Unassigned Fund Balance	1,354,773	-	1,354,773
Total Fund Balances	1,363,327	7,831	1,371,158
Total Liabilities, Deferred Inflows & Fund Balances	$ 1,550,409	$ 8,230	$ 1,558,639

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

EXHIBIT C-2

CITY OF BANDERA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

Total Fund Balances - Governmental Funds	$	1,371,158
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $2,899,168 and the accumulated depreciation was $1,158,556. In addition, long-term liabilities, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		1,705,974
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements,but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase net position.		223,802
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(136,464)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions,. recognizing the libilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		84,125
Net Position of Governmental Activities	$	3,248,595

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

CITY OF BANDERA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Other Funds	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	$ 330,317	$ -	$ 330,317
General Sales and Use Taxes	455,471	-	455,471
Franchise Tax	70,232	-	70,232
Hotel Occupancy Tax	-	26,582	26,582
Licenses and Permits	23,176	-	23,176
Charges for Services	2,368	-	2,368
Fines	41,962	-	41,962
Investment Earnings	5,879	7	5,886
Rents	73,163	-	73,163
Contributions & Donations from Private Sources	18,289	-	18,289
Other Revenue	31,619	2,358	33,977
Total Revenues	1,052,476	28,947	1,081,423
EXPENDITURES:			
Current:			
General and Administrative	262,524	28,500	291,024
Public Safety:			
Marshal/Police Protection	230,590	6,301	236,891
Municipal Court	68,851	-	68,851
Fire Department Donation	15,313	-	15,313
Public Works	316,474	-	316,474
Animal Control	9,203	-	9,203
Culture and Recreation:			
Parks	83,751	-	83,751
Debt Service:			
Other Debt Principal	34,638	-	34,638
Other Debt Interest	1,939	-	1,939
Total Expenditures	1,023,283	34,801	1,058,084
Excess (Deficiency) of Revenues Over (Under) Expenditures	29,193	(5,854)	23,339
OTHER FINANCING SOURCES (USES):			
Transfers Out (Use)	(30,326)	-	(30,326)
Total Other Financing Sources (Uses)	(30,326)	-	(30,326)
Net Change in Fund Balances	(1,133)	(5,854)	(6,987)
Fund Balance - October 1 (Beginning)	1,364,460	13,685	1,378,145
Fund Balance - September 30 (Ending)	$ 1,363,327	$ 7,831	$ 1,371,158

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

CITY OF BANDERA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

Total Net Change in Fund Balances - Governmental Funds	$	(6,987)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase the change in net position.		223,802
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(136,464)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.		30,401
Change in Net Position of Governmental Activities	$	110,752

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

EXHIBIT D-1

CITY OF BANDERA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business Type Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 333,097
Accounts Receivable-Net of Uncollectible Allowance	97,103
Due from Component Units	106
Inventories	3,000
Total Current Assets	433,306
Noncurrent Assets:	
Capitalized Debt Issuance Costs	28,313
Capital Assets:	
Land Purchase and Improvements	10,934
Utility Improvements	5,175,959
Buildings	36,012
Machinery and Equipment	256,646
Accumulated Depreciation - Capital Assets	(2,208,285)
Total Noncurrent Assets	3,299,579
Total Assets	3,732,885
LIABILITIES	
Current Liabilities:	
Accounts Payable	30,742
Compensated Absences Payable	8,220
Due to Other Funds	4,723
Accrued Interest Payable	7,381
Bonds Payable - Current	202,500
Other Current Liabilities	1,440
Customer Deposits	58,131
Total Current Liabilities	313,137
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	1,126,250
Unamortized Premiums (Discounts) on Bonds	(54,475)
Total Noncurrent Liabilities	1,071,775
Total Liabilities	1,384,912
NET POSITION	
Net Investment in Capital Assets	1,996,991
Unrestricted Net Position	350,982
Total Net Position	$ 2,347,973

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

CITY OF BANDERA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
OPERATING REVENUES:	
Charges for Water Services	$ 474,226
Charges for Sewerage Service	259,749
Charges for Sanitation Service	353,038
Installation and Inspection Fees	15,862
Other Revenue	18,078
Total Operating Revenues	1,120,953
OPERATING EXPENSES:	
Proprietary Fund Function - Water	
Personnel Services - Salaries and Wages	89,266
Personnel Services - Employee Benefits	35,928
Purchased Property Services	32,275
Other Operating Expenses	21,029
Supplies	7,850
Total Proprietary Fund Function - Water	186,348
Proprietary Fund Function - Wastewater	
Personnel Services - Salaries and Wages	45,046
Personnel Services - Employee Benefits	16,246
Purchased Professional & Technical Services	6,358
Purchased Property Services	40,831
Other Operating Expenses	18,472
Supplies	958
Total Proprietary Fund Function - Wastewater	127,911
Proprietary Fund Function - Sanitation	
Purchased Property Services	330,621
Proprietary Fund Function - Administrative	
Personnel Services - Salaries and Wages	90,027
Personnel Services - Employee Benefits	30,926
Purchased Professional & Technical Services	4,511
Purchased Property Services	41,454
Other Operating Expenses	11,475
Supplies	16,586
Total Proprietary Fund Function - Administrative	194,979
Depreciation	109,537
Total Operating Expenses	949,396
Operating Income	171,557
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(14,061)
Investment Earnings	318
Interest Expense - Non-Operating	(47,370)
Total Non-operating Revenue (Expenses)	(61,113)
Income Before Transfers	110,444
Non-Operating Transfer In	30,326

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

EXHIBIT D-2

CITY OF BANDERA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
Change in Net Position	140,770
Total Net Position ·October 1 (Beginning)	2,207,203
Total Net Position September 30 (Ending)	$ 2,347,973

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

CITY OF BANDERA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
Cash Flows from Operating Activities:	
Cash Received from User Charges	$ 1,114,486
Cash Received from - Other	18,078
Cash Payments to Employees for Services	(307,439)
Cash Payments for Suppliers	(25,394)
Cash Payments for Other Operating Expenses	(485,099)
Net Cash Provided by Operating Activities	314,632
Cash Flows from Non-Capital Financing Activities:	
Operating Transfer In	30,326
Cash Flows from Capital & Related Financing Activities:	
Acquisition of Capital Assets	(51,970)
Bond Payments	(198,750)
Interest Paid	(48,470)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(299,190)
Cash Flows from Investing Activities:	
Interest and Dividends on Investments	319
Net Increase in Cash and Cash Equivalents	46,087
Cash and Cash Equivalents at Beginning of the Year:	287,010
Cash and Cash Equivalents at the End of the Year:	$ 333,097

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

CITY OF BANDERA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Income:	$ 171,557
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	109,537
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	11,611
Decrease (increase) in Due From Component Unit	12,376
Decrease (increase) in Due From Other Funds	3,570
Increase (decrease) in Accounts Payable	676
Increase (decrease) in Due To Other Funds	4,723
Increase (decrease) in Compensated Absences	(1,888)
Increase (decrease) in Other Current Liabilities	2,470
Net Cash Provided by Operating Activities	$ 314,632

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Bandera, Texas conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity – 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.

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, 2013, 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 ½ 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 Bandera Economic Development Corporation at 511 Main Street, Bandera, Texas 78023

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Bandera nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues,

Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

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

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

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

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

D. Fund Accounting

The City reports the following major governmental funds:

The General Fund – 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 – 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 account 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.

E. Other Accounting Policies

1. In the government-wide financial statements in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

   In the fund financial statements, governmental fund types recognized bond premiums and discounts 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.

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

3. Investments – State statues 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.

4. Accounts Receivable – Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2012 and past due after January 31, 2013. 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.

5. 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."

6. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $5,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Assets	Years
Water & Sewer Plant & Facilities	5-50
Buildings and Improvements	10-45
Furniture	7-10
Machinery and Equipment	5-10
Automotive Equipment	3-5

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

7. 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.

   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.

8. Unearned 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.

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

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

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

10. Implementation of new GASB Accounting Standard:

    The City has implemented new GASB Statement NO. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

Implementation resulted in the reclassification of $20,331 (deferred ad valorem tax revenue which is expected to be collected in future years) to a deferred inflow of resources in the Governmental Funds Balance Sheet.

11. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

12. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

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

13. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank 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.

At September 30, 2013, the carrying amount of the City's deposits was $759,048 and the bank balance was $814,930. The carrying amount of the Bandera Economic Development Corporation's deposits was $404,140 and the bank balance was $417,268. The City's cash deposits held at September 30, 2013 and during the year ended September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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

The City's temporary investments at September 30, 2013, are shown below:

Name	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
Certificates of Deposit -				
Bandera Bank	1,060,849	1,060,849	-0-	1,060,849

The Bandera Economic Development Corporation's temporary investments at September 30, 2013, are shown below:

Name	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
Certificates of Deposit - Bandera Bank	277,374	277,374	-0-	277,374

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

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

Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments (certificates of deposit) were secured by FDIC insurance and pledged securities.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2013, the City was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

B. Property Taxes

Property taxes are levied by October 1 and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The City contracted with the Bandera County Appraisal District for the appraisal of taxes and Bandera County Tax Assessor for the collection of taxes. For the 2012 tax roll, the assessed valuation was $82,610,134. The tax rate was $.403310 per $100 valuation for maintenance and operations.

C. Land, Structures and Equipment-Enterprise Funds

A summary of changes in fixed assets for the enterprise funds appears below:

	Balance 10/1/12	Additions	Deletions	Balance 9/30/13
Land	$ 10,934	$	$	$ 10,934
Buildings	36,012			36,012
Utility Improvements	5,169,925	6,035		5,175,960
Machinery and Equipment	210,710	45,935		256,645
Totals	$ 5,427,581	$ 51,970	$ -	$ 5,479,551
Accumulated Depreciation	(2,098,748)	(109,537)		(2,208,285)
Fixed Assets, Net	$ 3,328,833	$ (57,567)	$ -	$ 3,271,266

Capital asset activities of the Bandera Economic Development Corporation were as follows:

	Component Unit			
	Balance 10/1/12	Additions	Deletions	Balance 9/30/13
Land	$ 120,956	$	$	$ 120,956
Buildings and Improvements	63,747			63,747
Infrastructure	384,818			384,818
Machinery and Equipment	43,813			43,813
Totals	$ 613,334	$ -	$ -	$ 613,334
Accumulated Depreciation	(135,411)	(25,924)		(161,335)
Fixed Assets, Net	$ 477,923	$ (25,924)	$ -	$ 451,999

D. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	$ 457,000	$	$	$ 457,000
Buildings and Improvements	403,157			403,157
Infrastructure	1,367,145	157,255		1,524,400
Machinery and Equipment	671,866	35,940		707,806
Totals	2,899,168	193,195	-	3,092,363
Accumulated Depreciation	(1,158,556)	(136,464)		(1,295,020)
Capital Assets, Net	$ 1,740,612	$ 56,731	$ -	$ 1,797,343

Depreciation expense was charged to governmental functions a follows:	
General Administration	$ 39,824
Marshal/Police	31,340
Municipal Court	9,109
Public Safety	2,026
Public Works	41,868
Animal Control	1,218
Parks	11,079
	$ 136,464

E. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2013 follows:

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/12	Additions	Deletions	Amounts Outstanding 9/30/13	Due in One Year
Governmental Activities:								
Capital Leases	5.60%	$ 215,000	$ 1,939	$ 34,637	$	$ (34,637)	$ -	$ -
Compensated Absences	N/A	N/A	N/A	4,252	4,032	(4,252)	4,032	
Total		$ 215,000	$ 1,939	$ 38,889	$ 4,032	$ (38,889)	$ 4,032	$ -

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/12	Additions	Deletions	Amounts Outstanding 9/30/13	Due in One Year
Business-Type Activities:								
Bonds Payable								
General Obligation								
Refunding Bonds - Series 2006	4.03%	$ 1,098,750	$ 33,474	$ 877,500	$	$ (93,750)	$ 783,750	$ 97,500
Deferred Loss on Refunding				(55,861)		7,802	(48,059)	
Refunding Bonds - Series 2010	1.0-3.0%	845,000	14,606	650,000		(105,000)	545,000	105,000
Deferred Loss on Refunding				(7,700)		1,283	(6,417)	
Compensated Absences	N/A	N/A	N/A	10,108	8,220	(10,108)	8,220	
Total		$ 1,943,750	$ 48,080	$ 1,474,047	$ 8,220	$ (199,773)	$ 1,282,494	$ 202,500

The following is a summary of the changes in long-term debt outstanding in the City's component unit, Bandera Economic Development Corporation, as of September 30, 2013.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/12	Additions	Deletions	Amounts Outstanding 9/30/13	Due in One Year
Component Unit:								
Bonds Payable								
General Obligation								
Refunding Bonds - Series 2006	4.03%	$ 366,250	$ 11,158	$ 292,500	$	$ (31,250)	$ 261,250	$ 32,500
Deferred Loss on Refunding				(18,206)		2,600	(15,606)	
Total		$ 366,250	$ 11,158	$ 274,294	$ -	$ (28,650)	$ 245,644	$ 32,500

F. Long-term Debt

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.

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 contributed $18,289 toward the lease payment for the year ended September 30, 2013.

Debt service requirements are as follows:

Business-Type Activities:

Year Ended	Note Payable		
September 30	Principal	Interest	Total
2014	$ 202,500	$ 42,258	$ 244,758
2015	206,250	36,021	242,271
2016	218,750	29,234	247,984
2017	222,500	21,889	244,389
2018	231,250	14,041	245,291
2019-2023	247,500	10,126	257,626
	$ 1,328,750	$ 153,569	$ 1,482,319

Debt service requirements for the City's component unit, Bandera Economic Development Corporation, are as follows:

Component Unit:

Year Ended September 30	Note Payable Principal	Note Payable Interest	Total
2014	$ 32,500	$ 9,873	$ 42,373
2015	33,750	8,538	42,288
2016	36,250	7,128	43,378
2017	37,500	5,642	43,142
2018	38,750	4,105	42,855
2019-2023	82,500	3,375	85,875
	$ 261,250	$ 38,661	$ 299,911

G. RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its eligible employees 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.

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.

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 2012	Plan Year 2013
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	2 to1	2 to1
Years required for vesting	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	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

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 contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service 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 serves as the basis for the rate and the calendar year when the rate goes into effect.

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

Three Year Trend Information

Actuarial Assumptions	12/31/2010	12/31/2011	12/31/2012
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	27.2 Years-Closed Period	26.1 Years – Closed Period	25.0 Years – Closed Period
Amortization Period for new Gains/Losses	28 Years	24 Years	24 Years
Asset Valuation Method -	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
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%

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2)-(1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2012	$ 1,618,657	$ 1,738,282	93.1%	$ 119,625	$ 417,682	28.6%

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

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

H. Supplemental Death Benefits Fund

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

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

Contributions

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

The City's contributions for the TMRS SDBF for the years ended 2013, 2012 and 2011 were $2,006, $2,207 and $3,366, respectively, which equaled the required contributions each year.

I. Interfund Receivable and Payables

Interfund balances at September 30, 2013, consisted of the following:

	Receivable	Payable
General Fund -		
Water and Sewer Fund	$ 4,723	$
Special Revenue Fund	399	
Water and Sewer Fund -		
General Fund		4,723
Special Revenue Fund -		
General Fund		399
Totals	$ 5,122	$ 5,122

During the year ended September 30, 2013, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	$	$ 30,326
Enterprise Funds -		
Water and Sewer Fund	30,326	
Totals	$ 30,326	$ 30,326

J. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2012 and 2013. The City paid interest in the amount of $59,774 in 2012 and $48,470 in 2013.

K. Risk Management

The City's risk management program includes coverage for property, general liability, automobile liability, public officials' liability and employee dishonesty bonds. The City participates in the Texas Municipal League joint self-insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool.

L. Subsequent Event

The City has evaluated subsequent events through May 30, 2014, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

CITY OF BANDERA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	$ 314,670	$ 314,670	$ 330,317	$ 15,647
General Sales and Use Taxes	455,000	455,000	455,471	471
Franchise Tax	78,000	78,000	70,232	(7,768)
Licenses and Permits	32,000	32,000	23,176	(8,824)
Charges for Services	1,870	1,870	2,368	498
Fines	36,000	36,000	41,962	5,962
Investment Earnings	10,750	10,750	5,879	(4,871)
Rents	81,665	81,665	73,163	(8,502)
Contributions & Donations from Private Sources	18,289	18,289	18,289	-
Other Revenue	1,500	1,500	31,619	30,119
Total Revenues	1,029,744	1,029,744	1,052,476	22,732
EXPENDITURES:				
Current:				
General and Administrative	321,287	278,947	262,524	16,423
Public Safety:				
Marshal/Police Protection	180,510	234,101	230,590	3,511
Municipal Court	75,905	98,152	68,851	29,301
Fire Department Donation	16,500	16,500	15,313	1,187
Public Works	344,401	366,646	316,474	50,172
Animal Control	23,107	19,157	9,203	9,954
Culture and Recreation:				
Parks	94,042	104,536	83,751	20,785
Debt Service:				
Other Debt Principal	34,637	34,637	34,638	(1)
Other Debt Interest	1,940	1,940	1,939	1
Total Expenditures	1,092,329	1,154,616	1,023,283	131,333
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,585)	(124,872)	29,193	154,065
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	(30,326)	(30,326)
Total Other Financing Sources (Uses)	-	-	(30,326)	(30,326)
Net Change	(62,585)	(124,872)	(1,133)	123,739
Fund Balance - October 1 (Beginning)	1,364,460	1,364,460	1,364,460	-
Fund Balance - September 30 (Ending)	$ 1,301,875	$ 1,239,588	$ 1,363,327	$ 123,739

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2)-(1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2010	$ 1,301,915	$ 1,432,332	90.9%	$ 130,417	$ 546,726	23.9%
12/31/2011	1,459,285	1,549,040	94.2	89,755	514,179	17.5%
12/31/2012	1,618,657	1,738,282	93.1	119,625	417,682	28.6%

SUPPLEMENTARY INFORMATION

CITY OF BANDERA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Hotel Motel Fund	Police Seizure Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	$ 1,545	$ -	$ 1,545
Receivables (Net)	6,685	-	6,685
Total Assets	$ 8,230	$ -	$ 8,230
LIABILITIES			
Due to Other Funds	$ 399	$ -	$ 399
Total Liabilities	399	-	399
FUND BALANCES			
Restricted Fund Balance:			
Hotel Occupancy Tax	7,831	-	7,831
Total Fund Balances	7,831	-	7,831
Total Liabilities and Fund Balances	$ 8,230	$ -	$ 8,230

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

CITY OF BANDERA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hotel Motel Fund	Police Seizure Fund	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
Hotel Occupancy Tax	$ 26,582	$ -	$ 26,582
Investment Earnings	7	-	7
Other Revenue	358	2,000	2,358
Total Revenues	26,947	2,000	28,947
EXPENDITURES:			
Current:			
General and Administrative	28,500	-	28,500
Public Safety:			
Marshal/Police Protection	-	6,301	6,301
Total Expenditures	28,500	6,301	34,801
Net Change in Fund Balance	(1,553)	(4,301)	(5,854)
Fund Balance - October 1 (Beginning)	9,384	4,301	13,685
Fund Balance - September 30 (Ending)	$ 7,831	$ -	$ 7,831

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