

CITY OF LAKE WORTH, TEXAS

**Annual Financial Report
For the Fiscal Year Ended September 30, 2018**

City of Lake Worth, Texas

Annual Financial Report

For the Fiscal Year Ended September 30, 2018

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

2018 City Council

Walter Bowen, Mayor

Jim Smith

Geoffrey White

Sue Wenger

Ronny Parsley

Pat O. Hill

Gary Stuard

Clint Narmore

City Manager

Stacey Almond

Assistant City Manager

Debbie Whitley

FINANCIAL SECTION



SNOW GARRETT WILLIAMS
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lake Worth, Texas, as of and for the year ended September 30, 2018, 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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2019, on our consideration of the City of Lake Worth, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Lake Worth, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lake Worth, Texas' internal control over financial reporting and compliance.



Snow Garrett Williams
March 5, 2019

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

The management's discussion and analysis (MD&A) of the City of Lake Worth's (the "City's") financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2018. 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 2018 fiscal year by \$51,272,856 (*net position*). Of this amount, \$4,222,730 is restricted for specific purposes and \$8,788,134 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 \$38,261,992 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 \$14,142,153; of which \$4,248,275 represents restricted fund balance, \$4,172,610 represents committed fund balance, \$248,826 represents assigned fund balance, \$24,512 represents non-spendable fund balance, and \$5,447,930 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 \$5,447,930 equals 52% of total general fund expenditures.
- The City's total long-term liabilities decreased by \$2,138,805 during the current fiscal year as a result of the scheduled annual debt service payments netted against changes in net pension liabilities, compensated absences obligation and volunteer firefighter total pension liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The City maintains six governmental funds, the general 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 street maintenance special revenue fund, the debt service fund, and the capital projects fund which are classified as major funds and the crime control district special revenue fund and the public educational government channel special revenue fund which are classified as non-major funds.

The City adopts an annual appropriated budget for its general fund, crime control district special revenue fund, street maintenance special revenue fund, and the debt service fund. A budgetary comparison statement (original versus final) has been provided in this report for the general fund and the 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 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's fiduciary fund is used to report employer and employee contributions, and investment income, if any, as well as benefits paid for health insurance.

The fiduciary fund statements can be found beginning on page 23 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 25 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 and the street maintenance special revenue fund, pension benefits, and the schedule for governments using the modified approach for infrastructure. The required supplementary information can be found beginning on page 52 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$51,272,856 as of September 30, 2018.

City of Lake Worth's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 14,825,896	\$ 15,960,647	\$ 2,399,615	\$ 1,659,775	\$ 17,225,511	\$ 17,620,422
Capital assets, net of depreciation	39,553,277	38,081,321	11,596,060	11,015,187	51,149,337	49,096,508
Total assets	54,379,173	54,041,968	13,995,675	12,674,962	68,374,848	66,716,930
Deferred outflows of resources	446,200	1,120,815	10,169	49,455	456,369	1,170,270
Long-term liabilities	15,916,257	17,870,726	517,749	702,085	16,434,006	18,572,811
Other liabilities	619,205	814,369	438,150	357,260	1,057,355	1,171,629
Total liabilities	16,535,462	18,685,095	955,899	1,059,345	17,491,361	19,744,440
Deferred inflows of resources	67,000	-	-	-	67,000	-
Net position:						
Net Investment in capital assets	26,979,632	24,750,271	11,282,360	10,558,687	38,261,992	35,308,958
Restricted	4,222,730	8,274,364	-	-	4,222,730	8,274,364
Unrestricted	7,020,549	3,453,053	1,767,585	1,106,385	8,788,134	4,559,438
Total Net Position	\$ 38,222,911	\$ 36,477,688	\$ 13,049,945	\$ 11,665,072	\$ 51,272,856	\$ 48,142,760

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 \$38,261,992. The City uses those assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$4,222,730 (or 8%) 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 (\$8,788,134) 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 \$3,130,096 during the current fiscal year. The City's governmental activities increased net position by \$1,745,223. The total cost of all governmental activities this year was \$10,606,894. The amount that our taxpayers paid for these activities through property taxes was \$2,118,345 or 20%. The City's business-type activities increased net position by \$1,384,873. The total cost of all business-type activities for fiscal year 2018 was \$2,354,369.

City of Lake Worth's Changes in Net Position

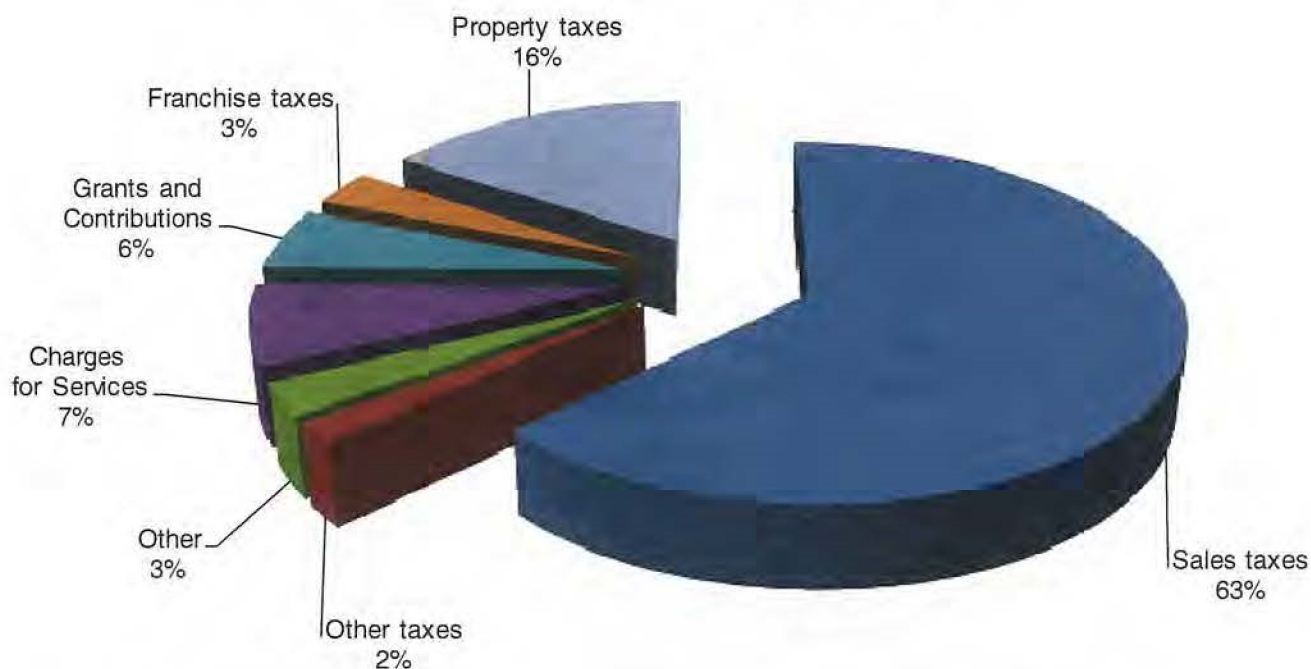
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 991,828	\$ 946,218	\$ 2,558,972	\$ 2,483,352	\$ 3,550,800	\$ 3,429,570
Operating grants and contributions	748,574	265,569	-	-	748,574	265,569
Capital grants and contributions	-	-	170,205	-	170,205	-
General revenues:						
Property taxes	2,118,345	1,986,136	-	-	2,118,345	1,986,136
Retail sales tax	8,449,410	8,491,651	-	-	8,449,410	8,491,651
Franchise taxes	451,260	446,028	-	-	451,260	446,028
Other taxes	253,782	235,882	-	-	253,782	235,882
Other	403,799	327,307	50,571	35,675	454,370	362,982
Gain (loss) on disposal of assets	(125,887)	(25,542)	20,500	4,450	(105,387)	(21,092)
Total revenues	13,291,111	12,673,249	2,800,248	2,523,477	16,091,359	15,196,726
Expenses:						
Mayor and council	20,796	18,705	-	-	20,796	18,705
General government	1,349,383	1,536,773	-	-	1,349,383	1,536,773
Police	3,234,915	2,941,027	-	-	3,234,915	2,941,027
Fire protection	2,030,957	1,790,085	-	-	2,030,957	1,790,085
Streets	1,109,782	1,068,654	-	-	1,109,782	1,068,654
Library	257,489	251,687	-	-	257,489	251,687
Parks and recreation	651,116	592,865	-	-	651,116	592,865
Maintenance	190,202	177,154	-	-	190,202	177,154
Senior center	133,275	121,402	-	-	133,275	121,402
Municipal court	240,750	228,330	-	-	240,750	228,330
Animal control	118,121	103,463	-	-	118,121	103,463
Emergency management	13,881	11,224	-	-	13,881	11,224
Permits and inspections	400,442	348,106	-	-	400,442	348,106
Information technology	519,802	443,898	-	-	519,802	443,898
Interest and fiscal charges	335,983	785,576	-	-	335,983	785,576
Water and sewer	-	-	2,354,369	2,228,092	2,354,369	2,228,092
Total expenses	10,606,894	10,418,949	2,354,369	2,228,092	12,961,263	12,647,041
Increase in net position before transfers	2,684,217	2,254,300	445,879	295,385	3,130,096	2,549,685
Transfers	(938,994)	(999,437)	938,994	999,437	-	-
Increase in net position	1,745,223	1,254,863	1,384,873	1,294,822	3,130,096	2,549,685
Net position, beginning of year	36,477,688	35,222,825	11,665,072	10,370,250	48,142,760	45,593,075
Net position, end of year	\$ 38,222,911	\$ 36,477,688	\$ 13,049,945	\$ 11,665,072	\$ 51,272,856	\$ 48,142,760

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

Governmental activities. Governmental activities increased the City's net position by \$1,745,223. Key elements of this increase are as follows:

- Increase of over 4% in charges for services; and
- Increase of over 180% in capital grants and contributions.

Revenues by Source - Governmental Activities



Business-type activities. Business-type activities increased the City's net position by \$1,384,873.

Operating revenue increased by \$75,620 from the prior year primarily due to an increase in consumption, this resulted in an increase in water and sewer service revenues. Operating expenses increased by \$126,277 from the prior year primarily due to an increase in water purchases and sewer disposal charges. Transfers in from governmental activities decreased by \$60,443 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 \$14,142,153, which is a decrease of \$982,925 in comparison with the prior year. \$5,447,930 or 39% of the fund balance represents unassigned fund balance, which is available for spending at the City's discretion. Assigned fund balance is \$248,826, committed fund balance is \$4,172,610 and non-spendable fund balance is \$24,512. 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 (\$97,824), to fund capital projects (\$53,177), street maintenance (\$2,030,322), crime control (\$676,664), public educational government channel (\$77,015), parks and recreation (\$268,259), hotels/motels (\$937,584) and other City related expenditures (\$107,430).

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

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,447,930, which is 49% 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 52%, or slightly more than 188 days of total fund expenditures.

The fund balance of the City's general fund decreased by \$402,198 during the current fiscal year.

Revenue from taxes in the general fund increased by 12.6% compared to prior year due to an increase in property tax revenue. Permits and fees increased by 4.5% from the prior year due to an increase in building permits being issued. Intergovernmental revenues increased over 100% due to the City obtaining additional grant funding. Charges for services decreased by 1.3% from the prior year due to a decrease in park rental fees.

Total expenditures in the general fund increased by 32.5% from the prior year. Mayor and council, police, fire protection, streets, library, parks and recreation, maintenance, senior center, municipal court, animal control, emergency management, permits and inspections, information technology, and capital outlay increased by 13.9%, 12.3%, 16.1%, 62.1%, 4.6%, 13.0%, 8.1%, 12.2%, 7.3%, 16.4%, 23.7%, 15.6%, 18.6%, and 415.5%, respectively, while general government and debt service expenditures decreased by 14.0% and 25.8%, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

Amendments to the original 2017-2018 general fund annual budget can be briefly summarized as follows:

- Increase in taxes revenue;
- Increase in intergovernmental revenue, investment earnings and miscellaneous revenues;
- Increase in fire protection and permits and inspections expenditures; and
- Increase in capital outlay expenditures.

Comparing budget to actual amounts, the City came in above the final budgeted revenue estimate by \$284,849, or 2.7%. The primary revenues that came in above estimated budget amounts were taxes. Property tax revenue exceeded the budgeted amount due to substantial adjustments increasing the tax levy in October (\$46,154) and December (\$148,254).

Total expenditures were 29.5% less than the final budgeted amounts. The primary expenditures that came in below estimated budget were capital outlay expenditures. The cost of employee health insurance was substantially lower than budgeted. The budget included a 20% increase in premiums, and renewal rates included an increase of just under 10%.

In a special election held on November 7, 2017, the voters of the City passed a proposition that reallocated the ½ percent Type B Economic Development sales tax and the ¼ percent Street Maintenance sales tax to the General Fund, increasing its sales tax from 1 percent to 1 ¾ percent.

With the dissolution of the Economic Development Corporation, the General Fund realized an influx of cash just over \$4.4 million. Of that, \$3.7 million was budgeted for capital purchases during the mid-year budget review process. Many of the capital purchases and projects were not completed prior to the end of the budget year, so actual capital outlay was substantially less than budgeted. Unspent amounts were recorded as committed fund balances as of September 30, 2018, as directed by the City Council, so that the funding would be available for use in the upcoming budget year to complete all purchases and projects that were approved.

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, 2018, amounts to \$51,149,337 (net of accumulated depreciation). Investments in capital assets related to governmental activities (\$39,553,277) include land, construction in progress, infrastructure, buildings and improvements, equipment and vehicles, and office furniture and fixtures. The City's investments in capital assets related to business-type activities (\$11,596,060) include the water and sewer system, construction in progress, buildings and improvements, and equipment and vehicles.

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

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

Fire Department

- Second floor remodel completed
- Vehicle exhaust ventilation system installed in bay
- Production of 2018 Pierce Fire truck began (completion Spring 2019)
- Fire gear extracting laundry system

Police Department

- 2018 Ford Interceptors (2 General Fund, 2 Crime Control)
- New sliding gate for secure parking area

Administration & Information Technology

- City wide digital radio system
- Polycom video system for arraignments
- NetScout one touch network assistant

Street Department

- Asphalt distributor
- Concrete saw and hydraulic concrete breaker

Water Sewer Fund

- 2018 John Deere backhoe
- Sewer line replacement, Caddo and Apache, 43rd Year CDBG
- Sewer line rehabs & replacements at various locations
- Charbonneau lift station improvements

Parks

- Lake Worth Park fencing for fields 1 & 2 completed

Animal Control

- Chassis mount
- 2011 Ford F250 (backup vehicle)

Other capital purchases that were budgeted will but not be purchased until fiscal year 2018/2019 include vehicles for the fire, parks, maintenance, permits, and water departments. Capital projects budgeted and under way, but not completed as of September 30, 2018 are bay insulation and heaters for the fire department, a records storage building, foundation improvements for the animal control facility, hand-held ticket writers for the police department, replacement of an 18" force main, Azle Avenue redesign and improvements, an I & I study, and the chloramine conversion project.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,685,569	\$ 1,685,569	\$ 46,240	\$ 46,240	\$ 1,731,809	\$ 1,731,809
Construction in progress	1,155,593	257,496	15,040	746,023	1,170,633	1,003,519
Buildings and improvements	9,420,973	9,469,971	86,676	90,879	9,507,649	9,560,850
Infrastructure	24,281,497	24,073,960	-	-	24,281,497	24,073,960
Water and sewer system	-	-	11,043,097	9,773,664	11,043,097	9,773,664
Equipment and vehicles	2,771,600	2,334,580	405,007	358,381	3,176,607	2,692,961
Office furniture and fixtures	238,045	259,745	-	-	238,045	259,745
Total	\$ 39,553,277	\$ 38,081,321	\$ 11,596,060	\$ 11,015,187	\$ 51,149,337	\$ 49,096,508

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

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

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

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

The City manages its road network using its pavement management system and accounts for roads using the modified approach. The road condition rating is a numerical scale ranging from 1 (Failed) to 10 (New). The City's goal is to maintain roads at or above a rating of 5 (Fair). The City is required to perform an examination of the roads and rate the status of their roads at least every three years. Conditions as of September 30th for the last three times that the roads were rated are as follows:

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

For fiscal year 2018, the City estimated that \$1,166,615 was needed to meet this goal. The actual amount used for maintenance and preservation of the City's roads was \$1,005,685. Additional information on road condition data is included in the schedule on page 57 of this report.

Long-term debt. At the end of the current fiscal year, the City of Lake Worth had total debt outstanding of \$16,434,006. Of this amount, \$12,009,300 represents general obligation bonds secured by property tax obligations, with an unamortized premium of \$604,636, \$313,700 represents general obligation and utility system revenue bonds secured by water and sewer revenues, \$12,886 represents capital lease obligations, \$431,192 represents the City's compensated absences obligation, \$2,988,745 represents the City's net pension liability, and \$73,547 represents the volunteer firefighter total pension liability. The City's total debt decreased by \$2,138,805 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 2017-2018 was \$0.454920 per \$100 assessed valuation, of which \$0.185836 was for maintenance and operations and \$0.269084 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 2019, the City Council and administration considered the following factors:

Several new policies were approved in the 2017/2018 budget year to support continued economic stability for the City.

Hotel Occupancy Tax Policy

The purpose of this policy is to support tourism, which stimulates commercial activity and supports City businesses. The goals of the policy are to provide Hotel Occupancy Tax (HOT) funds to applicants whose efforts will promote tourism and the hotel industry in the City, fund programs and events that bring visitors to the City, and fund facilities that encourage and support attracting visitors to the City.

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

Incentives Policy

The purpose of this policy is to assist in implementing programs promoting economic development and stimulating business and commercial activity in Lake Worth. The goals of the policy are to provide incentives to existing businesses that will enhance the commercial viability and sustainability of existing commercial properties, provide incentives to attract desired businesses or developers to invest in the City, encourage redevelopment of targeted areas in the City, and increase non-residential ad valorem and sales and use tax revenues.

Property Enhancement Incentive Policy

The purpose of this policy is to encourage the development, retention, or expansion of business enterprises in the City. This is a matching grant program, the goals of which are to enhance the commercial viability and sustainability of commercial properties, improve the physical appearance of businesses and visibly enhance commercial corridors, increase the marketability and occupancy rate of commercial buildings hindered by an outdated appearance, increase the safety of commercial area to stimulate more public interaction, and provide incentives in areas and to businesses most likely to stimulate similar enhancements by other private entities.

The City also added a listing of available commercial sites and buildings to its website to make it easy for business owners to find a space that will best suit their needs.

With a stable economy, but very few new retailers in the City, sales tax budgets are projected at a minimal increase of less than 1/2% over actual amounts received in fiscal year 2018.

Property tax revenues are budgeted to increase by 7% in the General Fund, mostly attributable to increased property values. For the budget year ended 9/30/18, the property tax revenue was based on net taxable values totaling \$452,940,707 and a Maintenance and Operations tax rate of 0.185836 per \$100 valuation. For the 2019 budget year the property tax revenue budget was based on net taxable values totaling \$481,843,670 and a Maintenance and Operations tax rate of 0.190877 per \$100 valuation.

General Fund budgeted expenses for fiscal year 2019 are approximately 29.4%, or \$4.5 million, less than estimated totals for the previous budget year. Most of the decrease is due to reduced capital expenses budgeted for fiscal 2019 as compared to the fiscal 2018 estimated totals.

Compared to estimated totals for the fiscal year ended September 30, 2018, the Water/Sewer Fund fiscal year 2019 budget reflects a 9.15% decrease in revenues and an 17% increase in expenses. The decrease in revenue is due to decreased transfers from the General Fund for capital purchases and the economic activities department to assist with the upkeep of commercial service lines. The increase in expenses is due in part to increased budgets for water purchases and sewer charges from the City of Fort Worth and the inclusion in the fiscal year 2019 budget for the purchase of a Vactor in the amount of \$400,000.

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, 2018

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
Assets			
Cash and cash equivalents	\$ 182,281	\$ 94,753	\$ 277,034
Investments	13,780,821	1,794,444	15,575,265
Receivables (net of allowances for uncollectibles of \$31,077)			
Accounts	-	337,138	337,138
Taxes	43,530	-	43,530
Other	104,257	3,192	107,449
Due from other governments	597,383	-	597,383
Internal balances	18,407	(18,407)	-
Prepaid expenses	24,512	3,160	27,672
Restricted investments	1,158	185,335	186,493
Other assets	73,547	-	73,547
Capital assets			
Infrastructure using modified approach	24,281,497	-	24,281,497
Land and construction in progress	2,841,162	61,280	2,902,442
Other capital assets, net of depreciation	12,430,618	11,534,780	23,965,398
Total capital assets	<u>39,553,277</u>	<u>11,596,060</u>	<u>51,149,337</u>
Total assets	<u>54,379,173</u>	<u>13,995,675</u>	<u>68,374,848</u>
Deferred outflows of resources			
Deferred loss on refunding	293,136	-	293,136
Deferred outflows of resources - pension	153,064	10,169	163,233
Total deferred outflows of resources	<u>446,200</u>	<u>10,169</u>	<u>456,369</u>
Liabilities			
Accounts payable and accrued expenses	531,528	245,045	776,573
Interest payable	45,992	-	45,992
Payable from restricted funds:			
Customer deposits	1,158	185,335	186,493
Due to other governments	40,527	7,770	48,297
Long-term liabilities			
Due within one year	1,804,611	171,615	1,976,226
Due in more than one year	14,111,646	346,134	14,457,780
Total liabilities	<u>16,535,462</u>	<u>955,899</u>	<u>17,491,361</u>
Deferred inflows of resources			
Deferred inflows of resources - other	67,000	-	67,000
Net position			
Net investment in capital assets	26,979,632	11,282,360	38,261,992
Restricted for:			
Debt service	123,572	-	123,572
Street maintenance	2,030,322	-	2,030,322
Crime control	678,548	-	678,548
Public educational government channel	77,015	-	77,015
Parks and recreation	268,259	-	268,259
Hotel/motel	937,584	-	937,584
Other	107,430	-	107,430
Unrestricted	7,020,549	1,767,585	8,788,134
Total net position	<u>\$ 38,222,911</u>	<u>\$ 13,049,945</u>	<u>\$ 51,272,856</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, 2018

Functions/Programs	Net (Expense) Revenue and Changes In Net Position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Primary Government						
Governmental activities						
Mayor and council	\$ 20,796	\$ -	\$ -	\$ -	\$ (20,796)	\$ -
General government	1,349,383	88,651	322,453	-	(938,279)	-
Police	3,234,915	540,498	118,286	-	(2,576,131)	-
Fire protection	2,030,957	-	289,534	-	(1,741,423)	-
Streets	1,109,782	-	-	-	(1,109,782)	-
Library	257,489	2,868	1,687	-	(252,934)	-
Parks and recreation	651,116	26,332	14,951	-	(609,833)	-
Maintenance	190,202	192,144	-	-	1,942	-
Senior center	133,275	-	-	-	(133,275)	-
Municipal court	240,750	19,582	1,063	-	(220,105)	-
Animal control	118,121	8,910	600	-	(108,611)	-
Emergency management	13,881	-	-	-	(13,881)	-
Permits and inspections	400,442	112,843	-	-	(287,599)	-
Informational technology	519,802	-	-	-	(519,802)	-
Interest and fiscal charges	335,983	-	-	-	(335,983)	-
Total governmental activities	10,606,894	991,828	748,574	-	(8,866,492)	-
Business-type activities						
Water and sewer	2,354,369	2,558,972	-	170,205	-	374,808
Total business-type activities	2,354,369	2,558,972	-	170,205	-	374,808
Total primary government	\$ 12,961,263	\$ 3,550,800	\$ 748,574	\$ 170,205	(8,866,492)	374,808
General revenues and transfers:						
Taxes						
Property					2,118,345	-
Retail sales					8,449,410	-
Franchise					451,260	-
Hotel					222,974	-
Mixed beverage					30,808	-
Interest					239,750	25,888
Gain (loss) on sale of assets					(125,887)	20,500
Other					164,049	24,683
Transfers					(938,994)	938,994
Total general revenues and transfers					10,611,715	1,010,065
Change in net position					1,745,223	1,384,873
Net position, beginning of year					36,477,688	11,665,072
Net position, end of year					\$ 38,222,911	\$ 13,049,945

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

City of Lake Worth, Texas
Balance Sheet
Governmental Funds
September 30, 2018

	General Fund	Street Maintenance Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 149,556	\$ -	\$ 7,522	\$ -	\$ 25,203	\$ 182,281
Investments	10,923,726	2,031,211	90,307	48,252	688,483	13,781,979
Receivables (net of allowances for uncollectibles of \$28,460)						
Property taxes	17,782	-	25,748	-	-	43,530
Accounts	102,188	-	-	-	2,069	104,257
Due from other governments	523,371	-	-	-	74,012	597,383
Due from other funds	22,047	-	-	4,925	500	27,472
Prepaid expenses	22,178	-	450	-	1,884	24,512
Other assets	73,547	-	-	-	-	73,547
Total assets	\$ 11,834,395	\$ 2,031,211	\$ 124,027	\$ 53,177	\$ 792,151	\$ 14,834,961
Liabilities						
Accounts payable	\$ 247,360	\$ 889	\$ 5	\$ -	\$ 4,935	\$ 253,189
Accrued liabilities	248,617	-	-	-	29,722	278,339
Due to other governments	40,527	-	-	-	-	40,527
Due to other funds	7,134	-	-	-	1,931	9,065
Deposits	1,158	-	-	-	-	1,158
Total liabilities	544,796	889	5	-	36,588	582,278
Deferred inflows of resources						
Unavailable revenue- property taxes	17,782	-	25,748	-	-	43,530
Unavailable revenue- other	67,000	-	-	-	-	67,000
Total deferred inflows of resources	84,782	-	25,748	-	-	110,530
Fund balances						
Non-spendable for:						
prepaid expenses	22,178	-	450	-	1,884	24,512
Restricted for:						
Debt service	-	-	97,824	-	-	97,824
Capital projects	-	-	-	53,177	-	53,177
Street maintenance	-	2,030,322	-	-	-	2,030,322
Crime control	-	-	-	-	676,664	676,664
Public educational government channel	-	-	-	-	77,015	77,015
Parks and recreation	268,259	-	-	-	-	268,259
Hotel/motel	937,584	-	-	-	-	937,584
Other	107,430	-	-	-	-	107,430
Committed for:						
Fire protection / truck maintenance	36,642	-	-	-	-	36,642
Animal control equipment and facilities	99,562	-	-	-	-	99,562
Storage building	365,280	-	-	-	-	365,280
Fire department vehicles and equipment	88,385	-	-	-	-	88,385
Pipeline project	3,257,170	-	-	-	-	3,257,170
Police ticket writer system	50,000	-	-	-	-	50,000
Park department vehicle	30,272	-	-	-	-	30,272
Maintenance vehicle	26,659	-	-	-	-	26,659
Permits vehicle	25,000	-	-	-	-	25,000
Zoning ordinance updates	88,640	-	-	-	-	88,640
Street improvements	105,000	-	-	-	-	105,000
Assigned for:						
Fire protection	73,547	-	-	-	-	73,547
Parks and recreation	175,279	-	-	-	-	175,279
Unassigned	5,447,930	-	-	-	-	5,447,930
Total fund balances	11,204,817	2,030,322	98,274	53,177	755,563	14,142,153
Total liabilities, deferred inflows of resources, and fund balances	\$ 11,834,395	\$ 2,031,211	\$ 124,027	\$ 53,177	\$ 792,151	
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.						39,553,277
Deferred outflows of resources are not financial resources, and therefore, are not reported in the funds.						446,200
Property taxes receivable, net of allowance, are not available to pay for current period expenditures and, therefore, are deferred in the funds.						43,530
Some liabilities, including general obligation bonds, capital leases payable, accrued interest payable, net pension liability, compensated absences, and volunteer firefighter pension obligation are not due and payable in the current period and, therefore, are not reported in the funds.						(15,962,249)
Net position of governmental activities - statement of net position						\$ 38,222,911

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

City of Lake Worth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
September 30, 2018

	General Fund	Street Maintenance Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 8,821,729	\$ 162,526	\$ 1,269,311	\$ -	\$ 1,044,652	\$ 11,298,218
Fines	543,366	-	-	-	-	543,366
Permits and fees	206,181	-	-	-	-	206,181
Intergovernmental	379,719	-	-	-	-	379,719
Charges for services	218,476	-	-	-	-	218,476
Investment earnings	179,945	35,676	9,904	3,759	10,466	239,750
Miscellaneous	482,817	756	-	14,168	58,968	556,709
Total revenues	10,832,233	198,958	1,279,215	17,927	1,114,086	13,442,419
Expenditures						
Current						
Mayor and council	17,136	-	-	-	-	17,136
General government	1,150,249	-	-	-	-	1,150,249
Police	2,263,789	-	-	-	811,156	3,074,945
Fire protection	1,947,284	-	-	-	-	1,947,284
Streets	822,946	182,739	-	-	-	1,005,685
Library	248,133	-	-	-	-	248,133
Parks and recreation	464,528	-	-	-	-	464,528
Maintenance	185,648	-	-	-	-	185,648
Senior center	123,568	-	-	-	-	123,568
Municipal court	239,579	-	-	-	-	239,579
Animal control	95,554	-	-	-	-	95,554
Emergency management	13,881	-	-	-	-	13,881
Permits and inspections	391,203	-	-	-	-	391,203
Informational technology	485,957	-	-	-	-	485,957
Capital outlay	2,104,084	170,382	-	-	94,281	2,368,747
Debt service						
Principal	11,472	-	1,256,200	-	-	1,267,672
Interest	1,894	-	404,687	-	-	406,581
Total expenditures	10,566,905	353,121	1,660,887	-	905,437	13,486,350
Excess (deficiency) of revenues over (under) expenditures	265,328	(154,163)	(381,672)	17,927	208,649	(43,931)
Other financing sources (uses)						
Transfers in	121,977	-	426,226	-	-	548,203
Transfers out	(789,503)	-	-	(624,090)	(73,604)	(1,487,197)
Total other financing sources (uses)	(667,526)	-	426,226	(624,090)	(73,604)	(938,994)
Changes in fund balances	(402,198)	(154,163)	44,554	(606,163)	135,045	(982,925)
Fund balance, beginning of year	11,607,015	2,184,485	53,720	659,340	620,518	15,125,078
Fund balances, end of year	\$ 11,204,817	\$ 2,030,322	\$ 98,274	\$ 53,177	\$ 755,563	\$ 14,142,153

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

City of Lake Worth, Texas
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Change in
Net Position of Governmental Activities in the Statement of Activities
For the Fiscal Year Ended September 30, 2018

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

Net change in fund balances - total governmental funds	\$ (982,925)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 2,368,747	
Depreciation expense	<u>(770,905)</u>	1,597,842

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

Loss on sales of assets	(125,887)
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The change in property tax receivable, net of allowance, is reported as revenue in the statement of activities; however, this change does not provide current financial resources and is, therefore, not reported as revenue in the funds.

(25,421)

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	\$ (58,432)	
Volunteer firefighter pension expense	(3,888)	
Accrued interest	1,760	
Amortization of premium on debt	95,895	
Amortization of deferred loss on refunding	<u>(27,058)</u>	8,277

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.

5,664

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal repayments		
Bonds	1,256,200	
Capital leases	11,473	
		<u>1,267,673</u>

Change in net position of governmental activities - statement of activities	<u><u>\$ 1,745,223</u></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, 2018

	<u>Water and Sewer Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 94,753
Investments	1,794,444
Receivables	
Accounts (net of allowances for uncollectible accounts of \$2,617)	337,138
Other	3,192
Prepaid expenses	3,160
Due from other funds	1,709
Total current assets	<u>2,234,396</u>
Noncurrent assets	
Restricted assets	
Investments	185,335
Capital assets	
Land	46,240
Construction in progress	15,040
Buildings and improvements	140,877
Water and sewer system	15,720,370
Machinery and equipment	2,045,530
Less accumulated depreciation	<u>(6,371,997)</u>
Total noncurrent assets	<u>11,781,395</u>
Total assets	<u>14,015,791</u>
Deferred outflows of resources	
Deferred outflows of resources - pension	10,169
Liabilities	
Current liabilities	
Payable from current assets	
Accounts payable	227,601
Accrued liabilities	17,444
Due to other funds	20,116
Due to other governments	7,770
Compensated absences	21,915
Current portion of bonds payable	149,700
Total current liabilities	<u>444,546</u>
Noncurrent liabilities	
Payable from restricted assets	
Customer deposits	185,335
Net pension liability	182,134
Bonds payable	164,000
Total noncurrent liabilities	<u>531,469</u>
Total liabilities	<u>976,015</u>
Net Position	
Net investment in capital assets	11,282,360
Unrestricted	1,767,585
Total net position	<u>\$ 13,049,945</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, 2018

	<u>Water and Sewer Fund</u>
Operating revenues	
Water services	\$ 1,552,094
Sewer services	998,927
Other operating revenues	<u>7,951</u>
Total operating revenues	<u>2,558,972</u>
Operating expenses	
Personnel services	458,541
Contractual services	187,774
Water purchases	618,002
Disposal charge - sewer	545,982
Supplies and maintenance	165,254
Other operating expenses	2,329
Depreciation	<u>368,483</u>
Total operating expenses	<u>2,346,365</u>
Operating income	<u>212,607</u>
Nonoperating revenues (expenses)	
Gain on disposal of assets	20,500
Intergovernmental income	170,205
Interest income	25,888
Miscellaneous	24,683
Interest expense	<u>(8,004)</u>
Total non-operating revenues (expenses)	<u>233,272</u>
Income before transfers	445,879
Transfers in	1,143,915
Transfers out	<u>(204,921)</u>
Total transfers	<u>938,994</u>
Change in net position	1,384,873
Net position, beginning of year	<u>11,665,072</u>
Net position, end of year	<u><u>\$ 13,049,945</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, 2018

	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 2,558,157
Cash paid to suppliers	(1,447,438)
Cash paid to employees	(458,326)
Net cash provided by operating activities	<u>652,393</u>
Cash flows from noncapital financing activities:	
Cash received from other funds	1,142,206
Cash paid to other funds	(187,634)
Net cash provided by noncapital financing activities	<u>954,572</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(781,650)
Proceeds from disposal of capital assets	23,000
Principal payments on long-term debt	(142,800)
Interest paid	(8,004)
Net cash used in capital and related financing activities	<u>(909,454)</u>
Cash flows from investing activities:	
Change in investments	(711,293)
Interest income	25,888
Net cash used in investing activities	<u>(685,405)</u>
Net increase in cash	12,106
Cash and cash equivalents at beginning of year	<u>82,647</u>
Cash and cash equivalents at end of year	<u><u>\$ 94,753</u></u>
Non-cash Capital and Related Financing Activities:	
Acquisition of capital assets - Intergovernmental revenue	<u><u>\$ 170,205</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 212,607
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	368,483
Miscellaneous revenue	24,683
Increase in accounts receivable	(30,148)
Increase in prepaid expenses	(1,872)
Decrease in deferred outflows of resources	39,286
Increase in accounts payable and accrued liabilities	76,240
Decrease in net pension liability	(47,087)
Increase in compensated absences	5,551
Increase in customer deposits	4,650
Net cash provided by operating activities	<u><u>\$ 652,393</u></u>

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

City of Lake Worth, Texas
Statement of Fiduciary Net Position
Fiduciary Fund
September 30, 2018

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

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

City of Lake Worth, Texas
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended September 30, 2018

	<u>Insurance Trust Fund</u>
Additions	
Contributions:	
Employer	\$ 781,194
Employee	<u>185,981</u>
Total additions	<u>967,175</u>
Deductions	
Insurance benefit payments	<u>967,175</u>
Total deductions	<u>967,175</u>
Change in net position	-
Net position, beginning of year	<u>-</u>
Net position, end of year	<u><u>\$ -</u></u>

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note A. Summary of Significant Accounting Policies

Financial Reporting Entity

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

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The blended component unit, although a legally separate entity, is, in substance, part of the City's operation and so data from this unit is combined with the data of the primary government. The blended component unit has a September 30th year-end.

Blended Component Unit

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

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 Street Maintenance Fund, the Debt Service Fund, and the Capital Projects Fund meet the criteria as major governmental funds. The major funds are reported in separate columns in the fund financial statements. The Crime Control District Fund and the Public Educational Government Channel Fund meet the criteria as non-major funds. The amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note A. Summary of Significant Accounting Policies (Continued)

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 Street Maintenance Fund is reported as a special revenue fund of the City and is utilized for street improvements or maintenance expenditures within the City.

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

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

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

The City reports the following major proprietary fund:

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that for proprietary funds. The City's fiduciary fund is used to report employer and employee contributions, and investment income, if any, as well as benefits paid for health insurance.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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, 2018

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 financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, and the debt repayment are reported as expenditures.

Deferred Outflows/Inflows of Resources

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

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

Fund Balance

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

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note A. Summary of Significant Accounting Policies (Continued)

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

Net Position

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

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

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

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

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

Minimum Fund Balance Policy

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

Concentration of Credit Risk

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

Risk Management

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

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

Use of Estimates

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note A. Summary of Significant Accounting Policies (Continued)

Pensions

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

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

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

The governmental fund Balance Sheet includes a reconciliation between fund balance for total governmental funds and net position as reported in the government-wide Statement of Net Position. One element of that reconciliation explains "some liabilities, including general obligation bonds, capital leases payable, accrued interest payable, net pension liability, compensated absences, and volunteer firefighter total pension liability are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$15,962,249 difference are as follows:

Capital leases payable	\$ 12,886
General obligation bonds payable	12,009,300
Issuance premium	604,636
Accrued interest payable	45,992
Net pension liability	2,806,611
Volunteer firefighter pension obligation	73,547
Compensated absences	<u>409,277</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 15,962,249</u>

Note C. Deposits, Securities, and Investments

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

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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

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

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

All investments held by the City at September 30, 2018 were in LOGIC, TexSTAR, Lone Star Investment Pool, and TexPool.

Public Funds Investment Pools

LOGIC

The Local Government Investment Cooperative (LOGIC) is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member board of trustees and is comprised of employees, officers, or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. The co-administrators are Hilltop Securities Inc. and J.P. Morgan Investment Management Inc. LOGIC is rated AAAm by Standard and Poor's.

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

TexSTAR

Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR's governing body is a five-member board of directors consisting of three representatives of participants and one member employed by each co-administrator or an affiliate. The co-administrators are Hilltop Securities Inc. and J.P. Morgan Investment Management Inc. TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Members are appointed and serve at the will of the board of directors. TexSTAR is rated AAAm by Standard and Poor's.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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

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

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, LLC, with Standish Mellon Asset Management Company, LLC and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank and Trust provides custody services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star has three different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. The Government Overnight and Corporate Overnight Funds and are rated AAAM by Standard and Poor's, and the Corporate Overnight Plus Fund is rated AA+.

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

TexPool

Texas Local Government Investment Pool (TexPool) is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the TexPool portfolios. Administrative and investment services are provided by Federated Investors, Inc. TexPool has established an advisory board composed equally of participants and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool. TexPool is rated AAAM by Standard and Poor's.

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

Fair Value Measurements

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

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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

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

As of September 30, 2018, the City had the following investments:

	Level 2	Total
Investments by fair value level:		
LOGIC	\$ 4,208,990	\$ 4,208,990
TexSTAR	3,458,170	3,458,170
Subtotal	\$ 7,667,160	
Investments measured at amortized cost:		
Lone Star		4,109,389
TexPool		3,985,209
Total Investments		\$ 15,761,758

As reported in the Statement of Net Position:

Governmental activities	
Investments	\$ 13,780,821
Restricted investments	1,158
Business-type activities	
Investments	1,794,444
Restricted investments	185,335
Total investments	\$ 15,761,758

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, 2018, 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, 2018, TexPool, TexSTAR, Lone Star, and LOGIC investment pools were rated AAAM by Standard and Poor's.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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

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

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

As of September 30, 2018, 100% of the City's portfolio was invested in Local Government Investment Pools.

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized with securities held by the pledging financial institution or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. At September 30, 2018, the City's cash and cash equivalents were insured or collateralized with securities held by the City or by its agent in the City's name, and the City is in compliance with the Public Funds Collateral Act, Texas Government Code, Chapter 2257.

Note D. Local Tax Revenues and Receivables

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note E. Interfund Activity

During the course of the fiscal year, interfund payables and receivables arise. The following were outstanding as of September 30, 2018:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 20,116
Water and sewer fund	General fund	1,709
Capital projects fund	General fund	4,925
Crime control district fund	General fund	500
General fund	Crime control district fund	1,931
Total		<u>\$ 29,181</u>

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

Interfund transfers during the year were as follows:

	<u>Transfers Out</u>
General fund	\$ 789,503
Capital projects fund	624,090
Crime control district fund	73,604
Water and sewer fund	204,921
	<u>\$ 1,692,118</u>
	<u>Transfers in</u>
General fund	\$ 121,977
Debt service fund	426,226
Water and sewer fund	1,143,915
	<u>\$ 1,692,118</u>

Transfers are generally used (1) to transfer funds from 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, and (3) to transfer Water and Sewer fund construction in progress from the Capital Projects fund.

Note F. Restricted Assets

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note G. Capital Assets

Capital asset activity for the year ended September 30, 2018 was as follows:

	Balance 10/1/2017	Transfers/ Additions	Transfers/ Deletions	Balance 9/30/2018
Governmental activities				
Capital assets using modified approach				
Infrastructure	\$ 24,073,960	\$ 207,537	\$ -	\$ 24,281,497
Total capital assets using modified approach	24,073,960	207,537	-	24,281,497
Capital assets not being depreciated				
Construction in progress	257,496	1,142,209	244,112	1,155,593
Land	1,685,569	-	-	1,685,569
Total capital assets not being depreciated	1,943,065	1,142,209	244,112	2,841,162
Other capital assets				
Buildings and improvements	12,244,453	247,373	-	12,491,826
Equipment and vehicles	6,530,270	995,191	309,000	7,216,461
Office furniture and fixtures	664,045	20,550	-	684,595
Total other capital assets	19,438,768	1,263,114	309,000	20,392,882
Less accumulated depreciation for:				
Buildings and improvements	2,774,482	296,371	-	3,070,853
Equipment and vehicles	4,195,690	430,016	180,845	4,444,861
Office furniture and fixtures	404,300	44,518	2,268	446,550
Total accumulated depreciation	7,374,472	770,905	183,113	7,962,264
Other capital assets, net	12,064,296	492,209	125,887	12,430,618
Governmental activities capital assets, net	<u>\$ 38,081,321</u>	<u>\$ 1,841,955</u>	<u>\$ 369,999</u>	<u>\$ 39,553,277</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note G. Capital Assets (Continued)

	Balance 10/1/2017	Transfers/ Additions	Transfers/ Deletions	Balance 9/30/2018
Business-type activities				
Capital assets not being depreciated				
Land	\$ 46,240	\$ -	\$ -	\$ 46,240
Construction in progress	746,023	842,689	1,573,672	15,040
	<u>792,263</u>	<u>842,689</u>	<u>1,573,672</u>	<u>61,280</u>
Total capital assets not being depreciated	792,263	842,689	1,573,672	61,280
Other capital assets				
Water and sewer system	14,146,698	1,573,672	-	15,720,370
Building and improvements	140,877	-	-	140,877
Machinery and equipment	2,008,091	109,165	71,726	2,045,530
	<u>16,295,666</u>	<u>1,682,837</u>	<u>71,726</u>	<u>17,906,777</u>
Total other capital assets	16,295,666	1,682,837	71,726	17,906,777
Less accumulated depreciation for:				
Water and sewer system	4,373,034	304,239	-	4,677,273
Building and improvements	49,998	4,203	-	54,201
Machinery and equipment	1,649,710	60,041	69,228	1,640,523
	<u>6,072,742</u>	<u>368,483</u>	<u>69,228</u>	<u>6,371,997</u>
Total accumulated depreciation	6,072,742	368,483	69,228	6,371,997
Other capital assets, net	10,222,924	1,314,354	2,498	11,534,780
Business-type activities capital assets, net	<u>\$ 11,015,187</u>	<u>\$ 2,157,043</u>	<u>\$ 1,576,170</u>	<u>\$ 11,596,060</u>

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

Governmental activities:	
Mayor and council	\$ 3,660
General government	184,849
Police	173,318
Fire	52,180
Streets	90,601
Library	9,967
Parks and recreation	187,642
Maintenance	3,552
Senior center	9,687
Municipal court	1,942
Animal control	21,720
Permits and inspections	2,301
Information technology	29,486
	<u>\$ 770,905</u>
Total governmental activities	<u>\$ 770,905</u>
Business-type activities:	
Water and sewer	\$ 368,483
	<u>\$ 368,483</u>
Total business-type activities	<u>\$ 368,483</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note H. Long-Term Liabilities

Long-term debt of the City consists of general obligation bonds, utility system revenue bonds, and long-term capital leases. Long-term debt at September 30, 2018 consists of the following:

Governmental activities

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 \$159,300 at September 30, 2018.

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 \$875,000 at September 30, 2018.

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 \$2,795,000 at September 30, 2018.

General Obligation Refunding Bonds, Series 2017

- To refund the Combination Tax and Revenue Certificates of Obligation, Series 2008.
- Original balance of \$8,455,000.
- Payable in annual installments through September 30, 2029 at 2.0% to 4.0%.
- Outstanding balance of \$8,180,000 at September 30, 2018.

Capital Lease Arrangements

Dell Government Leasing

- To purchase hyper V servers.
- Principal price of \$23,772.
- Payable in annual installments of \$5,213 over four years, bearing interest at 8.47%.
- Outstanding balance of \$12,886 at September 30, 2018.

The annual requirements to amortize long-term debt as of September 30, 2018 are as follows:

Year Ending	General Obligation Bonds		Capital Lease	
	Principal	Interest	Principal	Interest
2019	\$ 1,299,300	\$ 357,274	\$ 6,171	\$ 687
2020	1,255,000	327,045	6,715	143
2021	1,290,000	296,101	-	-
2022	1,120,000	262,750	-	-
2023	1,145,000	235,190	-	-
2024-2028	5,805,000	670,143	-	-
2029-2033	95,000	3,800	-	-
Total	<u>\$ 12,009,300</u>	<u>\$ 2,152,303</u>	<u>\$ 12,886</u>	<u>\$ 830</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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 \$135,700 at September 30, 2018.

Utility System Revenue Bonds

Utility System Revenue Bonds, Series 2009

- For the construction of a new sewer line along Telephone Road.
- Original issue of \$290,000.
- Payable in annual installments through February 1, 2030 at 0%.
- Outstanding balance of \$178,000 at September 30, 2018.

The annual requirements to amortize long-term debt as of September 30, 2018 are as follows:

Fiscal Year Ending	General Obligation Bonds		Utility System Revenue Bonds	
	Principal	Interest	Principal	Total
2019	\$ 135,700	\$ 2,714	\$ 14,000	\$ 152,414
2020	-	-	14,000	14,000
2021	-	-	15,000	15,000
2022	-	-	15,000	15,000
2023	-	-	15,000	15,000
2024-2028	-	-	75,000	75,000
2029-2033	-	-	30,000	30,000
Total	<u>\$ 135,700</u>	<u>\$ 2,714</u>	<u>\$ 178,000</u>	<u>\$ 316,414</u>

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

	Governmental Activities
Scheduled future minimum lease payments	\$ 13,716
Amount representing interest	(830)
Present value of future minimum capital lease payments (principal payoff)	<u>\$ 12,886</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note H. Long-Term Liabilities (Continued)

The following is an analysis of equipment leased under capital leases as of September 30, 2018:

	Governmental Activities
Equipment	\$ 51,683
Less accumulated depreciation	(28,301)
Total	<u>\$ 23,382</u>

The following is a summary of the changes by type of long-term liabilities for the year ended September 30, 2018:

	Balance 10/1/2017	Additions	Retirements	Balance 9/30/2018	Due Within One Year
<u>Governmental activities</u>					
Certificates of obligation	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
General obligation bonds	13,065,500	-	1,056,200	12,009,300	1,299,300
Premium on bonds issued	700,531	-	95,895	604,636	89,863
Capital leases	24,359	-	11,473	12,886	6,171
Net pension liability	3,459,832	(4,103)	649,118	2,806,611	-
Compensated absences	350,845	443,319	384,887	409,277	409,277
Volunteer firefighter total pension liability	69,659	3,888	-	73,547	-
Total governmental activities	17,870,726	443,104	2,397,573	15,916,257	1,804,611
<u>Business-type activities</u>					
General obligation bonds	264,500	-	128,800	135,700	135,700
Utility system revenue bonds	192,000	-	14,000	178,000	14,000
Net pension liability	229,221	846	47,933	182,134	-
Compensated absences	16,364	27,500	21,949	21,915	21,915
Total business-type activities	702,085	28,346	212,682	517,749	171,615
Total	<u>\$ 18,572,811</u>	<u>\$ 471,450</u>	<u>\$ 2,610,255</u>	<u>\$ 16,434,006</u>	<u>\$ 1,976,226</u>

Note I. Compensated Absences and Sick Leave

If an employee separates from the City, has completed a minimum of twenty years of continuous service with the City, and qualifies for retirement as defined by the Texas Municipal Retirement System, the employee will be eligible for pay for one-half of accumulated sick leave, or 240 hours, whichever is less. However, for the remaining employees, sick leave is recorded when paid and employees are not compensated for unused sick leave. Vacation is earned in varying amounts. Unused vacation leave is carried forward from one year to the next up to certain limits. The City has accrued for the estimated liability for compensated absences in the governmental and business-type activities in the government-wide financial statements and in the proprietary fund financial statements. The City's aggregate liability for compensated absences as of September 30, 2018 was \$431,192.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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	\$ 12,493
Court technology	9,822
Court security	69,979
Fire LEOSE	493
Police department donations	11,188
Fire department donations	430
Library donations	275
Senior center donations	1,287
Animal control donations	<u>1,463</u>
 Total Other Restricted Net Position/ Other Restricted Fund Balance	 <u><u>\$ 107,430</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.

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 \$4,222,730 of restricted net position, \$3,813,879 of which is restricted by enabling legislation.

City of Lake Worth, Texas

Notes to Financial Statements

September 30, 2018

Note K. Defined Benefit Pension Plan

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City are as follows:

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

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

Employees covered by benefit terms.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees entitled to but not yet receiving benefits	55
Active employees	91
Total	<u>186</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, 2018

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 13.41% and 13.35% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$714,470, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017 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, 2017 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, 2017 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note K. Defined Benefit Pension Plan (Continued)

The target allocation and best estimates of real rates of return for each major asset class as of September 30, 2017 are summarized in the following table:

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

Discount Rate

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

Changes in the NPL	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2016	\$ 18,667,322	\$ 14,978,269	\$ 3,689,053
Changes for the year:			
Service cost	765,394	-	765,394
Interest	1,263,382	-	1,263,382
Difference between expected and actual experience	354,838	-	354,838
Contributions - employer	-	697,051	(697,051)
Contributions - employee	-	321,577	(321,577)
Net investment income	-	2,076,598	(2,076,598)
Benefit payments, including refunds of employee contributions	(666,507)	(666,507)	-
Administrative expense	-	(10,758)	10,758
Other changes	-	(546)	546
Net changes	<u>1,717,107</u>	<u>2,417,415</u>	<u>(700,308)</u>
Balance at 12/31/2017	<u>\$ 20,384,429</u>	<u>\$ 17,395,684</u>	<u>\$ 2,988,745</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note K. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's NPL	\$6,407,313	\$2,988,745	\$239,189

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2018, the City recognized pension expense of \$715,615.

At September 30, 2018, 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	\$ 136,888	\$ -
Changes in actuarial assumptions	-	(33,201)
Difference between projected and actual investment earnings	-	(459,545)
Contributions subsequent to the measurement date	519,091	-
Total	<u>\$ 655,979</u>	<u>\$ (492,746)</u>

\$519,091 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	\$ 8,145
2020	(24,855)
2021	(198,125)
2022	(158,561)
2023	17,538
Total	<u>\$ (355,858)</u>

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

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, 2018, 2017, and 2016 were \$8,407, \$7,863, and \$7,873, respectively, which equaled the required contributions each year.

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

Plan/ Calendar Year	Annual Required Contribution Rate	Actual Contribution Rate	Percentage of ARC Contributed
2016	0.04%	0.17%	100.00%
2017	0.04%	0.15%	100.00%
2018	0.04%	0.16%	100.00%

Note M. Volunteer Firefighter Benefits

Pension - Length of Service Awards Program (LOSAP)

The City's financial statements are for the year ended September 30, 2018; however, the information contained in this note is based on information for the Length of Service Awards Program as of October 1, 2017, which is the date of the most recent actuarial valuation and the measurement date of the total pension liability.

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note M. Volunteer Firefighter Benefits (Continued)

Program Description

Participation, vesting, and service credit

Volunteer firefighters who began service prior to 2003 and had reached the age of 18 and who had completed one year of firefighting service are eligible to participate in the program. Participants acquire a non-forfeitable right to a service award after being credited with five years of firefighting service or upon attaining the program's entitlement age. The program's entitlement age is 62. In general, an active volunteer firefighter is credited with a year of firefighting service for each plan year by attending at least 70% of all training sessions and business meetings and responding to at least 45% of all non-medical related incidents including major accidents. Medically qualified firefighters must respond to at least 25% of all incidents.

Benefits

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

Contributions

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

Plan membership

The most current actuarial valuation was completed as of October 1, 2017. 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	7
Active plan members	<u>0</u>
Total	<u><u>9</u></u>

Fiduciary Investment and Control

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

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

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

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note M. Volunteer Firefighter Benefits (Continued)

The City is required to retain an actuary to determine the amount of the City's contributions to the plan. Portions of the following information are derived from a report prepared by the actuary dated October 16, 2018.

Actuarial Assumptions and Funding Methods

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

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

Pre-Retirement Mortality Table – 1984 Unisex Pensioners -2. This represents the possibility that some participants may die prior to reaching entitlement age.

Post-Retirement Mortality Table – 1984 Unisex Pensioners -2. This represents the typical life expectancy after attaining entitlement age.

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

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

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

<u>Changes in the TPL</u>		
Balance at 10/1/2016	\$	69,659
Service costs		1,090
Interest on total pension liability		5,006
Benefit payments		(3,000)
Other changes		792
Balance at 10/1/2017	\$	<u>73,547</u>

For the year ended September 30, 2018, the City recognized pension expense of \$6,945.

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, 2018

Note N. Operating Leases

The City of Lake Worth leases the following equipment:

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

Net future minimum lease payments under the operating leases for the City of Lake Worth equipment as of September 30, 2018 are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2019	\$ 29,885
2020	15,665
2021	<u>7,457</u>
Total	<u>\$ 53,007</u>

Payments on the above leases of \$32,844 were included in equipment rent expense for the year ended September 30, 2018.

Note O. Other Commitments and Contingencies

The City of Lake Worth has the following commitments and contingencies at September 30, 2018:

- 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, 2018, the City expensed \$188,034 for sanitation expense.
- The City has a contract with the City of Fort Worth, Texas, for the purchase of treated water and for sewage treatment. The contract for water, dated November 16, 2010 for a 20-year period, is used to supplement the water wells operated by the City. The contract for sewer is dated June 29, 2017 for a 20-year period. Charges are incurred when actual delivery occurs, and the rates are adjusted periodically. For the fiscal year ended September 30, 2018, the City's expenses in the Water and Sewer fund for water and sewer treatment were \$618,002 and \$545,982, respectively.

City of Lake Worth, Texas
Notes to Financial Statements
September 30, 2018

Note O. Other Commitments and Contingencies (Continued)

- The City has various contracts with Protection One Alarm Monitoring, Inc. for alarm system maintenance, camera systems, and access controls. The various contracts are for a 5-year period. The monthly commitment is \$1,210. For the fiscal year ended September 30, 2018, the City expensed \$9,504 for the alarm system maintenance, \$912 for the camera systems, and \$4,104 for the access controls.
- The City has a contract with Charter Business for internet services at the City's library. The contract, dated October 16, 2013, has a 48-month period. The monthly commitment is \$700. For the fiscal year ended September 30, 2018, the City expensed \$8,400 for the library internet.
- The City has two contracts with AT&T for managed internet service and switched Ethernet service at City Hall. The contract for managed internet service, dated June 13, 2017, has a 24-month period and a monthly commitment of \$1,373. The switched Ethernet service contract, dated January of 2017, has a 60-month period and a monthly commitment of \$876. For the fiscal year ended September 30, 2017, the City expensed \$16,476 and \$10,515 for managed internet service and switched Ethernet service contracts, respectively.

Note P. Economic Dependency

Since the City's largest revenue in the General and Crime Control 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 \$618,002 and \$545,982 for treated water and sewer treatment service, respectively, totaling \$1,163,984 which is 49% of the City's Water and Sewer fund total operating expenses.

Note Q. Subsequent Events

The City evaluated subsequent events through March 5, 2019, the date the financial statements were available to be issued, and nothing significant requiring disclosure was noted.

**REQUIRED SUPPLEMENTARY
INFORMATION**

City of Lake Worth, Texas
Statement of Revenues, Expenditures, and Changes in Fund Balance
- Budget and Actual -
General Fund
For the Fiscal Year Ended September 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
Revenues				
Taxes	\$ 8,107,642	\$ 8,647,594	\$ 8,821,729	\$ 174,135
Fines	464,225	514,100	543,366	29,266
Permits and fees	157,860	192,462	206,181	13,719
Intergovernmental	-	362,267	379,719	17,452
Charges for services	222,700	215,075	218,476	3,401
Investment earnings	76,665	157,851	179,945	22,094
Miscellaneous	369,216	458,035	482,817	24,782
Total revenues	9,398,308	10,547,384	10,832,233	284,849
Expenditures				
Mayor and council	31,858	32,744	17,136	15,608
General government	1,266,642	1,204,802	1,150,249	54,553
Police	2,269,360	2,308,207	2,263,789	44,418
Fire protection	1,795,199	1,921,982	1,947,284	(25,302)
Streets	902,342	854,220	822,946	31,274
Library	255,793	251,435	248,133	3,302
Parks and recreation	485,405	497,848	464,528	33,320
Maintenance	196,527	191,601	185,648	5,953
Senior center	126,645	129,634	123,568	6,066
Municipal court	243,888	242,318	239,579	2,739
Animal control	90,866	101,119	95,554	5,565
Emergency management	16,225	14,373	13,881	492
Permits and inspections	380,152	501,397	391,203	110,194
Informational technology	519,138	539,973	485,957	54,016
Capital outlay	93,500	6,150,585	2,104,084	4,046,501
Debt service				
Principal	30,473	33,475	11,472	22,003
Interest	3,763	3,763	1,894	1,869
Total expenditures	8,707,776	14,979,476	10,566,905	4,412,571
Excess (deficiency) of revenues over (under) expenditures	690,532	(4,432,092)	265,328	4,697,420
Other financing sources (uses)				
Transfers in	1,112,743	121,977	121,977	-
Transfers out	(994,915)	(833,379)	(789,503)	43,876
Total other financing sources	117,828	(711,402)	(667,526)	43,876
Change in fund balance	808,360	(5,143,494)	(402,198)	\$ 4,741,296
Fund balance, beginning of year	11,607,015	11,607,015	11,607,015	
Fund balance, end of year	\$ 12,415,375	\$ 6,463,521	\$ 11,204,817	

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Sales tax	\$ 1,090,000	\$ 162,526	\$ 162,526	\$ -
Investment earnings	14,000	24,000	35,676	11,676
Miscellaneous	1,200	673	756	83
Total revenues	1,105,200	187,199	198,958	11,759
Expenditures				
Streets	341,778	312,395	182,739	129,656
Capital outlay	110,000	170,383	170,382	1
Total expenditures	451,778	482,778	353,121	129,657
Excess (deficiency) of revenues over (under) expenditures	653,422	(295,579)	(154,163)	141,416
Other financing uses				
Transfers out	(116,640)	-	-	-
Change in fund balance	536,782	(295,579)	(154,163)	\$ 141,416
Fund balance, beginning of year	2,184,485	2,184,485	2,184,485	
Fund balance, end of year	\$ 2,721,267	\$ 1,888,906	\$ 2,030,322	

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 Four Fiscal Years**

Texas Municipal Retirement System (TMRS)

Measurement Date - December 31st*:	2017	2016	2015	2014
Total Pension Liability (a)				
Beginning Balance	\$ 18,667,322	\$ 17,446,907	\$ 16,274,524	\$ 14,951,418
Service cost	765,394	725,539	660,172	618,120
Interest	1,263,382	1,186,749	1,144,131	1,054,569
Difference between expected and actual experience	354,838	(235,459)	(36,943)	40,840
Changes of assumptions	-	-	(75,228)	-
Benefit payments, including refunds of employee contributions	(666,507)	(456,414)	(519,749)	(390,423)
End of Year Balance	<u>\$ 20,384,429</u>	<u>\$ 18,667,322</u>	<u>\$ 17,446,907</u>	<u>\$ 16,274,524</u>
Plan Fiduciary Net Position (b)				
Beginning Balance	\$ 14,978,269	\$ 13,590,899	\$ 13,230,933	\$ 12,109,051
Contributions - employer	697,051	632,864	589,336	546,093
Contributions - employee	321,577	303,290	283,336	281,189
Net investment income	2,076,598	918,562	19,522	692,850
Benefit payments, including refunds of employee contributions	(666,507)	(456,414)	(519,749)	(390,423)
Administrative expense	(10,758)	(10,373)	(11,891)	(7,232)
Other changes	(546)	(559)	(588)	(595)
End of Year Balance	<u>\$ 17,395,684</u>	<u>\$ 14,978,269</u>	<u>\$ 13,590,899</u>	<u>\$ 13,230,933</u>
Net Pension Liability (a) - (b)				
Beginning Balance	\$ 3,689,053	\$ 3,856,008	\$ 3,043,591	\$ 2,842,367
Service cost	765,394	725,539	660,172	618,120
Interest	1,263,382	1,186,749	1,144,131	1,054,569
Difference between expected and actual experience	354,838	(235,459)	(36,943)	40,840
Changes of assumptions	-	-	(75,228)	-
Contributions - employer	(697,051)	(632,864)	(589,336)	(546,093)
Contributions - employee	(321,577)	(303,290)	(283,336)	(281,189)
Net investment income	(2,076,598)	(918,562)	(19,522)	(692,850)
Administrative expense	10,758	10,373	11,891	7,232
Other changes	546	559	588	595
End of Year Balance	<u>\$ 2,988,745</u>	<u>\$ 3,689,053</u>	<u>\$ 3,856,008</u>	<u>\$ 3,043,591</u>
Plan's fiduciary net position as a percentage of the total pension liability	85.34%	80.24%	77.90%	81.30%
Covered payroll	\$ 5,089,054	\$ 4,885,784	\$ 4,722,263	\$ 4,675,481
Net pension liability as a percentage of covered payroll	58.73%	75.51%	81.66%	65.10%

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

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

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

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

Texas Municipal Retirement System (TMRS)

Year Ended September 30th*:	2018	2017	2016	2015
The City's actuarially determined contribution	\$ 714,470	\$ 664,926	\$ 599,053	\$ 587,081
The amount of contributions recognized by the plan in relation to the actuarially determined contribution	714,470	664,926	599,053	587,081
The difference between the City's actuarially determined contribution and the amount of contributions recognized by the plan in relation to the City's actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,345,289	\$ 5,052,716	\$ 4,789,048	\$ 4,794,736
The amount of contributions recognized by the plan in relation to the City's actuarially determined contribution as a percentage of covered payroll	13.37%	13.16%	12.51%	12.24%

Notes to Schedule of Contributions

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 Years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

There were no benefit changes during the year.

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

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

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

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

Length of Service Awards Program (LOSAP) for Volunteer Firefighters

Schedule of Changes in Total Pension Liability

Measurement Date - October 1st*:	2017	2016
Beginning Balance	\$ 69,659	\$ 66,997
Service cost	1,090	1,306
Interest on total pension liability	5,006	4,735
Benefit payments	(3,000)	(3,440)
Other changes	792	61
Ending Balance	<u>\$ 73,547</u>	<u>\$ 69,659</u>

Schedule of Total Pension Liability and Related Ratios

Measurement Date - October 1st*:	2017	2016
Total pension liability	\$ 73,547	\$ 69,659
Covered payroll	\$ -	\$ -
Total pension liability as a percentage of covered payroll	N/A	N/A

Notes to Above Schedules

The plan assets are not included in an irrevocable trust but are included in the General Fund as other assets.

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

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

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

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

City of Lake Worth, Texas

Schedule for Governments Using Modified Approach for Infrastructure

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

The City adopted a one-quarter sales tax effective July 1, 2005 to help keep their roads in compliance with their goals.

Comparison of Estimated-to-Actual Maintenance/Preservation

	2018	2017	2016
Estimated	\$ 1,166,615	\$ 1,155,567	\$ 1,267,301
Actual	1,005,685	964,848	1,079,561

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 2018, 2016, 2015, or 2013 fiscal years. The status of the City's roads are rated according to the following criteria:

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

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

SUPPLEMENTARY INFORMATION

City of Lake Worth, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2018

	Crime Control District Fund	Public Educational Government Channel Fund	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 25,203	\$ -	\$ 25,203
Investments	613,537	74,946	688,483
Accounts receivables	-	2,069	2,069
Due from other governments	74,012	-	74,012
Due from other funds	500	-	500
Prepaid expenses	1,884	-	1,884
Total assets	<u>\$ 715,136</u>	<u>\$ 77,015</u>	<u>\$ 792,151</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 4,935	\$ -	\$ 4,935
Accrued liabilities	29,722	-	29,722
Due to other funds	1,931	-	1,931
Total liabilities	36,588	-	36,588
Fund balances:			
Non-spendable for prepaid expenses	1,884	-	1,884
Restricted for:			
Crime control	676,664	-	676,664
Public educational government channel	-	77,015	77,015
Total fund balances	678,548	77,015	755,563
Total liabilities and fund balances	<u>\$ 715,136</u>	<u>\$ 77,015</u>	<u>\$ 792,151</u>

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

City of Lake Worth, Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended September 30, 2018

	Crime Control District Fund	Public Educational Government Channel Fund	Total Nonmajor Governmental Funds
Revenues			
Sales tax	\$ 1,044,652	\$ -	\$ 1,044,652
Investment earnings	9,198	1,268	10,466
Miscellaneous	51,233	7,735	58,968
Total revenues	1,105,083	9,003	1,114,086
Expenditures			
Police	811,156	-	811,156
Capital outlay	94,281	-	94,281
Total expenditures	905,437	-	905,437
Excess of revenues over expenditures	199,646	9,003	208,649
Other financing uses			
Transfers out	(73,604)	-	(73,604)
Changes in fund balances	126,042	9,003	135,045
Fund balances, beginning of year	552,506	68,012	620,518
Fund balances, end of year	\$ 678,548	\$ 77,015	\$ 755,563

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, 2018, 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 5, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Snow Garrett Williams
March 5, 2019