

CITY OF LAKE WORTH, TEXAS

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

City of Lake Worth, Texas

For the Year Ending September 30, 2010

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

City Council

Walter Bowen, Mayor

Clint Dewayne Narmore – Mayor Pro-Tem

Curtis McKay

Myrt Fowlkes

Perry Lunsford

Dona Stuard

Pat O. Hill

Geoffrey White

Administrative

Brett McGuire, City Manager

Ken West, Assistant City Manager

Debbie Whitley, Director of Finance

FINANCIAL SECTION



Snow, Garrett & Company
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Worth, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake Worth, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2011, on our consideration of the City of Lake Worth, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for the retirement plans, and the schedule for governments using modified approach for infrastructure be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Snow, Garrett & Company

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

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

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

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

City of Lake Worth's Net Assets

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

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

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

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

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

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

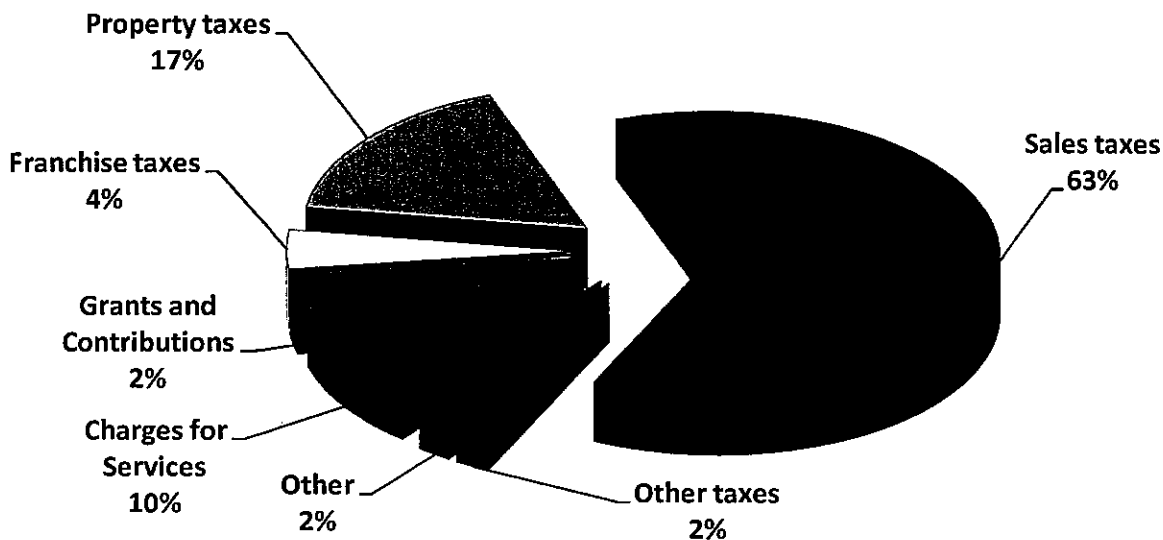
Governmental activities. Governmental activities increased the City's net assets by \$1,636,477.

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

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

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

Revenues by Source - Governmental Activities



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

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

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

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

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

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

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

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

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

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

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

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

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	<u>Water and Sewer Fund</u>
Liabilities	
Current Liabilities	
Payable from current assets	
Accounts payable	\$ 220,175
Accrued liabilities	8,032
Due to other funds	7,366
Due to other governments	4,586
Accrued vacation payable	14,856
Current portion of bonds payable	60,221
Current portion of capital leases payable	237,100
Payable from restricted assets	
Customer deposits	<u>130,825</u>
Total current liabilities	683,161
Noncurrent liabilities	
Net pension obligation	7,909
Bonds payable	<u>1,995,800</u>
Total noncurrent liabilities	<u>2,003,709</u>
Total liabilities	<u>2,686,870</u>
Net assets	
Invested in capital assets, net of related debt	6,758,395
Unrestricted	<u>784,756</u>
Total net assets	<u><u>\$ 7,543,151</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, 2010

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

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

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

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

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

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

Note A. Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

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

Blended Component Units

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

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

Government-wide and fund financial statements

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

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

Note A. Summary of Significant Accounting Policies (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The City reports the following major governmental funds:

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

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

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

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

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

Note A. Summary of Significant Accounting Policies (Continued)

The City reports the following major proprietary fund:

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

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

Budgets and Budgetary Accounting

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

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

Cash Equivalents

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

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

Note A. Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

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

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

Long-Term Obligations

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

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

Fund Equity

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

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

Note A. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

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

Risk Management

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

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

Use of Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note C. 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.

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-backed 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, 2010 were in the TexPool, TexSTAR, and Lone Star Investment Pool.

Texas Local Government 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. Federated Investors, Inc. is the administrator and investment manager of the TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool and are qualified to advise in respect to 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. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Texas Short Term Asset Reserve Program (TexSTAR) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member Board of Directors. In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Asset Management, Inc. (FSAM) serve as co-administrators

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

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

for TexSTAR under an agreement with the TexSTAR board of directors, which may be extended periodically to a term of two years or less. JPMIM provides investment services, and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co. The business and affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. 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, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

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 BNY Mellon Cash Investment Strategies and American Beacon Advisors managing the investment and reinvestment of the Pool's assets. Bank of New York Mellon provides custody and valuation services to the Pool. All of the Board of Trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both Pool members and non-members. 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 Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar.

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

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

As of September 30, 2010, the City had the following investments:

	<u>Market Value</u>	<u>% of Total</u>
TexPool - Pooled		
General Fund	\$ 847,701	
Street Maintenance Fund	919,326	
Crime Control Prevention District Fund	196,730	
Debt Service Fund	614	
Capital Projects Fund	519,467	
Total TexPool - Pooled	<u>2,483,838</u>	16.87%
TexPool - Economic Development Corporation Fund	1,033,291	7.02%
TexPool - Water and Sewer Fund	652,728	4.43%
TexPool - Capital Projects Fund	2,465,028	16.74%
TexSTAR - Pooled		
General Fund	1,250,919	
Capital Projects Fund	54,782	
Total TexSTAR - Pooled	<u>1,305,701</u>	8.87%
TexSTAR - Capital Projects Fund	4,611,107	31.31%
Lone Star Investment Pool - Pooled		
General Fund	1,267,676	
Crime Control Prevention District Fund	304,416	
Debt Service Fund	20	
Total Lone Star Investment Pool - Pooled	<u>1,572,112</u>	10.67%
Lone Star Investment Pool - Economic Development Corporation Fund	417,472	2.83%
Lone Star Investment Pool - Water and Sewer Fund	185,895	1.26%
Total Investments	<u>\$ 14,727,172</u>	<u>100.00%</u>

As reported in the Statement of Net Assets:

Governmental Activities	
Investments	\$ 13,888,149
Restricted Investments	400
Business-Type Activities	
Investments	707,798
Restricted Investments	130,825
Total Investments	<u>\$ 14,727,172</u>

Interest Rate Risk – Investments are exposed to interest rate risk if there are changes in market interest rates that will adversely affect the fair value of an investment. As of September 30, 2010, 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, 2010, the TexPool, the TexSTAR, and the Lone Star investment pools were rated AAA by Standard and Poor's.

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

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

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, 2010, 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, 2010 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 D. 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.

Note E. Interfund Activity

During the course of the fiscal year, interfund payables and receivables arise. The following were outstanding as of September 30, 2010:

Receivable Fund	Payable Fund	Amount
General fund	Debt service fund	\$ 231,656
General fund	Economic Development Corporation fund	50
General fund	Crime control fund	981
General fund	Street maintenance fund	650
General fund	Water and sewer fund	1,682
Park fund	Water and sewer fund	1,790
Debt service fund	Water and sewer fund	3,894
Total		\$ 240,703

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

Note E. Interfund Activity (Continued)

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		\$	147,850
Economic Development Corporation fund			1,081,809
Capital projects fund			62,121
Crime control & prevention district fund			139,749
Water and sewer fund			682,635
		\$	2,114,164
	<u>Transfers in</u>		
General fund		\$	939,407
Debt service fund			565,994
Water and sewer fund			608,763
		\$	2,114,164

Transfers are generally used (1) to transfer funds from the Economic Development Corporation and the Water and Sewer Fund 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 Water and Sewer fund 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, 2010

Note F. Capital Assets

Capital asset activity for the year ended September 30, 2010 was as follows:

	<u>Balance 10/1/2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2010</u>
Governmental activities				
Capital assets using modified approach				
Infrastructure	\$22,935,591	\$ 89,345	\$ -	\$ 23,024,936
Total capital assets using modified approach	22,935,591	89,345	-	23,024,936
Capital assets not being depreciated				
Construction in progress	593,721	3,539,198	-	4,132,919
Land	1,705,287	10,093	30,311	1,685,069
Total capital assets not being depreciated	2,299,008	3,549,291	30,311	5,817,988
Other capital assets				
Buildings and improvements	4,931,730	-	-	4,931,730
Equipment and vehicles	4,329,132	140,845	60,000	4,409,977
Office furniture and fixtures	241,529	-	-	241,529
Total other capital assets	9,502,391	140,845	60,000	9,583,236
Less accumulated depreciation for:				
Buildings and improvements	1,046,732	128,172	-	1,174,904
Equipment and vehicles	2,263,626	383,603	60,000	2,587,229
Office furniture and fixtures	163,300	13,013	-	176,313
Total accumulated depreciation	3,473,658	524,788	60,000	3,938,446
Other capital assets, net	6,028,733	(383,943)	-	5,644,790
Governmental activities capital assets, net	<u>\$31,263,332</u>	<u>\$ 3,254,693</u>	<u>\$ 30,311</u>	<u>\$ 34,487,714</u>

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

Note F. Capital Assets (Continued)

	Balance 10/1/2009	Additions	Deletions	Balance 9/30/2010
Business-type activities				
Capital assets not being depreciated				
Land	\$ 46,240	\$ -	\$ -	\$ 46,240
Construction in progress	-	333,502	-	333,502
Total capital assets not being depreciated	46,240	333,502	-	379,742
Other capital assets				
Water and sewer system	10,702,914	61,368	-	10,764,282
Building and improvements	126,926	-	-	126,926
Machinery and equipment	1,752,668	-	-	1,752,668
Total other capital assets	12,582,508	61,368	-	12,643,876
Less accumulated depreciation for:				
Water and sewer system	2,400,535	239,186	-	2,639,721
Building and improvements	25,604	3,231	-	28,835
Machinery and equipment	1,248,092	91,210	-	1,339,302
Total accumulated depreciation	3,674,231	333,627	-	4,007,858
Other capital assets, net	8,908,277	(272,259)	-	8,636,018
Business-type activities capital assets, net	<u>\$ 8,954,517</u>	<u>\$ 61,243</u>	<u>\$ -</u>	<u>\$ 9,015,760</u>

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

Governmental activities:

Mayor and Council	\$ 11,531
General government	91,611
Police	42,062
Fire	186,918
Streets	56,151
Library	7,892
Parks and recreation	93,509
Maintenance	7,544
Senior center	117
Municipal court	3,370
Animal control	1,889
Emergency management	2,801
Information technology	19,393
Total Governmental activities	<u>\$ 524,788</u>

Business-type activities:

Water and sewer	\$ 333,627
Total Business-type activities	<u>\$ 333,627</u>

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

Note G. 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, 2010 consists of the following:

Governmental activities

Certificates of Obligation

Combination Tax and Revenue Certificates of Obligation, Series 2001

- For the relocation of 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 \$2,780,000 at September 30, 2010.

Combination Tax and Revenue Certificates of Obligation, Series 2005

- For the construction and improvement to various City streets; 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 \$5,075,000 at September 30, 2010.

Combination Tax and Revenue Certificates of Obligation, Series 2008

- To construct a senior center, library, community activity center, and animal control facility, and improvements of utility and drainage systems.
- Original balance of \$10,300,000.
- Payable in annual installments through October 1, 2034 at 3.25% to 5.75%.
- Outstanding balance of \$10,300,000 at September 30, 2010.

General Obligation Bonds

General Obligation Refunding Bonds, Series 2009

- To refund the Combination Tax and Revenue Certificates of Obligation, Series 1999.
- Original balance of \$4,725,000 of which \$2,551,500 is related to governmental activities.
- Payable in annual installments through April 1, 2019 at 2.0% to 4.0%.
- Outstanding balance of \$2,303,100 at September 30, 2010.

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 \$189,296 at September 30, 2010, bearing interest at 5.19%.

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 \$124,592 at September 30, 2010, bearing interest at 4.49%.

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

Note G. Long-Term Debt (Continued)

National City Commercial Capital Company

- To purchase various capital equipment.
- Principal price of \$117,969.
- Payable in three annual installments of \$44,350.
- Outstanding balance of \$42,520 at September 30, 2010, bearing interest at 6.375%.

CIT Technology

- To purchase 8 lap top computers.
- Principal price of \$10,264.
- Payable in 48 monthly installments of \$269.
- Outstanding balance of \$3,014 at September 30, 2010 bearing interest at 12.881%.

Dell Government Leasing

- To purchase computer equipment.
- Principal price of \$4,223.
- Payable in 48 monthly installments of \$101.
- Outstanding balance of \$1,627 at September 30, 2010, bearing interest at 7.231%.

The annual requirements to amortize long-term debt as of September 30, 2010 are as follows:

Year Ending	Certificates of Obligation		General Obligation Bonds		Capital Leases		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 660,000	\$ 1,112,365	\$ 261,900	\$ 75,668	\$ 167,528	\$ 18,961	\$ 2,296,422
2012	680,000	830,843	270,000	69,120	127,204	9,579	1,986,746
2013	685,000	804,168	275,400	62,370	66,317	3,442	1,896,697
2014	710,000	775,749	283,500	54,108	-	-	1,823,357
2015	735,000	745,511	288,900	45,603	-	-	1,815,014
2016-2020	4,030,000	3,237,602	923,400	80,676	-	-	8,271,678
2021-2025	3,755,000	2,386,436	-	-	-	-	6,141,436
2026-2030	3,365,000	1,520,094	-	-	-	-	4,885,094
2031-2035	3,535,000	470,413	-	-	-	-	4,005,413
Total	\$ 18,155,000	\$ 11,883,181	\$ 2,303,100	\$ 387,545	\$ 361,049	\$ 31,982	\$ 33,121,857

Business-type activities

General Obligation Bonds

General Obligation Refunding Bonds, Series 2009

- To refund the Combination Tax and Revenue Certificates of Obligation, Series 1997A and B.
- Original balance of \$4,725,000 of which \$2,173,500 is related to business-type activities.
- Payable in annual installments through April 1, 2019 at 2.0% to 4.0%.
- Outstanding balance of \$1,961,900 at September 30, 2010.

Utility System Revenue Bonds

Utility System Revenue Bonds, Series 2009

- For the construction of a new sewer line along Telephone Road.
- Original issue of \$290,000, with \$271,000 drawn down as of September 30, 2010.
- Payable in annual installments through February 1, 2029 at 0%.
- Outstanding balance of \$271,000 at September 30, 2010.

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

Note G. Long-Term Debt (Continued)

Capital Lease Arrangements

National City Commercial Capital Company

- To purchase various capital equipment.
- Principal price of \$173,396.
- Payable in three annual installments of \$66,524.
- Outstanding balance of \$60,221 at September 30, 2010, bearing interest at 6.375%.

The annual requirements to amortize long-term debt as of September 30, 2010 are as follows:

Fiscal Year Ending	General Obligation Bonds		Utility System Revenue Bonds	Capital Leases		Total
	Principal	Interest	Principal	Principal	Interest	
2011	\$ 223,100	\$ 64,458	\$ 14,000	\$ 60,221	\$ 4,880	\$ 366,659
2012	230,000	58,880	14,000	-	-	302,880
2013	234,600	53,130	14,000	-	-	301,730
2014	241,500	46,092	14,000	-	-	301,592
2015	246,100	38,847	14,000	-	-	298,947
2016-2020	786,600	68,724	70,000	-	-	925,324
2021-2025	-	-	75,000	-	-	75,000
2026-2030	-	-	56,000	-	-	56,000
Total	\$ 1,961,900	\$ 330,131	\$ 271,000	\$ 60,221	\$ 4,880	\$ 2,628,132

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

	Governmental Activities	Business-type Activities
Scheduled future minimum lease payments	\$ 393,031	\$ 65,101
Amount representing interest	31,982	4,880
Present value of future minimum capital lease payments (principal payoff)	<u>\$ 361,049</u>	<u>\$ 60,221</u>

The following is an analysis of equipment leased under capital leases as of September 30, 2010:

	Governmental Activities	Business-type Activities
Equipment	\$ 1,060,005	\$ 170,396
Less accumulated depreciation	610,612	33,678
Total	<u>\$ 449,393</u>	<u>\$ 136,718</u>

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

Note G. Long-Term Debt (Continued)

The following is a summary of the changes by type of debt for the year ended September 30, 2010:

	Balance 10/1/2009	Additions	Retirements	Balance 9/30/2010
<u>Governmental activities</u>				
Certificates of Obligation	\$ 18,585,000	\$ -	\$ 430,000	\$18,155,000
General Obligation Bonds	2,551,500	-	248,400	2,303,100
Premium on Bonds Issued	43,473	-	7,941	35,532
Capital Leases	516,103	-	155,054	361,049
Net Pension Obligation	48,707	60,393	-	109,100
Volunteer Firefighter Retirement Obligation	46,020	1,737	-	47,757
Total Governmental activities	21,790,803	62,130	841,395	21,011,538
<u>Business-type activities</u>				
General Obligation Bonds	\$ 2,173,500	\$ -	\$ 211,600	\$ 1,961,900
Utility System Revenue Bonds	-	271,000	-	271,000
Capital Leases	114,623	-	54,402	60,221
Net Pension Obligation	3,984	3,925	-	7,909
Total Business-type activities	2,292,107	274,925	266,002	2,301,030
Total	\$ 24,082,910	\$ 337,055	\$ 1,107,397	\$23,312,568

Note H. 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, 2010 was \$210,841.

The following is a summary of the net changes in the liability for compensated absences for the year ended September 30, 2010:

	10/1/2009	Increase	Decrease	9/30/2010
Governmental activities	\$ 191,878	\$ 4,107	\$ -	\$ 195,985
Business-type activities	16,247	-	1,391	14,856
Total	\$ 208,125	\$ 4,107	\$ 1,391	\$ 210,841

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

Note I. 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.

Child safety	\$	7,012
Court technology		8,431
Confiscated property		9,912
Hotel tax		608,522
Total Other Restricted Net Assets/ Other Reserved Fund Balance	\$	633,877

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.

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.

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	\$	23,775
Park - Grand Lake		4,542
Park - Rayl		8,265
Park - Lakeview		150,000
Park - Lake Worth		132,905
Police LEOSE		10,482
Fire LEOSE		567
Fire equipment		35,502
Tobacco grant		2,000
Police Department donations		697
Animal Control donations		50
Asbestos removal		26,129
Shawnee bridge		29,750
Volunteer firefighter benefits		47,757
Total other designated fund balance	\$	472,421

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.

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

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

Police and Fire LEOSE – This money has been designated for police and fire training.

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

Tobacco grant – This money has been designated to assist local retailers on tobacco compliance.

Police department donations – This money has been designated to assist families in need during the holidays to purchase food and gifts.

Animal control donations – This money has been designated to assist with the care of animals in the shelter.

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.

Volunteer firefighter benefits – This money has been designated to cover the City's volunteer firefighter benefits.

Note J. Pension Plan

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

	Plan Year 2009	Plan Year 2010
Employee deposit rate	6.00%	6.00%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100 % Repeating, Transfers	100 % Repeating, Transfers
Annuity increase (to retirees)	70 % of CPI Repeating	70 % of CPI Repeating

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

Note J. Pension Plan (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation are as follows:

1. Annual Required Contribution (ARC)	\$	451,059
2. Interest on Net Pension Obligation		3,952
3. Adjustment to the ARC		<u>(3,217)</u>
4. Annual Pension Cost		451,794
5. Contributions Made		<u>387,476</u>
6. Increase in Net Pension Obligation		64,318
7. Net Pension Obligation, beginning of year		<u>52,691</u>
8. Net Pension Obligation, end of year	\$	<u><u>117,009</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual Pension Costs (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2008	\$ 522,423	\$ 522,423	100%	\$ -
9/30/2009	\$ 412,758	\$ 360,067	87%	\$ 52,691
9/30/2010	\$ 451,794	\$ 387,476	86%	\$ 64,318

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

Note J. Pension Plan (Continued)

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actuarial Valuation Date	Actuarial Valuation Information		
	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	30 years - Closed Period	29 years - Closed Period	28 years - Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10 year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.00%	7.50%	7.50%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-living Adjustments	2.10%	2.10%	2.10%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b)	Unfunded AAL (UAAL) (b-a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	\$5,625,144	\$8,273,524	67.99%	\$2,648,380	\$4,122,714	64.24%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Note K. Other Postemployment Benefits

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

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

Note K. Other Postemployment Benefits (Continued)

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended September 30, 2010, 2009, and 2008 were \$7,198, \$8,036, and \$8,337, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:
(RETIREE - only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution Rate</u>	<u>Actual Contribution Rate</u>	<u>Percentage of ARC Contributed</u>
2008	0.04%	0.04%	100.00%
2009	0.04%	0.04%	100.00%
2010	0.04%	0.04%	100.00%

Note L. Volunteer Firefighter Benefits

Pension - Length of Service Awards Program (LOSAP)

The City financial statements are for the year ended September 30, 2010. However, the information contained in this note is based on information for the Length of Service Awards Program for the plan year ending on September 30, 2009, which is the most recent plan year for which complete information is available.

The City provides pension benefits for all eligible volunteer firefighters of the City of Lake Worth through a single-employer defined benefit LOSAP. The program began on October 1, 1990 and was established and can be amended by City Council. The program provides municipally-funded pension-like benefits to facilitate the recruitment and retention of active volunteer firefighters at no cost to the volunteer fire firefighters. The City is the sponsor of the program.

Program Description

Participation, vesting and service credit

Active volunteer firefighters who have reached the age of 18 and who have completed one year of firefighting service are eligible to participate in the program. Participants acquire a nonforfeitable right to a service award after being credited with five years of firefighting service or upon attaining the program's entitlement age. The program's entitlement age is 62. In general, an active volunteer firefighter is credited with a year of firefighting service for each plan year by attending at least 70% of all training sessions and business meetings and

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

Note L. Volunteer Firefighter Benefits (Continued)

responding to at least 45% of all non-medical related incidents including major accidents. Medically qualified firefighters must respond to at least 25% of all incidents.

Benefits

A participant's benefit under the program is the actuarial equivalent of a monthly payment for life equal to \$10 multiplied by the person's total number of years of firefighting service. The number of years of firefighting service used to compute the benefit cannot exceed twenty. Except in the case of disability or death, benefits are payable when a participant reaches entitlement age. The program provides statutorily mandated death and disability benefits.

Fiduciary Investment and Control

Service credit is determined by City Council, based on information certified to the City by the fire department. The fire department must maintain all required records on forms prescribed by the City.

The City Council has retained and designated Volunteer Firemen's Insurance Services to assist in the administration of the program. The designated program administrator's functions include providing basic specimen forms of documents (Master Document, Adoption Agreement, Explanation of Benefits and other necessary forms and applications), annual plan valuation, calculation of annual recommended deposit, calculation of required premium to purchase/maintain life insurance policies, annual plan certification by independent enrolled actuary, annual summary of benefits for each plan participant, and benefit calculation for plan participant at termination, disability, entitlement, or death. Disbursements of program assets for the payment of benefits or administrative expenses must be approved.

Authority to invest program assets is vested in the Hartford Life Insurance Company. Subject to restrictions in the program document, program assets are invested in accordance with a statutory "prudent person" rule. Because the program assets are not in an irrevocable trust, they are included in the general fund as other assets.

The City is required to retain an actuary to determine the amount of the City's contributions to the plan. Portions of the following information are derived from a report prepared by the actuary dated, August 27, 2010.

Actuarial Assumptions and Funding Methods

The modified aggregate actuarial cost method was used to determine the annual required contribution (ARC) to fund the LOSAP. The following assumptions were used to develop the ARC:

Assumed Interest – 5.50%. The assumed rate reflects the actuary's best estimate of long-term investment results.

Pre-Retirement Mortality Table – U8400. This represents the possibility that some participants may die prior to reaching entitlement age.

Post-Retirement Mortality Table – U8400. This represents the typical life expectancy after attaining entitlement age.

Turnover – None. A turnover table assumes that a percentage of participants will terminate prior to being vested.

Funding Method – Modified Aggregate. Under this funding method, the following steps take place in calculation of the annual recommended deposit.

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

Note L. Volunteer Firefighter Benefits (Continued)

- The amount required at entitlement age to guarantee each participant's projected monthly benefit payable for life, with a minimum of 120 payments, is calculated. This future value is called the maturity value.
- The maturity value for each participant is discounted back to the LOSAP's effective date taking into account interest and mortality. The discounted maturity values for all the participants are then summed; this amount is known as the LOSAP's present value of future benefits (PVFB).
- The cost of funding the PVFB is then spread over a weighted average of each participant's remaining future service through entitlement age. From this calculation, an annual amount known as the LOSAP's normal cost, is determined, which will accumulate sufficient assets to provide for each participant's benefit.

Under this method, any actuarial gains and losses will be spread over the LOSAP's future ARC in order to minimize year to year fluctuations in the ARC.

Trend Information
for the City of Lake Worth's LOSAP

Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2008	\$ 1,946	100%	\$ -
9/30/2009	\$ 1,668	100%	\$ -
9/30/2010	\$ 2,048	100%	\$ -

As the modified aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method for that purpose and is intended to serve as a surrogate for the funded status and funding progress of the LOSAP. The funded status as of September 30, 2009, the most recent actuarial valuation date, is as follows:

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 of Covered Payroll ((b-a)/c)
9/30/2009	\$ 47,757	\$ 66,418	\$ 18,661	71.90%	N/A	N/A

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Insurance

In addition to the pension plan, an insurance policy is provided by the City for active volunteer firefighters, which provides the greater of \$10,000 or the present value of the participant's accrued benefits under the LOSAP.

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

Note M. Operating Leases

The City of Lake Worth leases the following equipment:

- 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.
- The City leases computers from Dell Financial Services with an \$841 monthly lease payment for 48 months beginning February 1, 2009 through January 31, 2013.
- The City leases computers from Dell Financial Services with a \$121 monthly lease payment for 48 months beginning March 1, 2009 through February 28, 2013.
- The City leases computers from Dell Financial Services with a \$240 monthly lease payment for 48 months beginning July 1, 2010 through June 30, 2014.
- The City leases six copiers, including printing consumable supplies, from Xerox with a \$1,036 monthly lease payment for 60 months beginning November 4, 2009 through October 31, 2014.
- The City leases security and access equipment from ADT Security Services, Inc. with a \$281 monthly lease payment for 60 months beginning October 1, 2009 through September 30, 2014.
- The City leases security and access equipment from ADT Security Services, Inc. with a \$57 monthly lease payment for 60 months beginning October 16, 2009 through October 15, 2014.

Net future minimum lease payments under the operating leases for the City of Lake Worth equipment as of September 30, 2010 are as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2011	\$ 29,867
2012	28,436
2013	20,862
2014	16,894
2015	4,728
Total	<u>\$ 100,787</u>

Payments on the above leases of \$29,127 were included in equipment rent expense for the year ended September 30, 2010.

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

Note N. Other Commitments and Contingencies

The City of Lake Worth has the following commitments and contingencies at September 30, 2010:

- 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, 2010, the City expensed \$160,715 for sanitation expense.
- The City has a contract with the City of Fort Worth, Texas, for sewage treatment. 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, 2010, the City's expense in the Water and Sewer fund for sewer treatment is \$606,034.
- 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 \$48,008 on May 13, 2010 for the sales tax collected in the 2009 calendar year. The maximum amount remaining under the terms of this agreement is \$372,900.
- 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 \$75,589 on May 13, 2010 for the sales tax collected in the 2009 calendar year. The maximum amount remaining under the terms of this agreement is \$565,603.
- The City and Lake Worth Economic Development Corporation have an agreement with a local developer to contribute funds toward the construction of a local shopping center. The contribution to the local developer is based upon square footage and occupancy of the development. The developer will be paid \$1.54 per square footage of occupied space, up to a maximum of \$350,000. The planned total square footage of the development is to be 226,591 square feet. As no additional tenants had moved in, the City did not make a payment in the current year. The maximum amount remaining under the terms of this agreement is \$62,719. In the event that the Lake Worth Economic Development Corporation does not have the cash flow to make such payments, they will be allowed to delay the payment(s) for a period of time until sufficient cash flow is available, not to exceed 180 days from the date the tenant and/or occupant of the Development opens for business.

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, this supplements the amounts produced from City wells and sanitary sewer treatment. During the current fiscal year, the City paid \$406,415 and \$606,034 for treated water and sewer treatment service, respectfully, totaling \$1,012,449 which is 49% of the City's Water and Sewer fund total operating expenses.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Lake Worth, Texas
Schedule of Funding Progress for the Retirement Plans
for the Employees and Volunteer Firefighters of City of Lake Worth, Texas
Last Three Fiscal Years

Texas Municipal Retirement System

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)
12/31/2009	\$ 5,625,144	\$ 8,273,524	\$ 2,648,380	67.99%	\$ 4,122,714	64.24%
12/31/2008	4,882,366	7,089,492	2,207,126	68.87%	3,741,603	58.99%
12/31/2007	4,984,768	6,994,739	2,009,971	71.30%	3,476,478	57.82%

Length of Service Awards Program (LOSAP) for Volunteer Firefighters

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 of Covered Payroll ((b-a)/c)
9/30/2009	\$ 47,757	\$ 66,418	\$ 18,661	71.90%	N/A	N/A *
9/30/2008	46,020	61,263	15,243	75.12%	N/A	N/A *
9/30/2007	46,467	63,204	16,737	73.52%	N/A	N/A *

* As the modified aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry age actuarial cost method for that purpose and is intended to serve as a surrogate for the funded status and funding progress of the LOSAP.

City of Lake Worth, Texas
 Required Supplementary Information
 Schedule for Governments Using Modified Approach for Infrastructure
 September 30, 2010

Condition Rating	Square Feet of Roadway		Square Feet of Roadway		Square Feet of Roadway	
	September 30, 2010	Percentage	September 30, 2009	Percentage	September 30, 2008	Percentage
At least 1	-	0.0000%	-	0.0000%	-	0.0000%
At least 2-4	1,294,557	21.4426%	1,336,530	22.1378%	1,445,070	23.9356%
At least 5-7	2,054,362	34.0278%	2,067,773	34.2500%	2,067,773	34.2500%
At least 8-10	2,688,382	44.5285%	2,632,998	43.6122%	2,524,459	41.8144%

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

	2010	2009	2008
Estimated	\$1,217,417	\$1,443,850	\$1,349,216
Actual	919,691	1,289,228	1,192,756

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 lines 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.	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.

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

SUPPLEMENTARY INFORMATION

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

Assets	Street Maintenance	Crime Control District	Total Nonmajor Governmental Funds
Cash and cash equivalents	\$ 10,082	\$ 9,121	\$ 19,203
Investments	919,326	501,145	1,420,471
Accounts receivables	149	243	392
Due from other governments	54,604	54,604	109,208
Total assets	\$ 984,161	\$ 565,113	\$ 1,549,274
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 11,524	\$ 4,161	\$ 15,685
Accrued liabilities	4,714	25,075	29,789
Due to other funds	650	981	1,631
Total liabilities	16,888	30,217	47,105
Fund balances:			
Reserved for street maintenance	967,273	-	967,273
Reserved for crime control	-	534,896	534,896
Total fund balances	967,273	534,896	1,502,169
Total liabilities and fund balances	\$ 984,161	\$ 565,113	\$ 1,549,274

The accompanying notes are an integral part of these financial statements

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, 2010

	<u>Street Maintenance</u>	<u>Crime Control District</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues			
Sales tax	\$ 756,231	\$ 756,231	\$ 1,512,462
Investment earnings	1,470	1,152	2,622
Miscellaneous	437	1,101	1,538
Total revenues	<u>758,138</u>	<u>758,484</u>	<u>1,516,622</u>
Expenditures			
Police	-	780,772	780,772
Street	354,048	-	354,048
Capital outlay	99,232	8,864	108,096
Total expenditures	<u>453,280</u>	<u>789,636</u>	<u>1,242,916</u>
Excess (deficiency) of revenues over (under) expenditures	304,858	(31,152)	273,706
Other financing uses			
Transfers out	-	(139,749)	(139,749)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	304,858	(170,901)	133,957
Fund balance, beginning of year	662,415	705,797	1,368,212
Fund balance, end of year	<u>\$ 967,273</u>	<u>\$ 534,896</u>	<u>\$ 1,502,169</u>

**OVERALL COMPLIANCE AND
INTERNAL CONTROLS SECTION**



Snow, Garrett & Company
CERTIFIED PUBLIC ACCOUNTANTS

**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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 1, 2011. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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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*.

We noted certain matters that we reported to management of the City of Lake Worth in a separate letter dated March 1, 2011.

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


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

