

# **CITY OF LAKE WORTH, TEXAS**

**Annual Financial Report  
For the Fiscal Year Ended September 30, 2016**

**City of Lake Worth, Texas**  
**Annual Financial Report**  
**For the Year Ended September 30, 2016**

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

**2016 City Council**

Walter Bowen, Mayor

Jim Smith

Geoffrey White

Gene Ferguson

Ronny Parsley

Pat O. Hill

Gary Stuard

Clint Dewayne 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, 2016, 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, 2016, 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 funding progress for the retirement plan 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 1, 2017, on our consideration of the City of Lake Worth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.



Snow Garrett Williams

March 1, 2017

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

The management's discussion and analysis (MD&A) of the City of Lake Worth's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2016. 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 2016 fiscal year by \$45,593,075 (*net position*). Of this amount, \$6,905,450 is restricted for specific purposes and \$4,055,038 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 \$34,632,587 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 \$14,437,514; of which \$8,433,202 represents restricted fund balance, \$32,392 represents committed fund balance, \$503,912 represents assigned fund balance, \$14,307 represents non-spendable fund balance, and \$5,453,701 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 \$5,453,701 equals 71% of total general fund expenditures.
- The City's total long-term liabilities decreased by \$596,643 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 retirement obligation.

### **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 15 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 two categories: governmental funds and proprietary funds.

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

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

The City maintains 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 debt service fund, the street maintenance special revenue 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 17 of this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found beginning on page 20 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that for proprietary funds. The City of Lake Worth does not hold any resources for the benefit of parties outside the City government and accordingly neither accounts nor reports for fiduciary funds.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 23 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 55 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 \$45,593,075 as of September 30, 2016. In the year of implementation of GASB Statement No. 68, as amended by GASB Statement No. 71, a restatement to beginning net position was required for recording the beginning net pension liability and for recording deferred outflows of resources for contributions made after the measurement date of the beginning net pension liability and the beginning of the reporting entity's fiscal year. Therefore, beginning net positions were restated for the year ended September 30, 2015.

#### City of Lake Worth's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 14,988,288	\$ 13,787,203	\$ 1,644,816	\$ 1,732,194	\$ 16,633,104	\$ 15,519,397
Capital assets, net of depreciation	38,273,230	38,152,135	10,181,626	10,059,449	48,454,856	48,211,584
Total assets	53,261,518	51,939,338	11,826,442	11,791,643	65,087,960	63,730,981
Deferred outflows of resources	1,114,227	543,186	71,006	36,403	1,185,233	579,589
Long-term liabilities	18,640,554	19,015,283	990,649	1,212,563	19,631,203	20,227,846
Other liabilities	512,366	500,715	536,549	511,215	1,048,915	1,011,930
Total liabilities	19,152,920	19,515,998	1,527,198	1,723,778	20,680,118	21,239,776
Net position:						
Net investment in capital assets	25,188,261	22,372,893	9,444,326	9,052,849	34,632,587	31,425,742
Restricted	6,905,450	7,782,768	-	-	6,905,450	7,782,768
Unrestricted	3,129,114	2,810,865	925,924	1,051,419	4,055,038	3,862,284
Total Net Position	\$ 35,222,825	\$ 32,966,526	\$ 10,370,250	\$ 10,104,268	\$ 45,593,075	\$ 43,070,794

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 \$34,632,587. 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 \$6,905,450 (or 15%) 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 (\$4,055,038) 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 \$2,522,281 during the current fiscal year. The City's governmental activities increased net position by \$2,256,299. The total cost of all governmental activities this year was \$9,996,916. The amount that our taxpayers paid for these activities through property taxes was \$1,986,415 or 20%. The City's business-type activities increased net position by \$265,982. The total cost of all business-type activities for fiscal year 2016 was \$2,493,489.

### City of Lake Worth's Changes in Net Position

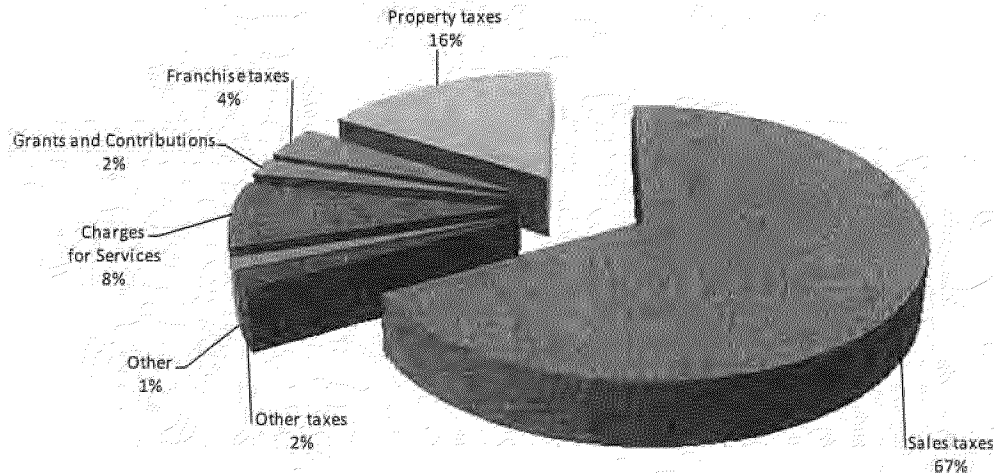
	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 964,912	\$ 1,118,994	\$ 2,522,414	\$ 2,484,092	\$ 3,487,326	\$ 3,603,086
Operating grants and contributions	248,014	251,707	-	-	248,014	251,707
Capital grants and contributions	-	-	152,997	-	152,997	-
General revenues:						
Property taxes	1,986,415	1,851,913	-	-	1,986,415	1,851,913
Retail sales tax	8,231,016	7,533,818	-	-	8,231,016	7,533,818
Franchise taxes	468,308	464,067	-	-	468,308	464,067
Other taxes	238,371	224,059	-	-	238,371	224,059
Other	166,565	199,477	29,242	28,410	195,807	227,887
Gain on disposal of assets	-	-	4,432	-	4,432	-
<b>Total revenues</b>	<b>12,303,601</b>	<b>11,644,035</b>	<b>2,709,085</b>	<b>2,512,502</b>	<b>15,012,686</b>	<b>14,156,537</b>
<b>Expenses:</b>						
Mayor and council	18,596	33,073	-	-	18,596	33,073
General government	1,448,781	1,439,206	-	-	1,448,781	1,439,206
Police	2,837,660	2,840,287	-	-	2,837,660	2,840,287
Fire protection	1,719,280	1,607,339	-	-	1,719,280	1,607,339
Streets	1,197,003	1,020,008	-	-	1,197,003	1,020,008
Library	236,788	228,341	-	-	236,788	228,341
Parks and recreation	555,840	492,601	-	-	555,840	492,601
Maintenance	178,432	184,403	-	-	178,432	184,403
Senior center	112,857	100,423	-	-	112,857	100,423
Municipal court	217,511	219,548	-	-	217,511	219,548
Animal control	96,440	105,382	-	-	96,440	105,382
Emergency management	11,618	11,766	-	-	11,618	11,766
Permits and inspections	341,077	325,563	-	-	341,077	325,563
Information technology	382,351	345,035	-	-	382,351	345,035
Interest and fiscal charges	642,682	672,818	-	-	642,682	672,818
Water and sewer	-	-	2,493,489	2,515,696	2,493,489	2,515,696
<b>Total expenses</b>	<b>9,996,916</b>	<b>9,625,793</b>	<b>2,493,489</b>	<b>2,515,696</b>	<b>12,490,405</b>	<b>12,141,489</b>
<b>Increase (decrease) in net position before transfers</b>	<b>2,306,685</b>	<b>2,018,242</b>	<b>215,596</b>	<b>(3,194)</b>	<b>2,522,281</b>	<b>2,015,048</b>
<b>Transfers</b>	<b>(50,386)</b>	<b>(252,634)</b>	<b>50,386</b>	<b>252,634</b>	<b>-</b>	<b>-</b>
<b>Increase in net position</b>	<b>2,256,299</b>	<b>1,765,608</b>	<b>265,982</b>	<b>249,440</b>	<b>2,522,281</b>	<b>2,015,048</b>
<b>Net position, beginning of year</b>	<b>32,966,526</b>	<b>33,282,733</b>	<b>10,104,268</b>	<b>9,994,127</b>	<b>43,070,794</b>	<b>43,276,860</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>(2,081,815)</b>	<b>-</b>	<b>(139,299)</b>	<b>-</b>	<b>(2,221,114)</b>
<b>Net position, beginning of year, restated</b>	<b>32,966,526</b>	<b>31,200,918</b>	<b>10,104,268</b>	<b>9,854,828</b>	<b>43,070,794</b>	<b>41,055,746</b>
<b>Net position, end of year</b>	<b>\$ 35,222,825</b>	<b>\$ 32,966,526</b>	<b>\$ 10,370,250</b>	<b>\$ 10,104,268</b>	<b>\$ 45,593,075</b>	<b>\$ 43,070,794</b>

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

**Governmental activities.** Governmental activities increased the City's net position by \$2,256,299. Key elements of this increase are as follows:

- Increase of over 7% in property tax revenue;
- Increase of over 6% in other taxes; and
- Increase of over 9% in sales tax revenue.

**Revenues by Source - Governmental Activities**



**Business-type activities.** Business-type activities increased the City's net position by \$265,982.

Operating revenue increased by \$38,322 from the prior year primarily due to an increase in rates and consumption, this resulted in an increase in water and sewer service revenues. Operating expenses decreased \$22,207 from the prior year primarily due to a decrease in water purchases and sewer disposal charges. Transfers in from governmental activities decreased \$202,248 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 \$14,437,514, which is an increase of \$1,187,521 in comparison with the prior year. \$5,453,701 or 38% of the fund balance represents unassigned fund balance, which is available for spending at the City's discretion. Assigned fund balance was \$503,912, committed fund balance was \$32,392 and non-spendable fund balance was \$14,307. 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 (\$82,281), to fund capital projects (\$1,567,907), economic development (\$3,520,067), street maintenance (\$1,744,915), crime control (\$391,739), public educational government channel (\$58,653), parks and recreation (\$239,661), hotels/motels (\$722,936) and other City related expenditures (\$105,043).

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 \$5,453,701, which is 77% 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 71%, or slightly more than 259 days of total fund expenditures.

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

The fund balance of the City's general fund increased by \$472,031 during the current fiscal year.

Revenue from taxes in the general fund increased by 8.9% compared to prior year due to an increase in property taxes, sales taxes, franchise taxes and other taxes. Fines decreased by 22.3% compared to the prior year due to a decreased number of tickets issued. Permits and fees decreased by 0.2% from the prior year due to a decrease of building permits being issued. Intergovernmental revenues decreased by 30.4% due to the City obtaining additional grant funding.

Total expenditures in the general fund increased by 8.7% from the prior year. General government, maintenance, and animal control decreased by 3.4%, 6%, and 9.7%, respectively, while fire protection, parks and recreation, informational technology, and capital outlay expenditures increased by 5.2%, 16.6%, 11.1% and 219.9%, respectively.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Amendments to the original 2015-2016 general fund annual budget were relatively minor and can be briefly summarized as follows:

- Increase in taxes revenue;
- Decrease in fines revenue;
- Decrease in police expenditures; and
- Increase in fire protection and capital outlay expenditures.

Comparing budget to actual amounts, the City exceeded the final budgeted revenue estimate by \$467,947, or 7.3%. The primary revenues that came in above estimated budget amounts were taxes, permits and fees, intergovernmental, and miscellaneous revenues. Sales taxes were higher than expected due to increased retail sales activity. Permits and fees revenues were higher than expected due to more building permits being issued than expected. Intergovernmental revenues were higher due to police and fire department grants that were received that were not budgeted. In addition, miscellaneous revenues were higher than budgeted due primarily to more gas drilling in the City than expected.

Total expenditures were 7.1% less than the final budgeted amounts. The primary expenditures that came in below estimated budget were general government, police, fire protection, streets and capital outlay expenditures. Insurance benefits were lower than expected for general government, police, fire protection and streets. Capital outlay expenditures were less than expected as some budgeted park improvements were not completed in the current year.

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

## 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, 2016, amounts to \$48,454,856 (net of accumulated depreciation). Investments in capital assets related to governmental activities (\$38,273,230) 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 (\$10,181,626) include the water and sewer system, construction in progress, buildings and improvements, and equipment and vehicles.

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

- Lake Worth Park drainage project;
- Lakewood & Malta sewer improvements;
- Highland Lake/Canyon Trail water/sewer improvements;
- Lake Worth Park Ballfield improvements;
- Marina Sewer pump;
- Two police vehicles and one fire department vehicle;

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,685,569	\$ 1,685,569	\$ 46,240	\$ 46,240	\$ 1,731,809	\$ 1,731,809
Construction in progress	798,443	788,089	167,271	1,456,823	965,714	2,244,912
Buildings and improvements	8,927,151	9,129,801	91,832	92,182	9,018,983	9,221,983
Infrastructure	23,973,259	23,884,055	-	-	23,973,259	23,884,055
Water and sewer system	-	-	9,734,109	8,279,045	9,734,109	8,279,045
Equipment and vehicles	2,593,017	2,320,435	142,174	185,159	2,735,191	2,505,594
Office furniture and fixtures	295,791	344,186	-	-	295,791	344,186
Total	<u>\$ 38,273,230</u>	<u>\$ 38,152,135</u>	<u>\$ 10,181,626</u>	<u>\$ 10,059,449</u>	<u>\$ 48,454,856</u>	<u>\$ 48,211,584</u>

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 30<sup>th</sup> for the last three times that the roads were rated are as follows:

<u>Condition rating</u>	<u>2014</u>	<u>2012</u>	<u>2011</u>
At least 1	3.29%	0.0%	0.0%
At least 2-4	7.60%	13.44%	17.28%
At least 5-7	41.24%	42.47%	40.09%
At least 8-10	47.87%	43.93%	42.67%

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

For fiscal year 2016, the City estimated that \$1,267,301 was needed to meet this goal. The actual amount used for maintenance and preservation of the City's roads was \$1,079,561. Additional information on road condition data is included in the schedule on page 61 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lake Worth had total debt outstanding of \$19,631,203. Of this amount, \$9,080,000 represents certificates of obligation secured by property tax collections, \$5,538,700 represents general obligation bonds secured by property tax obligations, with an unamortized premium of \$18,369, \$737,300 represents general obligation and utility system revenue bonds secured by water and sewer revenues, \$15,807 represents capital lease obligations, \$318,022 represents the City's compensated absences obligation, \$3,856,008 represents the City's net pension liability, and \$66,997 represents the volunteer firefighters retirement obligation. The City's total debt decreased by \$596,643 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 2015-2016 was \$0.499252 per \$100 assessed valuation, of which \$0.173106 was for maintenance and operations and \$0.326146 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 2017, the City Council and administration considered the following factors:

- With continued economic recovery and several new retailers in Lake Worth, sales tax budgets were projected at 6% more than the amounts budgeted for fiscal year 2016.
- Property tax revenues are budgeted to increase by about 15% 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 09/30/16 the property tax revenue was based on net taxable values totaling \$379,864,115 and a Maintenance and Operations tax rate of 0.173106 per \$100 valuation. For the 2017 budget year 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.
- General Fund budgeted expenses for fiscal year 2017 are approximately 11% more than estimated totals for the previous budget year. The bulk of the increase is related to increased personnel costs and capital equipment purchases. The budget for the fiscal year ending 09/30/17 includes a 5% merit increase for employees and a 25% increase in health insurance costs. In addition, other personnel related costs such as retirement, dental insurance, vision insurance and employee life insurance have increased slightly. Of the capital expenditures, \$249,063 is included for equipment purchases for the Water/Sewer Fund.
- Compared to estimated totals for the fiscal year ended 09/30/16, the Water/Sewer Fund revenues are budgeted to increase by approximately 8.5% with expenses budgeted to increase by just under 8%. The increased revenue projections are attributable to budgeted transfers in from the General Fund for the purchase of capital equipment. The increased expenses can likewise be attributed to increased capital equipment purchases.
- Lake Worth Park improvements, funded by EDC, has been decreased from an estimated total of \$542,000 in 2016 to \$225,000 in 2017. This year's funding is for ballfield fence replacements, expansion of the concrete walking path and general park maintenance. In addition, EDC is contributing \$25,000 to the Park Improvement Fund for Telephone Park future development and \$20,000 to the General Fund for improvements at Hodgkins and Reynolds Parks.

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

**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, 2016**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 178,436	\$ 65,167	\$ 243,603
Investments	13,940,473	1,103,271	15,043,744
Receivables (net of allowances for uncollectible of \$48,193)	-		
Accounts	-	310,568	310,568
Taxes	56,208	-	56,208
Other	96,788	9,713	106,501
Due from other governments	614,878	-	614,878
Interfund balances	19,093	(19,093)	-
Prepaid expenses	14,307	30	14,337
Restricted investments	1,108	175,160	176,268
Other assets	66,997	-	66,997
Capital assets			
Infrastructure using modified approach	23,973,259	-	23,973,259
Land and construction in progress	2,484,012	213,511	2,697,523
Other capital assets, net of depreciation	11,815,959	9,968,115	21,784,074
Total capital assets	<u>38,273,230</u>	<u>10,181,626</u>	<u>48,454,856</u>
Total assets	<u>53,261,518</u>	<u>11,826,442</u>	<u>65,087,960</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources - pension	<u>1,114,227</u>	<u>71,006</u>	<u>1,185,233</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	451,127	344,372	795,499
Interest payable	17,800	-	17,800
Payable from restricted funds:			
Customer deposits	1,108	175,160	176,268
Due to other governments	42,331	17,017	59,348
Long-term liabilities			
Due within one year	1,451,135	294,700	1,745,835
Due in more than one year	<u>17,189,419</u>	<u>695,949</u>	<u>17,885,368</u>
Total liabilities	<u>19,152,920</u>	<u>1,527,198</u>	<u>20,680,118</u>
<b>Net position</b>			
Net investment in capital assets	25,188,261	9,444,326	34,632,587
Restricted for:			
Economic development	3,520,067	-	3,520,067
Debt service	120,528	-	120,528
Street maintenance	1,744,915	-	1,744,915
Crime control	393,647	-	393,647
Public educational government channel	58,653	-	58,653
Parks and recreation	239,661	-	239,661
Hotel/motel	722,936	-	722,936
Other	105,043	-	105,043
Unrestricted	<u>3,129,114</u>	<u>925,924</u>	<u>4,055,038</u>
Total net position	<u>\$ 35,222,825</u>	<u>\$ 10,370,250</u>	<u>\$ 45,593,075</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, 2016**

					Net (Expense) Revenue and		
Functions/Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
Mayor and council	\$ 18,596	\$ -	\$ -	\$ -	\$ (18,596)	\$ -	\$ (18,596)
General government	1,448,781	85,607	-	-	(1,363,174)	-	(1,363,174)
Police	2,837,660	516,552	16,399	-	(2,304,709)	-	(2,304,709)
Fire protection	1,719,280	-	215,861	-	(1,503,419)	-	(1,503,419)
Streets	1,197,003	-	-	-	(1,197,003)	-	(1,197,003)
Library	236,788	3,786	70	-	(232,932)	-	(232,932)
Parks and recreation	555,840	23,929	15,141	-	(516,770)	-	(516,770)
Maintenance	178,432	183,204	-	-	4,772	-	4,772
Senior center	112,857	-	393	-	(112,464)	-	(112,464)
Municipal court	217,511	20,209	-	-	(197,302)	-	(197,302)
Animal control	96,440	918	150	-	(95,372)	-	(95,372)
Emergency management	11,618	-	-	-	(11,618)	-	(11,618)
Permits and inspections	341,077	130,707	-	-	(210,370)	-	(210,370)
Informational technology	382,351	-	-	-	(382,351)	-	(382,351)
Interest and fiscal charges	642,682	-	-	-	(642,682)	-	(642,682)
Total governmental activities	9,996,916	964,912	248,014	-	(8,783,990)	-	(8,783,990)
Business-type activities							
Water and sewer	2,493,489	2,522,414	-	152,997	-	181,922	181,922
Total business-type activities	2,493,489	2,522,414	-	152,997	-	181,922	181,922
Total primary government	\$ 12,490,405	\$ 3,487,326	\$ 248,014	\$ 152,997	(8,783,990)	181,922	(8,602,068)
General revenues and transfers:							
Taxes							
Property					1,986,415	-	1,986,415
Retail sales					8,231,016	-	8,231,016
Franchise					468,308	-	468,308
Hotel					212,086	-	212,086
Mixed beverage					26,285	-	26,285
Interest					47,283	4,287	51,570
Gain on sale of asset					-	4,432	4,432
Other					119,282	24,955	144,237
Transfers					(50,386)	50,386	-
Total general revenues and transfers					11,040,289	84,060	11,124,349
Change in net position					2,256,299	265,982	2,522,281
Net position, beginning of year					32,966,526	10,104,268	43,070,794
Net position, end of year					\$ 35,222,825	\$ 10,370,250	\$ 45,593,075

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

**City of Lake Worth, Texas**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2016**

	General	Economic Development Corporation	Debt Service	Capital Projects	Street Maintenance	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 126,173	\$ -	\$ 5,288	\$ -	\$ 24,202	\$ 22,773	\$ 178,436
Investments	6,849,232	3,372,560	77,002	1,586,918	1,680,021	375,848	13,941,581
Receivables (net of allowances for uncollectibles of \$38,299)							
Property taxes	17,961	-	38,247	-	-	-	56,208
Accounts	95,144	-	-	-	-	1,644	96,788
Due from other governments	307,905	153,952	-	-	76,976	76,045	614,878
Due from other funds	22,994	-	-	-	-	-	22,994
Prepaid expenses	12,399	-	-	-	-	1,908	14,307
Other assets	66,997	-	-	-	-	-	66,997
<b>Total assets</b>	<b>\$ 7,498,805</b>	<b>\$ 3,526,512</b>	<b>\$ 120,537</b>	<b>\$ 1,586,918</b>	<b>\$ 1,781,199</b>	<b>\$ 478,218</b>	<b>\$ 14,992,189</b>
<b>Liabilities and Fund Balance</b>							
<b>Liabilities</b>							
Accounts payable	\$ 177,404	\$ 324	\$ 9	\$ 19,011	\$ 26,241	\$ 8,066	\$ 231,055
Accrued liabilities	189,957	3,988	-	-	8,317	17,810	220,072
Due to other governments	42,331	-	-	-	-	-	42,331
Due to other funds	-	2,133	-	-	1,726	42	3,901
Unearned revenue - property taxes	17,961	-	38,247	-	-	-	56,208
Deposits	1,108	-	-	-	-	-	1,108
<b>Total liabilities</b>	<b>428,761</b>	<b>6,445</b>	<b>38,256</b>	<b>19,011</b>	<b>36,284</b>	<b>25,918</b>	<b>554,675</b>
<b>Fund balance:</b>							
Non-spendable for:							
prepaid expenses	12,399	-	-	-	-	1,908	14,307
Restricted for:							
Economic development	-	3,520,067	-	-	-	-	3,520,067
Debt service	-	-	82,281	-	-	-	82,281
Capital projects	-	-	-	1,567,907	-	-	1,567,907
Street maintenance	-	-	-	-	1,744,915	-	1,744,915
Crime control	-	-	-	-	-	391,739	391,739
Public educational							
government channel	-	-	-	-	-	58,653	58,653
Parks and recreation	239,661	-	-	-	-	-	239,661
Hotel/motel	722,936	-	-	-	-	-	722,936
Other	105,043	-	-	-	-	-	105,043
Committed for:							
Fire protection /							
truck maintenance	32,392	-	-	-	-	-	32,392
Assigned for:							
Fire protection	73,460	-	-	-	-	-	73,460
Parks and recreation	136,083	-	-	-	-	-	136,083
Health insurance premium	294,369	-	-	-	-	-	294,369
Unassigned	5,453,701	-	-	-	-	-	5,453,701
<b>Total fund balance</b>	<b>7,070,044</b>	<b>3,520,067</b>	<b>82,281</b>	<b>1,567,907</b>	<b>1,744,915</b>	<b>452,300</b>	<b>14,437,514</b>
<b>Total liabilities and fund balance</b>	<b>\$ 7,498,805</b>	<b>\$ 3,526,512</b>	<b>\$ 120,537</b>	<b>\$ 1,586,918</b>	<b>\$ 1,781,199</b>	<b>\$ 478,218</b>	
Amounts reported for governmental activities in the statement of net position is different because:							
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.							38,273,230
Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.							1,114,227
Property taxes receivable, net of allowance are not available to pay for current period expenditures and, therefore, are shown as unearned revenue in the funds.							56,208
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.							(18,658,354)
Net position of governmental activities - statement of net position							\$ 35,222,825

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**  
**Governmental Funds**  
**September 30, 2016**

	General	Economic Development Corporation	Debt Service	Capital Projects	Street Maintenance	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 5,516,360	\$ 2,061,050	\$ 1,296,921	\$ -	\$ 1,030,525	\$ 1,017,341	\$ 10,922,197
Fines	520,338	-	-	-	-	-	520,338
Permits and fees	216,223	-	-	-	-	-	216,223
Intergovernmental	31,086	-	-	-	-	-	31,086
Charges for services	207,133	-	-	-	-	-	207,133
Investment earnings	21,661	11,871	1,841	5,195	5,654	1,061	47,283
Miscellaneous	344,548	400	-	-	3,211	9,269	357,428
Total revenues	6,857,349	2,073,321	1,298,762	5,195	1,039,390	1,027,671	12,301,688
<b>Expenditures</b>							
Current							
Mayor and council	7,591	-	-	-	-	-	7,591
General government	1,101,971	135,925	-	-	-	-	1,237,896
Police	1,924,539	-	-	-	-	714,696	2,639,235
Fire protection	1,575,280	-	-	-	-	-	1,575,280
Streets	490,751	-	-	-	588,810	-	1,079,561
Library	221,899	-	-	-	-	-	221,899
Parks and recreation	392,720	-	-	-	-	-	392,720
Maintenance	169,766	-	-	-	-	-	169,766
Senior center	101,708	-	-	-	-	-	101,708
Municipal court	211,988	-	-	-	-	-	211,988
Animal control	76,411	-	-	-	-	-	76,411
Emergency management	11,618	-	-	-	-	-	11,618
Permits and inspections	327,946	-	-	-	-	-	327,946
Informational technology	342,657	-	-	-	-	-	342,657
Capital outlay	722,872	-	-	10,664	115,039	49,882	898,457
Debt service							
Principal	17,860	-	1,099,700	-	-	-	1,117,560
Interest	2,611	-	648,877	-	-	-	651,488
Total expenditures	7,700,188	135,925	1,748,577	10,664	703,849	764,578	11,063,781
Excess (deficiency) of revenues over (under) expenditures	(842,839)	1,937,396	(449,815)	(5,469)	335,541	263,093	1,237,907
<b>Other financing sources (uses)</b>							
Transfers in	1,314,870	-	510,246	-	-	-	1,825,116
Transfers out	-	(1,362,387)	-	(231,930)	(109,249)	(171,936)	(1,875,502)
Total other financing sources (uses)	1,314,870	(1,362,387)	510,246	(231,930)	(109,249)	(171,936)	(50,386)
Change in fund balance	472,031	575,009	60,431	(237,399)	226,292	91,157	1,187,521
Fund balance, beginning of year	6,598,013	2,945,058	21,850	1,805,306	1,518,623	361,143	13,249,993
Fund balance, end of year	\$ 7,070,044	\$ 3,520,067	\$ 82,281	\$ 1,567,907	\$ 1,744,915	\$ 452,300	\$ 14,437,514

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**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2016**

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

Net change in fund balances - total governmental funds	\$ 1,187,521
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Governmental funds report all capital outlays as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 898,457	
Depreciation expense	<u>(777,361)</u>	
		121,096

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.	1,913
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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	\$ 16,829	
Volunteer firefighter retirement obligation	(4,335)	
Amortization of premium on debt	<u>8,806</u>	
		21,300

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.	(193,091)
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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

Principal repayments		
Bonds	\$ 1,099,700	
Capital leases	<u>17,860</u>	
		<u>1,117,560</u>

Change in net position of governmental activities - statement of activities	<u>\$ 2,256,299</u>
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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, 2016**

	<u>Water and Sewer Fund</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 65,167
Investments	1,103,271
Receivables	
Accounts (net of allowances for uncollectible accounts of \$9,894)	310,568
Other	9,713
Prepaid expenses	<u>30</u>
Total current assets	1,488,749
Noncurrent assets	
Restricted assets	
Investments	175,160
Capital assets	
Land	46,240
Construction in progress	167,271
Buildings and improvements	137,683
Water and sewer system	13,880,574
Machinery and equipment	1,802,028
Less accumulated depreciation	<u>(5,852,170)</u>
Total noncurrent assets	<u>10,356,786</u>
Total assets	<u>11,845,535</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources - pension	<u>71,006</u>
<b>Liabilities</b>	
Current liabilities	
Payable from current assets	
Accounts payable	\$ 330,351
Accrued liabilities	14,021
Due to other funds	19,093
Due to other governments	17,017
Compensated absences	13,900
Current portion of bonds payable	<u>280,800</u>
Total current liabilities	675,182
Noncurrent liabilities	
Payable from restricted assets	
Customer deposits	175,160
Net pension liability	239,449
Bonds payable	<u>456,500</u>
Total noncurrent liabilities	<u>871,109</u>
Total liabilities	<u>1,546,291</u>
<b>Net Position</b>	
Net investment in capital assets	9,444,326
Unrestricted	<u>925,924</u>
Total net position	<u><u>\$ 10,370,250</u></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, 2016**

	<u>Water and Sewer Fund</u>
Operating revenues	
Water services	\$ 1,524,794
Sewer services	990,326
Other operating revenues	<u>7,294</u>
Total operating revenues	<u>2,522,414</u>
Operating expenses	
Personnel services	411,884
Contractual services	172,652
Water purchases	620,433
Disposal charge - sewer	729,611
Supplies and maintenance	183,491
Other operating expenses	4,037
Depreciation	<u>345,023</u>
Total operating expenses	<u>2,467,131</u>
Operating income	<u>55,283</u>
Nonoperating revenues (expenses)	
Gain on disposal of asset	4,432
Intergovernmental income	152,997
Interest income	4,287
Miscellaneous	24,955
Interest expense	<u>(26,358)</u>
Total non-operating revenues (expenses)	<u>160,313</u>
Income before transfers	215,596
Transfers in	744,301
Transfers out	<u>(693,915)</u>
Total transfers	<u>50,386</u>
Change in net position	265,982
Net position, beginning of year	<u>10,104,268</u>
Net position, end of year	<u><u>\$ 10,370,250</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, 2016**

	<u>Water and Sewer Fund</u>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 2,585,235
Cash paid to suppliers	(1,690,602)
Cash paid to employees	(395,474)
Net cash provided by operating activities	<u>499,159</u>
<b>Cash flows from noncapital financing activities:</b>	
Cash received from other funds	744,301
Cash paid to other funds	(677,894)
Net cash provided by noncapital financing activities	<u>66,407</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(316,203)
Proceeds from disposal of capital assets	6,432
Principal payments on long-term debt	(269,300)
Interest paid	(26,358)
Net cash used in capital and related financing activities	<u>(605,429)</u>
<b>Cash flows from investing activities:</b>	
Change in investments	60,508
Interest income	4,287
Net cash provided by investing activities	<u>64,795</u>
Net increase in cash	24,932
Cash and cash equivalents at beginning of year	<u>40,235</u>
Cash and cash equivalents at end of year	<u><u>\$ 65,167</u></u>
<b>Non-cash Capital and Related Financing Activities:</b>	
Acquisition of capital assets - Intergovernmental revenue	<u><u>\$ 152,997</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 55,283
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	345,023
Miscellaneous revenue	24,955
Decrease in accounts receivable	35,596
Decrease in prepaid expenses	185
Increase in deferred outflows of resources	(34,603)
Increase in accounts payable and accrued liabilities	23,064
Increase in net pension liability	48,286
Decrease in compensated absences	(900)
Increase in customer deposits	2,270
Net cash provided by operating activities	<u><u>\$ 499,159</u></u>

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



**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

Financial Reporting Entity

The financial statements of the City of Lake Worth 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 are combined with the data of the primary government. Both of these blended component units have a September 30th year-end.

Blended Component Units

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

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

Government-wide and fund financial statements

The government-wide financial statements include the statement of net 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 Debt Service Fund, the Capital Projects Fund, and the Street Maintenance 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, 2016**

**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.

The City reports the following major proprietary fund:

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

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

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**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, 2016**

**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 financial position 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 pension plan. See additional information in Note K.

In addition to liabilities, the statement of financial position 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 does not have any of this type of item.

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.

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.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

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 or 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, 2016**

**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's 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**

- A. 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 retirement obligation are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$18,658,354 difference are as follows:

Capital leases payable	\$ 15,807
Certificates of obligation and general obligation bonds payable	14,618,700
Issuance premium	18,369
Accrued interest payable	17,800
Net pension liability	3,616,559
Volunteer firefighter retirement obligation	66,997
Compensated absences	<u>304,122</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position- governmental activities	<u>\$ 18,658,354</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note C. Deposits, Securities, and Investments**

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

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

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

1. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities;
2. Direct obligations of the State of Texas, or its agencies and instrumentalities;
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or respective agencies and instrumentalities, excluding mortgage-backed securities;
4. 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, 2016 were in TexPool, TexSTAR, Lone Star Investment Pool and LOGIC.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

TexPool

Texas Local Government Investment Pool (TexPool), which is a local government investment pool, was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexPool) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of the TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. 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; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust company website at [www.ttstc.org](http://www.ttstc.org). There are no limitations or restrictions on withdrawals.

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 and valuation 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 is rated AAAM by Standard and Poor's. Lone Star has no limitations or restrictions on withdrawals. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government Overnight and Corporate Overnight maintain a net asset value of one dollar and Corporate Overnight Plus maintains a net asset value of 50 cents. The Government Overnight and Corporate Overnight Funds value all investments at amortized cost and are operated in accordance with GASB Statement No. 79. The Corporate Overnight Plus Fund values all investments at fair value and is operated in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, and is categorized as Level 1 for the fair value hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Due to the fact that amortized cost, which generally approximates the market value of the assets has been deemed to be a proxy for fair value, portfolio assets are value on the basis of the amortized cost valuation technique.



**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

**TexSTAR**

Texas Short Term Asset Reserve Program ("TexSTAR") is a local government investment pool organized under 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 "PFIA"). TexSTAR is managed by a five-member Board of Directors. In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and Hilltop Securities Inc. (HTS) serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors. JPMIM provides investment management services, and FirstSouthwest, a division of HTS, provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business and affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor's.

TexSTAR reports its financial statements in accordance with Financial Accounting Standards Boards (FASB), 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 (NAV) of \$1 per share using the fair value method.

Under the fair value method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third party broker-dealers. The pricing services or broker-dealers use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

**LOGIC**

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 operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member board of directors 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 represents the co-administrators of LOGIC. The co-administrators of the day to day administration of LOGIC are First Southwest Company and J. P. Morgan Investment Management, Inc. LOGIC is rated at a AAAM by Standard and Poor's. LOGIC seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time. All investments of the pool are stated at fair value in accordance with GASB Statement No. 72 and are categorized as Level 1 for the fair value hierarchy. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Due to the fact that amortized cost, which generally approximates the market value of the assets has been deemed to be a proxy for fair value, portfolio assets are valued on the basis of the amortized cost valuation technique.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

As of September 30, 2016, the City had the following investments:

	Value	% of Total
TexPool - Pooled		
General Fund	\$ 1,741,586	
Street Maintenance Fund	430,424	
Crime Control & Prevention District Fund	126,496	
Debt Service Fund	38,268	
Total TexPool - Pooled	2,336,774	15.35%
TexPool - Economic Development Corporation Fund	1,203,175	7.91%
TexPool - Water and Sewer Fund	348,214	2.29%
TexPool - Capital Projects Fund	97	0.00%
TexSTAR - Pooled		
General Fund	1,392,817	
Street Maintenance Fund	427,414	
Crime Control & Prevention District Fund	71,257	
Total TexSTAR - Pooled	1,891,488	12.43%
TexSTAR - Capital Projects Fund	1,586,821	10.43%
Lone Star Investment Pool - Pooled		
General Fund	1,623,272	
Street Maintenance Fund	426,881	
Crime Control & Prevention District Fund	121,086	
Debt Service Fund	38,734	
Total Lone Star Investment Pool - Pooled	2,209,973	14.52%
Lone Star Investment Pool - Economic Development Corporation Fund	1,046,178	6.87%
Lone Star Investment Pool - Water and Sewer Fund	540,765	3.55%
LOGIC - Pooled		
General Fund	2,091,557	
Street Maintenance Fund	395,302	
Total LOGIC - Pooled	2,486,859	16.34%
LOGIC - Economic Development Corporation Fund	1,123,207	7.38%
LOGIC - Public Educational Government Fund	57,009	0.37%
LOGIC - Water and Sewer Fund	389,452	2.56%
Total Investments	<u>\$ 15,220,012</u>	<u>100.00%</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

As reported in the Statement of Net Position:

Governmental activities	
Investments	\$ 13,940,473
Restricted investments	1,108
Business-type activities	
Investments	1,103,271
Restricted investments	175,160
Total investments	<u>\$ 15,220,012</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, 2016, 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, 2016, the TexPool, the TexSTAR, the Lone Star and the LOGIC investment pools were rated AAAM by Standard and Poor's.

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

	<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, 2016, 100% of the City's portfolio was invested in Local Government Investment Pools.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

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

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, 2016, 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.

**Note E. Interfund Activity**

During the course of the fiscal year, interfund payables and receivables arise. The following were outstanding as of September 30, 2016:

Receivable Fund	Payable Fund	Amount
General fund	Economic development corporation fund	\$ 2,133
General fund	Street maintenance fund	1,726
General fund	Water and sewer fund	19,093
General fund	Crime control & prevention district fund	42
Total		<u>\$ 22,994</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.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note E. Interfund Activity (Continued)**

Interfund transfers during the year were as follows:

	<u>Transfers Out</u>	
Economic development corporation fund	\$ 1,362,387	
Capital projects fund	231,930	
Crime control & prevention district fund	171,936	
Street maintenance fund	109,249	
Water and sewer fund	693,915	
	<hr/>	
	\$ 2,569,417	
	<hr/>	
	<u>Transfers in</u>	
General fund	\$ 1,314,870	
Debt service fund	510,246	
Water and sewer fund	744,301	
	<hr/>	
	\$ 2,569,417	
	<hr/>	

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 Water and Sewer Fund and the General Fund.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note G. Capital Assets**

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance 10/1/2015	Transfers/ Additions	Transfers/ Deletions	Balance 9/30/2016
<b>Governmental activities</b>				
Capital assets using modified approach				
Infrastructure	\$ 23,884,055	\$ 89,204	\$ -	\$ 23,973,259
Total capital assets using modified approach	23,884,055	89,204	-	23,973,259
Capital assets not being depreciated				
Construction in progress	788,089	224,053	213,699	798,443
Land	1,685,569	-	-	1,685,569
Total capital assets not being depreciated	2,473,658	224,053	213,699	2,484,012
Other capital assets				
Buildings and improvements	11,324,367	86,607	-	11,410,974
Equipment and vehicles	6,062,668	712,291	-	6,774,959
Office furniture and fixtures	664,045	-	-	664,045
Total other capital assets	18,051,080	798,898	-	18,849,978
Less accumulated depreciation for:				
Buildings and improvements	2,194,566	289,257	-	2,483,823
Equipment and vehicles	3,742,233	439,709	-	4,181,942
Office furniture and fixtures	319,859	48,395	-	368,254
Total accumulated depreciation	6,256,658	777,361	-	7,034,019
Other capital assets, net	11,794,422	21,537	-	11,815,959
Governmental activities capital assets, net	<u>\$ 38,152,135</u>	<u>\$ 334,794</u>	<u>\$ 213,699</u>	<u>\$ 38,273,230</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note G. Capital Assets (Continued)**

	Balance 10/1/2015	Transfers/ Additions	Transfers/ Deletions	Balance 9/30/2016
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 46,240	\$ -	\$ -	\$ 46,240
Construction in progress	1,456,823	231,931	1,521,483	167,271
	<u>1,503,063</u>	<u>231,931</u>	<u>1,521,483</u>	<u>213,511</u>
Total capital assets not being depreciated				
Other capital assets				
Water and sewer system	12,141,457	1,739,117	-	13,880,574
Building and improvements	134,338	3,345	-	137,683
Machinery and equipment	1,804,134	16,290	18,396	1,802,028
	<u>14,079,929</u>	<u>1,758,752</u>	<u>18,396</u>	<u>15,820,285</u>
Total other capital assets				
Less accumulated depreciation for:				
Water and sewer system	3,862,412	284,053	-	4,146,465
Building and improvements	42,156	3,695	-	45,851
Machinery and equipment	1,618,975	57,275	16,396	1,659,854
	<u>5,523,543</u>	<u>345,023</u>	<u>16,396</u>	<u>5,852,170</u>
Total accumulated depreciation				
Other capital assets, net	<u>8,556,386</u>	<u>1,413,729</u>	<u>2,000</u>	<u>9,968,115</u>
Business-type activities capital assets, net	<u>\$ 10,059,449</u>	<u>\$ 1,645,660</u>	<u>\$ 1,523,483</u>	<u>\$ 10,181,626</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note G. Capital Assets (Continued)**

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

<b>Governmental activities:</b>	
Mayor and council	\$ 11,005
General government	188,141
Police	137,945
Fire	100,577
Streets	99,950
Library	9,994
Parks and recreation	158,523
Maintenance	3,562
Senior center	9,714
Animal control	20,429
Permits and inspections	2,308
Information technology	35,213
	<hr/>
Total governmental activities	\$ 777,361
	<hr/>
<b>Business-type activities:</b>	
Water and sewer	\$ 345,023
	<hr/>
Total business-type activities	\$ 345,023
	<hr/>

**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, 2016 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 October 1, 2034 at 3.25% to 5.75%.
- Outstanding balance of \$9,080,000 at September 30, 2016.

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 \$623,700 at September 30, 2016.



**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note H. Long-Term Liabilities (Continued)**

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 \$1,415,000 at September 30, 2016.

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 \$3,500,000 at September 30, 2016.

Capital Lease Arrangement

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 \$11,373 at September 30, 2016, bearing interest at 4.06%.

Dell Government Leasing

- To purchase file storage server.
- Principal price of \$17,055.
- Payable in annual installments of \$4,840 over four years.
- Outstanding balance of \$4,434 at September 30, 2016, bearing interest at 9.17%.

The annual requirements to amortize long-term debt as of September 30, 2016 are as follows:

Year Ending	Certificates of Obligation		General Obligation Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 200,000	\$ 469,994	\$ 928,200	\$ 144,784	\$ 10,007	\$ 869
2018	200,000	461,994	781,200	119,181	5,800	236
2019	200,000	453,994	809,300	96,236	-	-
2020	200,000	445,494	670,000	75,807	-	-
2021	200,000	436,744	690,000	58,025	-	-
2022-2026	1,780,000	2,025,220	1,660,000	100,381	-	-
2027-2031	3,575,000	1,335,832	-	-	-	-
2032-2036	2,725,000	284,182	-	-	-	-
Total	<u>\$ 9,080,000</u>	<u>\$ 5,913,454</u>	<u>\$ 5,538,700</u>	<u>\$ 594,414</u>	<u>\$ 15,807</u>	<u>\$ 1,105</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note H. Long-Term Liabilities (Continued)**

**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 \$531,300 at September 30, 2016.

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, 2029 at 0%.
- Outstanding balance of \$206,000 at September 30, 2016.

The annual requirements to amortize long-term debt as of September 30, 2016 are as follows:

Fiscal Year Ending	General Obligation Bonds		Utility System Revenue Bonds		Total
	Principal	Interest	Principal		
2017	\$ 266,800	\$ 15,916	\$ 14,000	\$	296,716
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
2022-2026	-	-	75,000		75,000
2027-2031	-	-	60,000		60,000
Total	\$ 531,300	\$ 26,634	\$ 206,000	\$	763,934

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

	Governmental Activities
Scheduled future minimum lease payments	\$ 16,912
Amount representing interest	1,105
Present value of future minimum capital lease payments (principal payoff)	<u>\$ 15,807</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note H. Long-Term Liabilities (Continued)**

The following is an analysis of equipment leased under capital leases as of September 30, 2016:

	Governmental Activities
Equipment	\$ 44,966
Less accumulated depreciation	(19,588)
Total	<u>\$ 25,378</u>

The following is a summary of the changes by type of long-term liabilities for the year ended September 30, 2016:

	Balance 10/1/2015	Additions	Retirements	Balance 9/30/2016	Due Within One Year
<u>Governmental activities</u>					
Certificates of obligation	\$ 9,280,000	\$ -	\$ 200,000	\$ 9,080,000	\$ 200,000
General obligation bonds	6,438,400	-	899,700	5,538,700	928,200
Premium on bonds issued	27,175	-	8,806	18,369	8,806
Capital leases	33,667	-	17,860	15,807	10,007
Net pension liability	2,852,428	1,318,351	554,220	3,616,559	-
Compensated absences	320,951	321,955	338,784	304,122	304,122
Volunteer firefighter retirement obligation	62,662	4,335	-	66,997	-
Total governmental activities	19,015,283	1,644,641	2,019,370	18,640,554	1,451,135
<u>Business-type activities</u>					
General obligation bonds	786,600	-	255,300	531,300	266,800
Utility system revenue bonds	220,000	-	14,000	206,000	14,000
Net pension liability	191,163	83,401	35,115	239,449	-
Compensated absences	14,800	9,215	10,115	13,900	13,900
Total business-type activities	1,212,563	92,616	314,530	990,649	294,700
Total	<u>\$ 20,227,846</u>	<u>\$ 1,737,257</u>	<u>\$ 2,333,900</u>	<u>\$ 19,631,203</u>	<u>\$ 1,745,835</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note I. Compensated Absences and Sick Leave**

Sick leave is recorded when paid because employees are not compensated for unused sick leave. Vacation is earned in varying amounts. Unused vacation leave is carried forward from one year to the next up to certain limits. The City has accrued for the estimated liability for compensated absences in the governmental and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. The City's aggregate liability for compensated absences as of September 30, 2016 was \$318,022.

**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	\$ 15,701
Court technology	14,850
Court security	55,337
Confiscated property	6,206
Police LEOSE	5,374
Fire LEOSE	493
Police department donations	5,556
Fire department donations	522
Library donations	236
Senior center donations	435
Animal control donations	<u>333</u>
 Total Other Restricted Net Position/ Other Restricted Fund Balance	 <u><u>\$ 105,043</u></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 \$6,905,450 of restricted net position, of which \$6,381,565 is restricted by enabling legislation.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note K. Defined Benefit Pension Plan**

Plan Description

The City participates as one of 866 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's 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](http://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, 2015 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	46
Active employees	<u>89</u>
Total	<u><u>171</u></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, 2016**

**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 12.35% and 12.52% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016 were \$599,053, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2015 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, 2015 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, 2015 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. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note K. Defined Benefit Pension Plan (Continued)**

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). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
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.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note K. Defined Benefit Pension Plan (Continued)**

Changes in the NPL	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 16,274,524	\$ 13,230,933	\$ 3,043,591
Changes for the year:			
Service Cost	660,172	-	660,172
Interest	1,144,131	-	1,144,131
Change of benefit terms	-	-	-
Difference between expected and actual experience	(36,943)	-	(36,943)
Changes of assumptions	(75,228)	-	(75,228)
Contributions - employer	-	589,336	(589,336)
Contributions - employee	-	283,336	(283,336)
Net investment income	-	19,522	(19,522)
Benefit payments, including refunds of employee contributions	(519,749)	(519,749)	-
Administrative expense	-	(11,891)	11,891
Other Changes	-	(588)	588
Net Changes	1,172,383	359,966	812,417
Balance at 12/31/2015	<u>\$ 17,446,907</u>	<u>\$ 13,590,899</u>	<u>\$ 3,856,008</u>

***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	\$6,836,868	\$3,856,008	\$1,460,579



**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note K. Defined Benefit Pension Plan (Continued)**

***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 on the Internet at [www.tmr.com](http://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's 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, 2016, the City recognized pension expense of \$805,824.

At September 30, 2016, 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	\$ -	\$ (3,517)
Changes in actuarial assumptions	-	(61,219)
Difference between projected and actual investment earnings	818,184	-
Contributions subsequent to the measurement date	431,785	-
Total	<u>\$ 1,249,969</u>	<u>\$ (64,736)</u>

The net amounts of the City's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30th:	
2017	\$ 630,329
2018	198,544
2019	198,543
2020	165,543
2021	<u>(7,726)</u>
Total	<u>\$ 1,185,233</u>

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**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, 2016, 2015, and 2014 were \$7,873, \$7,051, and \$6,433, respectively, which equaled the required contributions each year.

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

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution Rate</u>	<u>Actual Contribution Rate</u>	<u>Percentage of ARC Contributed</u>
2014	0.03%	0.14%	100.00%
2015	0.03%	0.15%	100.00%
2016	0.04%	0.17%	100.00%

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note M. Volunteer Firefighter Benefits**

**Pension - Length of Service Awards Program (LOSAP)**

The City financial statements are for the year ended September 30, 2016. However, the information contained in this note is based on information for the Length of Service Awards Program for the plan year ending on September 30, 2015, which is the most recent plan year for which complete information is available.

The City provides pension benefits for all eligible volunteer firefighters of the City of Lake Worth through a single-employer defined benefit LOSAP. The program began on October 1, 1990 and was established and can be amended by City Council. The program provides municipally-funded pension-like benefits 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.

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, 2015. 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	1
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.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note M. Volunteer Firefighter Benefits (Continued)**

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.

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 15, 2015.

**Actuarial Assumptions and Funding Methods**

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

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

Pre-Retirement Mortality Table – 1984 Unisex Pensioners 0. This represents the possibility that some participants may die prior to reaching entitlement age.

Post-Retirement Mortality Table – 1984 Unisex Pensioners 0. 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.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note M. Volunteer Firefighter Benefits (Continued)**

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.

Trend Information for the City of Lake Worth's LOSAP			
Fiscal Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2014	\$ 3,556	100%	\$ -
9/30/2015	4,057	100%	-
9/30/2016	4,335	100%	-

The funded status as of September 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Annual Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( (b-a)/c )
9/30/2015	\$ 66,997	\$ 92,578	\$ 25,581	72.4%	N/A	N/A

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

**Insurance**

In addition to the pension plan, an insurance policy is provided by the City for 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, 2016**

**Note N. Operating Leases**

The City of Lake Worth leases the following equipment:

- The City leases computers from Lenovo Financial Services with total monthly lease payments of \$883 for 48 month periods beginning April 9, 2013 through March 31, 2017.
- 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.

Net future minimum lease payments under the operating leases for the City of Lake Worth equipment as of September 30, 2016 are as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2017	\$ 25,356
2018	20,060
2019	16,095
2020	<u>2,881</u>
Total	<u><u>\$ 64,392</u></u>

Payments on the above leases of \$30,027 were included in equipment rent expense for the year ended September 30, 2016.

**City of Lake Worth, Texas**  
**Notes to Financial Statements**  
**September 30, 2016**

**Note O. Other Commitments and Contingencies**

The City of Lake Worth has the following commitments and contingencies at September 30, 2016:

- 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, 2016, the City expensed \$178,716 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 May 12, 1987 for a 30-year period. Charges are incurred when actual delivery occurs and the rates are adjusted periodically. For the fiscal year ended September 30, 2016, the City's expenses in the Water and Sewer fund for water and sewer treatment were \$620,433 and \$729,611, respectively.
- 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, 2016, the City expensed \$9,504 for the alarm system maintenance, \$912 for the camera systems and \$2,736 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, is a 48-month period. The monthly commitment is \$700. For the fiscal year ended September 30, 2016, the City expensed \$8,400 for the library internet.
- As an economic development incentive, the City entered into an agreement with Kohl's Texas, L.P., a Texas Limited Partnership (Kohl's) whereby the City will pay to Kohl's 40% of the City's one percent sales tax collected beginning on the day Kohl's opens for business and ending on the 12<sup>th</sup> anniversary of the calendar year in which the store opens for business or until Kohl's has received a total of \$600,000 whichever comes first. The refund for the prior calendar year shall be made on July 1 of the following year. During this current fiscal year, the City made a payment of \$54,697 on May 26, 2016 for the sales tax collected in the 2015 calendar year. The maximum amount remaining under the terms of this agreement is \$54,705.

**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 \$620,433 and \$729,611 for treated water and sewer treatment service, respectively, totaling \$1,350,044 which is 55% of the City's Water and Sewer fund total operating expenses.

**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, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Favorable</b>
				<b>(Unfavorable)</b>
<b>Revenues</b>				
Taxes	\$ 5,057,550	\$ 5,193,159	\$ 5,516,360	\$ 323,201
Fines	652,200	514,641	520,338	5,697
Permits and fees	140,910	167,160	216,223	49,063
Intergovernmental	-	-	31,086	31,086
Charges for services	213,050	204,450	207,133	2,683
Investment earnings	2,904	13,554	21,661	8,107
Miscellaneous	323,877	296,438	344,548	48,110
Total revenues	6,390,491	6,389,402	6,857,349	467,947
<b>Expenditures</b>				
Mayor and council	15,182	12,245	7,591	4,654
General government	1,167,080	1,187,870	1,101,971	85,899
Police	2,155,512	2,073,091	1,924,539	148,552
Fire protection	1,586,781	1,640,759	1,575,280	65,479
Streets	567,718	563,454	490,751	72,703
Library	232,303	229,330	221,899	7,431
Parks and recreation	379,333	395,426	392,720	2,706
Maintenance	184,291	182,255	169,766	12,489
Senior center	111,329	107,438	101,708	5,730
Municipal court	221,591	219,293	211,988	7,305
Animal control	97,452	92,890	76,411	16,479
Emergency management	14,225	13,500	11,618	1,882
Permits and inspections	349,118	347,957	327,946	20,011
Informational technology	384,526	358,935	342,657	16,278
Capital outlay	506,800	844,126	722,872	121,254
Debt service				
Principal	-	18,000	17,860	140
Interest	-	2,612	2,611	1
Total expenditures	7,973,241	8,289,181	7,700,188	588,993
Deficiency of revenues under expenditures	(1,582,750)	(1,899,779)	(842,839)	1,056,940
Other financing sources				
Transfers in	1,318,005	1,313,594	1,314,870	1,276
Total other financing sources	1,318,005	1,313,594	1,314,870	1,276
Change in fund balance	(264,745)	(586,185)	472,031	\$ 1,058,216
Fund balance, beginning of year	6,598,013	6,598,013	6,598,013	
Fund balance, end of year	\$ 6,333,268	\$ 6,011,828	\$ 7,070,044	

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, 2016**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts</b>	<b>Final Budget</b>
				<b>Favorable</b>
				<b>(Unfavorable)</b>
<b>Revenues</b>				
Sales tax	\$ 1,860,000	\$ 1,860,000	\$ 2,061,050	\$ 201,050
Investment earnings	1,750	1,750	11,871	10,121
Miscellaneous	200	200	400	200
Total revenues	1,861,950	1,861,950	2,073,321	211,371
<b>Expenditures</b>				
General government	193,041	192,691	135,925	56,766
Total expenditures	193,041	192,691	135,925	56,766
Excess of revenues over expenditures	1,668,909	1,669,259	1,937,396	268,137
Other financing uses				
Transfers out	(1,365,522)	(1,365,872)	(1,362,387)	3,485
Change in fund balance	303,387	303,387	575,009	\$ 271,622
Fund balance, beginning of year	2,945,058	2,945,058	2,945,058	
Fund balance, end of year	\$ 3,248,445	\$ 3,248,445	\$ 3,520,067	

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, 2016**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
<b>Revenues</b>				
Sales tax	\$ 930,000	\$ 930,000	\$ 1,030,525	\$ 100,525
Investment earnings	800	800	5,654	4,854
Miscellaneous	1,000	1,000	3,211	2,211
Total revenues	931,800	931,800	1,039,390	107,590
<b>Expenditures</b>				
Streets	723,847	703,847	588,810	115,037
Capital outlay	128,000	148,000	115,039	32,961
Total expenditures	851,847	851,847	703,849	147,998
Excess of revenues over expenditures	79,953	79,953	335,541	255,588
Other financing uses				
Transfers out	(109,249)	(109,249)	(109,249)	-
Change in fund balance	(29,296)	(29,296)	226,292	\$ 255,588
Fund balance, beginning of year	1,518,623	1,518,623	1,518,623	
Fund balance, end of year	\$ 1,489,327	\$ 1,489,327	\$ 1,744,915	

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 Two Fiscal Years\*\***

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

<b>Year Ended September 30th*:</b>	<b>2016</b>	<b>2015</b>
The City's actuarially determined contribution	\$599,053	\$587,081
The amount of contributions recognized by the plan in relation to the actuarially determined contribution	<u>599,053</u>	<u>587,081</u>
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	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$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	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	30 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:*

Removed statutory max

\* 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 Funding Progress for the Retirement Plan**  
**for the Volunteer Firefighters of City of Lake Worth, Texas**  
**Last Three Fiscal Years**

**Length of Service Awards Program (LOSAP) for Volunteer Firefighters**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Annual Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( (b-a)/c )
9/30/2013	\$ 58,830	\$ 83,844	\$ 25,014	70.2%	N/A	N/A
9/30/2014	62,662	88,013	25,351	71.2%	N/A	N/A
9/30/2015	66,997	92,578	25,581	72.4%	N/A	N/A

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	Goal	Square Feet of Roadway		Square Feet of Roadway		Square Feet of Roadway	
		September 30, 2014		September 30, 2012		September 30, 2011	
		Number	Percentage	Number	Percentage	Number	Percentage
At least 1	0%	200,527	3.2896%	-	0.0000%	-	0.0000%
At least 2-4	30%	463,370	7.6014%	819,206	13.4388%	1,051,963	17.2571%
At least 5-7	60%	2,514,021	41.2417%	2,589,127	42.4738%	2,446,395	40.1323%
At least 8-10	10%	2,917,902	47.8673%	2,678,120	43.9337%	2,603,950	42.7170%

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

	2016	2015	2014
Estimated	\$ 1,267,301	\$ 1,049,925	\$ 1,017,459
Actual	1,079,561	932,156	905,232

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 2015 and 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 routing crack filling	2 Very Poor	Alligator cracking (over 25% of surface). Severe distortions (over 2" deep). Extensive patching in poor condition and potholes.	Severe deterioration, need reconstruction with extensive base repair.
6 Good	Slight raveling (loss of 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, 2016**

	Crime Control District	Public Educational Government Channel	Total Nonmajor Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 22,773	\$ -	\$ 22,773
Investments	318,839	57,009	375,848
Accounts receivables	-	1,644	1,644
Due from other governments	76,045	-	76,045
Prepaid expenses	1,908	-	1,908
Total assets	<u>\$ 419,565</u>	<u>\$ 58,653</u>	<u>\$ 478,218</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 8,066	\$ -	\$ 8,066
Accrued liabilities	17,810	-	17,810
Due to other funds	42	-	42
Total liabilities	25,918	-	25,918
Fund balances:			
Non-spendable for prepaid expenses	1,908	-	1,908
Restricted for:			
Crime control	391,739	-	391,739
Public educational government channel	-	58,653	58,653
Total fund balances	<u>393,647</u>	<u>58,653</u>	<u>452,300</u>
Total liabilities and fund balances	<u>\$ 419,565</u>	<u>\$ 58,653</u>	<u>\$ 478,218</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 Balance**  
**Nonmajor Governmental Funds**  
**For the Fiscal Year Ended September 30, 2016**

	Crime Control District	Public Educational Government Channel	Total Nonmajor Governmental Funds
<b>Revenues</b>			
Sales tax	\$ 1,017,341	\$ -	\$ 1,017,341
Investment earnings	811	250	1,061
Miscellaneous	2,893	6,376	9,269
Total revenues	1,021,045	6,626	1,027,671
<b>Expenditures</b>			
Police	714,696	-	714,696
Capital outlay	49,882	-	49,882
Total expenditures	764,578	-	764,578
Excess of revenues over expenditures	256,467	6,626	263,093
Other financing uses			
Transfers out	(171,936)	-	(171,936)
Change in fund balance	84,531	6,626	91,157
Fund balance, beginning of year	309,116	52,027	361,143
Fund balance, end of year	\$ 393,647	\$ 58,653	\$ 452,300

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, 2016, 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 1, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Lake Worth's 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lake Worth's 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.

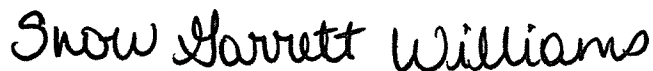
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Snow Garrett Williams  
March 1, 2017

