

REPORT OF EXAMINATION

**VILLAGE OF
VOLENTE**

Volente, Texas

**For the Year Ended
September 30, 2008**

VILLAGE OF VOLENTE, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008

VILLAGE OF VOLENTE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Volente, as of and for the year ended September 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Volente's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 and each major fund of the Village of Volente, as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (pages 3 through 7) and budgetary comparison information (page 19) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2009 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

May 18, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Village of Volente, we offer readers of the Village's financial statements this narrative overview and analysis of the financial statements of the Village for the year ended September 30, 2008. Please read it in conjunction with the independent auditors' report on page 1, and Village's Basic Financial Statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$337,196 (net assets). Of this amount, \$245,819 (unrestricted net assets) may be used to meet the Village's ongoing obligations to citizen's and creditors.
- The Village's net assets increased by \$84,261 as a result of this year's operations.
- At September 30, 2008, the Village's governmental funds reported an ending fund balance of \$320,763, an increase of \$77,601 in comparison with the prior year. The increase in fund balance was due to the revenues exceeded expenditures.
- At September 30, 2008, the unreserved fund balance of the general fund was \$240,645 or 119 percent of total general fund expenditures.

USING THIS ANNUAL REPORT

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

Fund financial statements (on pages 10 & 12) report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 14) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) is presented as required supplementary information on page 19.

Reporting the Village as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the Village's Most Significant Funds

Fund Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the Village's governmental activities increased from \$252,935 to \$337,196. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$245,819 at September 30, 2008. This increase in governmental net assets was the result of three factors. First, the Village's revenues exceeded the expenditures by \$77,601. Second, the Village acquired capital assets in the amount of \$5,551. Third, the Village recorded depreciation in the amount of \$1,568.

Table 1
VILLAGE OF VOLENTE

NET ASSETS
in thousands

	Governmental Activities <u>2008</u>
Current and Other Assets	\$ 332
Capital Assets	11
Total Assets	<u>\$ 343</u>
Other Liabilities	\$ 6
Total Liabilities	<u>\$ 6</u>
Net Assets:	
Invested in Capital Assets	
Net of Related Debt	\$ 11
Restricted	80
Unrestricted	246
Total Net Assets	<u>\$ 337</u>

Table II
VILLAGE OF VOLENTE
CHANGES IN NET ASSETS
in thousands

	Governmental Activities
	2008
Revenues:	
Charges for Services	\$ 37
Maintenance & Operations Taxes	161
Other Taxes	69
Investment Earnings	2
Grants	71
Miscellaneous	2
Total Revenue	\$ 342
Expenses:	
General Government	\$ 198
Public Works	60
Total Expenses	\$ 258
Increase in Net Assets	\$ 84
Net Assets at Beginning of Period	253
Net Assets at End of Period	\$ 337

The cost of all governmental activities this year was \$257,768. However, as shown in the Statement of Activities on page 9, the amount that our taxpayers ultimately financed for these activities through Village taxes was only \$160,511 because the other costs were paid by other taxes (\$69,134), grants (\$70,988), user charges (\$37,163) and other miscellaneous (\$4,233).

THE VILLAGE'S FUNDS

As the Village completed the year, its governmental fund (as presented in the balance sheet on page 11) reported a fund balance of \$240,646, which is more than last year's total of \$185,014.

The Village adopted the General Fund budget. Actual revenues were less than the budgeted amount by \$21,537 while actual expenditures were less than the budgeted amount by \$80,649.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2008, the Village had \$15,921 invested in capital assets, including buildings, equipment and other improvements. This amount represents a net increase of \$5,551, or 35 percent, more than last year.

This year's major additions included:

Sign	\$	5,000
File Cabinet		<u>551</u>
Totaling	\$	<u><u>5,551</u></u>

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

DEBT

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village's elected and appointed officials considered many factors when setting the fiscal-year 2009 budget and tax rates. The major factors are the assessed property values and population growth. These indicators were taken into account when adopting the General Fund budget for 2009. Amounts available for appropriation in the General Fund budget are \$284,733 and expenditures are estimated to be \$284,733.

If these estimates are realized, the Village's budgetary General fund balance is expected to remain the same by the close of fiscal year 2009.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

VILLAGE OF VOLENTE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

EXHIBIT A-1

	Primary Government
	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 319,281
Receivables (net of allowance for uncollectibles)	12,923
Capital Assets:	
Buildings, net	3,783
Machinery and Equipment, net	7,476
Total Assets	343,463
LIABILITIES	
Accounts Payable	6,267
Total Liabilities	6,267
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	11,259
Restricted for Special Revenue	80,118
Unrestricted Net Assets	245,819
Total Net Assets	\$ 337,196

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

VILLAGE OF VOLENTE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT B-1

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 197,960	\$ 27,163	-	\$ (170,797)
Public Works	59,808	-	70,988	11,180
Parks	-	10,000	-	10,000
TOTAL PRIMARY GOVERNMENT:	\$ 257,768	\$ 37,163	\$ 70,988	(149,617)

General Revenues:

Taxes:	
Property Taxes, Levied for General Purposes	160,511
Sales Taxes	40,563
Franchise Taxes	23,402
Other Taxes	5,169
Penalty and Interest	1,637
Miscellaneous Revenue	208
Investment Earnings	2,388
Total General Revenues	233,878
Change in Net Assets	84,261
Net Assets--Beginning	252,935
Net Assets--Ending	\$ 337,196

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

VILLAGE OF VOLENTE
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Major Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 239,163	\$ 80,118	\$ 319,281
Taxes Receivable	6,087	-	6,087
Allowance for Uncollectible Taxes (credit)	(913)	-	(913)
Receivables (Net)	7,749	-	7,749
Total Assets	<u>\$ 252,086</u>	<u>\$ 80,118</u>	<u>\$ 332,204</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 6,267	-	\$ 6,267
Deferred Revenues	5,174	-	5,174
Total Liabilities	<u>11,441</u>	<u>-</u>	<u>11,441</u>
Fund Balances:			
Unreserved Designated For:			
Special Revenue	-	80,118	80,118
Unreserved and Undesignated:			
Reported in the General Fund	240,645	-	240,645
Total Fund Balances	<u>240,645</u>	<u>80,118</u>	<u>320,763</u>
Total Liabilities and Fund Balances	<u>\$ 252,086</u>	<u>\$ 80,118</u>	<u>\$ 332,204</u>

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

VILLAGE OF VOLENTE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	\$	320,763
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 \$10,370 and the accumulated depreciation was \$3,094. In addition, long-term liabilities, including bonds payable, 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 assets.		7,276
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 2008 capital outlays and debt principal payments is to increase net assets.		5,551
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,568)
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, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		5,174
Net Assets of Governmental Activities	\$	337,196

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

VILLAGE OF VOLENTE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Major Special Revenue Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 157,834	\$ -	\$ 157,834
General Sales and Use Taxes	40,563	-	40,563
Franchise Tax	23,402	-	23,402
Other Taxes	5,169	-	5,169
Penalty and Interest on Taxes	1,637	-	1,637
Licenses and Permits	27,163	10,000	37,163
Intergovernmental Revenue and Grants	-	70,988	70,988
Investment Earnings	1,599	789	2,388
Other Revenue	208	-	208
Total Revenues	257,575	81,777	339,352
EXPENDITURES:			
Current:			
General Government	201,943	-	201,943
Public Works	-	59,808	59,808
Total Expenditures	201,943	59,808	261,751
Net Change in Fund Balances	55,632	21,969	77,601
Fund Balance - October 1 (Beginning)	185,014	58,149	243,163
Fund Balance - September 30 (Ending)	\$ 240,646	\$ 80,118	\$ 320,764

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

VILLAGE OF VOLENTE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	77,601
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 2008 capital outlays and debt principal payments is to increase net assets.		5,551
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,568)
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, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		2,677
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>84,261</u>

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

VILLAGE OF VOLENTE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

D. Fund Accounting

The Village reports the following major governmental funds:

1. **The General Fund** - The general fund is the Village's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Fund** – The special revenue fund is used to account for grants and other revenues restricted for a specific purpose.

E. Other Accounting Policies

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Infrastructure	20
Improvements	10-20
Machinery & Equipment	5-7

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

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

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

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

II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

At September 30, 2008, the carrying amount of the Village's deposits was \$319,281 and the bank balance was \$328,000. The Village's cash deposits at September 30, 2008 and during the year ended September 30, 2008 were not covered by FDIC insurance or by pledged collateral held by the Village's agent bank in the Village's name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the Village to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the Village to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the Village to have independent auditors perform test procedures related to investment practices as provided by the Act. Since the Village does not have an investment policy or a depository contract, the Village is not in compliance with the Act.

Policies Governing Deposits and Investments

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

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village was exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2008 were not covered by depository insurance or by pledged collateral held by the Village's agent bank in the Village's name.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2008, the District was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

B. Property Taxes

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

The Travis County Appraisal District appraises and collects taxes for the Village. For 2008, the Village of Volente had property with an assessed valuation of \$132,021,459. The tax rate was \$.123 per \$100 valuation (general fund only). A summary of taxes receivable by years follows:

Tax Roll	Taxes Receivable 10/01/07	Taxes Assessed	Collections And Adjustments	Taxes Receivable 9/30/08
2007	\$ -	\$ 164,384	\$ 159,613	\$ 4,771
2006	2,261	-	1,415	846
2005	581	-	207	374
2004	47	-	-	47
2003	49	-	-	49
TOTAL	\$ 2,938	\$ 164,384	\$ 161,235	\$ 6,087

C. Capital Asset Activity

Capital asset activity for the Village for the year ended September 30, 2008, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Buildings	\$ 5,364	\$ -	\$ -	\$ 5,364
Furniture & Equipment	5,006	5,551	-	10,557
Totals at Historic Cost	\$ 10,370	\$ 5,551	\$ -	\$ 15,921

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Less Accumulated Depreciation For:				
Buildings	1,223	358	-	1,581
Furniture & Equipment	1,871	1,210	-	3,081
Total Accumulated Depreciation	\$ 3,094	1,568	\$ -	\$ 4,662
Governmental Activities				
Capital Assets, Net	\$ 7,276	\$ 3,983	\$ -	\$ 11,259

D. Risk Management

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

The Village contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the Village is generally limited to the contributed amounts. Contributions for the year ended September 30, 2008 were \$2,249.

E. Contingent Liabilities

On September 30, 2004, a lawsuit by Grason Volente Investments I, LLC was filed against the Village regarding compliance with moratorium provisions in the Local Government Code and obligation under an agreement. Two mediations to resolve the lawsuit have failed. The lawsuit has been abated to allow the terms of a settlement agreement to be worked out with several agencies. Although the outcome of this lawsuit is not presently determinable, in the opinion of the Village's management, the resolution of this matter will not have a material adverse effect on the accompanying financial statements.

F. Grant

The City entered into an interlocal agreement with Capital Metropolitan Transportation Authority to receive grant funds restricted to transportation infrastructure needs between the Village and Capital Metro. The total funds allocated to the Village for fiscal year 2008 were \$40,179. The City had received \$40,179 under the agreement which is shown as grant revenues in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

VILLAGE OF VOLENTE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(GAAP BASIS)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 146,546	\$ 159,150	\$ 157,834	\$ (1,316)
General Sales and Use Taxes	22,000	42,000	40,563	(1,437)
Franchise Tax	20,000	20,000	23,402	3,402
Other Taxes	3,000	3,800	5,169	1,369
Penalty and Interest on Taxes	-	-	1,637	1,637
Licenses and Permits	85,100	86,570	27,163	(59,407)
Investment Earnings	-	-	1,599	1,599
Other Revenue	-	-	208	208
Total Revenues	<u>276,646</u>	<u>311,520</u>	<u>257,575</u>	<u>(53,945)</u>
EXPENDITURES:				
Current:				
GENERAL GOVERNMENT				
Staff				
Salaries	41,589	41,600	41,597	3
Contract Labor	7,000	7,000	3,555	3,445
Payroll Taxes	12,000	12,000	3,182	8,818
Benefits	5,500	5,500	5,422	78
Payroll Services	1,600	1,600	1,605	(5)
Total Staff	<u>67,689</u>	<u>67,700</u>	<u>55,361</u>	<u>12,339</u>
Consultant				
Attorney	48,000	48,000	33,190	14,810
Engineer	30,000	30,000	26,510	3,490
Development Inspection	25,000	25,000	1,385	23,615
Development Plan Review	25,000	25,000	14,288	10,712
Zoning & Code Enforcement	15,000	26,000	26,289	(289)
Audit	5,000	12,400	11,238	1,162
Travis CAD	-	-	880	(880)
Advertising	1,200	1,200	540	660
Police Services	5,000	5,000	-	5,000
Grant Writer	5,000	5,000	-	5,000
Consultant	10,000	10,000	10,000	-
Total Consultant	<u>169,200</u>	<u>187,600</u>	<u>124,320</u>	<u>63,280</u>
Operations				
Elections	5,000	5,000	185	4,815
Office Supplies & Postage	5,000	5,000	5,142	(142)
Equipment Lease	2,500	2,500	2,484	16
Website Maintenance	175	250	250	-
Dues, Fees & Subscriptions	1,000	1,000	837	163
Rent	2,000	2,000	1,035	965
Utilities & Telephone	3,050	3,150	3,084	66
Insurance	1,950	2,100	2,249	(149)
Training & Education	3,000	3,000	948	2,052
Street Signs	3,000	3,000	497	2,503
Municipal Court	1,000	1,000	-	1,000
Books & Publications	500	500	-	500
Capital Outlay	6,000	6,000	5,551	449
Total Operations	<u>34,175</u>	<u>34,500</u>	<u>22,262</u>	<u>12,238</u>
Total Expenditures	<u>271,064</u>	<u>289,800</u>	<u>201,943</u>	<u>87,857</u>
Net Change in Fund Balances	5,582	21,720	55,632	33,912
Fund Balance - October 1 (Beginning)	<u>185,014</u>	<u>185,014</u>	<u>185,014</u>	-
Fund Balance - September 30 (Ending)	<u>\$ 190,596</u>	<u>\$ 206,734</u>	<u>\$ 240,646</u>	<u>\$ 33,912</u>

The accompanying notes are an integral part of this statement.

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

Certified Public Accountants

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

Independent Auditor's Report

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Village of Volente as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Volente's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Since the Village has only one employee, separation of duties cannot be done and is a significant deficiency. The employee was signing the checks, reconciling the bank and posting transactions to the general ledger. We recommend that another council member (or a committee) also be required to sign checks, review and approve the bank reconciliation; review and approve the invoices (bills to be paid) and also review and approve the transactions in the general ledger.

The general ledger did not include two bank accounts (Parkland Fee Account - \$46,989; Grason Account - \$52,365). Therefore, financial reports to the council were not complete and is a significant deficiency. We recommend that all bank accounts be recorded in the general ledger and reports submitted to the Council.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the above deficiencies constitute material weaknesses:

The significant deficiencies described in the above paragraph are also material weaknesses.

Compliance

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

The results of our tests disclosed one instance of noncompliance that we are required to report under *Government Auditing Standards*.

Pledged Securities

During the entire fiscal year, bank balances at Capital One Bank were in excess of FDIC coverage. The bank has pledged securities in 2009 to cover the additional balances above the FDIC coverage.

However, we also noted other matters involving the internal control over financial reporting that we have reported to the management of Village of Volente in a separate letter dated May 18, 2009.

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

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

May 18, 2009

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

Certified Public Accountants

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MEMBER
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Management Letter

May 18, 2009

To the Honorable Mayor and
Members of the City Council
Village of Volente, Texas

In planning and performing our audit of the financial statements of Village of Volente for the year ended September 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our findings and recommendations regarding these matters. This letter does not affect our report dated May 18, 2009 on the financial statement of the Village.

We will review the status of the findings during our next audit engagement. We will be pleased to discuss these matters in further detail and provide samples for you to use.

This report is intended solely for the information and use of the Council, management and others within the administration. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

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

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

FINDINGS AND RECOMMENDATIONS

Account Codes

Finding: The revenues and expenditure accounts in the general ledger did not correspond to the accounts used for budgeting. Therefore, budget to actual comparisons were not generated from the general ledger.

Recommendation: The general ledger and the budget accounts for revenues and expenditures should be the same. Monthly financial reports presented to the Council would include a budget to actual comparison for revenues and expenditures. The Council could then approve accurate financial reports.

Bank Reconciliations

Finding: The monthly bank reconciliations were inaccurate since transactions during the months of April and May of 2007 were not recorded in the general ledger and shown as reconciling items.

Recommendation: All transactions should be recorded in the general ledger to complete an accurate bank reconciliation. All reconciling items should be reviewed and the appropriate disposition made on a timely basis. A council person or committee should review the bank reconciliation and approve the reconciling items.

Accounts Payable

Finding: Accounts payable in the general ledger were not reconciled on a monthly basis (account was not balanced all year).

Recommendation: Accounts payable in the general ledger should be reconciled on a monthly basis.

Invoices (Bills Paid)

Finding: Invoices (bills paid) did not have any indication of being approved for payment or a general ledger account code.

Recommendation: Invoices (bills paid) should have the general ledger account code and "approved for payment" stamped on them. A council person or committee should review and approve the invoices and general ledger account codes.

Grants and Reimbursements

Finding: Grants, fees and reimbursements were not accounted for separately in the general ledger (revenues and expenditures).

Recommendation: Revenues and expenditures for each separate grant, fee or reimbursement should be accounted for separately in the general ledger.

Investment Policy

Finding: The Village does not have an investment policy.

Recommendation: To comply with the Public Funds Investment Act, the City should adopt an investment policy.