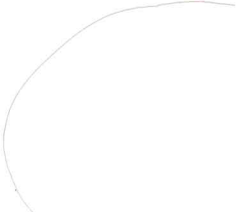


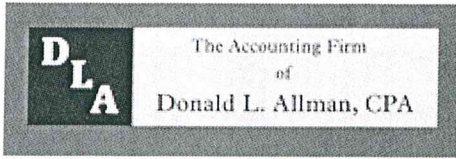
CITY OF NOLANVILLE, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013



CITY OF NOLANVILLE

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Donald Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the Honorable Mayor
And Members of the City Council
City of Nolanville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Nolanville, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Nolanville, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 14 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nolanville, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2014, on our consideration of the City of Nolanville, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Nolanville, Texas' internal control over financial reporting and compliance.

Sincerely,



Donald L. Allman, CPA, PC
Georgetown, Texas
February 3, 2014

**CITY OF NOLANVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Within this section of the City of Nolanville's annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended September 30, 2013. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government, unless otherwise noted.

FINANCIAL HIGHLIGHTS

The City's assets exceeded its liabilities by \$1,777,547 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,211,115. The city's net assets increased by \$566,432 during the fiscal year ended 9/30/2013.

Total net assets are comprised of the following:

- (1) Capital assets, net of related debt, of \$625,643 include property and equipment, net of accumulated depreciation, and reduced for outstanding equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
- (2) Net assets of \$929,024 are restricted for grant construction and debt service. Net assets may be restricted by constraints imposed from outside the City such as debt covenants, grantors, laws, or regulations.
- (3) Unrestricted net assets of \$222,880 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

Total liabilities of the City decreased by \$69,006 to \$2,510,926 during the fiscal year.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of financial position presenting information that includes all of the city's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the city as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base of the condition of the City infrastructure in addition to the financial information provided in this report.

**CITY OF NOLANVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Government-wide Financial Statements (Continued)

The second government-wide statement is the *Statement of Activities*, which reports how the city's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the city's activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinctively report governmental activities of the City that are principally supported by taxes, and business-type activities that are intended to cover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and recreation. Service activities include solid waste management emergency medical services, and police & fire department services.

The City's financial reporting entity includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Presently, all of these organizations operate as City organizations are blended into the primary government for financial reporting purposes. Examples of blended organizations reported as City funds include the City of Nolanville Police Department, and City of Nolanville Public Works. A schedule at the close of Management's Discussion and Analysis lists the City's component units. More comprehensive information about the City's component units can be found in the notes to the financial statements.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrated compliance with finance-related laws and regulations. The City has one kind of fund.

Governmental Funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of expendable resources during the year and balances of expendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of expendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide financial statements to assist in understanding the differences between these two perspectives.

**CITY OF NOLANVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Fund Financial Statements (Continued)

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements demonstrate compliance with the City's adopted and final revised budget.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the City as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

The City's net assets at fiscal year-end are \$1,777,547. This is an increase of \$566,432 over last year's net assets of \$1,211,115. The following table provides a summary of the City's net assets as September 30:

**Table 1
Summary of Net Assets**

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Cash and Current Assets	\$ 2,391,854	\$ 2,099,907	\$ 291,947	13.9%
Capital Assets	<u>1,896,619</u>	<u>1,691,140</u>	<u>205,479</u>	<u>12.2%</u>
Total Assets	\$ 4,288,473	\$ 3,791,047	\$ 497,426	13.1%
Current Liabilities	\$ 310,926	\$ 259,932	\$ 50,994	19.6%
Long-term Liabilities	<u>2,200,000</u>	<u>2,320,000</u>	<u>(120,000)</u>	<u>-5.2%</u>
Total Liabilities	\$ 2,510,926	\$ 2,579,932	\$ (69,006)	(2.7)
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 625,643	\$ 262,514	\$ 363,129	138.3%
Restricted Special Revenue	929,024	-	929,024	0.0%
Unrestricted	<u>222,880</u>	<u>948,601</u>	<u>(725,721)</u>	<u>-76.5%</u>
Total Net Assets	<u>\$ 1,777,547</u>	<u>\$ 1,211,115</u>	<u>\$ 566,432</u>	<u>46.8%</u>

The City reported positive balances in net assets for governmental activities. Net assets increased \$566,432. The City's overall financial position improved greatly during fiscal year 2013.

**CITY OF NOLANVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Table 2 compares the 2013 change in net assets to the 2012 change in net assets.

**Table 2
Summary of Changes in Net Assets**

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Program Revenues:				
Charges for Services	\$ 51,053	\$ 48,197	\$ 2,856	5.9%
General Revenues:				
Property Taxes	799,262	777,703	21,559	2.8%
Franchise Fees	190,982	196,973	(5,991)	-3.0%
Local Sales Taxes	247,849	205,327	42,522	20.7%
Court Fines, Fees, Tech & Sec	140,394	155,594	(15,200)	-9.8%
Grant Income	270,643	226,141	44,502	19.7%
Donations	94	251	(157)	-62.5%
Other	16,289	63,070	(46,781)	-74.2%
Interest Income	9,786	5,440	4,346	79.9%
Total Revenues	\$ 1,726,352	\$ 1,678,696	\$ 47,656	2.8%
Program Expenses				
General Government	\$ 337,713	\$ 437,007	\$ (99,294)	-22.7%
Public Safety	467,716	460,640	7,076	1.5%
Public Works	188,758	233,647	(44,889)	-19.2%
Court Expenses	64,885	89,609	(24,724)	-27.6%
Grant Expenditures	-	226,408	-	-100.0%
Interest on L/T Debt	100,848	76,208	24,640	32.3%
Total Expenses	\$ 1,159,920	\$ 1,523,519	\$ (137,191)	-23.9%
Change in Net Assets	\$ 566,432	\$ 155,177	\$ 184,847	265.0%
Beginning Net Assets	\$ 1,211,115	\$ 1,055,938		
Ending Net Assets	<u>\$ 1,777,547</u>	<u>\$ 1,211,115</u>		

Financial Analysis of the City's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of expendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$1,777,547. Of this total, \$222,880 is unreserved indicating its availability for continuing City service requirements. Restricted fund balances include \$929,024 for Construction & debt service. The Investment in capital assets net of related debt of \$625,643 reflects the cost of capital assets minus accumulated depreciation and less outstanding leases and notes payable.

**CITY OF NOLANVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

General Fund Budgetary Highlights

The adopted General Fund budget for fiscal year 2013 was \$1,007,858. Actual expenditures for fiscal year 2013 were \$1,678,187, resulting in an increase of \$670,329.

The General Fund Budget complied with financial policies approved by the City Council and maintained core City services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets, net of accumulated depreciation, for governmental activities as of September 30, 2013, was \$1,896,619. The total increase in this net investment was 12.2% for governmental activities. Major capital asset additions in the current fiscal year consisted of police equipment for \$35,735, a computer server for \$2,388, and construction in progress for \$360,143.

**Capital Assets
Net of Accumulated Depreciation**

	<u>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Non-depreciable Assets				
Land	\$ 59,500	\$ 59,500	\$ -	0.0%
Depreciable Assets:				
Buildings	360,308	360,308	-	0.0%
Equipment	289,094	253,359	35,735	14.1%
Fire Truck & Equipment	12,400	12,400	-	0.0%
Furniture & Fixtures	21,386	21,386	-	0.0%
Vehicles	454,210	454,210	-	0.0%
System Improvements	383,514	383,514	-	0.0%
Office Equipment	157,564	155,176	2,388	1.5%
Building Improvements	17,190	17,190	-	0.0%
Housing Development	5,950	5,950	-	0.0%
Parks Equipment	7,830	7,830	-	0.0%
10th Street Improvements	1,758,556	1,758,556	-	0.0%
Backhoe	67,358	67,358	-	0.0%
Construction in Progress	360,143	-	360,143	100.0%
Accumulated Depreciation	<u>(2,058,384)</u>	<u>(1,865,597)</u>	<u>(192,787)</u>	<u>10.3%</u>
Totals:	<u>\$ 1,896,619</u>	<u>\$ 1,691,140</u>	<u>\$ 205,479</u>	<u>12.2%</u>

**CITY OF NOLANVILLE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Long-term debt

At the end of the fiscal year 09/30/2013, the City had long-term outstanding debt of \$2,320,000.

Combination Tax and Surplus Revenue Certificates of Obligation, Series 2012, with a loan amount of \$1,030,000, annual payments between \$55,000-\$85,000, loan interest rate of 3.07%, with a maturity term of 180 months \$ 975,000

General Obligation Bonds, Series 2007, bonds payable of \$1,700,000, principal payments vary between \$55,000 to \$130,000, Interest rate of 4.95%, 10 year call, 20 year payment term maturing 09/01/2027. Proceeds used for street improvements. 1,345,000

Total: \$ 2,320,000

Economic Environment and Next Year's Budgets and Rates

The City Council's goal is to maintain a positive balance in the General Fund. The unrestricted fund balance is currently a positive \$222,880. Management has been proactively addressing this issue and has enacted several steps to improve the city's financial position. The City of Nolanville has increased profitability, increased cash reserves, and increased net fund balance tremendously over the past four fiscal years.

This financial report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the city's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the City Treasurer at the City of Nolanville, 100 North Main, Nolanville, Texas 76559.

**CITY OF NOLANVILLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2013**

Primary Government

	<u>Governmental Activities</u>	<u>Total</u>
<u>ASSETS:</u>		
Current assets:		
Cash and Cash Equivalents	\$ 97,752	\$ 97,752
CD's & Investments	1,149,517	1,149,517
Restricted Cash for Tax and Surplus Revenue C.O.	929,024	929,024
Receivables (net) & Prepaids	215,561	215,561
Total Current Assets	\$ 2,391,854	\$ 2,391,854
Capital Assets:		
Buildings & Improvements	\$ 105,493	\$ 105,493
Net of Accumulated Depreciation		
Equipment, Net of Accumulated Depreciation	88,645	88,645
Office Furniture & Equipment, net of Acc. Depr.	12,753	12,753
10th Street Project Improvements, Net of Acc. Depr.	1,221,239	1,221,239
Vehicles, Net of Accumulated Depreciation	38,608	38,608
Parks Equipment, Net of Accumulated Depreciation	10,238	10,238
Construction in Progress	360,143	360,143
Land	59,500	59,500
Total Capital Assets	\$ 1,896,619	\$ 1,896,619
Total Assets:	\$ 4,288,473	\$ 4,288,473

LIABILITIES:

Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 133,721	\$ 133,721
Court Costs Payable	46,138	46,138
Prepaid Revenue	11,067	11,067
Notes Payable, Current	125,000	125,000
Total Current Liabilities	\$ 315,926	\$ 315,926
Non-current Liabilities:		
Notes Payable, non-current	2,195,000	2,195,000
Total non-current Liabilities	2,195,000	2,195,000
Total Liabilities:	\$ 2,510,926	\$ 2,510,926

NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$ 625,643	\$ 625,643
Restricted for: Construction and Certificates of Obligation	929,024	929,024
Unrestricted (deficit)	222,880	222,880
Total Net Assets	\$ 1,777,547	\$ 1,777,547

See accompanying notes to the financial statements.

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue</u>
Primary Government			
Governmental Activities:			
General Government	\$ 337,713	\$ 51,053	\$ (286,660)
Public Safety	467,716	-	(467,716)
Public Works	188,758	-	(188,758)
Court Expenses	64,885		
Grant Expenditures	-		
Interest on Long-term Debt	100,848	-	(100,848)
Total Governmental Activities	<u>\$ 1,159,920</u>	<u>\$ 51,053</u>	<u>\$ (1,108,867)</u>
 Total Primary Government	 <u>\$ 1,159,920</u>	 <u>\$ 51,053</u>	 <u>\$ (1,108,867)</u>
 General Revenues:			
Taxes:			
Property Taxes		\$	799,262
Franchise Fees			190,982
Local Sales and Use Taxes			247,849
Court Fines, Fees, Tech & Sec			140,394
Donations			94
Grant Income			270,643
Interest Income			9,786
Miscellaneous			<u>16,289</u>
Total General Revenues:		\$	1,675,299
 Change in Net Assets		 \$	 566,432
 Net Assets - Beginning		 \$	 1,211,115
Net Assets - Ending		\$	<u>1,777,547</u>

See accompanying notes to the financial statements.

**CITY OF NOLANVILLE
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and Cash Equivalents	\$ 97,752	\$ -	\$ -	\$ 97,752
CD & Investments	1,149,517	-	-	1,149,517
Restricted Cash	929,024	-	-	929,024
Receivables (net)	215,561	-	-	215,561
Total Assets:	<u>\$ 2,391,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,391,854</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts Payable and Accrued Expenses	\$ 133,721	\$ -	\$ -	\$ 133,721
Court Costs Payable	46,138	-	-	46,138
Deferred Revenue	27,983	-	-	27,983
Total Liabilities	<u>\$ 207,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 207,842</u>
Liabilities and Fund Balances				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	929,024	-	-	929,024
Unassigned	1,254,988	-	-	1,254,988
Total Fund Balances	<u>\$ 2,184,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,184,012</u>
Total Liabilities & Fund Balances	<u>\$ 2,391,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,391,854</u>

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS**

Total Fund Balance - Total governmental Funds	\$ 1,254,988
Restricted assets for construction & debt	929,024
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$1,896,619 net of accumulated depreciation, are not financial resources, and therefore, are not reported in the funds. See Note 3.A.3. for additional detail.	1,896,619
Deferred revenue not included in the current period	16,916
Long-term liabilities of \$2,320,000 are not due and payable in the current period and are not reported in the funds. See Note 3.B.1. for detail.	(2,320,000)
Net Assets of Governmental Activities	<u>\$ 1,777,547</u>

See accompanying notes to financial statements.

CITY OF NOLANVILLE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Property Taxes	\$ 758,521	\$ -	\$ 230,749	\$ 989,270
Franchise Taxes	190,982	-	-	190,982
Local Sales and Use Tax	247,849	-	-	247,849
General Government	51,053	-	-	51,053
Interest Income	9,786	-	-	9,786
Court Fines, Fees, Tech & Sec	140,394	-	-	140,394
Grant income	270,643	-	-	270,643
Donations	94	-	-	94
Miscellaneous	16,289	-	-	16,289
Total General Revenues	<u>\$ 1,685,611</u>	<u>\$ -</u>	<u>\$ 230,749</u>	<u>\$ 1,916,360</u>
<u>Expenditures</u>				
General Government	\$ 294,685	\$ -	\$ -	\$ 294,685
Public Safety	329,865	-	-	329,865
Public Works	176,850	-	-	176,850
Court Expenses	64,885	-	-	64,885
Debit Service:				
Principal Payments	-	-	120,000	120,000
Interest on Long-term Debt	-	-	100,848	100,848
Capital Outlay	398,267	-	-	398,267
Total Expenditures	<u>\$ 1,264,552</u>	<u>\$ -</u>	<u>\$ 220,848</u>	<u>\$ 1,485,400</u>
Excess (deficiency) of Revenues & Expenditures	<u>\$ 421,059</u>	<u>\$ -</u>	<u>\$ 9,901</u>	<u>\$ 430,960</u>
Restricted Cash for C&O loan obligation	929,024	-	-	929,024
Transfers In	9,901	-	-	9,901
Transfers Out	-	-	(9,901)	(9,901)
Net Changes in Fund Balances	<u>\$ 1,359,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,359,984</u>
Fund Balances - Beginning	<u>\$ 824,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 824,028</u>
Fund Balances - Ending	<u><u>\$2,184,012</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,184,012</u></u>

See accompanying notes to the financial statements.

CITY OF NOLANVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net Change in Fund Balance - Total Governmental Funds \$ 1,359,984

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

Restricted cash for construction & debt service (929,024)

Governmental funds report capital outlays as expenditures, and capital asset retirements as inflows. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount which capital outlays exceeded capital asset retirements in the current period. \$ 398,267

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds. \$ (192,787)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes Not Collected	\$ 27,983
Less Prior Year	(149,822)
	\$ (121,839)

The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the amount of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal Payments	\$ 120,000
Loan Issuance	-
	\$ 120,000

Miscellaneous adjustments between GAAP And Modified Accrual for Governmental Changes in Net Assets of Governmental Activities	(68,169)
	\$ 566,432

See accompanying notes to the financial statements.

CITY OF NOLANVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET
AND ACTUAL (NON-GAAP BUDGETARY BASIS) GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Property Taxes	\$ 552,216	\$ 552,216	\$ 799,262	\$ 247,046
Franchise Taxes	184,300	184,300	190,982	6,682
Sales Taxes	130,000	130,000	247,849	117,849
General Government	3,240	3,240	51,053	47,813
Court Fines, Fees, Tech & Sec	100,000	100,000	140,394	40,394
Grant Income	-	-	270,643	270,643
Donations			94	94
Interest Earnings	3,000	3,000	9,786	6,786
Miscellaneous	35,100	35,100	16,289	(18,811)
Total Revenues	<u>\$1,007,856</u>	<u>\$ 1,007,856</u>	<u>\$1,726,352</u>	<u>\$ 718,496</u>
Expenditures:				
Administration	\$ 293,646	\$ 293,646	\$ 294,685	\$ 1,039
Courts	74,777	74,777	64,885	(9,892)
Police Department	308,328	308,328	254,865	(53,463)
Fire & EMS Services	75,000	75,000	75,000	-
Public Works	212,659	212,659	176,850	(35,809)
Community Center	1,600	1,600	-	(1,600)
Parks	41,848	41,848	-	(41,848)
Grant Expenditures (see capitalized)	-	-	-	-
Depreciation	-	-	192,787	192,787
Interest on Long-term Debt	-	-	100,848	100,848
Principal Payments & Other	-	-	120,000	120,000
Capital Asset Additions	-	-	398,267	398,267
Total Expenditures	<u>\$1,007,858</u>	<u>\$ 1,007,858</u>	<u>\$1,678,187</u>	<u>\$ 670,329</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ 48,165</u>	<u>\$ 48,167</u>
Net Changes in Fund Balances	<u>\$ (2)</u>	<u>\$ (44,406)</u>	<u>\$ 48,165</u>	
Fund Balances - Beginning	<u>\$ 1,211,115</u>	<u>\$ 1,211,115</u>	<u>\$ 1,211,115</u>	
(GAAP Basis)				
Fund Balances - Ending	<u>\$ 1,211,113</u>	<u>\$ 1,011,532</u>	<u>1,259,280</u>	
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Current Year Encumbrances Included in Expenditures				
Capital Assets			\$ 398,267	
Principal Payments on Debt			\$ 120,000	
Fund Balance, Ending (GAAP Basis)			<u>\$ 1,777,547</u>	

See accompanying notes to the financial statements.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. INTRODUCTION

The City of Nolanville (The “City”) was incorporated in the State of Texas in March of 1961. The City provides services to citizens, including public safety, and general oversight of the maintenance of the City. The City of Nolanville became under home rule in November 2011 and now operates under a Council/Manager form of government. The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, for the City’s financial activities for the fiscal year ended September 30, 2013.

B. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

B. 1. Component Units

The City does not report any separate component units, blended component units, or discretely presented component units.

B. 2. Related Organizations

The City does not report any related organizations or include any other organizations in its financial reporting entity.

B. 3. Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City’s services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Financial Statements

Fund financial statements are provided for governmental funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

B. 4. Measurement Focus, Basis of Accounting, and financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The city considers property tax revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes, and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needs. Restricted assets and liabilities payable from restricted assets current in nature are reported with current assets and current liabilities in the financial statements.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 5. Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Special Revenue Fund – is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The three special revenue funds maintained by the City are the Municipal Court Technology Fund, the Municipal Court Security Fund, the Street maintenance Fund.

C. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

C. 1. Cash and Investments

The City recognizes cash and cash equivalents as highly-liquid cash or cash equivalents with a maturity of one year or less. The City currently only has demand deposit checking accounts and one certificate of deposit for their cash and cash equivalents & investments.

C. 2. Capital Assets and Depreciation

The City's property, plant, equipment and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from their respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives for depreciable assets are as follows:

Buildings	-20-30 years
Building Improvements	-15 years
Machinery and Equipment	-7-10 years
Furniture and Fixtures	-7-10 years
Emergency System Improvements	-5 years
Vehicles	-5 years

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 3. Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as liabilities.

C. 4. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation legally restricted for specified purposes. The General Fund reserve for restricted purposes includes fund balance/net assets resulting from revenues exclusively restricted for the Special Revenue Fund.

D. 1. Property Taxes

The City's property tax is levied each October 1st on the assessed value, listed as the previous January for all real and personal property located in the City. The assessment ration of the City has historically been a percent of market value. Beginning with the tax levy of October 1, 1981, the assessment ration has been 100 percent of market value. The assessed value for the roll of January 1, 2011, upon which the October 1, 2012 "2013 fiscal year" levy was based, was approximately \$165,715,534. The tax assessment of September 16, 2012, sets a tax levy at \$.4694 per \$100 of assessed valuation at 100 percent of assumed market value. Taxes were due in January following the October 1 statement date. If taxes remain unpaid, they are subject to a levy by October 31 the following year and lien if needed.

At September 30, 2013, an allowance for uncollectible taxes was provided in the amount of \$0.

Property taxes receivable as of September 30, 2013 are as follows: Property Taxes receivable \$27,983. Current taxes receivable \$7,168, Delinquent taxes receivable \$20,815.

D. 2. Special Revenue Fund

No special revenue funds have been included in the Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual because no separate budget was adopted for any of the special revenue funds.

D. 3. Compensated Absences

The City's policy allows employees to accumulate sick leave at a rate of one day per month up to a maximum of sixty days. Vacation leave is accumulated based upon years of service. At the end of each year, employees may carry over no more than 5 days of vacation from the previous year. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

D. 3. Compensated Absences (Continued)

Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In accordance with provisions of statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

NOTE 2 – BUDGETARY INFORMATION

B. 1. Budget Policy and Practice

The City uses the following procedures in establishing the budgetary data reflected in the financial statements. The general fund budget is adopted by the City Council on the modified accrual basis of accounting. Amendments are made during the year on approval by the City Council. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and unrealized investment gains and losses, which are adjusted to the actual for this comparison.

B. 2. Basis of Budgeting

The budgets for the operating funds are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable expenses are incurred. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year end.

NOTE 3 – DETAILED NOTES ON FUNDS

3. A. ASSETS

3. A.1. Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

3. A.1. Deposits and Investments (Continued)

The City's policy requires deposits to be 100% secured by collateral valued at market or par, or covered by FDIC insurance. Deposits of the City's reporting entity are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City or applicable public trust. The City's demand deposit accounts and certificate of deposit balance at September 30, 2013 were entirely covered by Federal Depository Insurance and Collateralization as shown in the following schedule:

	<u>Balance</u> <u>September 30, 2013</u>	<u>Insured</u>	<u>Collateralized</u>	<u>Balance</u> <u>Uncollateralized</u>
General Fund	\$ 2,176,293	\$ 1,247,258	\$ 2,176,293	\$ -
Special Revenue	-	-	-	-
Total	<u>\$ 2,176,293</u>	<u>\$ 1,247,258</u>	<u>\$ 2,176,293</u>	<u>\$ -</u>

NON-POOLED INVESTMENTS

Texpool - GF	\$ 8,160	\$ 8,160	FDIC
The National Banks of Central Texas, GF	97,424	97,424	FDIC
Petty Cash	328	-	
The National Banks of Central Texas, CC	250,000	1,179,363	FDIC
Union State Bank, Money Market	249,947	249,947	FDIC
The National Banks of Central Texas, mm	141,876	141,876	FDIC
First State Bank of Central Texas, MM	249,611	249,611	FDIC
Texas Star Bank, Certificate of Deposit	<u>249,912</u>	<u>249,912</u>	FDIC
Grand Total Deposits and Investments		<u>1,247,258</u>	<u>2,176,293</u>

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with investment policies adopted by the Council complying with State Statutes and the City charter. City funds may be invested in (1) direct obligations of the United States Government, its agencies or instrumentalities to the payment of which the full faith and credit of the government of the United States is pledged, or obligations to the payment of which the full faith and credit of the State of Texas is pledged; (2) collateralized or insured certificates of deposit and other evidences of deposits at banks, savings banks, and credit unions located in the State when secured by appropriate collateral; (3) money market funds regulated by the Securities and Exchange Commission and which investments consist of the authorized investments (domestic securities) with restrictions as specified in state law.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

3. A.2. Receivables

Receivables consist of revenues earned within the accounting period and not received. Revenues attributable to the year ended September 30, 2013 consisted of \$211,714, including \$27,983 of property taxes receivable, \$9,289 in general, \$156,942 in grant proceeds, and \$17,500 in sales tax.

3. A.3. Capital Assets

Changes in Capital Assets

Primary Government	Balance <u>Sept. 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Sept. 30, 2013</u>
Land	\$ 59,500	\$ -	\$ -	\$ 59,500
Buildings	360,308	-	-	360,308
Equipment	253,359	35,735	-	289,094
Fire Truck & Equipment	12,400	-	-	12,400
Furniture & Fixtures	21,386	-	-	21,386
Vehicles	454,210	-	-	454,210
System Improvements	383,514	-	-	383,514
Office Equipment	155,176	2,388	-	157,564
Building Improvements	17,190	-	-	17,190
Construction in Progress	-	360,143	-	360,143
Housing Development	5,950	-	-	5,950
Parks Equipment	7,830	-	-	7,830
10th Street Improvements	1,758,556	-	-	1,758,556
Backhoe	67,358	-	-	67,358
Accumulated Depreciation	<u>(1,865,597)</u>	-	<u>(192,787)</u>	<u>(2,058,384)</u>
Total	<u>\$ 1,691,140</u>	<u>\$ 398,266</u>	<u>\$ (192,787)</u>	<u>\$ 1,896,619</u>

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

3 B. LIABILITIES

3 B. 1 Notes Payable

Notes Payable

Combination Tax and Surplus Revenue Certificates of Obligation, Series 2012, with a loan amount of \$1,030,000, annual payment between \$55,000-85,000 plus interest, loan interest rate of 3.07%, and a maturity term of 180 months. \$ 975,000

General Obligation Bonds, Series 2007, bonds payable of \$1,700,000, principal payments vary between \$55,000 to \$130,000, Interest rate of 4.95%, 10 year call, 20 year payment term maturing 09/01/2027. Proceeds used for street improvements. 1,345,000

Total: \$ 2,320,000

The debt service requirements on the above long-term debt are as follows:

Due Year Ending	Principal	Interest	Total
September 30, 2013	Principal	Interest	Total
2014	125,000	96,510	221,510
2015	135,000	91,356	226,356
2016	135,000	85,802	220,802
2017	140,000	80,248	220,248
2018	145,000	75,248	220,248
Thereafter	<u>1,640,000</u>	<u>359,994</u>	<u>1,999,994</u>
Total	<u>\$ 2,320,000</u>	<u>\$ 789,158</u>	<u>\$ 3,109,158</u>

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

3. B. LIABILITIES (Continued)
3. B. 1 Notes Payable (Continued)
3. B.2 Risk Management – Claims and Judgments

The City is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from the Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of governmental units within the state. TML Intergovernmental Risk Pool is considered a self-sustaining risk pool that will provide coverage for its members. Settled claims have not exceeded insurance coverage limits for the past four years.

NOTE 4 – RELATED PARTY TRANSACTIONS

In the fiscal year ended September 30, 2013, no related party transactions were considered to be material with regard to the financial statements taken as a whole.

CITY OF NOLANVILLE
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

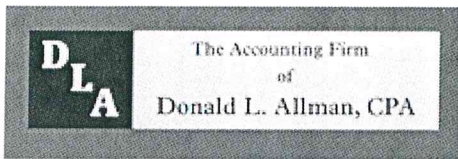
NOTE 5 – CONTINGENCIES

5. A.1. Litigation

The attorney representing the City has indicated that there is no pending litigation that will have a material effect with regard to the financial statements taken as a whole.

NOTE 6 – SUBSEQUENT EVENTS

The City Council's goal is to maintain a positive balance in the General Fund. The City has almost \$1 million in positive balance for unrestricted net assets as of September 30, 2013. The City has made great strides in meeting its current obligations and building cash reserves. The property tax value base has increased and, property tax revenues for the City of Nolanville increased to over \$700,000 for fiscal year 09/30/2013 and the property tax base continues to increase. The City of Nolanville has also been awarded two grants, A Texas Conservation Block Grant for water & sewer improvements and an Energy Efficiency conservation Block grant to be funded in 2011-2012. As the economy rebounds, city revenues and property tax revenues should continue to increase and enable the City of Nolanville to continue operations, meet its financial obligations, and continue to improve its financial position.



Donald Allman, CPA, PC
205 East University Ave., Ste. 165
Georgetown, Texas 78626

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

To the Honorable Mayor and
Members of the City Council
City of Nolanville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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 Nolanville, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Nolanville, Texas' basic financial statements, and have issued our report thereon dated February 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Nolanville, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Nolanville, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Nolanville, Texas' internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Nolanville, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Donald L. Allman, CPA, PC

Georgetown, TX
February 4, 2013