

CITY OF LAKE WORTH, TEXAS

**Annual Financial Report
For the Fiscal Year Ended September 30, 2007**

City of Lake Worth, Texas
For the Year Ending September 30, 2007

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

City Council

Walter Bowen, Mayor

Geoffrey White – Mayor Pro-Tem

Dona Stuard

Clint Dwayne Narmore

Myrt Fowlkes

Curtis McKay

Ronny Parsley

Gene Brooks

Administrative

Joey Highfill, City Manager

Vickie Mikel, Assistant City Manager/Director of Finance

FINANCIAL SECTION



Snow, Garrett & Company

CERTIFIED PUBLIC ACCOUNTANTS

A Partnership of Professional Corporations

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, 2007, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General fund, Economic Development Corporation fund, and the Debt Service 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 January 12, 2008, on our consideration of the City of Lake Worth's 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 the 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.

The management's discussion and analysis, the schedule of funding progress for the retirement plan, and schedule for governments using modified approach for infrastructure are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied

Page two

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Snow, Garrett & Company

Snow, Garrett & Company, CPA's
January 12, 2008

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, 2007. 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 2007 fiscal year by \$29,735,874 (*net assets*). Of this amount, \$2,244,284 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 \$22,785,793 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 \$6,371,961; of which 26% 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 \$1,676,214 equals 28% of total general fund expenditures.
- The City's total debt decreased by \$1,110,336 during the current fiscal year as a result of scheduled annual debt service 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. This report also contains other 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, information technology, transportation, and youth association. 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 13 and 14 of this report.

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 crime control prevention district special revenue fund and the street maintenance 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 above mentioned major funds to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 15 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 46 of this report.

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 48 through 49 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 \$29,735,874 as of September 30, 2007. Also, the City's net assets include prior period adjustments that resulted in restated amounts for 2006. See Note P on page 46 for additional information.

City of Lake Worth's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------|--------------------------|--------------|---------------|---------------|
| | 2006 | | 2006 | | 2006 | |
| | 2007 | Restated | 2007 | Restated | 2007 | Restated |
| Current and other assets | \$ 7,635,927 | \$ 9,512,489 | \$ 975,678 | \$ 1,073,822 | \$ 8,611,605 | \$ 10,586,311 |
| Capital assets, net of depreciation | 29,918,693 | 26,520,979 | 8,360,250 | 8,671,213 | 38,278,943 | 35,192,192 |
| Total assets | 37,554,620 | 36,033,468 | 9,335,928 | 9,745,035 | 46,890,548 | \$ 45,778,503 |
| Long-term liabilities | 12,733,302 | 13,551,932 | 2,728,946 | 3,020,652 | 15,462,248 | 16,572,584 |
| Other liabilities | 1,372,685 | 746,996 | 319,741 | 451,111 | 1,692,426 | 1,198,107 |
| Total liabilities | 14,105,987 | 14,298,928 | 3,048,687 | 3,471,763 | 17,154,674 | 17,770,691 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 17,154,489 | 17,264,603 | 5,631,304 | 5,657,750 | 22,785,793 | 22,922,353 |
| Restricted | 4,705,797 | 2,934,622 | - | - | 4,705,797 | 2,934,622 |
| Unrestricted | 1,588,347 | 1,535,315 | 655,937 | 615,522 | 2,244,284 | 2,150,837 |
| Total Net Assets | \$ 23,448,633 | \$ 21,734,540 | \$ 6,287,241 | \$ 6,273,272 | \$ 29,735,874 | \$ 28,007,812 |

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 \$22,785,793. 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 \$4,705,797 (or 16%) of the City's net assets represents resources that are subject to external restrictions on how they may be used. All restricted 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 (\$2,244,284) 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 both 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 \$1,728,062 during the current fiscal year. The City's governmental activities increased net assets by \$1,714,093. The total cost of all governmental activities this year was \$8,069,297. The amount that our taxpayers paid for these activities through property taxes was \$1,102,051 or 14%. The City's business-type activities increased net assets by \$13,969. The total cost of all business-type activities for fiscal year 2007 was \$2,154,204.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

City of Lake Worth's Change in Net Assets

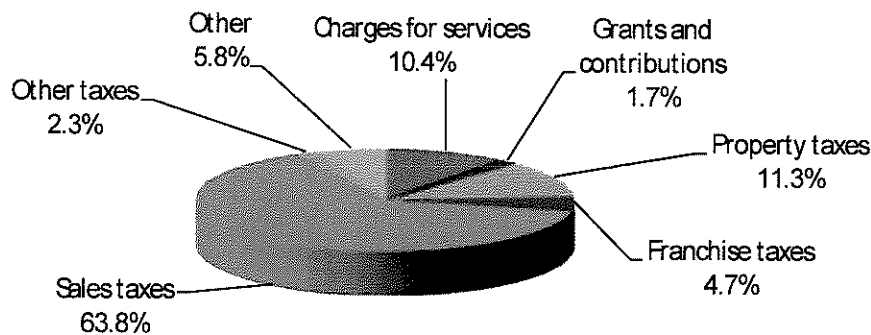
| | Governmental activities | | Business-type activities | | Total | |
|--|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,011,009 | \$ 1,029,268 | \$ 2,170,400 | \$ 2,252,871 | \$ 3,181,409 | \$ 3,282,139 |
| Operating grants and contributions | 164,207 | 25,463 | - | - | 164,207 | 25,463 |
| General revenues: | | | | | | |
| Property taxes | 1,102,051 | 897,403 | - | - | 1,102,051 | 897,403 |
| Retail sales tax | 6,197,028 | 5,795,254 | - | - | 6,197,028 | 5,795,254 |
| Franchise taxes | 457,390 | 552,321 | - | - | 457,390 | 552,321 |
| Other taxes | 219,281 | 184,930 | - | - | 219,281 | 184,930 |
| Grants not restricted to specific programs | - | 19,605 | - | - | - | 19,605 |
| Other | 578,259 | 557,416 | 70,981 | 100,693 | 649,240 | 658,109 |
| Gain (loss) on disposal of assets | (19,043) | 105,632 | - | (130,164) | (19,043) | (24,532) |
| Total revenues | 9,710,182 | 9,167,292 | 2,241,381 | 2,223,400 | 11,951,563 | 11,390,692 |
| Expenses: | | | | | | |
| Mayor and council | 20,104 | 11,885 | - | - | 20,104 | 11,885 |
| General government | 1,411,088 | 2,550,722 | - | - | 1,411,088 | 2,550,722 |
| Police | 1,969,482 | 2,156,919 | - | - | 1,969,482 | 2,156,919 |
| Fire protection | 1,066,680 | 1,275,140 | - | - | 1,066,680 | 1,275,140 |
| Streets | 1,198,740 | 1,333,867 | - | - | 1,198,740 | 1,333,867 |
| Library | 181,230 | 159,392 | - | - | 181,230 | 159,392 |
| Parks and recreation | 369,713 | 286,689 | - | - | 369,713 | 286,689 |
| Maintenance | 151,665 | 140,733 | - | - | 151,665 | 140,733 |
| Senior center | 62,895 | 91,384 | - | - | 62,895 | 91,384 |
| Municipal court | 232,335 | 150,279 | - | - | 232,335 | 150,279 |
| Animal control | 60,113 | 45,900 | - | - | 60,113 | 45,900 |
| Emergency management | 7,002 | 2,494 | - | - | 7,002 | 2,494 |
| Permits and inspections | 169,956 | 188,010 | - | - | 169,956 | 188,010 |
| Information technology | 203,532 | 259,903 | - | - | 203,532 | 259,903 |
| Transportation | 313,959 | - | - | - | 313,959 | - |
| Youth association | 68,283 | - | - | - | 68,283 | - |
| Interest on long-term debt | 582,520 | 737,668 | - | - | 582,520 | 737,668 |
| Water and wastewater | - | - | 2,154,204 | 2,067,963 | 2,154,204 | 2,067,963 |
| Total expenses | 8,069,297 | 9,390,985 | 2,154,204 | 2,067,963 | 10,223,501 | 11,458,948 |
| Increase (decrease) in net assets before transfers | 1,640,885 | (223,693) | 87,177 | 155,437 | 1,728,062 | (68,256) |
| Transfers | 73,208 | (1,499,188) | (73,208) | 1,499,188 | - | - |
| Increase (decrease) in net assets | 1,714,093 | (1,722,881) | 13,969 | 1,654,625 | 1,728,062 | (68,256) |
| Net assets, beginning of year | 19,273,494 | 20,996,375 | 8,967,630 | 7,313,005 | 28,241,124 | 28,309,380 |
| Prior period adjustment | 2,461,046 | - | (2,694,358) | - | (233,312) | - |
| Net assets, beginning of year, restated | 21,734,540 | 20,996,375 | 6,273,272 | 7,313,005 | 28,007,812 | 28,309,380 |
| Net assets, end of year | \$ 23,448,633 | \$ 19,273,494 | \$ 6,287,241 | \$ 8,967,630 | \$ 29,735,874 | \$ 28,241,124 |

Governmental activities. Governmental activities increased the City's net assets by \$1,714,093. The key elements of this increase are as follows:

- An increase in sales tax collections due to new retailers within the City;
- Increased collection of property tax revenue due to an increase in assessed valuation; and
- Increase in operating grants and contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net assets by \$13,969. Key elements of this increase are as follows:

- Milder weather and more rainfall resulted in a decrease in water services revenues.
- However, there was an increase in wastewater services revenues; and decreases in water purchases and supplies and maintenance expenses compared to the prior year.

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 \$6,371,961 - a decrease of \$2,494,558 in comparison with the prior year. \$1,676,214 or 26% 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 (\$268,765), to fund capital projects (\$2,163,444), for crime control (\$653,945), for economic development (\$890,375), for street maintenance (\$331,218), and for other reserves (\$388,000).

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 \$2,064,214, which is 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 28%, or slightly more than 102 days of total fund expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The fund balance of the City's general fund increased by \$209,349 during the current fiscal year. The key factors in this increase are as follows:

- Increase in sales and property taxes collected due to new commercial developments;
- Increase in franchise fees and other revenue sources; and
- Decreases in various expenditure accounts.

GENERAL FUND BUDGETARY HIGHLIGHTS

Amendments to the original 2006-2007 general fund annual budget were relatively minor and can be briefly summarized as follows:

- Increase in property tax revenue;
- Increase in interest income received from investments; and
- Increase in fire protection and parks and recreation expenditures for the City.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City's investments in total capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$38,278,943 (net of accumulated depreciation). Investments in capital assets related to governmental activities (\$29,918,693) 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 (\$8,360,250) 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 purchases of land for \$739,188;
- Began construction of park improvements for \$276,005;
- Began lift station reconstruction of \$44,070;
- The purchase of a street broom machine for the maintenance of streets;
- The purchase of two police vehicles totaling \$43,702; and
- The purchase of various crime control equipment totaling \$46,986.

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

| | Governmental Activities | | Business-type Activities | | Total | |
|-------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2006 | | 2006 | | 2006 | |
| | 2007 | Restated | 2007 | Restated | 2007 | Restated |
| Land | \$ 1,639,977 | \$ 900,789 | \$ 46,240 | \$ 46,240 | \$ 1,686,217 | \$ 947,029 |
| Construction in progress | 251,093 | - | 44,070 | - | 295,163 | - |
| Buildings and improvements | 3,981,071 | 4,102,174 | 100,344 | 103,342 | 4,081,415 | 4,205,516 |
| Infrastructure | 22,420,535 | 19,720,835 | - | - | 22,420,535 | 19,720,835 |
| Water and sewer system | - | - | 7,565,618 | 7,777,784 | 7,565,618 | 7,777,784 |
| Equipment and vehicles | 1,605,716 | 1,754,440 | 603,978 | 743,847 | 2,209,694 | 2,498,287 |
| Office furniture and fixtures | 20,301 | 42,741 | - | - | 20,301 | 42,741 |
| Total | \$ 29,918,693 | \$ 26,520,979 | \$ 8,360,250 | \$ 8,671,213 | \$ 38,278,943 | \$ 35,192,192 |

Additional information on the City's capital assets can be found in Note G on pages 35 and 36 of this report.

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 30th were as follows:

| <u>Condition rating</u> | <u>2007</u> | <u>2006</u> |
|-------------------------|-------------|-------------|
| At least 2-4 | 24.76% | 28.13% |
| At least 5-7 | 36.38% | 34.15% |
| At least 8-10 | 38.86% | 37.72% |

For fiscal year 2007, the City estimated that \$1,336,200 was needed to meet this goal. The actual amount used for maintenance and preservation of the City's roads was \$1,186,713. Additional information on road condition data is included in the schedule on page 49 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lake Worth had total debt outstanding of \$15,462,248. Of this amount, \$11,960,000 represents certificates of obligation secured by property tax collections, and \$2,510,000 secured by water and sewer revenues, and \$992,248 represents capital lease obligations. The City's total debt decreased by \$1,110,336 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 2006-2007 was \$.314029 per \$100 assessed valuation, of which all was for maintenance and operations.

Additional information on the City's long-term debt can be found in Note H on pages 37 through 39 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 2008, the City Council and management considered the following factors:

- Property tax revenues are budgeted to increase because of a rise in certified values. Also, new single-family residential homes and new commercial businesses within the City will increase property tax revenue;
- Capital Projects expenditures related to the construction of City facilities and Comanche Creek are budgeted to increase; and
- Infrastructure improvement projects within the City are budgeted to increase for fiscal year 2008.

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, 2007

| | Primary Government | | |
|---|----------------------------|-----------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 152,972 | \$ 5,646 | \$ 158,618 |
| Investments | 6,813,055 | 595,469 | 7,408,524 |
| Receivables, net of allowances for uncollectibles | | | |
| Accounts | 106,010 | 255,768 | 361,778 |
| Taxes | 51,349 | | 51,349 |
| Other | 436 | 3,546 | 3,982 |
| Due to other governments | 457,878 | | 457,878 |
| Interfund balances | 2,005 | (2,005) | - |
| Prepaid expenses | 6,477 | 449 | 6,926 |
| Inventory | 948 | | 948 |
| Restricted investments | | 116,805 | 116,805 |
| Deferred issuance cost | 44,797 | | 44,797 |
| Capital assets | | | |
| Infrastructure using modified approach | 22,420,535 | | 22,420,535 |
| Land and construction in progress | 1,891,070 | 90,310 | 1,981,380 |
| Other capital assets, net of depreciation | 5,607,088 | 8,269,940 | 13,877,028 |
| Total capital assets | <u>29,918,693</u> | <u>8,360,250</u> | <u>38,278,943</u> |
| Total assets | <u>37,554,620</u> | <u>9,335,928</u> | <u>46,890,548</u> |
| Liabilities | | | |
| Accounts payable and accrued expenses | 1,104,979 | 185,722 | 1,290,701 |
| Interest payable | 75,699 | | 75,699 |
| Payable from restricted funds: | | | |
| Customer deposits | | 116,805 | 116,805 |
| Due to other governments | 62,841 | 8,856 | 71,697 |
| Accrued vacation payable | 129,166 | 8,358 | 137,524 |
| Long-term liabilities | | | |
| Due within one year | 756,356 | 302,234 | 1,058,590 |
| Due in more than one year | 11,976,946 | 2,426,712 | 14,403,658 |
| Total liabilities | <u>14,105,987</u> | <u>3,048,687</u> | <u>17,154,674</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 17,154,489 | 5,631,304 | 22,785,793 |
| Restricted for economic development | 890,375 | | 890,375 |
| Restricted for debt service | 278,815 | | 278,815 |
| Restricted for capital projects | 2,163,444 | | 2,163,444 |
| Restricted for street maintenance | 331,218 | | 331,218 |
| Restricted for crime control | 653,945 | | 653,945 |
| Restricted for other | 388,000 | | 388,000 |
| Unrestricted | 1,588,347 | 655,937 | 2,244,284 |
| Total net assets | <u>\$ 23,448,633</u> | <u>\$ 6,287,241</u> | <u>\$ 29,735,874</u> |

City of Lake Worth, Texas
Statement of Activities
For the Fiscal Year Ended September 30, 2007

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes In Net Assets | | |
|---|------------------|----------------------|------------------------------------|---|--------------------------|---------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-type Activities | Total |
| Primary Government | | | | | | |
| Governmental activities | | | | | | |
| Mayor and council | \$ 20,104 | \$ - | \$ - | \$ (20,104) | \$ | \$ (20,104) |
| General government | 1,411,088 | 85,783 | | (1,325,305) | | (1,325,305) |
| Police | 1,969,482 | 527,741 | | (1,441,741) | | (1,441,741) |
| Fire protection | 1,066,680 | | 146,792 | (919,888) | | (919,888) |
| Streets | 1,198,740 | | | (1,198,740) | | (1,198,740) |
| Library | 181,230 | 4,519 | 4,415 | (172,296) | | (172,296) |
| Parks and recreation | 369,713 | 180 | 13,000 | (356,533) | | (356,533) |
| Maintenance | 151,665 | 144,970 | | (6,695) | | (6,695) |
| Senior center | 62,895 | | | (62,895) | | (62,895) |
| Municipal court | 232,335 | 27,188 | | (205,147) | | (205,147) |
| Animal control | 60,113 | 1,619 | | (58,494) | | (58,494) |
| Emergency management | 7,002 | | | (7,002) | | (7,002) |
| Permits and inspections | 169,956 | 142,458 | | (27,498) | | (27,498) |
| Informational technology | 203,532 | | | (203,532) | | (203,532) |
| Transportation | 313,959 | 12,967 | | (300,992) | | (300,992) |
| Youth association | 68,283 | 63,584 | | (4,699) | | (4,699) |
| Interest and fiscal charges | 582,520 | | | (582,520) | | (582,520) |
| Total governmental activities | 8,069,297 | 1,011,009 | 164,207 | (6,894,081) | - | (6,894,081) |
| Business-type activities | | | | | | |
| Water and sewer | 2,154,204 | 2,170,400 | | | 16,196 | 16,196 |
| Total business-type activities | 2,154,204 | 2,170,400 | - | - | 16,196 | 16,196 |
| Total primary government | \$ 10,223,501 | \$ 3,181,409 | \$ 164,207 | (6,894,081) | 16,196 | (6,877,885) |
| General revenues: | | | | | | |
| Taxes | | | | | | |
| Property | | | | 1,102,051 | | 1,102,051 |
| Retail sales | | | | 6,197,028 | | 6,197,028 |
| Franchise | | | | 457,390 | | 457,390 |
| Hotel | | | | 202,593 | | 202,593 |
| Mixed beverage | | | | 16,688 | | 16,688 |
| Interest | | | | 451,775 | 42,657 | 494,432 |
| Other | | | | 126,484 | 28,324 | 154,808 |
| Loss on disposal of assets | | | | (19,043) | | (19,043) |
| Transfers | | | | 73,208 | (73,208) | - |
| Total general revenues and transfers | | | | 8,608,174 | (2,227) | 8,605,947 |
| Change in net assets | | | | 1,714,093 | 13,969 | 1,728,062 |
| Net assets, beginning of year | | | | 19,273,494 | 8,967,630 | 28,241,124 |
| Prior period adjustment | | | | 2,461,046 | (2,694,358) | (233,312) |
| Net assets, beginning of year, restated | | | | 21,734,540 | 6,273,272 | 28,007,812 |
| Net assets, end of year | | | | \$ 23,448,633 | \$ 6,287,241 | \$ 29,735,874 |

City of Lake Worth, Texas
Balance Sheet
Governmental Funds
September 30, 2007

| | General | Economic Development | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------------|-------------------|---------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 101,976 | \$ 720 | \$ 6,899 | \$ 36,987 | \$ 6,390 | \$ 152,972 |
| Investments | 2,021,091 | 813,224 | 261,677 | 2,749,119 | 967,944 | 6,813,055 |
| Receivables (net of allowance for uncollectibles) | | | | | | |
| Property taxes | 26,191 | | 25,158 | | | 51,349 |
| Accounts | 96,520 | 7 | 163 | | 9,320 | 106,010 |
| Other | 379 | | 26 | 7 | 24 | 436 |
| Due from other governments | 230,057 | 115,029 | | | 112,792 | 457,878 |
| Due from other funds | 64,370 | | | | 11,570 | 75,940 |
| Prepaid expenses | 5,338 | 222 | | | 917 | 6,477 |
| Inventory | 948 | | | | | 948 |
| Total assets | \$ 2,546,870 | \$ 929,202 | \$ 293,923 | \$ 2,786,113 | \$ 1,108,957 | \$ 7,665,065 |
| Liabilities and fund balance | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 194,118 | \$ 4,632 | \$ | \$ 622,669 | \$ 89,805 | \$ 911,224 |
| Accrued liabilities | 167,131 | 3,187 | | | 21,117 | 191,435 |
| Due to other governments | 62,841 | | | | | 62,841 |
| Due to other funds | 30,055 | 31,008 | | | 12,872 | 73,935 |
| Deposits | 2,320 | | | | | 2,320 |
| Deferred revenue | | | | | | |
| Property taxes | 26,191 | | 25,158 | | | 51,349 |
| Total liabilities | 482,656 | 38,827 | 25,158 | 622,669 | 123,794 | 1,293,104 |
| Fund balance: | | | | | | |
| Reserved for: | | | | | | |
| Economic development | | 890,375 | | | | 890,375 |
| Debt service | | | 268,765 | | | 268,765 |
| Capital projects | | | | 2,163,444 | | 2,163,444 |
| Street maintenance | | | | | 331,218 | 331,218 |
| Crime control | | | | | 653,945 | 653,945 |
| Other | 388,000 | | | | | 388,000 |
| Unreserved | | | | | | |
| Designated | | | | | | |
| Other | 115,082 | | | | | 115,082 |
| Undesignated | 1,561,132 | | | | | 1,561,132 |
| Total fund balance | 2,064,214 | 890,375 | 268,765 | 2,163,444 | 985,163 | 6,371,961 |
| Total liabilities and fund balance | \$ 2,546,870 | \$ 929,202 | \$ 293,923 | \$ 2,786,113 | \$ 1,108,957 | |
| 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. | | | | | | |
| | | | | | | |
| 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 | | | | | | |
| | | | | | | \$ 23,448,633 |

City of Lake Worth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended September 30, 2007

| | General | Economic Development | Debt Service | Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------------|-------------------|---------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Taxes | \$ 4,180,659 | \$ 1,559,360 | \$ 716,059 | \$ | \$ 1,518,948 | \$ 7,975,026 |
| Fines | 531,860 | | | | | 531,860 |
| Permits and fees | 281,841 | | | | | 281,841 |
| Intergovernmental | 21,438 | | | | | 21,438 |
| Charges for services | 147,655 | | | | | 147,655 |
| Investment earnings | 110,073 | 36,513 | 18,496 | 246,076 | 40,617 | 451,775 |
| Miscellaneous | 310,712 | 90 | | 7,562 | 7,542 | 325,906 |
| Total revenues | 5,584,238 | 1,595,963 | 734,555 | 253,638 | 1,567,107 | 9,735,501 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Mayor and council | 19,309 | | | | | 19,309 |
| General government | 968,460 | 269,397 | | 48,504 | | 1,286,361 |
| Police | 1,490,399 | | | | 423,274 | 1,913,673 |
| Fire protection | 941,963 | | | | | 941,963 |
| Streets | 582,303 | | | | 567,640 | 1,149,943 |
| Library | 173,898 | | | | | 173,898 |
| Parks and recreation | 338,483 | | | | | 338,483 |
| Maintenance | 142,209 | | | | | 142,209 |
| Senior center | 62,645 | | | | | 62,645 |
| Municipal court | 228,965 | | | | | 228,965 |
| Animal control | 57,678 | | | | | 57,678 |
| Emergency management | 4,201 | | | | | 4,201 |
| Permits and inspections | 169,956 | | | | | 169,956 |
| Informational technology | 181,088 | | | | | 181,088 |
| Transportation | 313,959 | | | | | 313,959 |
| Youth association | 68,283 | | | | | 68,283 |
| Capital outlay | 319,707 | | | 3,438,888 | 83,756 | 3,842,351 |
| Debt service | | | | | | |
| Principal | 27,312 | | 785,441 | | 5,877 | 818,630 |
| Interest | 1,900 | | 587,160 | | 612 | 589,672 |
| Total expenditures | 6,092,718 | 269,397 | 1,372,601 | 3,487,392 | 1,081,159 | 12,303,267 |
| Excess (deficiency) of revenues over (under) expenditures | (508,480) | 1,326,566 | (638,046) | (3,233,754) | 485,948 | (2,567,766) |
| Other financing sources (uses) | | | | | | |
| Transfers in | 1,170,936 | | 656,735 | | | 1,827,671 |
| Transfers out | (453,107) | (1,064,783) | | (44,070) | (192,503) | (1,754,463) |
| Total other financing sources (uses) | 717,829 | (1,064,783) | 656,735 | (44,070) | (192,503) | 73,208 |
| Excess of revenues and other financing sources over (under) expenditures and other financing uses | 209,349 | 261,783 | 18,689 | (3,277,824) | 293,445 | (2,494,558) |
| Fund balance, beginning of year | 1,860,193 | 628,592 | 251,164 | 5,441,268 | 691,718 | 8,872,935 |
| Prior period adjustment | (5,328) | - | (1,088) | - | - | (6,416) |
| Fund balance, beginning of year, restated | 1,854,865 | 628,592 | 250,076 | 5,441,268 | 691,718 | 8,866,519 |
| Fund balance, end of year | <u>\$ 2,064,214</u> | <u>\$ 890,375</u> | <u>\$ 268,765</u> | <u>\$ 2,163,444</u> | <u>\$ 985,163</u> | <u>\$ 6,371,961</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, 2007

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

| | |
|--|----------------|
| Net change in fund balances - total governmental funds | \$ (2,494,558) |
|--|----------------|

| | |
|---|-----------|
| 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. | 3,423,757 |
|---|-----------|

| | |
|--|----------|
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. | (26,043) |
|--|----------|

| | |
|--|-----|
| 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 revenues in the funds. | 724 |
|--|-----|

| | |
|--|---------|
| Some expenses reported in the statement of activities and do not require the use of current financial resources and, therefore, are not reported as an expenditure in the funds. | (8,417) |
|--|---------|

| | |
|--|----------------|
| 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>818,630</u> |
|--|----------------|

| | |
|---|----------------------------|
| Change in net assets of governmental activities - statement of activities | <u><u>\$ 1,714,093</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, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|--|-------------------------|---------------------|---------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 4,183,077 | \$ 4,215,577 | \$ 4,180,659 | \$ (34,918) |
| Fines | 497,300 | 497,300 | 531,860 | 34,560 |
| Permits and fees | 211,354 | 265,732 | 281,841 | 16,109 |
| Intergovernmental | - | 21,385 | 21,438 | 53 |
| Charges for services | 131,640 | 133,903 | 147,655 | 13,752 |
| Investment earnings | 80,700 | 100,970 | 110,073 | 9,103 |
| Miscellaneous | 182,736 | 228,656 | 310,712 | 82,056 |
| Total revenues | 5,286,807 | 5,463,523 | 5,584,238 | 120,715 |
| Expenditures | | | | |
| Mayor and council | 18,740 | 20,218 | 19,309 | 909 |
| General government | 1,105,458 | 1,059,595 | 968,460 | 91,135 |
| Police | 1,709,936 | 1,576,897 | 1,490,399 | 86,498 |
| Fire protection | 843,233 | 933,938 | 941,963 | (8,025) |
| Streets | 620,548 | 620,994 | 582,303 | 38,691 |
| Library | 167,447 | 169,957 | 173,898 | (3,941) |
| Parks and recreation | 259,232 | 337,757 | 338,483 | (726) |
| Maintenance | 146,962 | 146,962 | 142,209 | 4,753 |
| Senior center | 64,117 | 61,117 | 62,645 | (1,528) |
| Municipal court | 207,055 | 243,808 | 228,965 | 14,843 |
| Animal control | 49,141 | 60,886 | 57,678 | 3,208 |
| Emergency management | 3,050 | 3,050 | 4,201 | (1,151) |
| Permits and inspections | 203,552 | 177,324 | 169,956 | 7,368 |
| Informational technology | 179,252 | 195,102 | 181,088 | 14,014 |
| Transportation | 315,265 | 315,265 | 313,959 | 1,306 |
| Youth association | - | 63,967 | 68,283 | (4,316) |
| Capital outlay | 150,000 | 329,702 | 319,707 | 9,995 |
| Debt service | | | | |
| Principal | - | - | 27,312 | (27,312) |
| Interest | - | - | 1,900 | (1,900) |
| Total expenditures | 6,042,988 | 6,316,539 | 6,092,718 | 223,821 |
| Excess (deficiency) of revenues over (under) expenditures | (756,181) | (853,016) | (508,480) | 344,536 |
| Other financing sources (uses) | | | | |
| Transfers in | 1,130,330 | 1,130,330 | 1,170,936 | 40,606 |
| Transfers out | (315,260) | (453,107) | (453,107) | - |
| Total other financing sources (uses) | 815,070 | 677,223 | 717,829 | 40,606 |
| Excess of revenues and other financing sources over (under) expenditures and other financing uses | 58,889 | (175,793) | 209,349 | 385,142 |
| Fund balance, beginning of year | 1,860,193 | 1,860,193 | 1,860,193 | - |
| Prior period adjustment | - | - | (5,328) | (5,328) |
| Fund balance, beginning of year, restated | 1,860,193 | 1,860,193 | 1,854,865 | (5,328) |
| Fund balance, end of year | \$ 1,919,082 | \$ 1,684,400 | \$ 2,064,214 | \$ 379,814 |

City of Lake Worth, Texas
Statement of Revenues, Expenditures and Changes in Fund Balance
- Budget and Actual -
Economic Development Fund
For the Fiscal Year Ended September 30, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Favorable (Unfavorable) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Sales Tax | \$ 1,562,550 | \$ 1,562,550 | \$ 1,559,360 | \$ (3,190) |
| Interest | 25,000 | 25,000 | 36,513 | 11,513 |
| Miscellaneous | - | - | 90 | 90 |
| Total revenues | <u>1,587,550</u> | <u>1,587,550</u> | <u>1,595,963</u> | <u>8,413</u> |
| Expenditures | | | | |
| General government | 343,444 | 343,444 | 269,397 | 74,047 |
| Total expenditures | <u>343,444</u> | <u>343,444</u> | <u>269,397</u> | <u>74,047</u> |
| Excess of revenues over expenditures | <u>1,244,106</u> | <u>1,244,106</u> | <u>1,326,566</u> | <u>82,460</u> |
| Other financing uses | | | | |
| Transfers out | (1,033,783) | (1,064,783) | (1,064,783) | - |
| Total other financing uses | <u>(1,033,783)</u> | <u>(1,064,783)</u> | <u>(1,064,783)</u> | <u>-</u> |
| Excess of revenues over expenditures and other financing uses | 210,323 | 179,323 | 261,783 | (82,460) |
| Fund-Balance, beginning of year | <u>628,592</u> | <u>628,592</u> | <u>628,592</u> | <u>-</u> |
| Fund Balance, end of year | <u>\$ 838,915</u> | <u>\$ 807,915</u> | <u>\$ 890,375</u> | <u>\$ (82,460)</u> |

City of Lake Worth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual -
Debt Service Fund
For the Fiscal Year Ended September 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Variance with Final Budget Favorable (Unfavorable)</u> |
|---|-------------------------------|---------------------------|---|
| | <u>Original and Final</u> | <u>Actual Amounts</u> | |
| Revenues | | | |
| Property Taxes | \$ 715,112 | \$ 716,059 | \$ 947 |
| Investment earnings | 8,700 | 18,496 | 9,796 |
| | <u>723,812</u> | <u>734,555</u> | <u>10,743</u> |
| Expenditures | | | |
| Debt service | | | |
| Principal | 1,083,024 | 785,441 | 297,583 |
| Interest | 738,716 | 587,160 | 151,556 |
| | <u>1,821,740</u> | <u>1,372,601</u> | <u>449,139</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,097,928)</u> | <u>(638,046)</u> | <u>459,882</u> |
| Other financing sources | | | |
| Transfers in | 1,097,928 | 656,735 | (441,193) |
| | <u>1,097,928</u> | <u>656,735</u> | <u>(441,193)</u> |
| Excess of revenues and other financing sources over expenditures | - | 18,689 | 18,689 |
| Fund balance, beginning of year | 251,164 | 251,164 | - |
| Prior period adjustment | - | (1,088) | (1,088) |
| Fund balance, beginning of year, restated | <u>251,164</u> | <u>250,076</u> | <u>(1,088)</u> |
| Fund balance, end of year | <u>\$ 251,164</u> | <u>\$ 268,765</u> | <u>\$ 17,601</u> |

City of Lake Worth, Texas
Statement of Net Assets
Enterprise Fund
September 30, 2007

| | Water and Sewer Fund |
|---|---------------------------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 5,646 |
| Investments | 595,469 |
| Receivables | |
| Accounts, net of allowances for uncollectible accounts of \$9,894) | 255,768 |
| Other | 3,546 |
| Prepaid expenses | 449 |
| Due from other funds | 733 |
| | |
| Restricted assets | |
| Investments | 116,805 |
| | |
| Total current assets | 978,416 |
| | |
| Noncurrent assets | |
| Land | 46,240 |
| Construction in progress | 44,070 |
| Buildings and improvements | 119,938 |
| Water and sewer system | 9,524,855 |
| Machinery and equipment | 1,631,990 |
| Less accumulated depreciation | (3,006,843) |
| | |
| Total noncurrent assets | 8,360,250 |
| | |
| Total assets | \$ 9,338,666 |

**City of Lake Worth, Texas
Statement of Net Assets
Enterprise Fund
September 30, 2007**

| | <u>Water and Sewer Fund</u> |
|---|--|
| Liabilities | |
| Current Liabilities | |
| Payable from current assets | |
| Accounts payable | \$ 174,645 |
| Accrued liabilities | 11,077 |
| Due to other funds | 2,738 |
| Due to other governments | 8,856 |
| Accrued vacation payable | 8,358 |
| Payable from restricted assets | |
| Current portion of certificates of obligation payable | 195,000 |
| Current portion of capital leases payable | 107,234 |
| Customer deposits | <u>116,805</u> |
| Total current liabilities | 624,713 |
| Noncurrent liabilities | |
| Certificates of obligation payable | 2,315,000 |
| Capital leases payable | <u>111,712</u> |
| Total noncurrent liabilities | <u>2,426,712</u> |
| Total liabilities | 3,051,425 |
| Net assets | |
| Invested in capital assets, net of related debt | 5,631,304 |
| Unrestricted | <u>655,937</u> |
| Total net assets | <u><u>\$ 6,287,241</u></u> |

City of Lake Worth, Texas
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Enterprise Fund
For the Fiscal Year Ended September 30, 2007

| | Water and Sewer Fund |
|---|---------------------------------|
| Operating revenues | |
| Water services | \$ 1,216,384 |
| Wastewater services | 947,866 |
| Other operating revenues | 6,150 |
| Total operating revenues | 2,170,400 |
| Operating expenses | |
| Personnel services | 330,794 |
| Contractual services | 230,974 |
| Water purchases | 374,370 |
| Disposal charge - wastewater | 470,676 |
| Supplies and maintenance | 222,366 |
| Other operating expenses | 20,502 |
| Depreciation | 355,033 |
| Total operating expenses | 2,004,715 |
| Operating income | 165,685 |
| Nonoperating revenues (expenses) | |
| Interest income | 42,657 |
| Miscellaneous | 28,324 |
| Interest expense | (149,489) |
| Total non-operating revenues (expenses) | (78,508) |
| Income before transfers | 87,177 |
| Transfers in | 585,232 |
| Transfers out | (658,440) |
| Change in net assets | 13,969 |
| Net assets, beginning of year | 8,967,630 |
| Prior period adjustment | (2,694,358) |
| Net assets, beginning of year, restated | 6,273,272 |
| Net assets, end of year | \$ 6,287,241 |

City of Lake Worth, Texas
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended September 30, 2007

| | Water and Sewer Fund |
|---|---------------------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 2,192,315 |
| Cash paid to suppliers | (1,427,316) |
| Cash paid to employees | (326,991) |
| Net cash provided by operating activities | 438,008 |
| Cash flows from noncapital financing activities: | |
| Cash received from other funds | 584,981 |
| Cash paid to other funds | (683,840) |
| Net cash used in noncapital financing activities | (98,859) |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (44,070) |
| Principal payments on capital leases | (106,706) |
| Principal payments on long-term debt | (185,000) |
| Interest paid | (149,489) |
| Net cash used in capital and related financing activities | (485,265) |
| Cash flows from investing activities: | |
| Increase in investments | 96,829 |
| Interest income | 42,657 |
| Net cash provided by investing activities | 139,486 |
| Net decrease in cash | (6,630) |
| Cash and cash equivalents at beginning of year | 12,276 |
| Cash and cash equivalents at end of year | \$ 5,646 |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 165,685 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation | 355,033 |
| Other revenue | 28,324 |
| Increase in accounts receivable | (8,699) |
| Decrease in prepaid expenses | 1,379 |
| Decrease in accounts payable and accrued liabilities | (107,134) |
| Increase in vacation payable | 1,130 |
| Increase in customer deposits | 2,290 |
| Net cash provided by operating activities | \$ 438,008 |

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note A. 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 and 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 and Prevention District is generated from .25% of sales tax. The governing body is currently made up of eight directors appointed by the City Council. The entity is subject to a five-year sunset provision in November 2008, in which it can be reinstated for a maximum of an additional 20 years. The Crime Control and 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 Corporation 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 .50% of sales tax. The Corporation's governing body is substantially the same as the governing body of the City of Lake Worth. 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.

The remainder of the Notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2007.

Note B. 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.

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 by taxes and intergovernmental revenues.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note B. 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. Non-major funds include the Crime Control and Prevention District Special Revenue fund and the Street Maintenance fund. 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 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.

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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note B. Summary of Significant Accounting Policies (Continued)

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.

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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note B. Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. 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 obligations 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 recognized debt premiums and discounts, as well as issuance costs during the current period. The face amount of the debt issued is reported as other financial sources net of the applicable premium or discount. 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 equity are used to show amounts within unreserved equity which are intended to be used for specific purposes, but are not legally restricted.

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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note B. Summary of Significant Accounting Policies (Continued)

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 C. Reconciliation of Government-wide and Fund financial statements

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

- A. The governmental fund balance sheet includes a 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 \$12,893,370 difference are as follows:

| | |
|--|-------------------|
| Capital leases payable | \$ 773,302 |
| Certificate of obligation payable | 11,960,000 |
| Deferred issuance cost | (44,797) |
| Accrued interest payable | 75,699 |
| Compensated absences | 129,166 |
| Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities | \$ 12,893,370 |

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note C. 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 a 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 \$3,423,757 difference are as follows:

| | |
|--|----------------------------|
| Capital outlay | \$ 3,842,351 |
| Depreciation expense | <u>(418,594)</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | <u><u>\$ 3,423,757</u></u> |

Another element of the reconciliation states that "some expenses reported in the statement of activities and do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds." The details of this \$8,417 difference are as follows:

| | |
|--|--------------------------|
| Compensated absences | \$ (15,569) |
| Accrued interest | 9,730 |
| Amortization of issuance cost | <u>(2,578)</u> |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | <u><u>\$ (8,417)</u></u> |

Note D. Deposits, Securities, and Investments

Chapter 2256 of the Texas Government code (the Public Funds Investment Act) authorizes the City to invest its funds under a written investment policy (the "Investment Policy") that primarily emphasizes safety of principal, availability of liquidity to meet the City's obligations and market rate of return. The Investment Policy defines what constitutes the legal list of investments allowed under the policy, which excludes certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the Investment Policy. The Investment Policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition it includes an "Investment Strategy" that specifically addresses each fund's investment options and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, and public trust.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note D. Deposits, Securities, and Investments (Continued)

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the Investment policy:

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities;
2. Direct obligations of the State of Texas, or its agencies and instrumentalities;
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or respective agencies and instrumentalities, excluding mortgage-related securities;
4. Certificates of Deposit issued by a depository institution that has its main office or branch in the state of Texas that is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or as further described in the Investment policy;
5. Eligible Local Government Investment Pools;
6. Regulated No-Load Money Market Mutual Funds; and
7. Repurchase agreements, reverse repurchase agreements, bankers' acceptances and commercial paper that are described in more detail in the Investment policy.

All investments held by the City at September 30, 2007 were in the TexPool, TexSTAR, and Lone Star Investment Pool.

TexPool, which is a local government investment pool, was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool, with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses the amortized cost, which seeks to maintain a constant net asset value of \$1.00 per unit, rather than market value to report net assets and compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

TexSTAR is managed by a five-member Board of Directors in accordance with its bylaws which set forth procedures governing the selection of, and actions taken by the Board. Board oversight is maintained through daily, weekly, and monthly reporting contracts. Administration of TexSTAR is maintained by JPMorgan Chase, Inc. and First Southwest Asset Management, Inc. who serve as co-administrators for TexSTAR under contract with the Board. The contract may be extended periodically to a term of two years or less. In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board. The members of the board are composed of participants and other persons who do not have a business relationship with TexSTAR. Members are appointed and serve at the will of the Board of Directors. TexSTAR is rated AAAM by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost rather than market value. Accordingly, the fair value of the position in TexSTAR is the same as the value of the TexSTAR shares.

The Lone Star Investment Pool is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, LLC with Standish Mellon and American Beacon Advisors managing the investment and reinvestment of the Pool's assets. All of the Board of Trustees' 11 members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of participants and other knowledgeable individuals representing public schools, public junior colleges, cities, counties, and other local governments. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The City is invested in the Liquidity Plus Fund of Lone Star which seeks to maintain a net asset value of 50 cents.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note D. Deposits, Securities, and Investments (Continued)

As of September 30, 2007, the City had the following investments:

| | <u>Market Value</u> | <u>% of Total</u> |
|---|---------------------|-------------------|
| TexPool - Pooled | | |
| General Fund | \$ 625,683 | |
| Street Maintenance Fund | 362,465 | |
| Crime Control Prevention District Fund | 296,733 | |
| Debt Service Fund | 149,486 | |
| Capital Projects Fund | 1,021,210 | |
| Total TexPool - Pooled | <u>2,455,577</u> | 32.63% |
| TexPool - Economic Development Corporation Fund | 556,376 | 7.39% |
| TexPool - Water and Sewer Fund | 446,928 | 5.94% |
| TexPool - Capital Projects Fund | 1,372,449 | 18.24% |
| TexSTAR - Pooled | | |
| General Fund | 556,439 | |
| Capital Projects Fund | 355,460 | |
| Total TexSTAR - Pooled | <u>911,899</u> | 12.12% |
| Lone Star Investment Pool - Pooled | | |
| General Fund | 838,969 | |
| Crime Control Prevention District Fund | 308,746 | |
| Debt Service Fund | 112,191 | |
| Total Lone Star Investment Pool - Pooled | <u>1,259,906</u> | 16.74% |
| Lone Star Investment Pool - Economic Development Corporation Fund | 256,848 | 3.41% |
| Lone Star Investment Pool - Water and Sewer Fund | 265,346 | 3.53% |
| Total Investments | <u>\$ 7,525,329</u> | <u>100.00%</u> |

As reported in the Statement of Net Assets:

| | |
|--------------------------|---------------------|
| Governmental Activities | |
| Investments | \$ 6,813,055 |
| Business-Type Activities | |
| Investments | 595,469 |
| Restricted Investments | 116,805 |
| Total Investments | <u>\$ 7,525,329</u> |

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note D. Deposits, Securities, and Investments (Continued)

Interest Rate Risk – Investments are exposed to interest rate risk if changes in market interest rates will adversely affect the fair value of an investment. As of September 30, 2007, the City's investments included investment pools and therefore were not exposed to interest rate risk.

Credit Risk – State statute requires that investments in Local Government Investment Pools be rated AAA or the equivalent by a nationally recognized credit rating agency. As of September 30, 2007, the TexPool and TexSTAR investment pools were rated AAAm by Standard and Poor's and the Lone Star Investment Pool was rated AAA by Standard and Poor's.

Concentration of Credit Risk – In accordance with the City's Investment policy, the City limits their exposure of concentration of credit risk by restricting investments in the following investment instruments:

| | Maximum Percentage of Portfolio |
|---|---------------------------------------|
| U.S. Treasury Obligations | 100% |
| U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations | 80% |
| Authorized Local Government Investment Pools | 100% |
| Fully Collateralized Certificates of Deposit | 50% |
| SEC-Regulated No-Load Money Market Mutual Funds | 10% |

As of September 30, 2007, 100% of the City's portfolio was invested in Local Government Investment Pools.

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At September 30, 2007 the City's cash and cash equivalents were insured or collateralized with securities held by the City or by its agent in the City's name.

Note E. Local Tax Revenues and Receivables

Ad valorem taxes are levied each October 1 from valuations assessed as of the prior January 1 and are recognized as revenue when they become available beginning on the date of levy, October 1. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. In the governmental fund financial statements, taxes not expected to be collected within sixty days of the fiscal year end are recorded as deferred revenues and are recognized when they become available. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note F. Interfund activity

During the course of the fiscal year, interfund payables and receivables arise. The following were outstanding as of September 30, 2007.

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|---------------------------------------|------------------|
| General fund | General fund - sub activities funds | \$ 29,322 |
| General fund | Economic Development Corporation fund | 31,008 |
| General fund | Other governmental funds | 1,302 |
| General fund | Water and sewer fund | 2,738 |
| Other governmental funds | Other governmental funds | 11,570 |
| Water and Sewer fund | General fund | 733 |
| Total | | <u>\$ 76,673</u> |

Interfund balances resulted from the timing difference between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers during the year were as follows:

| | <u>Transfers Out</u> | |
|---------------------------------------|----------------------|--|
| General fund | \$ 453,107 | |
| Economic Development Corporation fund | 1,064,783 | |
| Capital projects fund | 44,070 | |
| Other governmental funds | 192,503 | |
| Water and sewer fund | 658,440 | |
| | <u>\$ 2,412,903</u> | |
| | <u>Transfers in</u> | |
| General fund | \$ 1,170,936 | |
| Debt service fund | 656,735 | |
| Water and sewer fund | 585,232 | |
| | <u>\$ 2,412,903</u> | |

Transfers are generally used (1) to transfer funds from the General, Economic Development Corporation and other governmental funds to the Debt Service funds to supplement debt payments, (2) to transfer funds from the various funds to the General fund to cover administrative costs, (3) to transfer funds from the Economic Development Corporation to the Park and Water and Sewer funds to fund improvements to the City's assets, and (3) to transfer Water and Sewer fund construction in progress from the Capital Projects fund.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note G. Capital Assets

Capital asset activity for the year ended September 30, 2007 was as follows:

| | Balance 10/1/2006 Restated | Additions | Deletions | Balance 9/30/2007 |
|--|----------------------------------|---------------------|------------------|----------------------|
| Governmental activities | | | | |
| Capital assets using modified approach | | | | |
| Infrastructure | \$ 19,720,835 | \$ 2,699,700 | \$ - | \$ 22,420,535 |
| Total capital assets using modified approach | 19,720,835 | 2,699,700 | - | 22,420,535 |
| Capital assets not being depreciated | | | | |
| Construction in progress | - | 251,093 | - | 251,093 |
| Land | 900,789 | 739,188 | - | 1,639,977 |
| Total capital assets not being depreciated | 900,789 | 990,281 | - | 1,891,070 |
| Other capital assets | | | | |
| Buildings and improvements | 4,785,103 | - | - | 4,785,103 |
| Equipment and vehicles | 3,244,368 | 152,370 | 51,683 | 3,345,055 |
| Office furniture and fixtures | 166,372 | - | - | 166,372 |
| Total other capital assets | 8,195,843 | 152,370 | 51,683 | 8,296,530 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 682,929 | 121,103 | - | 804,032 |
| Equipment and vehicles | 1,489,928 | 275,051 | 25,640 | 1,739,339 |
| Office furniture and fixtures | 123,631 | 22,440 | - | 146,071 |
| Total accumulated depreciation | 2,296,488 | 418,594 | 25,640 | 2,689,442 |
| Other capital assets, net | 5,899,355 | (266,224) | 26,043 | 5,607,088 |
| Governmental activities capital assets, net | <u>\$ 26,520,979</u> | <u>\$ 3,423,757</u> | <u>\$ 26,043</u> | <u>\$ 29,918,693</u> |

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note G. Capital Assets (Continued)

| | Balance 10/1/2006 Restated | Additions | Deletions | Balance 9/30/2007 |
|---|----------------------------------|---------------------|-------------|----------------------|
| Business-type activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 46,240 | \$ - | \$ - | \$ 46,240 |
| Construction in progress | - | 44,070 | - | 44,070 |
| Total capital assets not being depreciated | 46,240 | 44,070 | - | 90,310 |
| Other capital assets | | | | |
| Water and sewer system | 9,524,855 | - | - | 9,524,855 |
| Building and improvements | 119,938 | - | - | 119,938 |
| Equipment and vehicles | 1,631,990 | - | - | 1,631,990 |
| Total other capital assets | 11,276,783 | - | - | 11,276,783 |
| Less accumulated depreciation for: | | | | |
| Water and sewer system | 1,747,071 | 212,166 | - | 1,959,237 |
| Building and improvements | 16,596 | 2,998 | - | 19,594 |
| Equipment and vehicles | 888,143 | 139,869 | - | 1,028,012 |
| Total accumulated depreciation | 2,651,810 | 355,033 | - | 3,006,843 |
| Other capital assets, net | 8,624,973 | (355,033) | - | 8,269,940 |
| Business-type activities capital assets, net | \$ 8,671,213 | \$ (310,963) | \$ - | \$ 8,360,250 |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|--------------------------------------|-------------------|
| Mayor and Council | \$ 795 |
| General government | 110,425 |
| Police | 54,628 |
| Fire | 124,717 |
| Streets | 48,711 |
| Library | 7,332 |
| Parks and recreation | 31,230 |
| Maintenance | 9,456 |
| Senior center | 250 |
| Municipal court | 3,370 |
| Animal control | 2,435 |
| Emergency management | 2,801 |
| Information technology | 22,444 |
| Total Governmental activities | \$ 418,594 |

Business-type activities:

| | |
|---------------------------------------|-------------------|
| Water and sewer | \$ 355,033 |
| Total Business-type activities | \$ 355,033 |

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note H. Long-Term Debt

Long-term debt of the City consists of certificates of obligation and long-term capital leases. Long-term debt at September 30, 2007 consists of the following:

Governmental activities

Certificates of Obligation

Combination Tax and Revenue Certificates of Obligation, Series 1999

- To construct a new City Hall and Police complex.
- Original balance of \$3,900,000.
- Payable in annual installments through March 1, 2019 at 3.6% to 5.1%.
- Outstanding balance of \$2,870,000 at September 30, 2007.

Combination Tax and Revenue Certificates of Obligation, Series 2001

- For the relocation water and sewer lines along State Highway 199.
- Original balance of \$4,150,000.
- Payable in annual installments through September 1, 2021 at 4.2 to 5.0%.
- Outstanding balance of \$3,330,000 at September 30, 2007.

Combination Tax and Revenue Certificates of Obligation, Series 2005

- For the construction and improvement to various City street; constructing, expanding and improving drainage and flood control facilities; and acquisition of land for the expansion of City facilities.
- Original balance of \$6,000,000.
- Payable in annual installments through February 15, 2025 at 3.0% to 4.5%.
- Outstanding balance of \$5,760,000 at September 30, 2007.

Capital Lease Arrangements

OshKosh Capital

- To purchase a 2003 Pierce Dash 75' HDL Fire Truck.
- Principal price of \$535,968.
- Payable in annual installments of \$69,759 over ten years.
- Outstanding balance of \$351,932 at September 30, 2007, bearing interest at 4.988%.

Jefferson State Bank

- To purchase a three 2006 Ford Crown Victoria's, bunker gear and software.
- Principal price of \$199,593.
- Payable in annual installments of \$71,328 over three years.
- Outstanding balance of \$118,517 at September 30, 2007, bearing interest at 4.123%.

OshKosh Capital

- To purchase a 2006 Pierce Dash Pumper Truck.
- Principal price of \$400,801.
- Payable in annual installments of \$66,519 over seven years.
- Outstanding balance of \$292,128 at September 30, 2007, bearing interest at 4.49%.

Dell Marketing, L.P.

- To purchase thirty-three computers.
- Principal price of \$43,570.
- Payable in forty-eight monthly installments of \$1,128.
- Outstanding balance of \$10,725 at September 30, 2007, bearing interest at 11.09%.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note H. Long-Term Debt (Continued)

The annual requirements to amortize long-term debt as of September 30, 2007 are as follows:

| Fiscal Year Ending | Certificates of Obligation | | Capital Leases | | Total |
|--------------------------|----------------------------|--------------------|-------------------|-------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2008 | \$ 575,000 | \$ 517,551 | \$ 181,356 | \$ 37,530 | \$ 1,311,437 |
| 2009 | 600,000 | 494,167 | 162,769 | 29,162 | 1,286,098 |
| 2010 | 630,000 | 469,804 | 115,290 | 20,987 | 1,236,081 |
| 2011 | 660,000 | 444,279 | 120,863 | 15,413 | 1,240,555 |
| 2012 | 690,000 | 416,604 | 126,708 | 9,570 | 1,242,882 |
| 2013-2017 | 3,930,000 | 1,599,528 | 66,316 | 3,442 | 5,599,286 |
| 2018-2022 | 3,585,000 | 683,915 | - | - | 4,268,915 |
| 2023-2027 | 1,290,000 | 115,750 | - | - | 1,405,750 |
| Total | \$ 11,960,000 | \$4,741,598 | \$ 773,302 | \$ 116,104 | \$ 17,591,004 |

Business-type activities

Certificates of Obligation

Combination Tax and Revenue Certificates of Obligation, Series 1997A

- To improve the water system.
- Original balance of \$2,500,000.
- Payable in annual installments through March 1, 2017 at 4.80% to 6.00%.
- Outstanding balance of \$1,590,000 at September 30, 2007.

Combination Tax and Revenue Certificates of Obligation, Series 1997B

- To improve the sanitary sewer system.
- Original balance of \$1,500,000.
- Payable in annual installments through March 1, 2017 at 3.75% to 4.80%.
- Outstanding balance of \$920,000 at September 30, 2007.

Capital Lease Arrangements

Jefferson State Bank

- To purchase a Badger meter system and a utility truck.
- Principal price of \$325,652.
- Payable in annual installments of \$116,377 over three years.
- Outstanding balance of \$218,946 at September 30, 2007, bearing interest at 4.123%.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note H. Long-Term Debt (Continued)

The annual requirements to amortize long-term debt as of September 30, 2007 are as follows:

| Fiscal Year Ending | Certificates of Obligation | | Capital Leases | | Total |
|--------------------------|----------------------------|-------------------|-------------------|------------------|---------------------|
| | Principal | Interest | Principal | Interest | |
| 2008 | \$ 195,000 | \$ 130,293 | \$ 107,234 | \$ 9,144 | \$ 441,671 |
| 2009 | 210,000 | 119,942 | 111,712 | 4,665 | 446,319 |
| 2010 | 215,000 | 108,875 | - | - | 323,875 |
| 2011 | 230,000 | 97,125 | - | - | 327,125 |
| 2012 | 245,000 | 84,458 | - | - | 329,458 |
| 2013-2017 | 1,415,000 | 202,942 | - | - | 1,617,942 |
| Total | <u>\$ 2,510,000</u> | <u>\$ 743,635</u> | <u>\$ 218,946</u> | <u>\$ 13,809</u> | <u>\$ 3,486,390</u> |

Future minimum lease payments for the above capital leases are as follows:

| | Governmental Activities | Business-type Activities |
|--|----------------------------|-----------------------------|
| Scheduled future minimum lease payments | \$ 889,406 | \$ 232,755 |
| Amount representing interest | 116,104 | 13,809 |
| Present value of future minimum capital lease payments (principal payoff) | <u>\$ 773,302</u> | <u>\$ 218,946</u> |

The following is an analysis of equipment leased under a capital lease as of September 30, 2007:

| | Governmental Activities | Business-type Activities |
|-------------------------------|----------------------------|-----------------------------|
| Equipment | \$ 1,105,878 | \$ 313,303 |
| Less accumulated depreciation | 319,276 | 34,104 |
| Total | <u>\$ 786,602</u> | <u>\$ 279,199</u> |

The following is a summary of the changes by type of debt for the year ended September 30, 2007:

| | Balance 10/1/2006 Restated | Additions | Retirements | Balance 9/30/2007 |
|--|----------------------------------|-------------|---------------------|----------------------|
| <u>Governmental activities</u> | | | | |
| Certificate of Obligation | \$ 12,510,000 | \$ - | \$ 550,000 | \$ 11,960,000 |
| Capital Leases | 1,041,932 | - | 268,630 | 773,302 |
| Total Governmental activities | 13,551,932 | - | 818,630 | 12,733,302 |
| <u>Business-type activities</u> | | | | |
| Certificate of Obligation | \$ 2,695,000 | \$ - | \$ 185,000 | \$ 2,510,000 |
| Capital Leases | 325,652 | - | 106,706 | 218,946 |
| Total Business-type activities | 3,020,652 | - | 291,706 | 2,728,946 |
| Total | <u>\$ 16,572,584</u> | <u>\$ -</u> | <u>\$ 1,110,336</u> | <u>\$ 15,462,248</u> |

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note I. Accumulated Unpaid Vacation and Sick Leave

Sick leave is recorded when paid because employees are not compensated for unused sick leave. Vacation is earned in varying amounts. Unused vacation leave is carried forward from one year to the next up to certain limits. The City has accrued for the estimated liability for compensated absences in the governmental and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. The City's aggregate liability for accrued vacation payable as of September 30, 2007 was \$137,524.

The following is a summary of the net changes in the liability for compensated absences for the year ended September 30, 2007:

| | <u>10/1/2006</u> | <u>Increase</u> | <u>Decrease</u> | <u>9/30/2007</u> |
|--------------------------|-------------------|------------------|-----------------|-------------------|
| Governmental activities | \$ 113,597 | \$ 15,569 | \$ - | \$ 129,166 |
| Business-type activities | 7,228 | 1,130 | - | 8,358 |
| Total | <u>\$ 120,825</u> | <u>\$ 16,699</u> | <u>\$ -</u> | <u>\$ 137,524</u> |

Note J. Restricted Net Assets / Reserved and Designated Fund Balance

The following have been classified as other restricted net assets on the governmental activities column of the government-wide statement of net assets and as reserved fund balances in the governmental funds statements.

| | |
|---|-------------------|
| Police training | \$ 4,672 |
| Firemen training | 624 |
| Child safety | 3,240 |
| Court technology | 11,950 |
| Court security | 34,451 |
| Confiscated property | 14,601 |
| Hotel tax | <u>318,462</u> |
| Total Other Restricted Net Assets/ Other Reserved Fund Balance | <u>\$ 388,000</u> |

Police training – The City receives money for the training of police officers that may not be expended in the same year as the revenue is received and is restricted / reserved for officer training.

Firemen training – The City receives money for the training of firemen that may not be expended in the same year as the revenue is received and is restricted / reserved for firemen training.

Child safety – Citations written for offenses in school zones and passing school buses are assessed a fee that may be used for guards at school zones and other expenditures permitted by law.

Court technology – On all citations written after the Ordinance adopted by the City, a fee is assessed that may be used to purchase or enhance most court technological equipment, software, devices, apparatus and any other expenditures legally permitted by law.

Court security – All citations are assessed a fee that may be used for court security services, equipment, devices and other expenditures legally permitted by law.

Confiscated property – Assets confiscated from various police activities are sold and the proceeds are placed in a restricted / reserved fund for use in future police activities.

**City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007**

Note J. Restricted Net Assets / Reserved and Designated Fund Balance (Continued)

Hotel tax – The City receives a tax based upon room rentals collected by lodging establishments within the city limits of Lake Worth, Texas. These taxes are restricted to certain types of expenditures by state statutes.

The following have been reflected as unreserved other designated fund balances on the governmental funds balance sheet.

| | |
|---|------------------------------|
| Park improvements | |
| Park - dollar donation | \$ 26,015 |
| Park - Grand Lake | 19,818 |
| Park - Navajo | 16,382 |
| Park - Charbonneau | 2,569 |
| Transportation | (45,428) |
| Fire equipment | 34,750 |
| Fire truck maintenance | 7,424 |
| Asbestos removal | 26,129 |
| Shawnee bridge | 29,750 |
| Youth association | <u>(2,327)</u> |
| Total other designated fund balance | <u><u>\$ 115,082</u></u> |

Park improvements – Each month a dollar donation is placed on the water and sewer bill of each customer. The customer is not required to pay the dollar donation. The money received from the voluntary donations is accumulated to be used for park improvements. In addition the City has received various donations for park improvements. The accumulated amount not expended is carried as a designated fund balance.

Fire equipment and maintenance – This money has been designated for unexpended amounts for the fire department at the end of the fiscal year.

Asbestos removal – Money was received from a class action suit against W.R. Grace & Co. for the removal of asbestos. These funds have not been expended.

Shawnee bridge – This money has been designated to cover the City's estimated participation costs for the State's reconstruction of the Shawnee Bridge.

Note K. Pension Plan

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of over 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note K. Pension Plan (Continued)

had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

The contribution rate for the employees is 6%, and the City matching ratio (City to Employee) is currently 2 to 1.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

A member is vested after 5 years.

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January 2008).

| | <u>Actuarial Valuation Information</u> | | |
|-------------------------------|--|-----------------------------|-----------------------------|
| Actuarial Valuation Date | <u>12/31/2006</u> | <u>12/31/2005</u> | <u>12/31/2004</u> |
| Actuarial Cost Method | Unit Credit | Unit Credit | Unit Credit |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| Remaining Amortization Period | 25 years - Open Period | 25 years - Open Period | 25 years - Open Period |
| Asset Valuation Method | Amortized Cost | Amortized Cost | Amortized Cost |
| Investment Rate of Return | 7.0% | 7.0% | 7.0% |
| Projected Salary Increases | None | None | None |
| Includes Inflation at | 3.5% | 3.5% | 3.5% |
| Cost-of-living Adjustments | None | None | None |

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note K. Pension Plan (Continued)

Trend Information
for the Retirement Plan for the Employees of
the City of Lake Worth

| <u>Fiscal Year Ending</u> | <u>Annual Pension Costs (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|---------------------------------------|--|-----------------------------------|
| 9/30/2007 | \$ 487,803 | 100% | \$ - |
| 9/30/2006 | \$ 439,481 | 100% | \$ - |
| 9/30/2005 | \$ 401,935 | 100% | \$ - |

The City of Lake Worth is one of 821 municipalities having the benefit plan administered by TMRS. Each of the 821 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

Under the Unit Credit actuarial method, normal cost does not include projected increases in benefits that will occur due to the annually repeating updated service credits and annuity increases mentioned above. Each year, the annual impact related to years of service already rendered is recorded directly as an increase in actuarial liabilities and is amortized through the prior service contribution rate. The prior service rate is determined using the level percent of payroll, open 25-year amortization method, which then combined with the City's assumed future payroll growth, produces a prior service contribution that is less than the interest accruing on the unfunded liability (i.e. negative amortization).

Recognizing these issues, TMRS Board formally voted, at their meeting on December 8, 2007, to transition to the Projected Unit Credit/Closed Amortization methodology effective for the December 31, 2007 valuation. This change in actuarial methodology will affect the City's funded status to be reported in the September 30, 2008 financial statements. It will also require a significantly higher rate be paid to TMRS beginning January 1, 2009. The Board also adopted an eight-year phase-in of full contribution rates to assist member cities during the transition.

Note L. Volunteer Firefighter Benefits

Pension

The City maintains a pension plan to cover all active firefighters over the age of eighteen years of age and who meet all other requirements. Eligible firefighters may enter the plan on the first day of the plan year (September 30) after meeting all eligibility requirements.

Each firefighter has zero vesting for years one through four but is 100% vested after completing ten years of service or in the case of disability the firefighter becomes 100% vested. Normal retirement age is sixty-two years of age with at least one year of participation. The monthly benefits are ten dollars (\$10) multiplied by the years of service which is limited to twenty (20) years. Firefighters are entitled to vested amounts prior to retirement age. No actuarial information is available to the City concerning this plan.

The plan also provides life insurance which is limited to the greater of \$10,000 or the present value of the member's accrued benefit. There is no actuarial information available for this plan at this time. The City's contribution to this plan for the 2007 fiscal year was \$2,904.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note L. Volunteer Firefighter Benefits (Continued)

Insurance

In addition to the pension plan, an insurance policy is provided by the City which provides a maximum death benefit, disability income and medical expenses for firefighters.

Note M. Operating Leases

The City of Lake Worth leases the following equipment:

- The City leases three digital copiers from Panasonic Branch Leasing with a \$550 monthly lease payment for 60 months beginning September 16, 2004 through September 16, 2009.
- The City leases a digital copier from Panasonic Branch Leasing with a \$196 monthly lease payment for 60 months beginning September 16, 2004 through September 16, 2009.
- The City leases a digital copier from Bank of America Leasing & Capital, LLC with a \$119 monthly lease payment for 46 months beginning January 26, 2006 through November 26, 2009.
- The City leases computers from Dell Financial Services with a \$58 monthly lease payment for 48 months beginning February 1, 2006 through February 1, 2010.
- The City leases computers from Dell Financial Services with a \$449 monthly lease payment for 48 months beginning May 1, 2006 through May 1, 2010.
- The City leases computers from Dell Financial Services with a \$109 monthly lease payment for 48 months beginning May 1, 2007 through May 1, 2011.
- The City leases computers from Dell Financial Services with an \$83 monthly lease payment for 48 months beginning June 1, 2007 through June 1, 2011.

Net future minimum lease payments under the operating leases for the City of Lake Worth equipment as of September 30, 2007 are as follows:

| <u>Year Ended</u> <u>September 30,</u> | <u>Amount</u> |
|---|------------------|
| 2008 | \$ 18,776 |
| 2009 | 18,776 |
| 2010 | 5,923 |
| 2011 | 1,431 |
| Total | <u>\$ 44,906</u> |

Payments on the above leases of \$17,345 were included in equipment rent expense for the year ended September 30, 2007.

Note N. Other Commitments and Contingencies

The City of Lake Worth has the following commitments and contingencies at September 30, 2007:

- The City contracted for garbage disposal with IESI on March 21, 2006. The City bills directly the residential customers a set monthly rate and pays IESI \$10,843 monthly for 60 months. In addition, the City receives a 6% franchise fee from IESI. The franchise fee is based upon the amount IESI charges the City for residential customers plus the amount billed by IESI to commercial customers. For the fiscal year ended September 30, 2007, the City expensed \$95,110 for sanitation expense.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note N. Other Commitments and Contingencies (Continued)

- The City has contracted with Yellow Checker Shuttle (Irving Holdings, Inc.) for transportation services beginning November 1, 2007 for 36 monthly payments of \$26,793 ending October 31, 2010. The transportation service is to provide door-to-door paratransit services to disabled residents daily and rider request services at 21 stops throughout the City provided Monday through Friday to the residents of the City.
- The City has a contract with the City of Fort Worth, Texas, for the purchase of treated water and for sewage treatment. The contract for water, dated April 11, 1989 for a 20 year period, is used to supplement the water wells operated by the City. The contract for sewer is dated May 12, 1987 for a 30 year period. Charges are incurred when actual delivery occurs and the rates are adjusted periodically. For the fiscal year ended September 30, 2007, the City's purchases by the Water and Sewer fund for water and sewer treatment were \$374,370 and \$470,676, respectfully.
- As an economic development incentive, the City entered into an agreement with Kohl's Texas, L.P., a Texas Limited Partnership (Kohl's) whereby the City will pay to Kohl's 40% of the City's one percent sales tax collected beginning on the day Kohl's opens for business and ending on the 12th anniversary of the calendar year in which the store opens for business or until Kohl's has received a total of \$600,000 whichever comes first. The refund for the prior calendar year shall be made on July 1 of the following year. During this current fiscal year the City made a payment of \$51,961 on July 7, 2007 for the sales tax collected in the 2006 calendar year. The maximum amount remaining under the terms of this agreement is \$524,431.
- As an economic development incentive, the City entered into an agreement with Target Corporation, whereby the City will pay to Target 40% for the first through five years and 35% for the sixth through the tenth year of the City's one percent sales tax collected beginning on the day Target opens for business and ending on the 10th anniversary of the calendar year in which the store opens for business or until Target has received a total of \$925,000 whichever comes first. The refund for the prior calendar year shall be made on July 1 of the following year. During this current fiscal year the City made a payment of \$73,939 on July 7, 2007 for the sales tax collected in the 2006 calendar year. The maximum amount remaining under the terms of this agreement is \$805,321.
- The City and Lake Worth Economic Development Corporation have an agreement with Canyon Lake Worth Properties, L.P. (Canyon) to reimburse Canyon \$1.54 per square foot of building area. The aggregated reimbursement amount of \$350,000 which is based on 221,591 square feet of building area shall be paid as the square footage is completed. The amount due under this formula is due within 30 days after the tenant and /or occupant opens for business. Under the terms of this agreement, the Lake Worth Economic Development Corporation made a payment of \$143,217 on May 8, 2007.

Note O. Economic Dependency

Since the City's largest revenue in the General, Economic Development Corporation, Street Maintenance and Crime Control Prevention District funds is sales tax, the City's revenue may vary according to the strength of the economy of the Dallas-Fort Worth metropolitan area.

In the Water and Sewer fund, the City contracts with the City of Fort Worth, Texas for water purchases, which supplements the amounts produced from City wells and sanitary sewer treatment. During the current fiscal year, the City paid \$374,370 and \$470,676 for treated water and sewer treatment service, respectfully, totaling \$845,046 which is 42% of the City's Water and Sewer fund total operating expenses.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2007

Note P. Prior Period Adjustments

The governmental activities prior period adjustment of \$2,461,046 is related to the following balances that were either overstated or understated on the September 30, 2006 statement of net assets:

| | |
|---|---------------------|
| Capital assets, net of accumulated depreciation, overstated | \$ (264,954) |
| Issuance costs, understated | 47,375 |
| Certificates of obligation payable, overstated | 2,695,000 |
| Capital leases payable, understated | (2,828) |
| Interest payable, understated | (85,429) |
| Other current liabilities, overstated | <u>71,882</u> |
| Total governmental activities prior period adjustment | <u>\$ 2,461,046</u> |

The business-type activities/water and sewer fund prior period adjustment of \$2,694,358 is related to the following balances that were either overstated or understated on the September 30, 2006 balance sheet:

| | |
|--|-----------------------|
| Inventory, overstated | \$ (11,103) |
| Certificates of obligation payable, understated | (2,695,000) |
| Capital lease payable, overstated | 2,599 |
| Accrued interest payable, overstated | <u>9,146</u> |
| Total business-type activities/water and sewer fund prior period adjustment | <u>\$ (2,694,358)</u> |

The general fund and debt service fund prior period adjustments of \$5,328 and \$1,088, respectively, are related to deferred revenue reported on the September 30, 2006 Balance Sheet being understated.

See Note G for restated capital asset amounts and Note H for restated certificate of obligation and capital lease amounts as of October 1, 2006.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Lake Worth, Texas
Schedule of Funding Progress for the Retirement Plan
for the Employees of City of Lake Worth, Texas
Last Three Fiscal Years

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage Covered of Payroll ((b-a)/c) |
|--------------------------------|--|---|--------------------------------------|----------------------------|---------------------------------------|---|
| 12/31/2006 | \$ 4,472,288 | \$ 5,264,442 | \$ 792,154 | 84.95% | \$ 3,312,802 | 23.91% |
| 12/31/2005 | 3,977,650 | 4,574,181 | 596,531 | 86.96% | 2,986,276 | 19.98% |
| 12/31/2004 | 3,508,662 | 3,989,349 | 480,687 | 87.95% | 2,748,308 | 17.49% |

City of Lake Worth, Texas
 Required Supplemental Information
 Schedule for Governments Using Modified Approach for Infrastructure
 September 30, 2007

| Condition Rating | 2007 | | 2006 | | 2004 - 2005 | |
|------------------|-----------|------------|-----------|------------|-------------|------------|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| At least 1 | | 0.0000% | | 0.0000% | 40,704 | 0.6840% |
| At least 2-4 | 1,494,964 | 24.7621% | 1,678,048 | 28.1272% | 2,688,490 | 45.8394% |
| At least 5-7 | 2,166,319 | 36.3792% | 2,037,561 | 34.1533% | 2,119,266 | 38.1340% |
| At least 8-10 | 2,348,018 | 38.8587% | 2,250,313 | 37.7195% | 1,016,559 | 17.3326% |

The City's goal for surface condition rating of 8-10 were met. However, the rating of 1, 2-4 and 5-7 were not met. The City adopted a one-quarter sales tax effective July 1, 2005 to help keep their roads in compliance with their goals.

Comparison of Estimated-to-Actual Maintenance/Preservation

| | 2007 | 2006 | 2005 |
|-----------|-------------|-------------|-------------|
| Estimated | \$1,336,200 | \$1,330,123 | \$1,575,895 |
| Actual | 1,186,713 | 1,276,752 | 1,578,711 |

At least every three years the City will perform an examination of their roads and rate the status of their roads according to the following criteria:

| Surface Rating | Visible Distress | General Condition Treatment Measures | Surface Rating | Visible Distress | General Condition Treatment Measures |
|----------------|---|---|----------------|--|---|
| 10 Excellent | None | New Construction | 5 Fair | Moderate to severe raveling (loss of fines and coarse aggregate). Longitudinal cracks (open 1/2") show some slight raveling and secondary cracks. First signs of longitudinal cracks near wheel path or edge. Transverse cracking and first signs of block cracking slight crack raveling (open 1/2"). Extensive to severe flushing or polishing. Some patching or edge wedging in good condition. | Surface aging, sound structural condition, needs seal coating or non-structural overlay. |
| 9 Excellent | None | Recent overlay, like new | 4 Fair | Severe surface raveling. Multiple longitudinal and transverse cracking with slight raveling. Block cracking (over 25-50% of surface). Patching in fair condition. Slight rutting or distortions (1" deep or less). | Significant aging and first signs of need for strengthening. Would benefit from recycling or overlay. |
| 8 Very Good | No longitudinal cracks except reflection of paving joints, occasional transverse cracks, widely spread (40' or greater). | Recent seal coat or new road mix. Little or no maintenance required. | 3 Poor | Closely spaced longitudinal and transverse cracks often showing raveling and crack erosion. Block cracking over 50% of surface. Some alligator cracking (less than 25% of surface). Patches in fair to poor condition. Moderate rutting or distortion (1" or 2" deep). Occasional potholes. | Need patching and major overlay or complete recycling. |
| 7 Good | Very slight or no raveling, surface shows some traffic wear. Longitudinal cracks (open 1/4") spaced due to reflection or paving joints. Transverse cracks (open 1/4") spaced 10 feet or more apart and little or slight cracking. No patching or very few patches in excellent condition. | First signs of aging maintain with routing crack filling | 2 Very Poor | Alligator cracking (over 25% of surface). Severe distortions (over 2" deep). Extensive patching in poor condition and potholes. | Severe deterioration, need reconstruction with extensive base repair. |
| 6 Good | Slight raveling (loss of fine) and traffic wear. Longitudinal cracks (open 1/4" - 1/2") due to reflection and paving joints. Transverse cracks (open 1/4" - 1/2") some spaced less than 10 feet. Slight to moderate flushing or polishing. Occasional patching in good condition. | Show signs of aging, sound structural condition could extend life with seal coat. | 1 Failed | Severe distress with extensive loss of surface integrity. | Failed, needs total reconstruction. |

SUPPLEMENTARY INFORMATION

City of Lake Worth, Texas
Combining Balance Sheet -
Nonmajor Governmental Funds
September 30, 2007

| Assets | Street Maintenance | Crime Control District | Total Nonmajor Governmental Funds |
|--|-------------------------------|---------------------------------------|--|
| Cash and cash equivalents | \$ 4,559 | \$ 1,831 | \$ 6,390 |
| Investments | 362,465 | 605,479 | 967,944 |
| Receivables | | | |
| Accounts | 82 | 9,238 | 9,320 |
| Interest | 17 | 7 | 24 |
| Due from other governments | 56,396 | 56,396 | 112,792 |
| Due from other funds | - | 11,570 | 11,570 |
| Prepaid expenses | 21 | 896 | 917 |
| Total assets | \$ 423,540 | \$ 685,417 | \$ 1,108,957 |
| Liabilities and fund balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 75,813 | \$ 13,992 | \$ 89,805 |
| Accrued liabilities | 4,935 | 16,182 | 21,117 |
| Due to other funds | 11,574 | 1,298 | 12,872 |
| Total liabilities | 92,322 | 31,472 | 123,794 |
| Fund balances: | | | |
| Reserved for street maintenance | 331,218 | - | 331,218 |
| Reserved for crime control | - | 653,945 | 653,945 |
| Total fund balances | 331,218 | 653,945 | 985,163 |
| Total liabilities and fund balances | \$ 423,540 | \$ 685,417 | \$ 1,108,957 |

City of Lake Worth, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Fiscal Year Ended September 30, 2007

| | Street Maintenance | Crime Control Prevention District | Total Nonmajor Governmental Funds |
|--|-------------------------------|--|--|
| Revenues | | | |
| Sales tax | \$ 759,474 | \$ 759,474 | \$ 1,518,948 |
| Investment earnings | 13,237 | 27,380 | 40,617 |
| Miscellaneous | 185 | 7,357 | 7,542 |
| Total revenues | 772,896 | 794,211 | 1,567,107 |
| Expenditures | | | |
| Police | - | 423,274 | 423,274 |
| Street | 567,640 | - | 567,640 |
| Capital outlay | 36,770 | 46,986 | 83,756 |
| Debt service | | | |
| Principal | - | 5,877 | 5,877 |
| Interest | - | 612 | 612 |
| Total expenditures | 604,410 | 476,749 | 1,081,159 |
| Excess of revenues over expenditures | 168,486 | 317,462 | 485,948 |
| Other financing uses | | | |
| Transfers out | (26,755) | (165,748) | (192,503) |
| Total other financing uses | (26,755) | (165,748) | (192,503) |
| Excess of revenues over expenditures and other financing uses | 141,731 | 151,714 | 293,445 |
| Fund balance, beginning of year | 189,487 | 502,231 | 691,718 |
| Fund balance, end of year | \$ 331,218 | \$ 653,945 | \$ 985,163 |

**OVERALL COMPLIANCE AND
INTERNAL CONTROLS SECTION**



Snow, Garrett & Company

CERTIFIED PUBLIC ACCOUNTANTS

A Partnership of Professional Corporations

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 City Council
City of Lake Worth, Texas

We have audited the 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 12, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lake Worth's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lake Worth's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Worth's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lake Worth's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lake Worth's financial statements are free of 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*.

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We noted certain matters that we reported to management of the City of Lake Worth in a separate letter dated January 12, 2008.

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

Snow, Garrett & Company

Snow, Garrett & Company, CPA's
January 12, 2008