

# **CITY OF LAKE WORTH, TEXAS**

**Annual Financial Report  
For the Fiscal Year Ended September 30, 2010**

**City of Lake Worth, Texas**

**For the Year Ending September 30, 2010**

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**City of Lake Worth, Texas  
Principal Officials**

**City Council**

Walter Bowen, Mayor

Clint Dewayne Narmore – Mayor Pro-Tem

Curtis McKay

Myrt Fowlkes

Perry Lunsford

Dona Stuard

Pat O. Hill

Geoffrey White

**Administrative**

Brett McGuire, City Manager

Ken West, Assistant City Manager

Debbie Whitley, Director of Finance

**FINANCIAL SECTION**



**Snow, Garrett & Company**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
City of Lake Worth, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Worth, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake Worth, Texas' 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 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Worth, Texas, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Economic Development Corporation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011, on our consideration of the City of Lake Worth, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for the retirement plans, and the schedule for governments using modified approach for infrastructure 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.

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

*Snow, Garrett & Company*

Snow, Garrett & Company, CPA's  
March 1, 2011

**CITY OF LAKE WORTH, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management's discussion and analysis (MD&A) of the City of Lake Worth's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2010. The MD&A should be read in conjunction with the accompanying financial statements and the notes to those financial statements.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded liabilities at the close of the 2010 fiscal year by \$34,896,908 (*net assets*). Of this amount, \$10,990,230 is restricted for specific purposes and \$3,109,475 represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors. As required by GASB Statement No. 34, net assets also reflect \$20,797,203 that is invested in capital assets net of related debt.
- In contrast to the government-wide statements, the governmental fund statements report a fund balance at year-end of \$13,903,801; of which 21% represents unreserved fund balance. The more significant components of unreserved fund balance are maintained in the general fund as emergency reserves.
- The general fund unreserved fund balance of \$2,946,182 equals 53% of total general fund expenditures.
- The City's total debt decreased by \$770,342 during the current fiscal year as a result of the issuance of bonds, net pension obligation, and volunteer firefighter retirement obligation net against scheduled annual debt service payments and refunded bond payments.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) other required supplementary information in addition to the basic financial statements.

**The Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private sector business. They present the financial picture of the City from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the City (excluding infrastructure purchased or donated in prior years) as well as all liabilities. Additionally, certain eliminations have occurred as prescribed by GASB Statement No. 34 in regards to interfund activity, payables, and receivables.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal year using the full accrual basis of accounting. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other business functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include mayor and council, general government, police, fire protection, streets, library, parks and recreation, maintenance, senior center, municipal court, animal control, emergency management, permits and inspections, and information technology. The business-type activity of the City is water and sewer operations. All governmental and business-type activities included in the government-wide financial statements are functions of the City (known as the primary government).

The government-wide financial statements can be found on pages 14 and 15 of this report.

**CITY OF LAKE WORTH, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, however, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains six governmental funds, the general fund, the economic development corporation special revenue fund, the crime control & prevention district special revenue fund, the street maintenance special revenue fund, the debt service fund, and the capital projects fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the economic development corporation special revenue fund, the debt service fund, and the capital projects fund which are classified as major funds and the street maintenance special revenue fund and the crime control & prevention district special revenue fund which are classified as non-major funds.

The City adopts an annual appropriated budget for its general fund, economic development corporation special revenue fund, crime control & prevention district fund, street maintenance special revenue fund and the debt service fund. A budgetary comparison statement (original versus final) has been provided in this report for the general fund and the economic development corporation special revenue fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 16 through 20 of this report.

**Proprietary funds.** Proprietary funds can be further classified into two different types of funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lake Worth uses an enterprise fund to account for its water and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among a government's various functions. The City allocates costs directly to the operating department and accordingly does not account or report for any internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 21 through 24 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that for proprietary funds.

The City of Lake Worth does not hold any resources for the benefit of parties outside the City government and accordingly neither accounts nor reports for fiduciary funds.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 50 of this report.



**CITY OF LAKE WORTH, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning pension benefits and the schedule for governments using modified approach for infrastructure. The required supplementary information can be found on pages 52 and 53 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$34,896,908 as of September 30, 2010.

**City of Lake Worth's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 15,060,056	\$ 17,206,654	\$ 1,206,895	\$ 1,182,750	\$ 16,266,951	\$ 18,389,404
Capital assets, net of depreciation	34,487,714	31,263,332	9,015,760	8,954,517	43,503,474	40,217,849
Total assets	49,547,770	48,469,986	10,222,655	10,137,267	59,770,425	\$ 58,607,253
Long-term liabilities	21,011,538	21,790,803	2,301,030	2,292,107	23,312,568	24,082,910
Other liabilities	1,182,475	961,903	378,474	363,700	1,560,949	1,325,603
Total liabilities	22,194,013	22,752,706	2,679,504	2,655,807	24,873,517	25,408,513
Net assets:						
Invested in capital assets, net of related debt	14,038,808	9,947,391	6,758,395	6,666,473	20,797,203	16,613,864
Restricted	10,990,230	14,066,331	-	-	10,990,230	14,066,331
Unrestricted	2,324,719	1,703,558	784,756	814,987	3,109,475	2,518,545
Total Net Assets	\$ 27,353,757	\$ 25,717,280	\$ 7,543,151	\$ 7,481,460	\$ 34,896,908	\$ 33,198,740

Investment in capital assets (e.g., land, building, infrastructure, machinery and equipment) less any related debt used to acquire those assets that is still outstanding is \$20,797,203. The City uses those assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$10,990,230 (or 31%) of the City's net assets represents resources that are subject to external restrictions on how they may be used. All restricted net assets of the City are being held for the purposes established by state and local laws, future construction, and debt service requirements on the City's outstanding debt. The remaining portion of the City's net assets (\$3,109,475) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's total net assets increased by \$1,698,168 during the current fiscal year. The City's governmental activities increased net assets by \$1,636,477. The total cost of all governmental activities this year was \$8,342,680. The amount that our taxpayers paid for these activities through property taxes was \$1,686,987 or 20%. The City's business-type activities increased net assets by \$61,691. The total cost of all business-type activities for fiscal year 2010 was \$2,150,488.

**CITY OF LAKE WORTH, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 967,363	\$ 802,013	\$ 2,193,568	\$ 2,243,248	\$ 3,160,931	\$ 3,045,261
Operating grants and contributions	212,494	176,060	-	-	212,494	176,060
Capital grants and contributions	-	-	59,183	67,875	59,183	67,875
<b>General revenues:</b>						
Property taxes	1,686,987	1,329,051	-	-	1,686,987	1,329,051
Retail sales tax	6,170,285	6,248,305	-	-	6,170,285	6,248,305
Franchise taxes	436,760	451,574	-	-	436,760	451,574
Other taxes	197,861	219,717	-	-	197,861	219,717
Other	193,535	381,969	33,300	22,983	226,835	404,952
Gain on disposal of assets	40,000	15,423	-	-	40,000	15,423
<b>Total revenues</b>	<b>9,905,285</b>	<b>9,624,112</b>	<b>2,286,051</b>	<b>2,334,106</b>	<b>12,191,336</b>	<b>11,958,216</b>
<b>Expenses:</b>						
Mayor and council	20,245	13,427	-	-	20,245	13,427
General government	1,281,700	1,207,882	-	-	1,281,700	1,207,882
Police	2,303,084	2,124,463	-	-	2,303,084	2,124,463
Fire protection	1,277,601	1,231,914	-	-	1,277,601	1,231,914
Streets	871,762	1,003,717	-	-	871,762	1,003,717
Library	194,401	192,268	-	-	194,401	192,268
Parks and recreation	362,260	438,781	-	-	362,260	438,781
Maintenance	197,639	202,488	-	-	197,639	202,488
Senior center	76,194	72,782	-	-	76,194	72,782
Municipal court	198,077	202,438	-	-	198,077	202,438
Animal control	63,326	67,062	-	-	63,326	67,062
Emergency management	11,278	8,301	-	-	11,278	8,301
Permits and inspections	250,908	298,501	-	-	250,908	298,501
Information technology	242,031	249,519	-	-	242,031	249,519
Transportation	-	301,126	-	-	-	301,126
Youth association	-	-	-	-	-	-
Interest on long-term debt	992,174	1,060,224	-	-	992,174	1,060,224
Water and wastewater	-	-	2,150,488	2,105,867	2,150,488	2,105,867
<b>Total expenses</b>	<b>8,342,680</b>	<b>8,674,893</b>	<b>2,150,488</b>	<b>2,105,867</b>	<b>10,493,168</b>	<b>10,780,760</b>
Increase (decrease) in net assets before transfers	1,562,605	949,219	135,563	228,239	1,698,168	1,177,458
Transfers	73,872	(399,779)	(73,872)	399,779	-	-
<b>Increase in net assets</b>	<b>1,636,477</b>	<b>549,440</b>	<b>61,691</b>	<b>628,018</b>	<b>1,698,168</b>	<b>1,177,458</b>
<b>Net assets, beginning of year</b>	<b>25,717,280</b>	<b>25,167,840</b>	<b>7,481,460</b>	<b>6,853,442</b>	<b>33,198,740</b>	<b>32,021,282</b>
<b>Net assets, end of year</b>	<b>\$ 27,353,757</b>	<b>\$ 25,717,280</b>	<b>\$ 7,543,151</b>	<b>\$ 7,481,460</b>	<b>\$ 34,896,908</b>	<b>\$ 33,198,740</b>

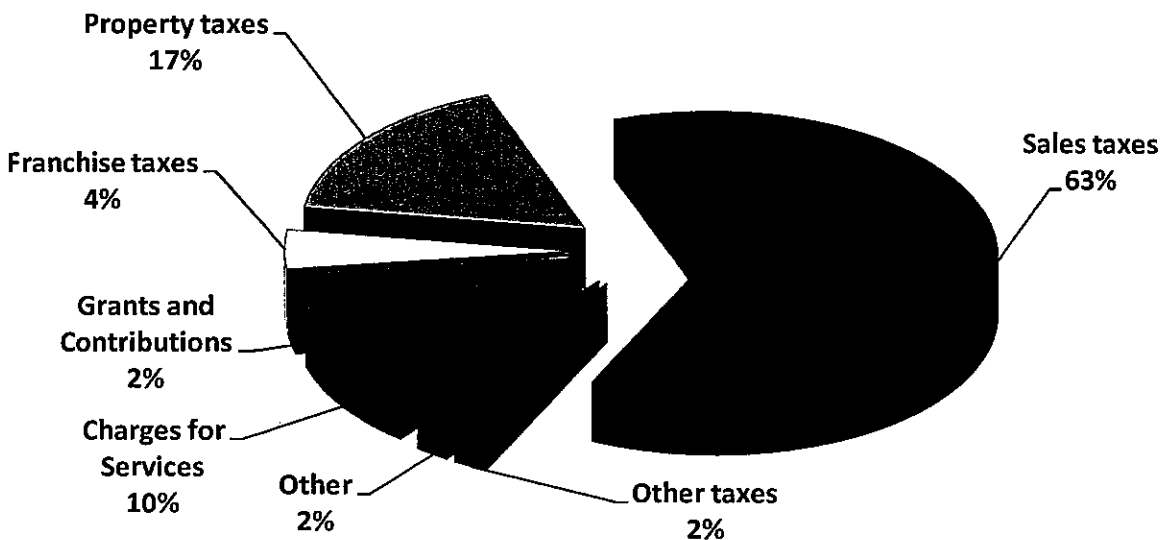
**Governmental activities.** Governmental activities increased the City's net assets by \$1,636,477.

Property tax revenue grew by 26.9% due to an increase in the property tax rate. Retail sales tax revenue decreased by 1.2% from the prior year due to a downturn in the economy. Investment income decreased by 82.3% from the prior year due to lower interest rates.

The majority of the decrease in expenses from the prior year is due to the City not providing transportation services in fiscal year 2010.

**CITY OF LAKE WORTH, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

***Revenues by Source - Governmental Activities***



**Business-type activities.** Business-type activities increased the City's net assets by \$61,691.

Operating revenue decreased by 2.2% from the prior year due to more rainfall, which resulted in a decrease in water services revenues. Operating expenses increased by 4.4%. Disposal charges for wastewater increased by 46.1% in the current year, which was offset by a decrease in both personnel and contracted services of 6.1% and a decrease in depreciation expense of 10.4%.

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$13,903,801, which is a decrease of \$2,361,058 in comparison with the prior year. \$2,946,182 or 21% of the fund balance represents unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to pay debt service (\$68,764), to fund capital projects (\$7,194,703), for crime control (\$534,896), for economic development (\$1,558,106), for street maintenance (\$967,273), and for other reserves (\$633,877).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,946,182, which is 82% of the total fund balance. As a measure of the general fund's liquidity, we compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 53%, or slightly more than 193 days of total fund expenditures.

The fund balance of the City's general fund increased by \$806,337 during the current fiscal year.

In the general fund, property tax revenue grew by 6.9% due to an increase in the property tax rate. Retail sales tax revenue decreased by 1.2% from the prior year due to a downturn in the economy. Revenue from fines and

**CITY OF LAKE WORTH, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

permits/fees increased by 17.1% and 44.0%, respectively, compared to the prior year. Investment income decreased by 71.0% from the prior year due to lower interest rates.

Total expenditures in the general fund decreased by 10.1% from the prior year. Parks and recreation and streets expenditures decreased by 22.5% and 18.7%, respectfully, while fire protection expenditures increased by 7.2%.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Amendments to the original 2009-2010 general fund annual budget were relatively minor and can be briefly summarized as follows:

- Increase in permits and fines revenue;
- Increase in intergovernmental revenue;
- Increase in miscellaneous revenue;
- Increase in fire protection, informational technology, and capital outlay expenditures for the City; and
- Decrease in general government, police, streets, and parks and recreation expenditures for the City.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in total capital assets for its governmental and business-type activities as of September 30, 2010, amounts to \$43,503,474 (net of accumulated depreciation). Investments in capital assets related to governmental activities (\$34,487,714) include land, construction in progress, infrastructure, buildings and improvements, equipment and vehicles, and office furniture and fixtures. The City's investments in capital assets related to business-type activities (\$9,015,760) include the water and sewer system, construction in progress, buildings and improvements, and equipment and vehicles.

Major capital asset events during the current fiscal year include the following:

- The purchase of two T-3 Motion Machines for the police department for \$18,585;
- The renovations to the Skateboard Park for \$94,966;
- The purchase of land for the Foster house renovation for \$139,259;
- Construction in progress of the Multi Purpose Center of \$2,673,486;
- Construction in progress of the Animal Control Center of \$572,569; and
- Construction in progress of various sewer line projects of \$333,502.

**City of Lake Worth's Capital Assets  
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,685,069	\$ 1,705,287	\$ 46,240	\$ 46,240	\$ 1,731,309	\$ 1,751,527
Construction in progress	4,132,919	593,721	333,502	-	4,466,421	593,721
Buildings and improvements	3,756,826	3,884,998	98,091	101,322	3,854,917	3,986,320
Infrastructure	23,024,936	22,935,591	-	-	23,024,936	22,935,591
Water and sewer system	-	-	8,124,561	8,302,379	8,124,561	8,302,379
Equipment and vehicles	1,822,748	2,065,506	413,366	504,576	2,236,114	2,570,082
Office furniture and fixtures	65,216	78,229	-	-	65,216	78,229
<b>Total</b>	<b>\$ 34,487,714</b>	<b>\$ 31,263,332</b>	<b>\$ 9,015,760</b>	<b>\$ 8,954,517</b>	<b>\$ 43,503,474</b>	<b>\$ 40,217,849</b>

Additional information on the City's capital assets can be found in Note F on pages 36 and 37 of this report.

**CITY OF LAKE WORTH, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Infrastructure.** The City has elected to use the "Modified Approach" as defined by Governmental Accounting Standards Board (GASB) Statement No. 34 for infrastructure reporting for its roads. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following conditions:

- The City uses an asset management system with the following characteristics: 1) an up-to-date inventory; 2) performs condition assessments and summarizes the results using a measurement scale; and 3) estimates the annual amount to maintain and preserve the assets at an established condition assessment level.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at the established and disclosed condition assessment level.

The City manages its road network using its pavement management system and accounts for roads using the modified approach. The road condition rating is a numerical scale ranging from 1 (Failed) to 10 (New). The City's goal is to maintain roads at or above a rating of 5 (Fair). Conditions as of September 30<sup>th</sup> were as follows:

<u>Condition rating</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
At least 2-4	21.44%	22.14%	23.94%
At least 5-7	34.03%	34.25%	34.25%
At least 8-10	44.53%	43.61%	41.81%

For fiscal year 2010, the City estimated that \$1,217,417 was needed to meet this goal. The actual amount used for maintenance and preservation of the City's roads was \$919,891. Additional information on road condition data is included in the schedule on page 53 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lake Worth had total debt outstanding of \$23,312,568. Of this amount, \$18,155,000 represents certificates of obligation secured by property tax collections, \$2,303,100 represents general obligation bonds secured by property tax obligations, \$1,961,900 represents general obligation bonds secured by water and sewer revenues, \$271,000 represents utility system revenue bonds, \$421,270 represents capital lease obligations, \$117,009 represents the City's net pension obligation, and \$47,757 represents the volunteer firefighters retirement obligation. The City's total debt decreased by \$770,342 during the current fiscal year.

State statutes limit the total property tax rate to \$2.50 per \$100 assessed valuation. The City's total property tax rate for 2009-2010 was \$0.428590 per \$100 assessed valuation, of which \$0.115938 was for maintenance and operations and \$0.312652 was for debt service.

Additional information on the City's long-term debt can be found in Note G on pages 38 through 41 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The annual budget is developed to provide efficient, effective and economic uses of the City's resources, as well as, a means to accomplish the highest priority objectives. Through the budget, the City Council sets the direction of the City, allocates its resources and establishes its priorities.

In considering the City budget for fiscal year 2011, the City Council and management considered the following factors:

- The most predominant driver in budget decisions was the overall state of the economy. Substantial decreases in revenue streams that the City has come to depend on over the last several years (sales tax, permit fees, and court revenues) have all budgeted to decline with the economic downturn.
- Property tax revenues are budgeted to increase. Although the City experienced a decline in net taxable property values, the tax rate was increased. The Interest and Sinking portion of the tax rate was increased due to additional debt payments in 2011. The Maintenance & Operations portion of the property tax rate was also increased to compensate for reduced revenues in other areas, most significantly sales tax.

**CITY OF LAKE WORTH, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

- Special parks projects, funded by the Economic Development Corporation Fund, are budgeted to decrease in 2011; however, the budget was increased for advertising and promotion as well as for funds allocated to be transferred to debt service for the payment on the Certificate of Obligation, Series 2005.
- General fund budgeted expenditures for the street department decreased related to remaining funds from Certificates of Obligation, Series 2005 that can be used for street improvements.

**REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, and investors with a general overview of the City of Lake Worth's finances and to show the City's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Director of Finance at 3805 Adam Grubb, Lake Worth, Texas 76135.

**BASIC FINANCIAL STATEMENTS**

**City of Lake Worth, Texas**  
**Statement of Net Assets**  
**September 30, 2010**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 85,563	\$ 41,402	\$ 126,965
Investments	13,888,149	707,798	14,595,947
Receivables (net of allowances for uncollectibles of \$34,517)			
Accounts	65,542	292,596	358,138
Taxes	58,146	-	58,146
Other	-	3,895	3,895
Due from other governments	444,347	-	444,347
Interfund balances	7,366	(7,366)	-
Prepaid expenses	10,052	1,989	12,041
Restricted investments	400	130,825	131,225
Deferred issuance cost	452,734	35,756	488,490
Other assets	47,757	-	47,757
Capital assets			
Infrastructure using modified approach	23,024,936	-	23,024,936
Land and construction in progress	5,817,988	379,742	6,197,730
Other capital assets, net of depreciation	5,644,790	8,636,018	14,280,808
Total capital assets	<u>34,487,714</u>	<u>9,015,760</u>	<u>43,503,474</u>
Total assets	<u>49,547,770</u>	<u>10,222,655</u>	<u>59,770,425</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	872,453	228,207	1,100,660
Interest payable	46,959	-	46,959
Payable from restricted funds:			
Customer deposits	400	130,825	131,225
Due to other governments	65,988	4,586	70,574
Deferred revenue	690	-	690
Accrued vacation payable	195,985	14,856	210,841
Long-term liabilities			
Due within one year	1,089,428	297,321	1,386,749
Due in more than one year	19,922,110	2,003,709	21,925,819
Total liabilities	<u>22,194,013</u>	<u>2,679,504</u>	<u>24,873,517</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	14,038,808	6,758,395	20,797,203
Restricted for economic development	1,558,106	-	1,558,106
Restricted for debt service	101,375	-	101,375
Restricted for capital projects	7,194,703	-	7,194,703
Restricted for street maintenance	967,273	-	967,273
Restricted for crime control	534,896	-	534,896
Restricted for other	633,877	-	633,877
Unrestricted	2,324,719	784,756	3,109,475
Total net assets	<u>\$ 27,353,757</u>	<u>\$ 7,543,151</u>	<u>\$ 34,896,908</u>

The accompanying notes are an integral part of these financial statements.



City of Lake Worth, Texas  
Statement of Activities  
For the Fiscal Year Ended September 30, 2010

Functions/Programs	Net (Expense) Revenue and Changes In Net Assets						
	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental activities							
Mayor and council	\$ 20,245	\$ -	\$ -	\$ -	\$ (20,245)	\$ -	\$ (20,245)
General government	1,281,700	137,574	-	-	(1,144,126)	-	(1,144,126)
Police	2,303,084	448,675	20,585	-	(1,833,824)	-	(1,833,824)
Fire protection	1,277,601	-	165,048	-	(1,112,553)	-	(1,112,553)
Streets	871,762	-	-	-	(871,762)	-	(871,762)
Library	194,401	3,653	9,672	-	(181,076)	-	(181,076)
Parks and recreation	362,260	6,574	17,189	-	(338,497)	-	(338,497)
Maintenance	197,639	164,696	-	-	(32,943)	-	(32,943)
Senior center	76,194	-	-	-	(76,194)	-	(76,194)
Municipal court	198,077	22,380	-	-	(175,697)	-	(175,697)
Animal control	63,326	1,060	-	-	(62,266)	-	(62,266)
Emergency management	11,278	-	-	-	(11,278)	-	(11,278)
Permits and inspections	250,908	182,751	-	-	(68,157)	-	(68,157)
Informational technology	242,031	-	-	-	(242,031)	-	(242,031)
Interest and fiscal charges	992,174	-	-	-	(992,174)	-	(992,174)
Total governmental activities	<u>8,342,680</u>	<u>967,363</u>	<u>212,494</u>	<u>-</u>	<u>(7,162,823)</u>	<u>-</u>	<u>(7,162,823)</u>
Business-type activities							
Water and sewer	2,150,488	2,193,568	-	59,183	-	102,263	102,263
Total business-type activities	<u>2,150,488</u>	<u>2,193,568</u>	<u>-</u>	<u>59,183</u>	<u>-</u>	<u>102,263</u>	<u>102,263</u>
Total primary government	<u>\$ 10,493,168</u>	<u>\$ 3,160,931</u>	<u>\$ 212,494</u>	<u>\$ 59,183</u>	<u>(7,162,823)</u>	<u>102,263</u>	<u>(7,060,560)</u>
General revenues:							
Taxes							
Property					1,686,987	-	1,686,987
Retail sales					6,170,285	-	6,170,285
Franchise					436,760	-	436,760
Hotel					171,955	-	171,955
Mixed beverage					25,906	-	25,906
Interest					30,632	1,462	32,094
Gain on sale of asset					40,000	-	40,000
Other					162,903	31,838	194,741
Transfers					73,872	(73,872)	-
Total general revenues and transfers					<u>8,799,300</u>	<u>(40,572)</u>	<u>8,758,728</u>
Change in net assets					1,636,477	61,691	1,698,168
Net assets, beginning of year					25,717,280	7,481,460	33,198,740
Net assets, end of year					<u>\$ 27,353,757</u>	<u>\$ 7,543,151</u>	<u>\$ 34,896,908</u>

**City of Lake Worth, Texas  
Balance Sheet  
Governmental Funds  
September 30, 2010**

	General	Economic Development	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 64,261	\$ 720	\$ 1,379	\$ -	\$ 19,203	\$ 85,563
Investments	3,366,296	1,450,763	634	7,650,385	1,420,471	13,888,549
Receivables (net of allowance for uncollectibles of \$24,623)						
Property taxes	17,128	-	41,018	-	-	58,146
Accounts	64,451	17	360	322	392	65,542
Due from other governments	223,426	111,713	-	-	109,208	444,347
Due from other funds	236,809	-	3,894	-	-	240,703
Prepaid expenses	10,052	-	294,156	-	-	304,208
Other assets	47,757	-	-	-	-	47,757
<b>Total assets</b>	<b>\$ 4,030,180</b>	<b>\$ 1,563,213</b>	<b>\$ 341,441</b>	<b>\$ 7,650,707</b>	<b>\$ 1,549,274</b>	<b>\$ 15,134,815</b>
<b>Liabilities and fund balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ 236,409	\$ 2,488	\$ 3	\$ 456,004	\$ 15,685	\$ 710,589
Accrued liabilities	129,506	2,569	-	-	29,789	161,864
Due to other governments	65,988	-	-	-	-	65,988
Due to other funds	-	50	231,656	-	1,631	233,337
Deposits	400	-	-	-	-	400
Deferred revenue						
Property taxes	17,128	-	41,018	-	-	58,146
Other	690	-	-	-	-	690
<b>Total liabilities</b>	<b>450,121</b>	<b>5,107</b>	<b>272,677</b>	<b>456,004</b>	<b>47,105</b>	<b>1,231,014</b>
<b>Fund balance:</b>						
<b>Reserved for:</b>						
Economic development	-	1,558,106	-	-	-	1,558,106
Debt service	-	-	68,764	-	-	68,764
Capital projects	-	-	-	7,194,703	-	7,194,703
Street maintenance	-	-	-	-	967,273	967,273
Crime control	-	-	-	-	534,896	534,896
Other	633,877	-	-	-	-	633,877
<b>Unreserved</b>						
<b>Designated</b>						
Other	472,421	-	-	-	-	472,421
Undesignated	2,473,761	-	-	-	-	2,473,761
<b>Total fund balance</b>	<b>3,580,059</b>	<b>1,558,106</b>	<b>68,764</b>	<b>7,194,703</b>	<b>1,502,169</b>	<b>13,903,801</b>
<b>Total liabilities and fund balance</b>	<b>\$ 4,030,180</b>	<b>\$ 1,563,213</b>	<b>\$ 341,441</b>	<b>\$ 7,650,707</b>	<b>\$ 1,549,274</b>	
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						
Property taxes receivable, net of allowance are not available to pay for current period expenditures and, therefore, are deferred in the funds.						
Interest expensed in the governmental activities and prepaid in the funds.						
Some liabilities, including certificates of obligation and capital leases payable, are not due and payable in the current period and, therefore, are not reported in the funds.						
Net assets of governmental activities - statement of net assets						
						<b>\$ 27,353,757</b>

**City of Lake Worth, Texas**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**For the Fiscal Year Ended September 30, 2010**

	<u>General</u>	<u>Economic Development</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Taxes	\$ 4,193,783	\$ 1,552,608	\$ 1,222,851	\$ -	\$ 1,512,462	\$ 8,481,704
Fines	450,295	-	-	-	-	450,295
Permits and fees	326,602	-	-	-	-	326,602
Intergovernmental	46,005	-	-	-	-	46,005
Charges for services	171,307	-	-	-	-	171,307
Investment earnings	5,816	2,931	510	18,753	2,622	30,632
Miscellaneous	346,601	90	-	322	1,538	348,551
<b>Total revenues</b>	<u>5,540,409</u>	<u>1,555,629</u>	<u>1,223,361</u>	<u>19,075</u>	<u>1,516,622</u>	<u>9,855,096</u>
<b>Expenditures</b>						
<b>Current</b>						
Mayor and council	8,714	-	-	-	-	8,714
General government	983,735	192,210	-	3,179	-	1,179,124
Police	1,435,795	-	-	-	780,772	2,216,567
Fire protection	1,077,394	-	-	-	-	1,077,394
Streets	466,611	-	-	-	354,048	820,659
Library	185,674	-	-	-	-	185,674
Parks and recreation	266,673	-	-	-	-	266,673
Maintenance	191,835	-	-	-	-	191,835
Senior center	75,232	-	-	-	-	75,232
Municipal court	195,711	-	-	-	-	195,711
Animal control	61,234	-	-	-	-	61,234
Emergency management	8,477	-	-	-	-	8,477
Permits and inspections	247,319	-	-	-	-	247,319
Informational technology	224,868	-	-	-	-	224,868
Capital outlay	132,186	139,259	-	3,369,629	108,096	3,749,170
<b>Debt service</b>						
Principal	3,496	-	829,958	-	-	833,454
Interest	675	-	987,246	-	-	987,921
<b>Total expenditures</b>	<u>5,565,629</u>	<u>331,469</u>	<u>1,817,204</u>	<u>3,372,808</u>	<u>1,242,916</u>	<u>12,330,026</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,220)</u>	<u>1,224,160</u>	<u>(593,843)</u>	<u>(3,353,733)</u>	<u>273,706</u>	<u>(2,474,930)</u>
<b>Other financing sources (uses)</b>						
Transfers in	939,407	-	565,994	-	-	1,505,401
Transfers out	(147,850)	(1,081,809)	-	(62,121)	(139,749)	(1,431,529)
Sale of capital assets	40,000	-	-	-	-	40,000
<b>Total other financing sources (uses)</b>	<u>831,557</u>	<u>(1,081,809)</u>	<u>565,994</u>	<u>(62,121)</u>	<u>(139,749)</u>	<u>113,872</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	806,337	142,351	(27,849)	(3,415,854)	133,957	(2,361,058)
Fund balance, beginning of year	<u>2,773,722</u>	<u>1,415,755</u>	<u>96,613</u>	<u>10,610,557</u>	<u>1,368,212</u>	<u>16,264,859</u>
Fund balance, end of year	<u>\$ 3,580,059</u>	<u>\$ 1,558,106</u>	<u>\$ 68,764</u>	<u>\$ 7,194,703</u>	<u>\$ 1,502,169</u>	<u>\$ 13,903,801</u>

**City of Lake Worth, Texas**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of the Governmental Funds to the**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2010**

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

Net change in fund balances - total governmental funds	\$ (2,361,058)
Governmental funds report all capital outlays as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays for City owned assets exceeded depreciation in the current year.	3,224,382
The change in property tax receivable, net of allowance, is reported as revenue in the statement of activities, however this change does not provide current financial resources and is therefore not reported as revenue in the funds.	10,189
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	(70,490)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>833,454</u>
Change in net assets of governmental activities - statement of activities	<u><u>\$ 1,636,477</u></u>

**City of Lake Worth, Texas**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**- Budget and Actual -**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 4,103,850	\$ 4,082,346	\$ 4,193,783	\$ 111,437
Fines	380,890	412,540	450,295	37,755
Permits and fees	136,950	300,725	326,602	25,877
Intergovernmental	5,001	43,922	46,005	2,083
Charges for services	165,393	167,965	171,307	3,342
Investment earnings	16,569	7,389	5,816	(1,573)
Miscellaneous	215,158	335,158	346,601	11,443
<b>Total revenues</b>	<b>5,023,811</b>	<b>5,350,045</b>	<b>5,540,409</b>	<b>190,364</b>
<b>Expenditures</b>				
Mayor and council	11,145	11,145	8,714	2,431
General government	1,084,342	1,074,142	983,735	90,407
Police	1,545,121	1,523,981	1,435,795	88,186
Fire protection	1,058,025	1,103,871	1,077,394	26,477
Streets	615,640	571,930	466,611	105,319
Library	187,900	189,580	185,674	3,906
Parks and recreation	362,049	346,168	266,673	79,495
Maintenance	197,939	197,939	191,835	6,104
Senior center	75,586	76,396	75,232	1,164
Municipal court	223,285	223,285	195,711	27,574
Animal control	68,547	68,547	61,234	7,313
Emergency management	8,650	8,650	8,477	173
Permits and inspections	259,587	259,587	247,319	12,268
Informational technology	235,826	251,157	224,868	26,289
Capital outlay	170,000	198,685	132,186	66,499
Debt service				
Principal	95,594	95,594	3,496	92,098
Interest	-	-	675	(675)
<b>Total expenditures</b>	<b>6,199,236</b>	<b>6,200,657</b>	<b>5,565,629</b>	<b>635,028</b>
Deficiency of revenues under expenditures	(1,175,425)	(850,612)	(25,220)	825,392
<b>Other financing sources (uses)</b>				
Transfers in	1,139,407	939,407	939,407	-
Transfers out	(40,649)	(40,649)	(147,850)	(107,201)
Sale of capital assets	-	40,000	40,000	-
<b>Total other financing sources (uses)</b>	<b>1,098,758</b>	<b>938,758</b>	<b>831,557</b>	<b>(107,201)</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(76,667)	88,146	806,337	718,191
Fund balance, beginning of year	2,773,722	2,773,722	2,773,722	-
Fund balance, end of year	<b>\$ 2,697,055</b>	<b>\$ 2,861,868</b>	<b>\$ 3,580,059</b>	<b>\$ 718,191</b>

**City of Lake Worth, Texas**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**- Budget and Actual -**  
**Economic Development Corporation Fund**  
**For the Fiscal Year Ended September 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Sales Tax	\$ 1,350,315	\$ 1,357,071	\$ 1,552,608	\$ 195,537
Investment earnings	9,256	2,500	2,931	431
Miscellaneous	72	72	90	18
<b>Total revenues</b>	<u>1,359,643</u>	<u>1,359,643</u>	<u>1,555,629</u>	<u>195,986</u>
<b>Expenditures</b>				
General government	165,805	228,385	192,210	36,175
Capital outlay	189,368	157,876	139,259	18,617
<b>Total expenditures</b>	<u>355,173</u>	<u>386,261</u>	<u>331,469</u>	<u>54,792</u>
<b>Excess of revenues over expenditures</b>	<u>1,004,470</u>	<u>973,382</u>	<u>1,224,160</u>	<u>250,778</u>
<b>Other financing uses</b>				
Transfers out	<u>(1,112,897)</u>	<u>(1,081,809)</u>	<u>(1,081,809)</u>	<u>-</u>
<b>Excess (deficiency) of revenues over (under) expenditures and other financing uses</b>	<u>(108,427)</u>	<u>(108,427)</u>	<u>142,351</u>	<u>250,778</u>
<b>Fund Balance, beginning of year</b>	<u>1,415,755</u>	<u>1,415,755</u>	<u>1,415,755</u>	<u>-</u>
<b>Fund Balance, end of year</b>	<u>\$ 1,307,328</u>	<u>\$ 1,307,328</u>	<u>\$ 1,558,106</u>	<u>\$ 250,778</u>

**City of Lake Worth, Texas  
Statement of Net Assets  
Enterprise Fund  
September 30, 2010**

	<b>Water and Sewer Fund</b>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 41,402
Investments	707,798
Receivables	
Accounts (net of allowances for uncollectible accounts of \$9,894)	292,596
Other	3,895
Prepaid expenses	1,989
Restricted assets	
Investments	130,825
Total current assets	1,178,505
Noncurrent assets	
Deferred debt issuance costs	35,756
Capital assets	
Land	46,240
Construction in progress	333,502
Buildings and improvements	126,926
Water and sewer system	10,764,282
Machinery and equipment	1,752,668
Less accumulated depreciation	(4,007,858)
Total noncurrent assets	9,051,516
<b>Total assets</b>	<b>\$ 10,230,021</b>

The accompanying notes are an integral part of these financial statements.

**City of Lake Worth, Texas  
Statement of Net Assets  
Enterprise Fund  
September 30, 2010**

	<b>Water and Sewer Fund</b>
<b>Liabilities</b>	
Current Liabilities	
Payable from current assets	
Accounts payable	\$ 220,175
Accrued liabilities	8,032
Due to other funds	7,366
Due to other governments	4,586
Accrued vacation payable	14,856
Current portion of bonds payable	60,221
Current portion of capital leases payable	237,100
Payable from restricted assets	
Customer deposits	130,825
Total current liabilities	683,161
Noncurrent liabilities	
Net pension obligation	7,909
Bonds payable	1,995,800
Total noncurrent liabilities	2,003,709
Total liabilities	2,686,870
Net assets	
Invested in capital assets, net of related debt	6,758,395
Unrestricted	784,756
Total net assets	\$ 7,543,151

The accompanying notes are an integral part of these financial statements.



**City of Lake Worth, Texas**  
**Statement of Revenues, Expenses and**  
**Changes in Fund Net Assets**  
**Enterprise Fund**  
**For the Fiscal Year Ended September 30, 2010**

	<b>Water and Sewer Fund</b>
Operating revenues	
Water services	\$ 1,257,309
Wastewater services	928,928
Other operating revenues	7,331
Total operating revenues	2,193,568
Operating expenses	
Personnel services	391,073
Contractual services	165,886
Water purchases	406,415
Disposal charge - wastewater	606,034
Supplies and maintenance	152,371
Other operating expenses	7,210
Depreciation	333,627
Total operating expenses	2,062,616
Operating income	130,952
Nonoperating revenues (expenses)	
Intergovernmental income	59,183
Interest income	1,462
Miscellaneous	31,838
Interest expense	(87,872)
Total non-operating revenues (expenses)	4,611
Income before transfers	135,563
Transfers in	608,763
Transfers out	(682,635)
Change in net assets	61,691
Net assets, beginning of year	7,481,460
Net assets, end of year	\$ 7,543,151

The accompanying notes are an integral part of these financial statements.

**City of Lake Worth, Texas**  
**Statement of Cash Flows**  
**Enterprise Fund**  
**For the Fiscal Year Ended September 30, 2010**

	<u>Water and Sewer Fund</u>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 2,249,067
Cash paid to suppliers	(1,298,913)
Cash paid to employees	<u>(386,537)</u>
Net cash provided by operating activities	<u>563,617</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from other funds	608,763
Cash paid to other funds	<u>(701,804)</u>
Net cash used in noncapital financing activities	<u>(93,041)</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(335,687)
Proceeds from capital debt	271,000
Principal payments on capital leases	(54,402)
Principal payments on long-term debt	(211,600)
Interest paid	<u>(83,480)</u>
Net cash used in capital and related financing activities	<u>(414,169)</u>
<b>Cash flows from investing activities:</b>	
Increase in investments	(49,127)
Interest income	<u>1,462</u>
Net cash used in investing activities	<u>(47,665)</u>
Net increase in cash	8,742
Cash and cash equivalents at beginning of year	<u>32,660</u>
Cash and cash equivalents at end of year	<u>\$ 41,402</u>
 <b>Non-cash Capital and Related Financing Activities:</b>	
Acquisition of capital assets - Intergovernmental revenue	\$ 59,183
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 130,952
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	333,627
Other revenue	31,838
Decrease in accounts receivable	9,796
Increase in prepaid expenses	(1,178)
Increase in accounts payable and accrued liabilities	42,183
Increase in net pension obligation	3,925
Decrease in vacation payable	(1,391)
Increase in customer deposits	<u>13,865</u>
Net cash provided by operating activities	<u>\$ 563,617</u>

The accompanying notes are an integral part of these financial statements.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note A. Summary of Significant Accounting Policies**

The accounting policies of the City of Lake Worth, Texas conform to generally accepted accounting principles as applicable to governments, except where specifically noted. The following are the most significant policies.

**Financial Reporting Entity**

The financial statements of the City of Lake Worth are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The blended component units, although legally separate entities, are, in substance, part of the City's operation and so data from these units are combined with the data of the primary government. Both of these blended component units have a September 30th year-end.

**Blended Component Units**

**Lake Worth Crime Control & Prevention District** – The City created this entity to provide supplemental funding to the police department in order to provide funding for law enforcement. Funding for the Crime Control & Prevention District is generated from 0.25% sales tax. The governing body is currently made up of eight directors appointed by the City Council. The entity was subject to a five-year sunset provision in November 2008, in which it could be reinstated for a maximum of an additional 20 years. In November 2008, the citizenry voted to extend the Crime Control & Prevention District and related tax for an additional 10 years. The Crime Control & Prevention District provides all of its services to the City of Lake Worth, Texas and upon its dissolution all assets shall be distributed to the City. The District is considered to be a component unit of the City of Lake Worth and is treated as a special revenue fund of the City. The expenditures of the additional sales tax can only be used to provide supplemental funding to the police department in order to provide funding for law enforcement.

**Lake Worth Economic Development Corporation** – The City created this Corporation for the purpose of projects and improvements that promote economic development within the City. Funding for the Economic Development Corporation is generated from 0.50% sales tax. There are seven directors, four of whom are members of the City Council and make up a voting majority of the Corporation's Board. The remaining three members are residents of the City. All Board members are appointed by the City Council. The Corporation is authorized to sell bonds or other forms of indebtedness. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City of Lake Worth, Texas. The Corporation provides all of its services to the City of Lake Worth, Texas.

**Government-wide and fund financial statements**

The government-wide financial statements include the statement of net assets and the statement of activities. Government-wide statements report, except for City fiduciary activity, information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly through tax revenues.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note A. Summary of Significant Accounting Policies (Continued)**

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues. Separate financial statements are provided for governmental and proprietary funds. The General Fund, the Economic Development Corporation Fund, the Debt Service Fund, and the Capital Projects Fund meet the criteria as *major governmental funds*. The major funds are reported in separate columns in the fund financial statements. The Crime Control & Prevention District Fund and the Street Maintenance Fund meet the criteria as non-major funds. The amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences, net pension obligations, and claims and judgments, are recorded only when the liability has matured and payment is due.

The City reports the following major governmental funds:

**The General Fund** is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**The Economic Development Corporation Fund** is reported as a special revenue fund of the City and is utilized to account for half-penny sales tax which can only be spent on projects and improvements that promote economic development activities within the City.

**The Debt Service Fund** accounts for the accumulation of financial resources for the payment of principal, interest and related costs on long-term obligations paid primarily from taxes levied or collected by the City.

**The Capital Projects Fund** accounts for the proceeds of certificates of obligation used for the acquisition or construction of major capital improvements as established in the bond documents.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note A. Summary of Significant Accounting Policies (Continued)**

The City reports the following major proprietary fund:

**The Water and Sewer Fund** is used to account for operations that are financed and operated in a manner similar to a private business enterprise - where the intent of the City is that the cost (expenses) of providing goods or services to the general public on a continuing basis is to be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the first day of September of each year and at least thirty days prior to adoption of a tax rate for the current fiscal year, the City Manager submits to the City Council a balanced budget for the ensuing fiscal year.
2. The City Council holds one or more public hearings on the proposed budget prior to the final adoption.
3. The City Council adopts the proposed budget, with or without amendment, after public hearings and before the first day of the ensuing fiscal year.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund and Enterprise Fund.
5. Annual budgets for the General Fund, Special Revenue Funds, Debt Service Fund and Enterprise Fund are adopted on a basis consistent with generally accepted accounting principles.
6. Unused appropriations of the above annually budgeted funds lapse at the end of each fiscal year.
7. The City Council may authorize additional appropriations during the year.
8. Provisions are made in the annual budget and in the appropriation ordinance for a contingent reserve in an amount not more than three percent of the total budget, to be used in case of unforeseen items of expenditure. Such contingent reserve is under the control of the City Administrator and can be distributed after approval of the City Council. Expenditures from this reserve are made only in case of established emergencies, and a detailed account of such expenditures is recorded and reported.
9. During the fiscal year, the Council authorized and approved amendments to the budget which provided for and approved all expenditures and transfers.

**Cash Equivalents**

For purposes of the statement of cash flows, the City considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note A. Summary of Significant Accounting Policies (Continued)**

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, sidewalks, curbs, and drainage systems) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's life are not capitalized. Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	10-40 years
Water and sewer mains and extensions	40-50 years
Drainage systems	10-40 years
Autos and equipment	5-15 years
Furniture and fixtures	7-10 years
Capital leases	Lease term

The City has elected to use the modified approach for its infrastructure reporting in the government-wide statements. General infrastructure assets acquired before September 30, 2003 consisting of the road network assets acquired, or that received substantial improvements, subsequent to October 1, 1980 are reported at estimated historical cost using the deflated replacement cost. Under the modified approach the City does not record depreciation on this infrastructure. However, it must meet the following criteria: (1) keep a listing of all infrastructure assets, (2) establish and document the condition and levels at which the assets are being preserved, (3) make annual estimates necessary to maintain and preserve the eligible infrastructure at the conditions levels, (4) perform and summarize results of condition assessments for the eligible infrastructure every three years, (5) provide reasonable assurance that eligible infrastructure is being preserved approximately at or above the condition levels established. In addition to maintenance costs (expenditures which allow an asset to continue to be used during its originally established useful life), preservation costs (expenditures made to extend the original estimated useful life) are allowed under the modified approach to be expensed.

Long-Term Obligations

In the government-wide financial statements, other long-term obligations (such as certificates of obligation and capital leases) are reported as liabilities. On new certificates of obligation and bonds payable, premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt. Certificates of obligation and bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs during the current period. The face amount of the debt issued and applicable premium or discount are reported as other financial sources. Issuance costs, whether or not withheld from the actual debt proceeds received, and the debt repayment are reported as expenditures.

Fund Equity

Reservations of fund balance represent amounts that are appropriated or legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Designations of fund balance are used to show amounts within unreserved fund balance which are intended to be used for specific purposes, but are not legally restricted.

**City of Lake Worth, Texas  
Notes to Financial Statements  
September 30, 2010**

**Note A. Summary of Significant Accounting Policies (Continued)**

Concentration of Credit Risk

The City has property taxes receivable from residents and businesses all of whom are located in the City. Also, the City has utility charges receivable from residents and businesses located in the City and surrounding areas.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the City's participation in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for liability, property, and workers' compensation insurance. These are self-sustaining risk pools operated on a statewide basis for the benefit of several hundred Texas cities and other public entities. The City pays annual premiums to the TMLIRP, which retains risk of loss up to \$1,000,000 for property and liability insurance and up to \$1,500,000 for workers' compensation and obtains independent coverage for losses in excess of these amounts. The City retains no risk except for deductible amounts ranging from \$1,000 to \$10,000.

There have been no significant reductions in coverage in the past fiscal year and there have been no settlements exceeding insurance coverage in the current year or the past three fiscal years.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note B. Reconciliation of Government-wide and Fund financial statements**

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes reconciliation between fund balance for total governmental funds and net assets as reported in the government-wide statement of net assets. One element of that reconciliation explains "some liabilities, including certificates of obligation and capital leases payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$20,801,748 difference are as follows:

Capital leases payable	\$ 361,049
Certificates of obligation payable	20,458,100
Deferred issuance cost	(452,734)
Issuance premium	35,532
Accrued interest payable	46,959
Net pension obligation	109,100
Volunteer firefighter retirement obligation	47,757
Compensated absences	<u>195,985</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 20,801,748</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2010**

**Note B. Reconciliation of Government-wide and Fund financial statements (Continued)**

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation indicates that "governmental funds report all capital outlays as expenditures; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$3,224,382 difference are as follows:

Capital outlay	\$ 3,749,170
Depreciation expense	<u>(524,788)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,224,382</u>

Another element of the reconciliation states "the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of the \$833,454 difference are as follows:

Principal repayments	
Bonds	\$ 678,400
Capital leases	<u>155,054</u>
Net adjustment increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 833,454</u>

Another element of the reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds." The details of this \$70,490 difference are as follows:

Compensated absences	\$ 4,107
Net pension obligation	60,393
Volunteer firefighter retirement obligation	1,737
Accrued interest	(51,287)
Change in interest expense prepaid	37,834
Amortization of premium on bonds issued	(7,941)
Amortization of issuance cost	<u>25,647</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 70,490</u>