

CITY OF LAKE WORTH, TEXAS

**Annual Financial Report
For the Fiscal Year Ended September 30, 2017**

City of Lake Worth, Texas

Annual Financial Report

For the Year Ended September 30, 2017

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

2017 City Council

Walter Bowen, Mayor

Jim Smith

Geoffrey White

Gene Ferguson

Ronny Parsley

Pat O. Hill

Gary Stuard

Clint Narmore

City Manager

Stacey Almond

Assistant City Manager

Debbie Whitley

FINANCIAL SECTION



SNOW GARRETT WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Worth, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the City's net pension liability and related ratios, schedule of employer contributions and related ratios, the schedule of changes in total pension liability for volunteer firefighters, the schedule of total pension liability and related ratios for volunteer firefighters, and the schedule for governments using the 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.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018, 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* in considering the City of Lake Worth, Texas' internal control over financial reporting and compliance.



Snow Garrett Williams
March 6, 2018

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 (the "City's") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2017. The MD&A should be read in conjunction with the accompanying financial statements and the notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded liabilities at the close of the 2017 fiscal year by \$48,142,760 (*net position*). Of this amount, \$8,274,364 is restricted for specific purposes and \$4,559,438 represents unrestricted net position that may be used to meet the City's ongoing obligations to citizens and creditors. As required by GASB Statement No. 34, net position also reflects \$35,308,958 that is the net investment in capital assets.
- In contrast to the government-wide statements, the governmental fund statements report a fund balance at year-end of \$15,125,078; of which \$8,889,522 represents restricted fund balance, \$42,901 represents committed fund balance, \$1,227,963 represents assigned fund balance, \$24,283 represents non-spendable fund balance, and \$4,940,409 represents unassigned fund balance. The more significant components of unassigned fund balance are maintained in the general fund as emergency reserves.
- The general fund unassigned fund balance of \$4,940,409 equals 63% of total general fund expenditures.
- The City's total long-term liabilities decreased by \$1,058,392 during the current fiscal year as a result of the scheduled annual debt service payments netted against changes in net pension liabilities, compensated absences obligation and volunteer firefighter total pension liability.

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 and deferred outflows of resources 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 position presents information on all of the City's assets, deferred outflows of resources, and liabilities, with the difference between them reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year using the full accrual basis of accounting. All changes in net position 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 beginning on page 14 of this report.

City of Lake Worth, Texas Management's Discussion and Analysis

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 three categories: governmental funds, proprietary funds, and fiduciary 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 seven governmental funds, the general fund, the economic development corporation special revenue fund, the crime control district special revenue fund, the street maintenance special revenue fund, the public educational government channel 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 street maintenance special revenue fund, the debt service fund, and the capital projects fund which are classified as major funds and, the crime control district special revenue fund and the public educational government channel 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, the economic development corporation special revenue fund, and the street maintenance special revenue fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found beginning on page 16 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 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 beginning on page 19 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's fiduciary fund is used to report employer and employee contributions, and investment income, if any, as well as benefits paid for health insurance.

The fiduciary fund statements can be found beginning on page 22 of this report.

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 beginning on page 24 of this report.

City of Lake Worth, Texas

Management's Discussion and Analysis

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparison statements for the general fund, the economic development corporation special revenue fund, and the street maintenance special revenue fund, pension benefits and the schedule for governments using the modified approach for infrastructure. The required supplementary information can be found beginning on page 52 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities by \$48,142,760 as of September 30, 2017.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 15,960,647	\$ 14,988,288	\$ 1,659,775	\$ 1,644,816	\$ 17,620,422	\$ 16,633,104
Capital assets, net of depreciation	38,081,321	38,273,230	11,015,187	10,181,626	49,096,508	48,454,856
Total assets	54,041,968	53,261,518	12,674,962	11,826,442	66,716,930	65,087,960
Deferred outflows of resources	1,120,815	1,114,227	49,455	71,006	1,170,270	1,185,233
Long-term liabilities	17,870,726	18,640,554	702,085	990,649	18,572,811	19,631,203
Other liabilities	814,369	512,366	357,260	536,549	1,171,629	1,048,915
Total liabilities	18,685,095	19,152,920	1,059,345	1,527,198	19,744,440	20,680,118
Net position:						
Net investment in capital assets	24,750,271	25,188,261	10,558,687	9,444,326	35,308,958	34,632,587
Restricted	8,274,364	6,905,450	-	-	8,274,364	6,905,450
Unrestricted	3,453,053	3,129,114	1,106,385	925,924	4,559,438	4,055,038
Total Net Position	\$ 36,477,688	\$ 35,222,825	\$ 11,665,072	\$ 10,370,250	\$ 48,142,760	\$ 45,593,075

The City's net 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 \$35,308,958. 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 \$8,274,364 (or 17%) of the City's net position represents resources that are subject to external restrictions on how they may be used. All of the City's restricted net position is being held for the purposes established by state and local laws, for future construction, and for debt service requirements on the City's outstanding debt. The remaining portion of the City's net position (\$4,559,438) 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 position, 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.

City of Lake Worth, Texas

Management's Discussion and Analysis

The City's total net position increased by \$2,549,685 during the current fiscal year. The City's governmental activities increased net position by \$1,254,863. The total cost of all governmental activities this year was \$10,418,949. The amount that our taxpayers paid for these activities through property taxes was \$1,986,136 or 19%. The City's business-type activities increased net position by \$1,294,822. The total cost of all business-type activities for fiscal year 2017 was \$2,228,092.

City of Lake Worth's Changes in Net Position

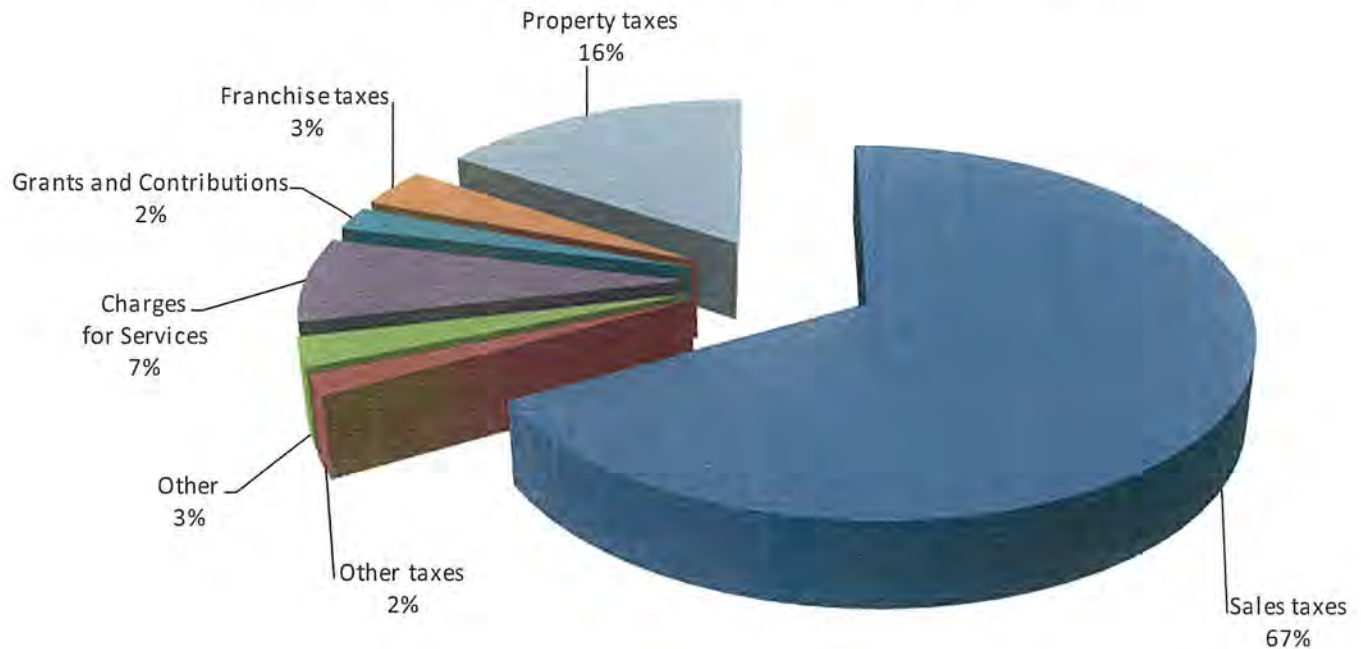
	Governmental activities		Business-type activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 946,218	\$ 964,912	\$ 2,483,352	\$ 2,522,414	\$ 3,429,570	\$ 3,487,326
Operating grants and contributions	265,569	248,014	-	-	265,569	248,014
Capital grants and contributions	-	-	-	152,997	-	152,997
General revenues:						
Property taxes	1,986,136	1,986,415	-	-	1,986,136	1,986,415
Retail sales tax	8,491,651	8,231,016	-	-	8,491,651	8,231,016
Franchise taxes	446,028	468,308	-	-	446,028	468,308
Other taxes	235,882	238,371	-	-	235,882	238,371
Other	327,307	166,565	35,675	29,242	362,982	195,807
Gain (loss) on disposal of assets	(25,542)	-	4,450	4,432	(21,092)	4,432
Total revenues	12,673,249	12,303,601	2,523,477	2,709,085	15,196,726	15,012,686
Expenses:						
Mayor and council	18,705	18,596	-	-	18,705	18,596
General government	1,536,773	1,448,781	-	-	1,536,773	1,448,781
Police	2,941,027	2,837,660	-	-	2,941,027	2,837,660
Fire protection	1,790,085	1,719,280	-	-	1,790,085	1,719,280
Streets	1,068,654	1,197,003	-	-	1,068,654	1,197,003
Library	251,687	236,788	-	-	251,687	236,788
Parks and recreation	592,865	555,840	-	-	592,865	555,840
Maintenance	177,154	178,432	-	-	177,154	178,432
Senior center	121,402	112,857	-	-	121,402	112,857
Municipal court	228,330	217,511	-	-	228,330	217,511
Animal control	103,463	96,440	-	-	103,463	96,440
Emergency management	11,224	11,618	-	-	11,224	11,618
Permits and inspections	348,106	341,077	-	-	348,106	341,077
Information technology	443,898	382,351	-	-	443,898	382,351
Interest and fiscal charges	785,576	642,682	-	-	785,576	642,682
Water and sewer	-	-	2,228,092	2,493,489	2,228,092	2,493,489
Total expenses	10,418,949	9,996,916	2,228,092	2,493,489	12,647,041	12,490,405
Increase in net position before transfers	2,254,300	2,306,685	295,385	215,596	2,549,685	2,522,281
Transfers	(999,437)	(50,386)	999,437	50,386	-	-
Increase in net position	1,254,863	2,256,299	1,294,822	265,982	2,549,685	2,522,281
Net position, beginning of year	35,222,825	32,966,526	10,370,250	10,104,268	45,593,075	43,070,794
Net position, end of year	<u>\$ 36,477,688</u>	<u>\$ 35,222,825</u>	<u>\$ 11,665,072</u>	<u>\$ 10,370,250</u>	<u>\$ 48,142,760</u>	<u>\$ 45,593,075</u>

City of Lake Worth, Texas Management's Discussion and Analysis

Governmental activities. Governmental activities increased the City's net position by \$1,254,863. Key elements of this increase are as follows:

- Increase of over 3% in sales tax revenue; and
- Increase of over 96% in other revenue.

Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net position by \$1,294,822.

Operating revenue decreased by \$39,062 from the prior year primarily due to a decrease in consumption, this resulted in a decrease in water and sewer service revenues. Operating expenses decreased \$265,397 from the prior year primarily due to a decrease in water purchases and sewer disposal charges. Transfers in from governmental activities increased \$949,051 from the prior year.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned 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 \$15,125,078, which is an increase of \$687,564 in comparison with the prior year. \$4,940,409 or 33% of the fund balance represents unassigned fund balance, which is available for spending at the City's discretion. Assigned fund balance is \$1,227,963, committed fund balance is \$42,901 and non-spendable fund balance is \$24,283. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been set aside to pay debt service (\$53,720), to fund capital projects (\$659,340), economic development (\$4,211,278), street maintenance (\$2,184,485), crime control (\$550,409), public educational government channel (\$68,012), parks and recreation (\$256,570), hotels/motels (\$797,918) and other City related expenditures (\$107,790).

City of Lake Worth, Texas Management's Discussion and Analysis

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,940,409, which is 67% of the total general fund balance. As a measure of the general fund's liquidity, we compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 63%, or slightly more than 231 days of total fund expenditures.

The fund balance of the City's general fund increased by \$325,593 during the current fiscal year.

Revenue from taxes in the general fund increased by 3.4% compared to prior year due to an increase in sales taxes. Permits and fees decreased by 8.8% from the prior year due to a decrease in building permits being issued. Intergovernmental revenues increased by 6.0% due to the City obtaining additional grant funding. Charges for services increased by 6.9% from the prior year due to an increase in park rental fees.

Total expenditures in the general fund increased by 1.5% from the prior year. General government, police, fire protection, parks and recreation, municipal court, animal control, and information technology increased by 6.9%, 4.7%, 6.5%, 4.7%, 5.3%, 7.4%, and 19.6%, respectively, while capital outlay and debt service expenditures decreased by 43.5% and 12.0%.

GENERAL FUND BUDGETARY HIGHLIGHTS

Amendments to the original 2016-2017 general fund annual budget can be briefly summarized as follows:

- Increase in taxes revenue;
- Increase in investment earnings and miscellaneous revenues;
- Increase in general government expenditures;
- Decrease in police expenditures; and
- Increase in capital outlay expenditures.

Comparing budget to actual amounts, the City came in above the final budgeted revenue estimate by \$132,314, or 1.9%. The primary revenues that came in above estimated budget amounts were taxes, intergovernmental, and miscellaneous revenues. Property taxes were more than expected due to the increase in delinquent tax collections and related penalties and interest. Intergovernmental revenues were more than budgeted due to additional grant funding. In addition, miscellaneous revenues were more than budgeted due primarily to insurance claims and park and police donations.

Total expenditures were 11.4% less than the final budgeted amounts. The primary expenditures that came in below estimated budget were general government, police, streets, and capital outlay expenditures. The cost of health insurance was substantially lower than budgeted. The budget included a 25% increase in premiums, and renewals rates increased less than 1%. Capital outlay expenditures were less than expected as some budgeted park improvements were not completed in the current year. Additionally, the City Council approved a budget amendment to allow for expenditures related to a new city-wide radio system in the amount of \$578,043. Although the project was underway as of September 30, 2017, no invoices had been received related to it.

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, 2017, amounts to \$49,096,508 (net of accumulated depreciation). Investments in capital assets related to governmental activities (\$38,081,321) 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 (\$11,015,187) include the water and sewer system, construction in progress, buildings and improvements, and equipment and vehicles.

City of Lake Worth, Texas Management's Discussion and Analysis

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

- Lake Worth park improvements, including new fencing and completion of the drainage project;
- Sewer improvements and line replacements;
- Sewer camera with a trailer;
- Remodel of the upstairs portion of the fire station;
- Two thermal cameras for the fire department;
- Various concrete replacement projects; and
- Two police vehicles and two public works vehicles.

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,685,569	\$ 1,685,569	\$ 46,240	\$ 46,240	\$ 1,731,809	\$ 1,731,809
Construction in progress	257,496	798,443	746,023	167,271	1,003,519	965,714
Buildings and improvements	9,469,971	8,927,151	90,879	91,832	9,560,850	9,018,983
Infrastructure	24,073,960	23,973,259	-	-	24,073,960	23,973,259
Water and sewer system	-	-	9,773,664	9,734,109	9,773,664	9,734,109
Equipment and vehicles	2,334,580	2,593,017	358,381	142,174	2,692,961	2,735,191
Office furniture and fixtures	259,745	295,791	-	-	259,745	295,791
Total	\$ 38,081,321	\$ 38,273,230	\$ 11,015,187	\$ 10,181,626	\$ 49,096,508	\$ 48,454,856

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

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). The City is required to perform an examination of the roads and rate the status of their roads at least every three years. Conditions as of September 30th for the last three times that the roads were rated are as follows:

<u>Condition rating</u>	<u>2017</u>	<u>2014</u>	<u>2012</u>
At least 1	9.12%	3.29%	0.00%
At least 2-4	19.33%	7.60%	13.44%
At least 5-7	39.52%	41.24%	42.47%
At least 8-10	32.03%	47.87%	43.93%

For fiscal year 2017, the City estimated that \$1,155,567 was needed to meet this goal. The actual amount used for maintenance and preservation of the City's roads was \$964,848. Additional information on road condition data is included in the schedule on page 58 of this report.

City of Lake Worth, Texas Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City of Lake Worth had total debt outstanding of \$18,572,811. Of this amount, \$200,000 represents certificates of obligation secured by property tax collections, \$13,065,500 represents general obligation bonds secured by property tax obligations, with an unamortized premium of \$700,531, \$456,500 represents general obligation and utility system revenue bonds secured by water and sewer revenues, \$24,359 represents capital lease obligations, \$367,209 represents the City's compensated absences obligation, \$3,689,053 represents the City's net pension liability, and \$69,659 represents the volunteer firefighter total pension liability. The City's total debt decreased by \$1,058,392 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 2016-2017 was \$0.460660 per \$100 assessed valuation, of which \$0.180144 was for maintenance and operations and \$0.280516 was for debt service.

Additional information on the City's long-term debt can be found in Note H 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 2018, the City Council and administration considered the following factors:

- With a stable economy and very few new retailers in the City, sales tax budgets are projected at a modest 3% increase over actual amounts received in fiscal year 2017.
- Property tax revenues are budgeted to increase by about 10% in the General Fund. The revenue increase is attributable to both increased property values and an increase in the Maintenance and Operations portion of the tax rate. For the budget year ended September 30, 2017 the property tax revenue was based on net taxable values totaling \$425,109,912 and a Maintenance and Operations tax rate of 0.180144 per \$100 valuation. For the 2018 budget year the property tax revenue is based on net taxable values totaling \$452,940,707 and a Maintenance and Operations tax rate of 0.185836 per \$100 valuation.
- General Fund budgeted expenses for fiscal year 2018 are approximately 3.2% less than estimated totals for the previous budget year. The decrease can be attributed to the absence of capital expenditures in the fiscal year 2018 budget. The budget for the fiscal year ended September 30, 2018 includes employee market adjustment pay increases ranging from 3% to 7% and a 20% increase in health insurance costs. In addition, other personnel related costs such as dental, vision, and life insurance costs were budgeted to increase by 15%.
- Compared to estimated totals for the fiscal year ended September 30, 2017, the Water/Sewer Fund fiscal year 2018 budget reflects a 12.5% decrease in revenues and an 11% decrease in expenses. The decrease in revenue is due to decreased transfers from the General Fund for capital purchases, and the decrease in expenses is due to the absence of capital expenditures in the fiscal year 2018 budget.

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 Assistant City Manager at 3805 Adam Grubb, Lake Worth, Texas 76135.

BASIC FINANCIAL STATEMENTS

City of Lake Worth, Texas
Statement of Net Position
September 30, 2017

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
Assets			
Cash and cash equivalents	\$ 179,416	\$ 82,647	\$ 262,063
Investments	14,931,398	1,087,802	16,019,200
Receivables (net of allowances for uncollectibles of \$38,072)			
Accounts	-	306,023	306,023
Taxes	68,952	-	68,952
Other	78,978	4,159	83,137
Due from other governments	604,499	-	604,499
Internal balances	2,829	(2,829)	-
Prepaid expenses	24,283	1,288	25,571
Restricted investments	633	180,685	181,318
Other assets	69,659	-	69,659
Capital assets			
Infrastructure using modified approach	24,073,960	-	24,073,960
Land and construction in progress	1,943,065	792,263	2,735,328
Other capital assets, net of depreciation	12,064,296	10,222,924	22,287,220
Total capital assets	<u>38,081,321</u>	<u>11,015,187</u>	<u>49,096,508</u>
Total assets	<u>54,041,968</u>	<u>12,674,962</u>	<u>66,716,930</u>
Deferred Outflows of Resources			
Deferred loss on refunding	320,194	-	320,194
Deferred outflows of resources - pension	800,621	49,455	850,076
Total deferred outflows of resources	<u>1,120,815</u>	<u>49,455</u>	<u>1,170,270</u>
Liabilities			
Accounts payable and accrued expenses	712,638	165,715	878,353
Interest payable	47,752	-	47,752
Payable from restricted funds:			
Customer deposits	633	180,685	181,318
Due to other governments	53,346	10,860	64,206
Long-term liabilities			
Due within one year	1,714,411	159,164	1,873,575
Due in more than one year	16,156,315	542,921	16,699,236
Total liabilities	<u>18,685,095</u>	<u>1,059,345</u>	<u>19,744,440</u>
Net position			
Net investment in capital assets	24,750,271	10,558,687	35,308,958
Restricted for:			
Economic development	4,211,378	-	4,211,378
Debt service	95,705	-	95,705
Street maintenance	2,184,485	-	2,184,485
Crime control	552,506	-	552,506
Public educational government channel	68,012	-	68,012
Parks and recreation	256,570	-	256,570
Hotel/motel	797,918	-	797,918
Other	107,790	-	107,790
Unrestricted	3,453,053	1,106,385	4,559,438
Total net position	<u>\$ 36,477,688</u>	<u>\$ 11,665,072</u>	<u>\$ 48,142,760</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, 2017

Functions/Programs	Net (Expense) Revenue and Changes In Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government					
Governmental activities					
Mayor and council	\$ 18,705	\$ -	\$ -	\$ (18,705)	\$ -
General government	1,536,773	76,940	-	(1,459,833)	-
Police	2,941,027	500,470	18,436	(2,422,121)	-
Fire protection	1,790,085	-	230,893	(1,559,192)	-
Streets	1,068,654	-	-	(1,068,654)	-
Library	251,687	3,291	-	(248,396)	-
Parks and recreation	592,865	33,802	15,202	(543,861)	-
Maintenance	177,154	187,549	-	10,395	-
Senior center	121,402	-	508	(120,894)	-
Municipal court	228,330	20,937	-	(207,393)	-
Animal control	103,463	1,623	530	(101,310)	-
Emergency management	11,224	-	-	(11,224)	-
Permits and inspections	348,106	121,606	-	(226,500)	-
Informational technology	443,898	-	-	(443,898)	-
Interest and fiscal charges	785,576	-	-	(785,576)	-
Total governmental activities	10,418,949	946,218	265,569	(9,207,162)	-
Business-type activities					
Water and sewer	2,228,092	2,483,352	-	-	255,260
Total business-type activities	2,228,092	2,483,352	-	-	255,260
Total primary government	\$ 12,647,041	\$ 3,429,570	\$ 265,569	(9,207,162)	255,260
General revenues and transfers:					
Taxes					
Property				1,986,136	-
Retail sales				8,491,651	-
Franchise				446,028	-
Hotel				211,267	-
Mixed beverage				24,615	-
Interest				120,258	8,597
Gain (loss) on sale of assets				(25,542)	4,450
Other				207,049	27,078
Transfers				(999,437)	999,437
Total general revenues and transfers				10,462,025	1,039,562
Change in net position				1,254,863	1,294,822
Net position, beginning of year				35,222,825	10,370,250
Net position, end of year				\$ 36,477,688	\$ 11,665,072

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

City of Lake Worth, Texas
Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Economic Development Corporation Fund	Street Maintenance Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 125,335	\$ -	\$ 24,726	\$ 6,146	\$ -	\$ 23,209	\$ 179,416
Investments	7,424,911	4,067,314	2,102,616	49,232	736,853	551,105	14,932,031
Receivables (net of allowances for uncollectibles of \$34,994)							
Property taxes	26,967	-	-	41,985	-	-	68,952
Accounts	76,662	-	-	-	-	2,316	78,978
Due from other governments	302,615	151,307	75,654	-	-	74,923	604,499
Due from other funds	7,306	-	-	-	-	-	7,306
Prepaid expenses	22,086	100	-	-	-	2,097	24,283
Other assets	69,659	-	-	-	-	-	69,659
Total assets	\$ 8,055,541	\$ 4,218,721	\$ 2,202,996	\$ 97,363	\$ 736,853	\$ 653,650	\$ 15,965,124
Liabilities							
Liabilities							
Accounts payable	\$ 358,861	\$ 5,304	\$ 9,613	\$ 132	\$ 77,513	\$ 13,479	\$ 464,902
Accrued liabilities	220,097	-	7,986	-	-	19,653	247,736
Due to other governments	53,346	-	-	-	-	-	53,346
Due to other funds	-	2,039	912	1,526	-	-	4,477
Deposits	633	-	-	-	-	-	633
Total liabilities	632,937	7,343	18,511	1,658	77,513	33,132	771,094
Deferred inflows of resources							
Unavailable revenue- property taxes	26,967	-	-	41,985	-	-	68,952
Fund balances							
Non-spendable for:							
prepaid expenses	22,086	100	-	-	-	2,097	24,283
Restricted for:							
Economic development	-	4,211,278	-	-	-	-	4,211,278
Debt service	-	-	-	53,720	-	-	53,720
Capital projects	-	-	-	-	659,340	-	659,340
Street maintenance	-	-	2,184,485	-	-	-	2,184,485
Crime control	-	-	-	-	-	550,409	550,409
Public educational	-	-	-	-	-	68,012	68,012
government channel	-	-	-	-	-	-	-
Parks and recreation	256,570	-	-	-	-	-	256,570
Hotel/motel	797,918	-	-	-	-	-	797,918
Other	107,790	-	-	-	-	-	107,790
Committed for:							
Fire protection /							
truck maintenance	42,901	-	-	-	-	-	42,901
Assigned for:							
Fire protection	134,353	-	-	-	-	-	134,353
Radio system	578,043	-	-	-	-	-	578,043
Parks and recreation	194,513	-	-	-	-	-	194,513
Health insurance premium	294,369	-	-	-	-	-	294,369
Storage building	26,685	-	-	-	-	-	26,685
Unassigned	4,940,409	-	-	-	-	-	4,940,409
Total fund balances	7,395,637	4,211,378	2,184,485	53,720	659,340	620,518	15,125,078
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,055,541	\$ 4,218,721	\$ 2,202,996	\$ 97,363	\$ 736,853	\$ 653,650	
Amounts reported for governmental activities in the statement of net position are different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.							38,081,321
Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.							1,120,815
Property taxes receivable, net of allowance, are not available to pay for current period expenditures and, therefore, are deferred in the funds.							68,952
Some liabilities, including certificates of obligation, general obligation bonds, capital leases payable, accrued interest payable, net pension liability, compensated absences, and volunteer firefighter retirement obligation are not due and payable in the current period and, therefore, are not reported in the funds.							(17,918,478)
Net position of governmental activities - statement of net position							\$ 36,477,688

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

City of Lake Worth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
September 30, 2017

	General Fund	Economic Development Corporation Fund	Street Maintenance Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 5,704,802	\$ 2,126,429	\$ 1,063,215	\$ 1,203,360	\$ -	\$ 1,049,148	\$ 11,146,954
Fines	503,761	-	-	-	-	-	503,761
Permits and fees	197,301	-	-	-	-	-	197,301
Intergovernmental	32,958	-	-	-	-	-	32,958
Charges for services	221,351	-	-	-	-	-	221,351
Investment earnings	56,357	32,416	15,650	4,049	8,035	3,751	120,258
Miscellaneous	407,476	388	29,929	-	6	25,668	463,467
Total revenues	7,124,006	2,159,233	1,108,794	1,207,409	8,041	1,078,567	12,686,050
Expenditures							
Current							
Mayor and council	15,045	-	-	-	-	-	15,045
General government	1,178,185	159,688	-	-	-	-	1,337,873
Police	2,015,750	-	-	-	-	701,939	2,717,689
Fire protection	1,677,934	-	-	-	-	-	1,677,934
Streets	507,804	-	457,044	-	-	-	964,848
Library	237,187	-	-	-	-	-	237,187
Parks and recreation	411,038	-	-	-	-	-	411,038
Maintenance	171,707	-	-	-	-	-	171,707
Senior center	110,174	-	-	-	-	-	110,174
Municipal court	223,322	-	-	-	-	-	223,322
Animal control	82,085	-	-	-	-	-	82,085
Emergency management	11,224	-	-	-	-	-	11,224
Permits and inspections	338,486	-	-	-	-	-	338,486
Informational technology	409,648	-	-	-	-	-	409,648
Capital outlay	408,132	-	99,936	-	7,321	37,096	552,485
Debt service							
Principal	15,220	-	-	1,128,200	-	-	1,143,420
Interest	2,794	-	-	763,102	-	-	765,896
Total expenditures	7,815,735	159,688	556,980	1,891,302	7,321	739,035	11,170,061
Excess (deficiency) of revenues over (under) expenditures	(691,729)	1,999,545	551,814	(683,893)	720	339,532	1,515,989
Other financing sources (uses)							
Transfers in	1,276,411	-	-	508,092	-	-	1,784,503
Transfers out	(282,861)	(1,308,234)	(112,244)	-	(909,287)	(171,314)	(2,783,940)
Proceeds of refunding bonds	-	-	-	8,455,000	-	-	8,455,000
Premium on bond issuance	-	-	-	696,944	-	-	696,944
Capital lease proceeds	23,772	-	-	-	-	-	23,772
Payment to refunded bond escrow agent	-	-	-	(9,004,704)	-	-	(9,004,704)
Total other financing sources (uses)	1,017,322	(1,308,234)	(112,244)	655,332	(909,287)	(171,314)	(828,425)
Changes in fund balances	325,593	691,311	439,570	(28,561)	(908,567)	168,218	687,564
Fund balances, beginning of year	7,070,044	3,520,067	1,744,915	82,281	1,567,907	452,300	14,437,514
Fund balances, end of year	\$ 7,395,637	\$ 4,211,378	\$ 2,184,485	\$ 53,720	\$ 659,340	\$ 620,518	\$ 15,125,078

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

City of Lake Worth, Texas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Change in
Net Position of Governmental Activities in the Statement of Activities
For the Fiscal Year Ended September 30, 2017

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

Net change in fund balances - total governmental funds	\$	687,564
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Governmental funds report 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.

Capital outlay	\$	552,485	
Depreciation expense		(718,851)	(166,366)

Governmental capital assets sold have the full proceeds reported as revenue instead of applying the basis of the assets sold.

Loss on sales of assets		(25,542)
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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.

12,743

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.

Compensated absences	\$	(46,723)	
Volunteer firefighter pension expense		(2,662)	
Accrued interest		(29,952)	
Amortization of premium on debt		14,782	
Amortization of deferred loss on refunding		(4,510)	(69,065)

Pension expense in the funds is recorded as contributions when made to the TMRS plan. Pension expense in governmental activities is recorded as the TMRS plan's pension expense for the measurement period. This is the effect between the two statements.

(156,879)

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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments			
Bonds	\$	1,128,200	
Capital leases		15,220	
Proceeds			
Bonds		(8,455,000)	
Capital leases		(23,772)	
Payments to refunding bond escrow agent		9,004,704	
Premium on debt		(696,944)	972,408

Change in net position of governmental activities - statement of activities	\$	1,254,863
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The accompanying notes are an integral part of these financial statements.

City of Lake Worth, Texas
Statement of Net Position
Enterprise Fund
September 30, 2017

	<u>Water and Sewer Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 82,647
Investments	1,087,802
Receivables	
Accounts (net of allowances for uncollectible accounts of \$3,078)	306,023
Other	4,159
Prepaid expenses	<u>1,288</u>
Total current assets	1,481,919
Noncurrent assets	
Restricted assets	
Investments	180,685
Capital assets	
Land	46,240
Construction in progress	746,023
Buildings and improvements	140,877
Water and sewer system	14,146,698
Machinery and equipment	2,008,091
Less accumulated depreciation	<u>(6,072,742)</u>
Total noncurrent assets	<u>11,195,872</u>
Total assets	<u>12,677,791</u>
Deferred Outflows of Resources	
Deferred outflows of resources - pension	<u>49,455</u>
Liabilities	
Current liabilities	
Payable from current assets	
Accounts payable	150,736
Accrued liabilities	14,979
Due to other funds	2,829
Due to other governments	10,860
Compensated absences	16,364
Current portion of bonds payable	<u>142,800</u>
Total current liabilities	338,568
Noncurrent liabilities	
Payable from restricted assets	
Customer deposits	180,685
Net pension liability	229,221
Bonds payable	<u>313,700</u>
Total noncurrent liabilities	<u>723,606</u>
Total liabilities	<u>1,062,174</u>
Net Position	
Net investment in capital assets	10,558,687
Unrestricted	<u>1,106,385</u>
Total net position	<u>\$ 11,665,072</u>

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

City of Lake Worth, Texas
Statement of Revenues, Expenses, and
Changes in Net Position
Enterprise Fund
For the Fiscal Year Ended September 30, 2017

	<u>Water and Sewer Fund</u>
Operating revenues	
Water services	\$ 1,474,941
Sewer services	996,969
Other operating revenues	<u>11,442</u>
Total operating revenues	<u>2,483,352</u>
Operating expenses	
Personnel services	437,103
Contractual services	182,823
Water purchases	533,574
Disposal charge - sewer	609,892
Supplies and maintenance	111,965
Depreciation	<u>336,819</u>
Total operating expenses	<u>2,212,176</u>
Operating income	<u>271,176</u>
Nonoperating revenues (expenses)	
Gain on disposals of assets	4,450
Interest income	8,597
Miscellaneous	27,078
Interest expense	<u>(15,916)</u>
Total non-operating revenues (expenses)	<u>24,209</u>
Income before transfers	295,385
Transfers in	1,722,225
Transfers out	<u>(722,788)</u>
Total transfers	<u>999,437</u>
Change in net position	1,294,822
Net position, beginning of year	<u>10,370,250</u>
Net position, end of year	<u><u>\$ 11,665,072</u></u>

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, 2017

	<u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 2,526,054
Cash paid to suppliers	(1,625,284)
Cash paid to employees	(422,358)
	<hr/>
Net cash provided by operating activities	478,412
	<hr/>
Cash flows from noncapital financing activities:	
Cash received from other funds	1,722,225
Cash paid to other funds	(739,052)
	<hr/>
Net cash provided by noncapital financing activities	983,173
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,175,931)
Proceeds from disposal of capital assets	10,000
Principal payments on long-term debt	(280,800)
Interest paid	(15,916)
	<hr/>
Net cash used in capital and related financing activities	(1,462,647)
	<hr/>
Cash flows from investing activities:	
Change in investments	9,945
Interest income	8,597
	<hr/>
Net cash provided by investing activities	18,542
	<hr/>
Net increase in cash	17,480
Cash and cash equivalents at beginning of year	<hr/> 65,167
Cash and cash equivalents at end of year	<hr/> <u>\$ 82,647</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 271,176
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	336,819
Miscellaneous revenue	27,078
Decrease in accounts receivable	10,099
Increase in prepaid expenses	(1,258)
Decrease in deferred outflows of resources	21,551
Decrease in accounts payable and accrued liabilities	(184,814)
Decrease in net pension liability	(10,228)
Increase in compensated absences	2,464
Increase in customer deposits	5,525
	<hr/>
Net cash provided by operating activities	<u>\$ 478,412</u>

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

City of Lake Worth, Texas
Statement of Fiduciary Net Position
Fiduciary Fund
September 30, 2017

	<u>Insurance Trust Fund</u>
Assets	
Total assets	\$ -
Liabilities	
Total liabilities	-
Net Position	
Held in Trust for employee insurance benefits	\$ -

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

City of Lake Worth, Texas
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended September 30, 2017

	<u>Insurance Trust Fund</u>
Additions	
Contributions:	
Employer	\$ 540,149
Employee	<u>110,501</u>
Total additions	<u>650,650</u>
Deductions	
Insurance benefit payments	<u>650,650</u>
Total deductions	<u>650,650</u>
Change in net position	-
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ -</u></u>

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

City of Lake Worth, Texas

Notes to Financial Statements

September 30, 2017

Note A. Summary of Significant Accounting Policies

Financial Reporting Entity

The financial statements of the City of Lake Worth, Texas (the "City") are prepared in accordance with principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

As required by GAAP, 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 is 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 and upon its dissolution all assets shall be distributed to the City. The District is considered to be a component unit of the City 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. The Corporation provides all of its services to the City.

Government-wide and Fund Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. Government-wide statements report, except for City fiduciary activity, information on all of the activities of the City. The effects of interfund transfers have been removed from the government-wide statements but continue to be reflected on the fund statements. Governmental activities are supported mainly through tax revenues.

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 Street Maintenance 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 District Fund and the Public Educational Government Channel 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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note A. Summary of Significant Accounting Policies (Continued)

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 liabilities, 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 a half-penny sales tax which can only be spent on projects and improvements that promote economic development activities within the City.

The Street Maintenance Fund is reported as a special revenue fund of the City and is utilized to account for a quarter-penny sales tax which can only be spent on street improvements or maintenance 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.

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.

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.

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's fiduciary fund is used to report employer and employee contributions, and investment income, if any, as well as benefits paid for health insurance.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note A. Summary of Significant Accounting Policies (Continued)

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 GAAP.
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. During the fiscal year, the Council authorized and approved amendments to the budget which provided for and approved all expenditures and transfers.

Cash Equivalents

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

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an 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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note A. Summary of Significant Accounting Policies (Continued)

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 certificates of obligation and bonds payable, premiums and discounts 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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has deferred outflows of resources related to the loss on refunding and the pension plan reported in the Statement of Net Position. See additional information in Note K related to the pension plan.

In addition to liabilities, the statement of net position and balance sheet includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has deferred inflows of resources related to unavailable revenue from property taxes reported in the governmental fund balance sheet.

Fund Balance

The City adopted a fund balance policy in accordance with GASB statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Governmental fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws and regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through a resolution. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the City Manager.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note A. Summary of Significant Accounting Policies (Continued)

Except when expenditures are specifically budgeted and when multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds, but will have the option to spend budgeted funds first.

Net Position

In the government-wide financial statements, net position is classified in the following categories:

Net investment in capital assets—This category consists of all capital assets net of accumulated depreciation and reduced by outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets.

Restricted net position—This category consists of external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, enabling legislation, and constitutional provisions.

Unrestricted net position—This category represents net position, not restricted for any project or other purpose.

When both restricted and unrestricted net position is available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Minimum Fund Balance Policy

The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 25% of expenditures.

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note A. Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note B. Reconciliation of Government-wide and Fund Financial Statements

The following is an explanation of certain differences between the governmental fund Balance Sheet and the government-wide Statement of Net Position:

The governmental fund Balance Sheet includes a reconciliation between fund balance for total governmental funds and net position as reported in the government-wide Statement of Net Position. One element of that reconciliation explains "some liabilities, including certificates of obligation, general obligation bonds, capital leases payable, accrued interest payable, net pension liability, compensated absences, and volunteer firefighter total pension liability are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$17,918,478 difference are as follows:

Capital leases payable	\$ 24,359
Certificates of obligation and general obligation bonds payable	13,265,500
Issuance premium	700,531
Accrued interest payable	47,752
Net pension liability	3,459,832
Volunteer firefighter total pension liability	69,659
Compensated absences	<u>350,845</u>
 Net adjustment to reduce fund balance - total governmental funds to arrive at net position- governmental activities	 <u><u>\$ 17,918,478</u></u>

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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

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

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

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities;
2. Direct obligations of the State of Texas, or its agencies and instrumentalities;
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or respective agencies and instrumentalities, excluding mortgage-backed securities;
4. Collateralized 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, 2017 were in LOGIC, TexSTAR, Lone Star Investment Pool and TexPool.

Public Funds Investment Pools

LOGIC

The Local Government Investment Cooperative (LOGIC) is a local government investment pool 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. LOGIC's governing body is a five-member board of trustees and is comprised of employees, officers, or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. The co-administrators are FirstSouthwest, a division of Hilltop Securities Inc., and J.P. Morgan Investment Management Inc. LOGIC is rated AAAM by Standard and Poor's.

LOGIC reports its financial statements in accordance with Financial Accounting Standards Boards, follows ASC 820 *Fair Value Measurement and Disclosure Requirements* in reporting its investments, and is categorized as Level 2. For pricing and redeeming shares, LOGIC maintains a stable net asset value of \$1.00 per share using the fair value method.

TexSTAR

Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool 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's governing body is a five-member board of directors consisting of three representatives of participants and one member employed by each co-administrator or an affiliate. The co-administrators are FirstSouthwest, a division of Hilltop Securities Inc., and J.P. Morgan Investment Management Inc. TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Members are appointed and serve at the will of the board of directors. TexSTAR is rated AAAM by Standard and Poor's.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

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

TexSTAR reports its financial statements in accordance with Financial Accounting Standards Boards, follows ASC 820 *Fair Value Measurement and Disclosure Requirements* in reporting its investments, and is categorized as Level 2. For pricing and redeeming shares, TexSTAR maintains a stable net asset value of \$1.00 per unit using the fair value method.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, LLC, with Standish Mellon Asset Management Company, LLC and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank and Trust provides custody services to Lone Star. 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 has three different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. The Government Overnight and Corporate Overnight Funds and are rated AAAM by Standard and Poor's, and the Corporate Overnight Plus Fund is rated AA+.

The City's investment in Lone Star is within the Government Overnight Fund, which values all investments at amortized costs and are operated in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Lone Star maintains a net asset value of \$1.00. There are no limitations or restrictions on withdrawals.

TexPool

Texas Local Government Investment Pool (TexPool) is a local government investment pool 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. The Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the TexPool portfolios. Administrative and investment services are provided by Federated Investors, Inc. TexPool has established an advisory board composed equally of participants and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool. TexPool is rated AAAM by Standard and Poor's.

TexPool uses amortized cost to value portfolio assets and follows the criteria established by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, for use of amortized cost. The stated objective of TexPool is to maintain a stable average of \$1.00 per unit net asset value. There are no limitations or restrictions on withdrawals.

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure the assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices include within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

As of September 30, 2017, the City had the following investments:

	Level 2	Total
Investments by Fair Value Level:		
LOGIC	\$ 4,291,513	\$ 4,291,513
TexSTAR	3,510,150	3,510,150
Subtotal	<u>\$ 7,801,663</u>	
Investments measured at Amortized Cost:		
Lone Star		4,282,812
TexPool		4,116,043
Total Investments		<u>\$ 16,200,518</u>

As reported in the Statement of Net Position:

Governmental activities	
Investments	\$ 14,931,398
Restricted investments	633
Business-type activities	
Investments	1,087,802
Restricted investments	<u>180,685</u>
Total investments	<u>\$ 16,200,518</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, 2017, 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, 2017, TexPool, TexSTAR, Lone Star, and LOGIC investment pools were rated AAAM by Standard and Poor's.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

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:

	<u>Maximum Percentage of Portfolio</u>
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, 2017, 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, 2017, 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, and the City is in compliance with the Public Funds Collateral Act, Texas Government Code, Chapter 2257.

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 unearned revenues and are recognized when they become available. Taxes collected prior to the levy date to which they apply are recorded as deferred inflows of resources and recognized as revenue of the period to which they apply.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note E. Interfund Activity

During the course of the fiscal year, interfund payables and receivables arise. The following were outstanding as of September 30, 2017:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Economic development corporation fund	\$ 2,039
General fund	Debt service fund	1,526
General fund	Street maintenance fund	912
General fund	Water and sewer fund	2,829
Total		<u>\$ 7,306</u>

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

Interfund transfers during the year were as follows:

<u>Transfers Out</u>	
General fund	\$ 282,861
Economic development corporation fund	1,308,234
Capital projects fund	909,287
Street maintenance fund	112,244
Crime control & prevention district fund	171,314
Water and sewer fund	722,788
	<u>\$ 3,506,728</u>
<u>Transfers in</u>	
General fund	\$ 1,276,411
Debt service fund	508,092
Water and sewer fund	1,722,225
	<u>\$ 3,506,728</u>

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 (4) to transfer Water and Sewer fund construction in progress from the Capital Projects fund.

Note F. Restricted Assets

Restricted assets are held for customer deposits in the General Fund and the Water and Sewer Fund.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note G. Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balance 10/1/2016	Transfers/ Additions	Transfers/ Deletions	Balance 9/30/2017
Governmental activities				
Capital assets using modified approach				
Infrastructure	\$ 23,973,259	\$ 100,701	\$ -	\$ 24,073,960
Total capital assets using modified approach	23,973,259	100,701	-	24,073,960
Capital assets not being depreciated				
Construction in progress	798,443	249,087	790,034	257,496
Land	1,685,569	-	-	1,685,569
Total capital assets not being depreciated	2,484,012	249,087	790,034	1,943,065
Other capital assets				
Buildings and improvements	11,410,974	833,479	-	12,244,453
Equipment and vehicles	6,774,959	159,251	403,940	6,530,270
Office furniture and fixtures	664,045	-	-	664,045
Total other capital assets	18,849,978	992,730	403,940	19,438,768
Less accumulated depreciation for:				
Buildings and improvements	2,483,823	290,659	-	2,774,482
Equipment and vehicles	4,181,942	387,190	373,442	4,195,690
Office furniture and fixtures	368,254	41,002	4,956	404,300
Total accumulated depreciation	7,034,019	718,851	378,398	7,374,472
Other capital assets, net	11,815,959	273,879	25,542	12,064,296
Governmental activities capital assets, net	<u>\$ 38,273,230</u>	<u>\$ 623,667</u>	<u>\$ 815,576</u>	<u>\$ 38,081,321</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note G. Capital Assets (Continued)

	Balance 10/1/2016	Transfers/ Additions	Transfers/ Deletions	Balance 9/30/2017
Business-type activities				
Capital assets not being depreciated				
Land	\$ 46,240	\$ -	\$ -	\$ 46,240
Construction in progress	167,271	910,317	331,565	746,023
Total capital assets not being depreciated	213,511	910,317	331,565	792,263
Other capital assets				
Water and sewer system	13,880,574	331,565	65,441	14,146,698
Building and improvements	137,683	3,194	-	140,877
Machinery and equipment	1,802,028	262,420	56,357	2,008,091
Total other capital assets	15,820,285	597,179	121,798	16,295,666
Less accumulated depreciation for:				
Water and sewer system	4,146,465	291,010	64,441	4,373,034
Building and improvements	45,851	4,147	-	49,998
Machinery and equipment	1,659,854	41,662	51,806	1,649,710
Total accumulated depreciation	5,852,170	336,819	116,247	6,072,742
Other capital assets, net	9,968,115	260,360	5,551	10,222,924
Business-type activities capital assets, net	<u>\$ 10,181,626</u>	<u>\$ 1,170,677</u>	<u>\$ 337,116</u>	<u>\$ 11,015,187</u>

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

Governmental activities:

Mayor and council	\$ 3,660
General government	185,708
Police	131,132
Fire	57,150
Streets	87,721
Library	9,967
Parks and recreation	175,489
Maintenance	3,552
Senior center	9,687
Animal control	20,373
Permits and inspections	2,302
Information technology	32,110
Total governmental activities	<u>\$ 718,851</u>

Business-type activities:

Water and sewer	<u>\$ 336,819</u>
Total business-type activities	<u>\$ 336,819</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note H. Long-Term Liabilities

Long-term debt of the City consists of certificates of obligation, general obligation bonds, utility system revenue bonds, and long-term capital leases. Long-term debt at September 30, 2017 consists of the following:

Governmental activities

Certificates of Obligation

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 September 30, 2018 at 3.25% to 5.75%.
- Outstanding balance of \$200,000 at September 30, 2017.

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 \$310,500 at September 30, 2017.

General Obligation Refunding Bonds, Series 2011

- To refund the Combination Tax and Revenue Certificates of Obligation, Series 2001.
- Original balance of \$2,675,000.
- Payable in annual installments through September 1, 2021 at 2.0% to 3.0%.
- Outstanding balance of \$1,150,000 at September 30, 2017.

General Obligation Refunding Bonds, Series 2014

- To refund the Combination Tax and Revenue Certificates of Obligation, Series 2005.
- Original balance of \$4,235,000.
- Payable in annual installments through August 15, 2025 at 2.39%.
- Outstanding balance of \$3,150,000 at September 30, 2017.

General Obligation Refunding Bonds, Series 2017

- To refund the Combination Tax and Revenue Certificates of Obligation, Series 2008.
- Original balance of \$8,455,000.
- Payable in annual installments through September 30, 2029 at 2.0% to 4.0%.
- Outstanding balance of \$8,455,000 at September 30, 2017.

Capital Lease Arrangements

Dell Government Leasing

- To purchase a backup solution.
- Principal price of \$27,911.
- Payable in annual installments of \$6,036 over five years.
- Outstanding balance of \$5,800 at September 30, 2017, bearing interest at 4.06%.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note H. Long-Term Liabilities (Continued)

Dell Government Leasing

- To purchase to hyper V servers.
- Principal price of \$23,772.
- Payable in annual installments of \$5,213 over four years.
- Outstanding balance of \$18,559 at September 30, 2017, bearing interest at 8.47%.

The annual requirements to amortize long-term debt as of September 30, 2017 are as follows:

Year Ending	Certificates of Obligation		General Obligation Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 200,000	\$ 8,000	\$ 1,056,200	\$ 394,603	\$ 11,473	\$ 1,422
2019	-	-	1,299,300	357,274	6,171	687
2020	-	-	1,255,000	327,045	6,715	143
2021	-	-	1,290,000	296,101	-	-
2022	-	-	1,120,000	262,750	-	-
2023-2027	-	-	5,765,000	854,133	-	-
2028-2032	-	-	1,280,000	55,000	-	-
Total	<u>\$ 200,000</u>	<u>\$ 8,000</u>	<u>\$ 13,065,500</u>	<u>\$ 2,546,906</u>	<u>\$ 24,359</u>	<u>\$ 2,252</u>

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 \$264,500 at September 30, 2017.

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.
- Payable in annual installments through February 1, 2030 at 0%.
- Outstanding balance of \$192,000 at September 30, 2017.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note H. Long-Term Liabilities (Continued)

The annual requirements to amortize long-term debt as of September 30, 2017 are as follows:

Fiscal Year Ending	General Obligation Bonds		Utility System Revenue Bonds		Total
	Principal	Interest	Principal		
2018	\$ 128,800	\$ 8,004	\$ 14,000	\$	150,804
2019	135,700	2,714	14,000		152,414
2020	-	-	14,000		14,000
2021	-	-	15,000		15,000
2022	-	-	15,000		15,000
2023-2027	-	-	75,000		75,000
2028-2032	-	-	45,000		45,000
Total	<u>\$ 264,500</u>	<u>\$ 10,718</u>	<u>\$ 192,000</u>	<u>\$</u>	<u>467,218</u>

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

	Governmental Activities
Scheduled future minimum lease payments	\$ 26,611
Amount representing interest	<u>2,252</u>
Present value of future minimum capital lease payments (principal payoff)	<u>\$ 24,359</u>

The following is an analysis of equipment leased under capital leases as of September 30, 2017:

	Governmental Activities
Equipment	\$ 51,683
Less accumulated depreciation	<u>(19,506)</u>
Total	<u>\$ 32,177</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note H. Long-Term Liabilities (Continued)

The following is a summary of the changes by type of long-term liabilities for the year ended September 30, 2017:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Due Within One Year
<u>Governmental activities</u>					
Certificates of obligation	\$ 9,080,000	\$ -	\$ 8,880,000	\$ 200,000	\$ 200,000
General obligation bonds	5,538,700	8,455,000	928,200	13,065,500	1,056,200
Premium on bonds issued	18,369	696,944	14,782	700,531	95,893
Capital leases	15,807	23,772	15,220	24,359	11,473
Net pension liability	3,616,559	441,550	598,277	3,459,832	-
Compensated absences	304,122	532,558	485,835	350,845	350,845
Volunteer firefighter total pension liability	66,997	2,662	-	69,659	-
Total governmental activities	18,640,554	10,152,486	10,922,314	17,870,726	1,714,411
<u>Business-type activities</u>					
General obligation bonds	531,300	-	266,800	264,500	128,800
Utility system revenue bonds	206,000	-	14,000	192,000	14,000
Net pension liability	239,449	24,359	34,587	229,221	-
Compensated absences	13,900	21,334	18,870	16,364	16,364
Total business-type activities	990,649	45,693	334,257	702,085	159,164
Total	<u>\$ 19,631,203</u>	<u>\$ 10,198,179</u>	<u>\$ 11,256,571</u>	<u>\$ 18,572,811</u>	<u>\$ 1,873,575</u>

Advance Refunding

On August 1, 2017, the City issued \$8,455,000 of general obligation refunding bonds to advance refund \$8,680,000 of outstanding 2008 Certificates of Obligation. At September 30, 2017, the balance of the 2008 Certificates of Obligation was \$200,000. The remaining amount of the 2008 Certificates of Obligation is considered to be defeased, and the liability has been removed from the Statement of Net Position. The City advance refunded the 2008 Certificates of Obligations to reduce its future debt service payments by approximately \$3,563,000 and to obtain an economic gain of approximately \$2,362,000.

Note I. Compensated Absences and Sick Leave

If an employee separates from the City, has completed a minimum of twenty years of continuous service with the City, and qualifies for retirement as defined by the Texas Municipal Retirement System, the employee will be eligible for pay for one-half of accumulated sick leave, or 240 hours, whichever is less. However, for the remaining employees, sick leave is recorded when paid and 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 compensated absences as of September 30, 2017 was \$367,209.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note J. Restricted Net Position / Restricted Fund Balance

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

Child safety	\$ 16,816
Court technology	8,400
Court security	62,990
Confiscated property	5,853
Police LEOSE	6,014
Fire LEOSE	493
Police department donations	5,322
Fire department donations	122
Library donations	236
Senior center donations	681
Animal control donations	863
	<hr/>
Total Other Restricted Net Position/ Other Restricted Fund Balance	<u>\$ 107,790</u>

Child safety – Citations written for offenses in school zones and passing school buses are assessed a fee that is to 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 is to be used to purchase or enhance most court technological equipment, software, devices, apparatus and any other expenditures legally permitted by law.

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

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

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

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

Fire department donations – This money has been restricted to the benefit of the fire department.

Library donations – This money has been restricted to the benefit of the library.

Senior center donations – This money has been restricted to the benefit of the senior center.

Animal control donations – This money has been restricted to the benefit of animal control.

The government-wide statement of net position reports \$8,274,364 of restricted net position, of which \$7,746,287 is restricted by enabling legislation.

City of Lake Worth, Texas

Notes to Financial Statements

September 30, 2017

Note K. Defined Benefit Pension Plan

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit 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 are as follows:

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	49
Active employees	94
Total	<u>179</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note K. Defined Benefit Pension Plan (Continued)

Employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.52% and 13.41% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$664,926, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, Gabriel Roeder Smith & Company, Consultant & Actuaries, focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note K. Defined Benefit Pension Plan (Continued)

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Equities	17.50%	4.55%
International Equities	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the NPL	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2015	\$ 17,446,907	\$ 13,590,899	\$ 3,856,008
Changes for the year:			
Service Cost	725,539	-	725,539
Interest	1,186,749	-	1,186,749
Difference between expected and actual experience	(235,459)	-	(235,459)
Contributions - employer	-	632,864	(632,864)
Contributions - employee	-	303,290	(303,290)
Net investment income	-	918,562	(918,562)
Benefit payments, including refunds of employee contributions	(456,414)	(456,414)	-
Administrative expense	-	(10,373)	10,373
Other Changes	-	(559)	559
Net Changes	<u>1,220,415</u>	<u>1,387,370</u>	<u>(166,955)</u>
Balance at 12/31/2016	<u>\$ 18,667,322</u>	<u>\$ 14,978,269</u>	<u>\$ 3,689,053</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note K. Defined Benefit Pension Plan (Continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's NPL	\$6,860,485	\$3,689,053	\$1,136,109

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained at www.tmr.com. The City's plan's fiduciary net position has been determined on the same basis as that used by TMRS. The TMRS plan is reported on the accrual basis of accounting. Benefits are recorded when payable in accordance with TMRS' plan terms. Refunds are recorded and paid upon receipt of an approved application for refund. Investments are reported at fair value.

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$856,343.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (194,733)
Changes in actuarial assumptions	-	(47,210)
Difference between projected and actual investment earnings	604,957	-
Contributions subsequent to the measurement date	487,062	-
Total	<u>\$ 1,092,019</u>	<u>\$ (241,943)</u>

\$487,062 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2018	\$ 153,799
2019	153,798
2020	120,798
2021	(52,472)
2022	<u>(12,909)</u>
Total	<u>\$ 363,014</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note L. 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.

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, 2017, 2016, and 2015 were \$7,863, \$7,873, and \$7,051, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution Rate	Actual Contribution Rate	Percentage of ARC Contributed
2015	0.03%	0.15%	100.00%
2016	0.04%	0.17%	100.00%
2017	0.04%	0.15%	100.00%

Note M. Volunteer Firefighter Benefits

Pension - Length of Service Awards Program (LOSAP)

The City's financial statements are for the year ended September 30, 2017. However, the information contained in this note is based on information for the Length of Service Awards Program as of October 1, 2016, which is the date of the most recent actuarial valuation and the measurement date of the total pension liability.

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 at no cost to eligible volunteer firefighters. The City is the sponsor of the program. The City no longer offers LOSAP to new volunteer firefighters.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note M. Volunteer Firefighter Benefits (Continued)

Program Description

Participation, vesting and service credit

Volunteer firefighters who began service prior to 2003 and had reached the age of 18 and who had completed one year of firefighting service are eligible to participate in the program. Participants acquire a non-forfeitable 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 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.

Contributions

The City provides annual contributions that satisfy the required amount to fund this program. Administrative costs are financed through investment earnings.

Plan membership

The most current actuarial valuation was completed as of October 1, 2016. The membership data related to the plan was as follows:

Retirees and beneficiaries currently receiving benefits	2
Terminated plan members entitled to, but not yet receiving benefits	6
Active plan members	<u>1</u>
Total	<u>9</u>

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 restricted Volunteer Firemen's Insurance Services to assist in the administration of the program. The restricted 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 Mass Mutual 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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note M. Volunteer Firefighter Benefits (Continued)

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, December 20, 2016.

Actuarial Assumptions and Funding Methods

The entry age normal actuarial cost method was used to determine total pension liability (TPL) and the annual required contribution (ARC) to fund the LOSAP. The following assumptions were used to determine the TPL and ARC:

Assumed Interest – 4.75%. The assumed rate reflects the actuary's best estimate of long-term investment results.

Pre-Retirement Mortality Table – 1984 Unisex Pensioners -1. This represents the possibility that some participants may die prior to reaching entitlement age.

Post-Retirement Mortality Table – 1984 Unisex Pensioners -1. 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 – Entry age normal frozen initial liability. Under this funding method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. Under this method, the actuarial gains (losses) are reflected as they occur in a decrease (increase) in the unfunded actuarial accrued liability.

There are no changes in assumptions or other inputs or changes in benefit terms that affected measurement of the total pension liability since the prior measurement date.

<u>Changes in the TPL</u>		
Balance at 10/1/2015	\$	66,997
Service costs		1,306
Interest on total pension liability		4,735
Benefit payments		(3,440)
Other changes		61
Balance at 10/1/2016	\$	<u>69,659</u>

For the year ended September 30, 2017, the City recognized pension expense of \$6,017.

Insurance

In addition to the pension plan, an insurance policy is provided by the City for volunteer firefighters who qualify for the LOSAP, 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, 2017

Note N. Operating Leases

The City of Lake Worth leases the following equipment:

- The City leases copiers from NovaCopy with a \$704 monthly lease payment for 60 months beginning November 1, 2014 through October 31, 2019.
- The City leases a copier from Canon with a \$218 monthly lease payment for 60 months beginning August 1, 2015 through July 31, 2020.
- The City leases computers from Dell Financial Services with a \$2,959 annual lease payment for 4 years beginning November 1, 2014 through October 31, 2018.
- The City leases a cloud based server from Dell Financial Services with a \$6,036 annual lease payment for 5 years beginning August 1, 2014 through July 31, 2019.
- The City leases computers from Var Technology Finance with a \$12,784 annual lease payment for 4 years beginning May 10, 2017 through May 9, 2021.

Net future minimum lease payments under the operating leases for the City of Lake Worth equipment as of September 30, 2017 are as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2018	\$ 32,844
2019	29,885
2020	<u>15,665</u>
Total	<u>\$ 78,394</u>

Payments on the above leases of \$38,139 were included in equipment rent expense for the year ended September 30, 2017.

Note O. Other Commitments and Contingencies

The City of Lake Worth has the following commitments and contingencies at September 30, 2017:

- The City contracted for garbage disposal with Progressive Waste Solutions on March 7, 2016 for 60 months. The City bills directly the residential customers a set monthly rate and pays Progressive Waste Solutions monthly. In addition, the City receives a 6% franchise fee from Progressive Waste Solutions. The franchise fee is based upon the amount Progressive Waste Solutions charges the City for residential customers plus the amount billed by Progressive Waste Solutions to commercial customers. For the fiscal year ended September 30, 2017, the City expensed \$182,931 for sanitation expense.
- The City has a contract with the City of Fort Worth, Texas, for the purchase of treated water and for sewage treatment. The contract for water, dated November 16, 2010 for a 20-year period, is used to supplement the water wells operated by the City. The contract for sewer is dated June 29, 2017 for a 20-year period. Charges are incurred when actual delivery occurs and the rates are adjusted periodically. For the fiscal year ended September 30, 2017, the City's expenses in the Water and Sewer fund for water and sewer treatment were \$533,574 and \$609,892, respectively.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2017

Note O. Other Commitments and Contingencies (Continued)

- The City has various contracts with Protection One Alarm Monitoring, Inc. for alarm system maintenance, camera systems and access controls. The various contracts are for a 5-year period. The monthly commitment is \$1,210. For the fiscal year ended September 30, 2017, the City expensed \$9,504 for the alarm system maintenance, \$912 for the camera systems and \$4,104 for the access controls.
- The City has a contract with Charter Business for internet services at the City's library. The contract, dated October 16, 2013, has a 48-month period. The monthly commitment is \$700. For the fiscal year ended September 30, 2017, the City expensed \$8,400 for the library internet.
- The City has two contracts with AT&T for managed internet service and switched Ethernet service at City Hall. The contract for managed internet service, dated June 13, 2017, has a 24-month period and a monthly commitment of \$1,373. The switched Ethernet service contract, dated January of 2017, has a 60-month period and a monthly commitment of \$876. For the fiscal year ended September 30, 2017, the City expensed \$5,492 and \$10,515 for managed internet service and switched Ethernet service contracts, respectively.

Note P. 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 \$533,574 and \$609,892 for treated water and sewer treatment service, respectively, totaling \$1,143,466 which is 52% of the City's Water and Sewer fund total operating expenses.

Note Q. Subsequent Events

The City evaluated subsequent events through March 6, 2018, the date the financial statements were available to be issued, and nothing significant requiring disclosure was noted.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Taxes	\$ 5,412,444	\$ 5,686,326	\$ 5,704,802	\$ 18,476
Fines	516,825	494,195	503,761	9,566
Permits and fees	151,110	181,655	197,301	15,646
Intergovernmental	-	-	32,958	32,958
Charges for services	210,885	218,357	221,351	2,994
Investment earnings	15,074	49,437	56,357	6,920
Miscellaneous	285,665	361,722	407,476	45,754
Total revenues	6,592,003	6,991,692	7,124,006	132,314
Expenditures				
Mayor and council	15,163	15,463	15,045	418
General government	1,154,330	1,209,144	1,178,185	30,959
Police	2,182,023	2,132,017	2,015,750	116,267
Fire protection	1,598,882	1,639,043	1,677,934	(38,891)
Streets	542,718	539,625	507,804	31,821
Library	242,030	241,264	237,187	4,077
Parks and recreation	416,483	405,711	411,038	(5,327)
Maintenance	191,092	186,242	171,707	14,535
Senior center	113,772	114,912	110,174	4,738
Municipal court	220,473	223,977	223,322	655
Animal control	97,026	88,656	82,085	6,571
Emergency management	14,400	11,390	11,224	166
Permits and inspections	356,331	355,950	338,486	17,464
Informational technology	404,445	418,291	409,648	8,643
Capital outlay	578,188	1,211,787	408,132	803,655
Debt service				
Principal	23,246	23,246	15,220	8,026
Interest	3,920	3,920	2,794	1,126
Total expenditures	8,154,522	8,820,638	7,815,735	1,004,903
Excess (deficiency) of revenues over (under) expenditures	(1,562,519)	(1,828,946)	(691,729)	1,137,217
Other financing sources (uses)				
Transfers in	1,274,372	1,274,372	1,276,411	2,039
Transfers out	(249,063)	(289,840)	(282,861)	6,979
Capital lease proceeds	-	-	23,772	23,772
Total other financing sources	1,025,309	984,532	1,017,322	32,790
Change in fund balance	(537,210)	(844,414)	325,593	\$ 1,170,007
Fund balance, beginning of year	7,070,044	7,070,044	7,070,044	
Fund balance, end of year	\$ 6,532,834	\$ 6,225,630	\$ 7,395,637	

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

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Sales tax	\$ 1,985,000	\$ 1,985,000	\$ 2,126,429	\$ 141,429
Investment earnings	9,000	9,000	32,416	23,416
Miscellaneous	250	250	388	138
Total revenues	1,994,250	1,994,250	2,159,233	164,983
Expenditures				
General government	227,466	227,176	159,688	67,488
Total expenditures	227,466	227,176	159,688	67,488
Excess of revenues over expenditures	1,766,784	1,767,074	1,999,545	232,471
Other financing uses				
Transfers out	(1,307,945)	(1,308,235)	(1,308,234)	1
Change in fund balance	458,839	458,839	691,311	\$ 232,472
Fund balance, beginning of year	3,520,067	3,520,067	3,520,067	
Fund balance, end of year	\$ 3,978,906	\$ 3,978,906	\$ 4,211,378	

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

City of Lake Worth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual -
Street Maintenance Fund
For the Fiscal Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Sales tax	\$ 990,000	\$ 990,000	\$ 1,063,215	\$ 73,215
Investment earnings	4,000	4,000	15,650	11,650
Miscellaneous	750	750	29,929	29,179
Total revenues	994,750	994,750	1,108,794	114,044
Expenditures				
Streets	615,692	615,942	457,044	158,898
Capital outlay	134,000	134,000	99,936	34,064
Total expenditures	749,692	749,942	556,980	192,962
Excess of revenues over expenditures	245,058	244,808	551,814	307,006
Other financing uses				
Transfers out	(112,244)	(112,244)	(112,244)	-
Change in fund balance	132,814	132,564	439,570	\$ 307,006
Fund balance, beginning of year	1,744,915	1,744,915	1,744,915	
Fund balance, end of year	\$ 1,877,729	\$ 1,877,479	\$ 2,184,485	

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

City of Lake Worth, Texas
Schedule of Changes in the Net Pension Liability and Related Ratios
Last Three Fiscal Years**

Texas Municipal Retirement System (TMRS)

Measurement Date - December 31st*:	2016	2015	2014
Total Pension Liability (a)			
Beginning Balance	\$ 17,446,907	\$ 16,274,524	\$ 14,951,418
Service cost	725,539	660,172	618,120
Interest	1,186,749	1,144,131	1,054,569
Difference between expected and actual experience	(235,459)	(36,943)	40,840
Changes of assumptions	-	(75,228)	-
Benefit payments, including refunds of employee contributions	(456,414)	(519,749)	(390,423)
End of Year Balance	<u>\$ 18,667,322</u>	<u>\$ 17,446,907</u>	<u>\$ 16,274,524</u>
Plan Fiduciary Net Position (b)			
Beginning Balance	\$ 13,590,899	\$ 13,230,933	\$ 12,109,051
Contributions - employer	632,864	589,336	546,093
Contributions - employee	303,290	283,336	281,189
Net investment income	918,562	19,522	692,850
Benefit payments, including refunds of employee contributions	(456,414)	(519,749)	(390,423)
Administrative expense	(10,373)	(11,891)	(7,232)
Other changes	(559)	(588)	(595)
End of Year Balance	<u>\$ 14,978,269</u>	<u>\$ 13,590,899</u>	<u>\$ 13,230,933</u>
Net Pension Liability (a) - (b)			
Beginning Balance	\$ 3,856,008	\$ 3,043,591	\$ 2,842,367
Service cost	725,539	660,172	618,120
Interest	1,186,749	1,144,131	1,054,569
Difference between expected and actual experience	(235,459)	(36,943)	40,840
Changes of assumptions	-	(75,228)	-
Contributions - employer	(632,864)	(589,336)	(546,093)
Contributions - employee	(303,290)	(283,336)	(281,189)
Net investment income	(918,562)	(19,522)	(692,850)
Administrative expense	10,373	11,891	7,232
Other changes	559	588	595
End of Year Balance	<u>\$ 3,689,053</u>	<u>\$ 3,856,008</u>	<u>\$ 3,043,591</u>
 Plan's fiduciary net position as a percentage of the total pension liability	 80.24%	 77.90%	 81.30%
Covered payroll	\$ 4,885,784	\$ 4,722,263	\$ 4,675,481
Net pension liability as a percentage of covered payroll	75.51%	81.66%	65.10%

* The amounts presented above are as of the measurement date of the collective net pension asset (liability).

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

City of Lake Worth, Texas
Schedule of Employer Contributions and Related Ratios
Last Three Fiscal Years**

Texas Municipal Retirement System (TMRS)

Year Ended September 30th*:	2017	2016	2015
The City's actuarially determined contribution	\$ 664,926	\$ 599,053	\$ 587,081
The amount of contributions recognized by the plan in relation to the actuarially determined contribution	664,926	599,053	587,081
The difference between the City's actuarially determined contribution and the amount of contributions recognized by the plan in relation to the City's actuarially determined contribution	\$ -	\$ -	\$ -
Covered payroll	\$ 5,052,716	\$ 4,789,048	\$ 4,794,736
The amount of contributions recognized by the plan in relation to the City's actuarially determined contribution as a percentage of covered payroll	13.16%	12.51%	12.24%

Notes to Schedule of Contributions

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January - 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

There were no benefit changes during the year.

* The amounts presented above are as of the City's fiscal year-end.

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

City of Lake Worth, Texas
Schedule of Changes in Total Pension Liability and
Schedule of Total Pension Liability and Related Ratios
for Volunteer Firefighters
Last Fiscal Year **

Length of Service Awards Program (LOSAP) for Volunteer Firefighters

Schedule of Changes in Total Pension Liability

Measurement Date - October 1st*:	2016
Beginning Balance	\$ 66,997
Service cost	1,306
Interest on total pension liability	4,735
Benefit payments	(3,440)
Other changes	61
Ending Balance	<u>\$ 69,659</u>

Schedule of Total Pension Liability and Related Ratios

Measurement Date - October 1st*:	2016
Total pension liability	\$ 69,659
Covered payroll	\$ -
Total pension liability as a percentage of covered payroll	N/A

Notes to Above Schedules

The plan assets are not included in an irrevocable trust but are included in the general fund as other assets.

See Note M. Volunteer Firefighter Benefits in the Notes to the Financial Statements for information about factors that significantly affect trends in the amounts reported.

* The amounts presented above are as of the measurement date of the collective net pension asset (liability).

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

City of Lake Worth, Texas

Schedule for Governments Using Modified Approach for Infrastructure

Condition Rating	Percentage	Goal	Square Feet of Roadway		Square Feet of Roadway		Square Feet of Roadway	
			February 28, 2017		September 30, 2014		September 30, 2012	
			Number	Percentage	Number	Percentage	Number	Percentage
At least 1	0%		562,945	9.1222%	200,527	3.2896%	-	0.0000%
At least 2-4	30%		1,192,517	19.3241%	463,370	7.6014%	819,206	13.4595%
At least 5-7	60%		2,438,939	39.5217%	2,514,021	41.2417%	2,589,127	42.5392%
At least 8-10	10%		1,976,734	32.0319%	2,917,902	47.8673%	2,678,120	44.0013%

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

	2017	2016	2015
Estimated	\$ 1,155,567	\$ 1,267,301	\$ 1,049,925
Actual	964,848	1,079,561	932,156

At least every three years the City will perform an examination of their roads and rate the status. The City did not rate the roads in the 2016, 2015, or 2013 fiscal years. The status of the City's roads are rated 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 apart and little or slight cracking. No patching or very few patches in excellent condition.	First signs of aging maintain with routine 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 line) 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, 2017

	Crime Control District Fund	Public Educational Government Channel Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 23,209	\$ -	\$ 23,209
Investments	485,409	65,696	551,105
Accounts receivables	-	2,316	2,316
Due from other governments	74,923	-	74,923
Due from other funds	-	-	-
Prepaid expenses	2,097	-	2,097
Total assets	<u>\$ 585,638</u>	<u>\$ 68,012</u>	<u>\$ 653,650</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 13,479	\$ -	\$ 13,479
Accrued liabilities	19,653	-	19,653
Total liabilities	33,132	-	33,132
Fund balances:			
Non-spendable for prepaid expenses	2,097	-	2,097
Restricted for:			
Street maintenance	-	-	-
Crime control	550,409	-	550,409
Public educational government channel	-	68,012	68,012
Total fund balances	<u>552,506</u>	<u>68,012</u>	<u>620,518</u>
Total liabilities and fund balances	<u>\$ 585,638</u>	<u>\$ 68,012</u>	<u>\$ 653,650</u>

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 Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended September 30, 2017

	Crime Control District Fund	Public Educational Government Channel Fund	Total Nonmajor Governmental Funds
Revenues			
Sales tax	\$ 1,049,148	\$ -	\$ 1,049,148
Investment earnings	3,112	639	3,751
Miscellaneous	16,948	8,720	25,668
Total revenues	1,069,208	9,359	1,078,567
Expenditures			
Police	701,939	-	701,939
Capital outlay	37,096	-	37,096
Total expenditures	739,035	-	739,035
Excess of revenues over expenditures	330,173	9,359	339,532
Other financing uses			
Transfers out	(171,314)	-	(171,314)
Change in fund balances	158,859	9,359	168,218
Fund balances, beginning of year	393,647	58,653	452,300
Fund balances, end of year	\$ 552,506	\$ 68,012	\$ 620,518

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

**OVERALL COMPLIANCE AND
INTERNAL CONTROLS SECTION**



SNOW GARRETT WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Lake Worth, Texas' basic financial statements, and have issued our report thereon dated March 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lake Worth, Texas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lake Worth, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Worth, Texas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Snow Garrett Williams". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Snow Garrett Williams
March 6, 2018

