

# **CITY OF LOCKHART, TEXAS**

## *ANNUAL FINANCIAL REPORT*

*For the fiscal year ended September 30, 2010*

**CITY OF LOCKHART, TEXAS**  
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## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members  
of City Council  
City of Lockhart, Texas

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

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

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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

The Honorable Mayor and Members  
of the City Council

because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Harrison Waldrop + Uherck, LLP*

February 1, 2011

As management of the City of Lockhart, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2010.

**FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2010, by \$44,188,768. Of this amount, \$12,203,041 of unrestricted net assets is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$25,279,297 for the fiscal year. The net expense was \$4,464,518.
- During the year, the City's general revenues exceeded net expenses by \$656,280. This represents a 1.51% increase in net assets from the previous fiscal year as a result from operations.
- At September 30, 2010, the City's governmental funds reported combined ending fund balances of \$9,051,549, a net decrease of \$2,639,791 in comparison with prior year. The decrease in fund balance was primarily due to the expenditures in the various capital project funds.
- At September 30, 2010, unreserved fund balance for the General Fund was \$2,312,366 or 27.97% of total General Fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**Organization and Flow of Financial Section Information**

**Independent Auditors' Report**

*Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.*

**Management's Discussion and Analysis**

*This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.*

Pages 3 to 10

**Government-wide Financial Statements**

*Provides information on governmental and business-type activities of the primary government.*

Pages 11 to 13

**Fund Financial Statements**

*Provides information on the financial position of specific funds of the primary governments.*

Pages 14 to 24

**Notes to Financial Statements**

*Provides a summary of significant accounting policies and related disclosures.*

Pages 25 to 53

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **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 a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., 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 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 general government, public safety, public works, parks and recreation, and interest on long-term debt. The business-type activities of the City include electric, water, wastewater, solid waste services, and an airport fund.

The government-wide financial statements include not only the City itself (known as the primary government) but also the component unit of Lockhart Economic Development Corporation, Inc.

### **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* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, 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 a government'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 this comparison between government funds and governmental activities.

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## **OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)**

### **Fund Financial Statements - (Continued)**

The City maintained thirty individual governmental funds during the 2010 fiscal year. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for the General Fund and the 2009 Certificates of Obligation Fund, which are considered major funds. Data from the other twenty eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and Debt Service Fund. Schedules of revenues, expenditures, and changes in fund balances - budget and actual (GAAP basis) have been provided for each of the funds to demonstrate compliance with the appropriated budgets.

The City maintains only one type of *proprietary fund*. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its electric, water, wastewater utility services, solid waste operations, and the airport operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in a more detailed format. The City has three major proprietary funds. They are the electric fund, the water fund, and the wastewater fund. Separate financial statements are presented for the major funds. Individual fund data for each of the nonmajor proprietary funds is provided in the form of combining statements elsewhere in this report.

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/operations. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on pages 23 through 24 of this report.

### **Notes to 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.

### **Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, net assets exceeded liabilities by \$44,188,768 at the close of the fiscal year 2010.

By far, the largest portion of the City's net assets, 69.07%, reflects its investment in capital assets (i.e., land, buildings, infrastructure, and machinery and equipment), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**City of Lockhart, Texas**

**Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Current assets	\$ 10,418,549	\$ 13,232,264	\$ 8,655,211	\$ 8,922,883	\$ 19,073,760	\$ 22,155,147
Capital assets (net)	27,593,086	25,841,140	19,738,056	18,956,407	\$ 47,331,142	44,797,547
Other noncurrent assets	175,817	187,810	1,579,320	1,766,289	1,755,137	1,954,099
<b>Total assets</b>	<b>38,187,452</b>	<b>39,261,214</b>	<b>29,972,587</b>	<b>29,645,579</b>	<b>68,160,039</b>	<b>68,906,793</b>
<b>LIABILITIES</b>						
Current liabilities	2,047,102	1,901,687	2,779,234	2,519,637	4,826,336	4,421,324
Noncurrent liabilities	11,134,006	12,060,789	8,010,929	8,892,192	19,144,935	20,952,981
<b>Total liabilities</b>	<b>13,181,108</b>	<b>13,962,476</b>	<b>10,790,163</b>	<b>11,411,829</b>	<b>23,971,271</b>	<b>25,374,305</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	20,039,835	20,136,042	10,481,022	9,254,143	30,520,857	29,390,185
Restricted	734,598	868,838	730,272	704,542	1,464,870	1,573,380
Unrestricted	4,231,911	4,293,858	7,971,130	8,275,065	12,203,041	12,568,923
<b>Total net assets</b>	<b>\$ 25,006,344</b>	<b>\$ 25,298,738</b>	<b>\$ 19,182,424</b>	<b>\$ 18,233,750</b>	<b>\$ 44,188,768</b>	<b>\$ 43,532,488</b>

An additional portion of the City's net assets, 3.32%, represents resources that are subject to external restrictions on how they may be used (i.e., debt service). The remaining balance of unrestricted net assets, \$12,203,041, may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the primary government as a whole.

**Governmental activities.** Governmental activities decreased the City's net assets by \$292,394. Key elements of this decrease are as follows:

- Increase in public safety expenses of \$335,201 (7.19%).
- Increase in public works expenses of \$195,640 (7.58%).
- Increase in interest expense of \$115,543 (30.33%) as a result of the 2009 debt issue.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)**

**Business-type activities.** Business-type activities increased the City's net assets by \$948,674, accounting for 100.00% of the total growth in the City's net assets. Key elements of this increase are as follows:

- Expenses were \$669,732 lower than the previous year.
- Capital grants and contributions increased by \$719,767.

<b>City of Lockhart, Texas</b>						
<b>Changes in Net Assets</b>						
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 1,658,305	\$ 1,928,307	\$ 17,300,954	\$ 17,786,973	\$ 18,959,259	\$ 19,715,280
Operating grants and contributions	333,188	595,064	36,694	10,542	369,882	605,606
Capital grants and contributions	694,865	-	790,773	71,006	1,485,638	71,006
General revenues:						
Property taxes	3,180,974	3,083,576	-	-	3,180,974	3,083,576
Sales taxes	1,117,367	1,059,921	-	-	1,117,367	1,059,921
Franchise taxes	344,574	290,269	-	-	344,574	290,269
Other taxes	94,207	77,928	-	-	94,207	77,928
Investment earnings	28,010	56,721	10,449	33,114	38,459	89,835
Miscellaneous	321,260	226,382	23,957	209,300	345,217	435,682
<b>Total revenues</b>	<u>7,772,750</u>	<u>7,318,168</u>	<u>18,162,827</u>	<u>18,110,935</u>	<u>25,935,577</u>	<u>25,429,103</u>
<b>EXPENSES</b>						
General government	1,370,849	1,383,209	-	-	1,370,849	1,383,209
Public safety	4,993,928	4,658,727	-	-	4,993,928	4,658,727
Public works	2,775,127	2,579,487	-	-	2,775,127	2,579,487
Parks and recreation	881,411	837,455	-	-	881,411	837,455
Interest on long-term debt	496,419	380,876	-	-	496,419	380,876
Utilities	-	-	14,761,563	15,446,731	14,761,563	15,446,731
<b>Total expenses</b>	<u>10,517,734</u>	<u>9,839,754</u>	<u>14,761,563</u>	<u>15,446,731</u>	<u>25,279,297</u>	<u>25,286,485</u>
Change in net assets before transfers	(2,744,984)	(2,521,586)	3,401,264	2,664,204	656,280	142,618
Transfers	2,452,590	2,360,000	(2,452,590)	(2,360,000)	-	-
Change in net assets	(292,394)	(161,586)	948,674	304,204	656,280	142,618
Net assets - beginning, as restated	25,298,738	25,460,324	18,233,750	17,929,546	43,532,488	43,389,870
Net assets - ending	<u>\$ 25,006,344</u>	<u>\$ 25,298,738</u>	<u>\$ 19,182,424</u>	<u>\$ 18,233,750</u>	<u>\$ 44,188,768</u>	<u>\$ 43,532,488</u>

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## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

### **Governmental Funds**

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,051,549, a decrease of \$2,639,791 from the prior year.

Approximately 99.62% of this total amount, \$9,016,776, constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder fund balance of \$34,773 or 0.38% is reserved to indicate that it is not available for new spending because it has already been committed: 1) for prepaid expenditures \$14,336; and 2) for inventory \$20,437.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance was \$2,312,366. Unreserved fund balance represents 27.97% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$185,448 during the current fiscal year.

The primary reason for the decrease in the governmental fund balance was due to the amounts expended for capital asset acquisitions during the year.

### **Proprietary Funds**

The City's proprietary funds, the Electric Fund, the Water Fund, the Wastewater Fund, the Sanitation Fund and the Airport Fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the current fiscal year amounted to \$7,971,130. The total growth for the funds was \$948,674 as a result of a decrease in expenses from the prior year.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual fiscal year revenues in the General Fund were \$150,675 more than the final budgeted amounts. The increase over the anticipated amount is comprised of the following items.

- \$72,836 increase in property tax revenues.
- \$75,751 increase in sales tax revenues.

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## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$47,331,142 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, infrastructure, and construction in progress. The net increase in the City's investment in capital assets was 5.65%.

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### **City of Lockhart, Texas**

#### **Capital Assets**

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	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 1,381,407	\$ 1,389,123	\$ 574,710	\$ 574,710	\$ 1,956,117	\$ 1,963,833
Machinery and equipment	5,262,442	3,686,216	5,140,354	5,001,488	10,402,796	8,687,704
Bldgs. and improvements	8,397,639	8,289,676	4,500,538	4,500,538	12,898,177	12,790,214
Infrastructure	69,353,032	69,161,557	28,325,672	26,795,814	97,678,704	95,957,371
Construction in progress	<u>1,709,191</u>	<u>106,819</u>	<u>359,270</u>	<u>119,086</u>	<u>2,068,461</u>	<u>225,905</u>
Total	<u>\$ 86,103,711</u>	<u>\$ 82,633,391</u>	<u>\$ 38,900,544</u>	<u>\$ 36,991,636</u>	<u>\$ 125,004,255</u>	<u>\$ 119,625,027</u>

Additional information on the City's capital assets can be found in Note 6 of this report.

### Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$17,720,000. Of this amount, \$8,415,000 represents General Obligation Tax and Revenue Bonds. The remainder of the City's bonded debt is comprised of \$9,305,000 of Combination Tax and Revenue Certificates of Obligation. The City's bonded debt had a net decrease of \$1,195,000 during the fiscal year ended September 30, 2010. Additional information on the long-term debt can be found in Note 10.

The City maintains a bond rating of "A" from Standard & Poor's.

As a Home Rule City, the City is not limited by law in the amount of debt it may issue; however, all new local bond issues must be approved by the State Attorney General.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The total sales tax receipts budgeted by the City, including the amounts on the City's own utility billing, for the 2010-2011 fiscal year totaled \$1,648,704 (including funds dispersed to the Lockhart Economic Development Corporation). This amount is an increase of approximately \$10,665 (.65%) over the previous year, indicating a fairly constant pattern in the retail economy.
- Interest rates are remaining at lower levels and should result in below average interest earnings.
- The City continues to experience economic growth with the opening of new businesses in the retail, service and manufacturing sectors.

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**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES - (Continued)**

All of these factors were considered in preparing the City's budget for the 2010-2011 fiscal year.

The certified assessed taxable property valuations for the 2010 tax roll total \$479,640,130 with a tax rate of \$0.7292 per \$100 valuation. \$0.6132 was allocated for maintenance and operations, and \$0.1160 was allocated for interest and sinking. The projected total property tax due is \$3,425,914 for the 2010-2011 fiscal year.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 308 W. San Antonio, Lockhart, Texas 78644.

## **Basic Financial Statements**

**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF NET ASSETS**  
September 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Lockhart Economic Development Corporation
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 9,120,897	\$ 4,437,314	\$ 13,558,211	\$ 555,118
Receivables (net)	938,504	3,735,345	4,673,849	-
Due from external parties	1,020	-	1,020	-
Internal balances	1,097	(1,097)	-	-
Due from other governments	322,258	-	322,258	107,502
Notes receivable	-	162,814	162,814	-
Inventory	20,437	320,835	341,272	-
Prepaid expenses	14,336	-	14,336	10,320
Total current assets	<u>10,418,549</u>	<u>8,655,211</u>	<u>19,073,760</u>	<u>672,940</u>
Noncurrent assets (net)				
Contractual settlement	-	1,485,933	1,485,933	-
Capital assets	27,593,086	19,738,056	47,331,142	98,035
Bond issue costs	175,817	93,387	269,204	-
Total noncurrent assets	<u>27,768,903</u>	<u>21,317,376</u>	<u>49,086,279</u>	<u>98,035</u>
<b>Total assets</b>	<u>38,187,452</u>	<u>29,972,587</u>	<u>68,160,039</u>	<u>770,975</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	422,389	1,337,122	1,759,511	5,989
Payroll related payables	172,510	35,580	208,090	-
Accrued interest payable	77,625	60,343	137,968	-
Due to other governments	30,992	89,153	120,145	-
Customer deposits	-	322,236	322,236	-
Unearned revenue	-	4,663	4,663	-
Accrued compensated absences	418,410	66,172	484,582	-
Current portion of long-term liabilities	925,176	863,965	1,789,141	-
Total current liabilities	<u>2,047,102</u>	<u>2,779,234</u>	<u>4,826,336</u>	<u>5,989</u>
Long-term liabilities, net	<u>11,134,006</u>	<u>8,010,929</u>	<u>19,144,935</u>	<u>-</u>
<b>Total liabilities</b>	<u>13,181,108</u>	<u>10,790,163</u>	<u>23,971,271</u>	<u>5,989</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	20,039,835	10,481,022	30,520,857	-
Restricted	734,598	730,272	1,464,870	-
Unrestricted	<u>4,231,911</u>	<u>7,971,130</u>	<u>12,203,041</u>	<u>764,986</u>
<b>Total net assets</b>	<u>\$ 25,006,344</u>	<u>\$ 19,182,424</u>	<u>\$ 44,188,768</u>	<u>\$ 764,986</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the year ended September 30, 2010

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 1,370,849	\$ 60,722	\$ 16,878	\$ -
Public safety	4,993,928	1,597,583	8,908	-
Public works	2,775,127	-	300,000	694,865
Culture and recreation	881,411	-	7,402	-
Interest on long-term debt	496,419	-	-	-
Total governmental activities	<u>10,517,734</u>	<u>1,658,305</u>	<u>333,188</u>	<u>694,865</u>
Business-type activities				
Electric	8,866,906	11,146,896	-	120,520
Water	2,934,821	2,769,409	-	670,253
Wastewater	1,777,788	2,005,723	-	-
Sanitation	1,102,745	1,308,316	12,548	-
Airport	79,303	70,610	24,146	-
Total business-type activities	<u>14,761,563</u>	<u>17,300,954</u>	<u>36,694</u>	<u>790,773</u>
Total primary government	<u>\$ 25,279,297</u>	<u>\$ 18,959,259</u>	<u>\$ 369,882</u>	<u>\$ 1,485,638</u>
<b>Component Unit</b>				
Lockhart Economic Development Corporation	<u>\$ 373,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Sales taxes

Franchise taxes

Other taxes

Impact fees

Investment earnings

Gain on sale of capital assets

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			Component Unit
Primary Government			
Governmental Activities	Business- type Activities	Total	Lockhart Economic Development Corporation
\$ (1,293,249)	\$ -	\$ (1,293,249)	\$ -
(3,387,437)	-	(3,387,437)	-
(1,780,262)	-	(1,780,262)	-
(874,009)	-	(874,009)	-
(496,419)	-	(496,419)	-
<u>(7,831,376)</u>	<u>-</u>	<u>(7,831,376)</u>	<u>-</u>
-	2,400,510	2,400,510	-
-	504,841	504,841	-
-	227,935	227,935	-
-	218,119	218,119	-
-	15,453	15,453	-
-	<u>3,366,858</u>	<u>3,366,858</u>	-
<u>(7,831,376)</u>	<u>3,366,858</u>	<u>(4,464,518)</u>	-
-	-	-	<u>(373,003)</u>
2,656,529	-	2,656,529	-
524,445	-	524,445	-
1,117,367	-	1,117,367	558,683
344,574	-	344,574	-
94,207	-	94,207	-
-	23,957	23,957	-
28,010	10,449	38,459	1,573
104,003	-	104,003	-
217,257	-	217,257	1,220
<u>2,452,590</u>	<u>(2,452,590)</u>	<u>-</u>	<u>-</u>
<u>7,538,982</u>	<u>(2,418,184)</u>	<u>5,120,798</u>	<u>561,476</u>
(292,394)	948,674	656,280	188,473
<u>25,298,738</u>	<u>18,233,750</u>	<u>43,532,488</u>	<u>576,513</u>
<u>\$ 25,006,344</u>	<u>\$ 19,182,424</u>	<u>\$ 44,188,768</u>	<u>\$ 764,986</u>

**CITY OF LOCKHART, TEXAS****BALANCE SHEET****GOVERNMENTAL FUNDS**

September 30, 2010

	<u>General</u>	<u>2009 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,444,464	\$ 4,203,270	\$ 2,473,163	\$ 9,120,897
Receivables (net)	746,797	-	191,707	938,504
Due from other funds	1,097	-	11,020	12,117
Due from other governments	322,258	-	-	322,258
Prepaid expenditures	13,706	-	630	14,336
Inventory	20,437	-	-	20,437
<b>Total assets</b>	<u>\$ 3,548,759</u>	<u>\$ 4,203,270</u>	<u>\$ 2,676,520</u>	<u>\$ 10,428,549</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 317,158	\$ 36,383	\$ 68,848	\$ 422,389
Payroll related payables	156,851	-	-	156,851
Other payables	15,659	-	-	15,659
Due to other funds	-	-	10,000	10,000
Due to other governments	30,992	-	-	30,992
Deferred revenue	681,590	-	59,519	741,109
<b>Total liabilities</b>	<u>1,202,250</u>	<u>36,383</u>	<u>138,367</u>	<u>1,377,000</u>
<b>Fund balances</b>				
Reserved for:				
Prepaid expenditures	13,706	-	630	14,336
Inventory	20,437	-	-	20,437
Unreserved, undesignated reported in:				
General fund	2,312,366	-	-	2,312,366
Special revenue funds	-	-	1,480,548	1,480,548
Debt service	-	-	717,931	717,931
Capital projects funds	-	4,166,887	339,044	4,505,931
<b>Total fund balances</b>	<u>2,346,509</u>	<u>4,166,887</u>	<u>2,538,153</u>	<u>9,051,549</u>
<b>Total liabilities and fund balances</b>	<u>\$ 3,548,759</u>	<u>\$ 4,203,270</u>	<u>\$ 2,676,520</u>	<u>\$ 10,428,549</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS****RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS  
OF GOVERNMENTAL ACTIVITIES**

September 30, 2010

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<b>Total governmental fund balance</b>		\$ 9,051,549
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		258,211
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.		482,898
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$86,103,711 and the accumulated depreciation is \$58,510,625.		27,593,086
Other noncurrent assets (for example, bond issue costs) used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets is \$239,854 and the accumulated amortization is \$64,037.		175,817
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds and certificates payable	\$ (11,536,675)	
Capital leases payable	(522,507)	
Accrued interest on the bonds	(77,625)	
Compensated absences	(418,410)	(12,555,217)
<b>Net assets of governmental activities</b>		<u>\$ 25,006,344</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS**

For the year ended September 30, 2010

	<u>General</u>	<u>2009 Certificates of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 2,704,106	\$ -	\$ 535,448	\$ 3,239,554
Sales and other taxes	1,464,717	-	79,607	1,544,324
Fines, fees and forfeitures	189,958	-	433,632	623,590
Licenses and permits	60,722	-	-	60,722
Intergovernmental and grants	16,878	-	106,310	123,188
Charges for services	1,183,244	-	-	1,183,244
Investment	7,189	13,270	7,551	28,010
Miscellaneous	116,345	3,461	1,101,293	1,221,099
<b>Total revenues</b>	<u>5,743,159</u>	<u>16,731</u>	<u>2,263,841</u>	<u>8,023,731</u>
<b>EXPENDITURES</b>				
Current				
General government	1,185,964	-	49,235	1,235,199
Public safety	4,866,359	-	12,290	4,878,649
Public works	1,292,334	-	-	1,292,334
Health and welfare	43,738	-	-	43,738
Culture and recreation	717,874	-	18,378	736,252
Capital outlay	-	1,890,308	1,727,440	3,617,748
Debt service				
Principal retirement	155,378	-	627,601	782,979
Interest and fiscal charges	7,066	-	539,353	546,419
<b>Total expenditures</b>	<u>8,268,713</u>	<u>1,890,308</u>	<u>2,974,297</u>	<u>13,133,318</u>
Deficiency of revenues over expenditures	(2,525,554)	(1,873,577)	(710,456)	(5,109,587)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	13,684	-	-	13,684
Insurance recoveries	3,522	-	-	3,522
Transfers in	2,849,813	-	417,288	3,267,101
Transfers out	(156,017)	-	(658,494)	(814,511)
<b>Total other financing sources</b>	<u>2,711,002</u>	<u>-</u>	<u>(241,206)</u>	<u>2,469,796</u>
Net change in fund balances	185,448	(1,873,577)	(951,662)	(2,639,791)
Fund balances - beginning, as restated	<u>2,161,061</u>	<u>6,040,464</u>	<u>3,489,815</u>	<u>11,691,340</u>
<b>Fund balances - ending</b>	<u>\$ 2,346,509</u>	<u>\$ 4,166,887</u>	<u>\$ 2,538,153</u>	<u>\$ 9,051,549</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS****RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES***For the year ended September 30, 2010*

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<b>Total net change in fund balances - governmental funds</b>			\$ (2,639,791)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>			
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2009/2010 capital outlays is to increase net assets.			3,636,148
The net effect of various transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.			(7,716)
Depreciation is not recognized as an expense on the governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.			(1,814,486)
Current year payments on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:			
Bond principal retirement	\$	430,210	
Certificate principal retirement		197,391	
Capital lease principal retirement		<u>181,616</u>	809,217
Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Similarly, other revenues are not currently available at year-end and are not reported as revenue in the governmental funds.			
Property taxes		(51,220)	
Other revenues		<u>(209,251)</u>	(260,471)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:			
Increase in compensated absences		(65,295)	
Decrease in accrued interest		61,993	
Net decrease in bond issue costs		<u>(11,993)</u>	<u>(15,295)</u>
<b>Change in net assets of governmental activities</b>			<u>\$ (292,394)</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****GENERAL FUND**

For the year ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,631,270	\$ 2,631,270	\$ 2,704,106	\$ 72,836
Sales and other taxes	1,388,966	1,388,966	1,464,717	75,751
Fines, fees, and forfeitures	195,000	195,000	189,958	(5,042)
Licenses and permits	87,400	87,400	60,722	(26,678)
Intergovernmental and grants	10,776	10,776	16,878	6,102
Charges for services	1,146,334	1,146,334	1,183,244	36,910
Investment	30,000	30,000	7,189	(22,811)
Miscellaneous	102,738	102,738	116,345	13,607
<b>Total revenues</b>	<u>5,592,484</u>	<u>5,592,484</u>	<u>5,743,159</u>	<u>150,675</u>
<b>EXPENDITURES</b>				
Current				
General government	1,254,730	1,254,730	1,185,964	68,766
Public safety	4,891,549	4,891,549	4,866,359	25,190
Public works	1,431,327	1,431,327	1,292,334	138,993
Health and welfare	8,108	8,108	43,738	(35,630)
Culture and recreation	730,448	730,448	717,874	12,574
Debt service				
Principal retirement	-	-	155,378	(155,378)
Interest and fiscal charges	-	-	7,066	(7,066)
<b>Total expenditures</b>	<u>8,316,162</u>	<u>8,316,162</u>	<u>8,268,713</u>	<u>47,449</u>
Deficiency of revenues over expenditures	(2,723,678)	(2,723,678)	(2,525,554)	198,124
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	8,000	8,000	13,684	5,684
Insurance recoveries	-	-	3,522	3,522
Transfers in	2,867,000	2,867,000	2,849,813	(17,187)
Transfers out	(151,322)	(151,322)	(156,017)	(4,695)
<b>Total other financing sources (uses)</b>	<u>2,723,678</u>	<u>2,723,678</u>	<u>2,711,002</u>	<u>(12,676)</u>
Net change in fund balance	-	-	185,448	185,448
Fund balance - beginning, as restated	<u>2,161,061</u>	<u>2,161,061</u>	<u>2,161,061</u>	<u>-</u>
<b>Fund balance - ending</b>	<u>\$ 2,161,061</u>	<u>\$ 2,161,061</u>	<u>\$ 2,346,509</u>	<u>\$ 185,448</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2010

	Business-type Activities - Enterprise Funds				Total
	Electric	Water	Wastewater	Other Funds	
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 1,078,393	\$ 1,920,276	\$ 1,301,848	\$ 136,797	\$ 4,437,314
Receivables (net)					
Customer accounts	2,168,908	500,514	295,242	194,614	3,159,278
Contractual settlement	-	162,814	-	-	162,814
Other	305,361	137,607	130,543	-	573,511
Prepaid services and supplies	1,370	1,111	-	75	2,556
Inventory	320,835	-	-	-	320,835
Total current assets	<u>3,874,867</u>	<u>2,722,322</u>	<u>1,727,633</u>	<u>331,486</u>	<u>8,656,308</u>
Noncurrent assets					
Contractual settlement	-	1,485,933	-	-	1,485,933
Capital assets (net)					
Land and other assets not being depreciated	-	587,899	153,511	192,570	933,980
Buildings, improvements, and equipment (net)	2,754,785	10,042,970	4,878,004	1,128,317	18,804,076
Bond issue costs (net)	1,860	76,355	15,172	-	93,387
Total noncurrent assets	<u>2,756,645</u>	<u>12,193,157</u>	<u>5,046,687</u>	<u>1,320,887</u>	<u>21,317,376</u>
<b>Total assets</b>	<u>6,631,512</u>	<u>14,915,479</u>	<u>6,774,320</u>	<u>1,652,373</u>	<u>29,973,684</u>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	784,414	336,089	134,431	82,188	1,337,122
Payroll related payables	20,823	6,508	5,326	2,923	35,580
Accrued interest payable	14,053	36,859	6,830	2,601	60,343
Due to other funds	-	-	-	1,097	1,097
Due to other governments	89,153	-	-	-	89,153
Customer deposits	243,021	73,440	-	5,775	322,236
Deferred revenue	-	-	-	4,663	4,663
Accrued compensated absences	36,879	11,561	8,566	9,166	66,172
Current portion of long-term liabilities					
Capital leases	156,934	109,056	-	-	265,990
Bonds and notes	36,986	461,408	49,581	50,000	597,975
Total current liabilities	<u>1,382,263</u>	<u>1,034,921</u>	<u>204,734</u>	<u>158,413</u>	<u>2,780,331</u>
Long-term liabilities, net of current portion					
Capital leases	1,400,963	1,055,035	-	-	2,455,998
Bonds and notes	180,008	4,006,651	1,143,180	225,092	5,554,931
Total long-term liabilities	<u>1,580,971</u>	<u>5,061,686</u>	<u>1,143,180</u>	<u>225,092</u>	<u>8,010,929</u>
<b>Total liabilities</b>	<u>2,963,234</u>	<u>6,096,607</u>	<u>1,347,914</u>	<u>383,505</u>	<u>10,791,260</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	979,894	4,410,820	3,685,243	1,045,795	10,121,752
Restricted net assets	-	385,897	344,375	-	730,272
Unrestricted net assets	2,688,384	4,022,155	1,396,788	223,073	8,330,400
<b>Total net assets</b>	<u>\$ 3,668,278</u>	<u>\$ 8,818,872</u>	<u>\$ 5,426,406</u>	<u>\$ 1,268,868</u>	<u>\$ 19,182,424</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**

*STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS*

*PROPRIETARY FUNDS*

*For the year ended September 30, 2010*

	Business-type Activities - Enterprise Funds				Total
	Electric	Water	Wastewater	Other Funds	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 11,133,925	\$ 2,706,381	\$ 2,003,074	\$ 1,377,026	\$ 17,220,406
Miscellaneous	12,971	63,028	2,649	1,900	80,548
Total operating revenues	<u>11,146,896</u>	<u>2,769,409</u>	<u>2,005,723</u>	<u>1,378,926</u>	<u>17,300,954</u>
<b>OPERATING EXPENSES</b>					
Personnel services	840,629	278,752	238,733	133,773	1,491,887
Contracts and services	159,975	19,815	23,700	966,056	1,169,546
Materials and supplies	90,431	44,429	13,930	8,698	157,488
Maintenance and repairs	247,296	97,914	26,405	11,490	383,105
Power, water, and water treatment	7,060,373	1,633,924	1,266,435	-	9,960,732
Depreciation and amortization	338,435	604,028	164,367	44,550	1,151,380
Miscellaneous	38,312	2,813	811	421	42,357
Total operating expenses	<u>8,775,451</u>	<u>2,681,675</u>	<u>1,734,381</u>	<u>1,164,988</u>	<u>14,356,495</u>
<b>Operating income before nonoperating revenues (expenses) and contributions, other revenues, and transfers</b>	2,371,445	87,734	271,342	213,938	2,944,459
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	443	6,446	3,266	294	10,449
Noncapital grants and contributions	-	-	-	36,694	36,694
Interest expense	(91,455)	(253,146)	(43,407)	(17,060)	(405,068)
Net nonoperating revenues (expenses)	<u>(91,012)</u>	<u>(246,700)</u>	<u>(40,141)</u>	<u>19,928</u>	<u>(357,925)</u>
Income before contributions, other revenues, and transfers	2,280,433	(158,966)	231,201	233,866	2,586,534
Capital grants and contributions	120,520	670,253	-	-	790,773
Impact fees	-	12,648	11,309	-	23,957
Transfers in	-	-	-	34,748	34,748
Transfers out	(2,099,094)	(111,090)	(101,436)	(175,718)	(2,487,338)
Change in net assets	301,859	412,845	141,074	92,896	948,674
Net assets - beginning	<u>3,366,419</u>	<u>8,406,027</u>	<u>5,285,332</u>	<u>1,175,972</u>	<u>18,233,750</u>
<b>Net assets - ending</b>	<u>\$ 3,668,278</u>	<u>\$ 8,818,872</u>	<u>\$ 5,426,406</u>	<u>\$ 1,268,868</u>	<u>\$ 19,182,424</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

For the year ended September 30, 2010

	Enterprise Funds		
	Electric	Water	Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 10,807,850	\$ 2,664,555	\$ 1,917,159
Cash payments to suppliers for goods and services	(7,602,345)	(1,621,724)	(1,325,890)
Cash payments to employees for services	(831,675)	(275,360)	(236,849)
Cash received from contractual settlement	-	152,069	-
<b>Net cash provided by operating activities</b>	<u>2,373,830</u>	<u>919,540</u>	<u>354,420</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Customer deposits received	(3,788)	(8,025)	-
Noncapital grants and contributions received	-	12,648	11,309
Cash received from other funds	-	-	-
Cash paid to other funds	(2,099,094)	(111,090)	(101,436)
<b>Net cash used by noncapital financing activities</b>	<u>(2,102,882)</u>	<u>(106,467)</u>	<u>(90,127)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	(82,784)	(1,620,644)	(145,031)
Capital contributions received	120,520	670,253	-
Principal paid on capital debt	(177,760)	(564,971)	(46,486)
Interest paid on capital debt	(92,843)	(256,628)	(43,658)
<b>Net cash used by capital financing activities</b>	<u>(232,867)</u>	<u>(1,771,990)</u>	<u>(235,175)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	443	6,446	3,266
<b>Net cash provided (used) by investing activities</b>	<u>443</u>	<u>6,446</u>	<u>3,266</u>
Net increase (decrease) in cash and cash equivalents	38,524	(952,471)	32,384
Cash and cash equivalents at beginning of year	1,039,869	2,872,747	1,269,464
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,078,393</u>	<u>\$ 1,920,276</u>	<u>\$ 1,301,848</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 2,371,445	\$ 87,734	\$ 271,342
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	338,435	604,028	164,367
Litigation settlement proceeds	-	152,069	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(387,275)	(104,854)	(90,000)
(Increase) decrease in prepaids	(1,320)	(1,111)	-
(Increase) decrease in inventory	27,153	-	-
Increase (decrease) in accounts and other payables	21,195	178,282	6,827
Increase (decrease) in payroll related liabilities	4,197	3,392	1,884
Increase (decrease) in deferred revenue	-	-	-
<b>Net cash provided by operating activities</b>	<u>\$ 2,373,830</u>	<u>\$ 919,540</u>	<u>\$ 354,420</u>

The accompanying notes are an integral part of this statement.

Enterprise Funds

Other Funds	Total
\$ 1,378,286	\$ 16,767,850
(982,092)	(11,532,051)
(133,702)	(1,477,586)
-	152,069
262,492	3,910,282
100	(11,713)
36,694	60,651
34,748	34,748
(174,621)	(2,486,241)
(103,079)	(2,402,555)
(48,291)	(1,896,750)
-	790,773
(45,000)	(834,217)
(18,493)	(411,622)
(111,784)	(2,351,816)
294	10,449
294	10,449
47,923	(833,640)
88,874	5,270,954
\$ 136,797	\$ 4,437,314
\$ 213,938	\$ 2,944,459
44,550	1,151,380
-	152,069
1,162	(580,967)
-	(2,431)
-	27,153
5,291	211,595
71	9,544
(2,520)	(2,520)
\$ 262,492	\$ 3,910,282

**CITY OF LOCKHART, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
*September 30, 2010*

---

	Private Purpose Trust	Agency Funds
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 19,720	\$ 12,923
Other assets	-	4,475
<b>Total assets</b>	<u>19,720</u>	<u>\$ 17,398</u>
<b>LIABILITIES</b>		
Due to others	-	\$ 16,378
Due to other funds	-	1,020
<b>Total liabilities</b>	<u>-</u>	<u>\$ 17,398</u>
<b>NET ASSETS</b>		
Held for various purposes	<u>\$ 19,720</u>	

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS**  
*STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS*  
*FIDUCIARY FUNDS*  
*For the year ended September 30, 2010*

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	<u>Private Purpose Trust</u>
<b>ADDITIONS</b>	
Investment income	\$          43
Miscellaneous	<u>          11,616</u>
<b>Total additions</b>	<u>          11,659</u>
<b>DEDUCTIONS</b>	
Operating expenses	<u>          3,598</u>
Change in net assets	8,061
Net assets - beginning	<u>          11,659</u>
<b>Net assets - ending</b>	<u><u>          \$      19,720</u></u>

The accompanying notes are an integral part of this statement.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Lockhart, Texas (the "City") is a municipal corporation operating under a home rule charter as authorized in Article XI, Section 5 of the Constitution of the State of Texas. The City operates under a Council-Manager form of government in which all powers of the City are vested in an elective council. The City council consists of the mayor and six council members. The mayor and two council members are elected at large with the remaining council members elected by district. The City provides services related to the following: public safety, public works, sanitation, health and welfare, culture and recreation, economic development, planning and zoning, and general administrative services.

**A. Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, the City's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the City), organizations for which the primary government is financially accountable, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the City's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units.

The Lockhart Economic Development Corporation (LEDC) is a nonprofit corporation that was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6 Section (a), to receive and account for the proceeds of a designated sales tax levied to benefit the economic development of Lockhart. The LEDC meets the criteria of a discretely presented component unit and is presented as a governmental fund type. Complete financial statements for the Lockhart Economic Development Corporation may be obtained at City Hall. No other organizations met the necessary criteria for inclusion as component units for the year ended September 30, 2010.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment 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 included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. 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 transactions occur 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 and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's main operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2009 Certificates of Obligation Fund accounts for the proceeds received and expenditures incurred related to the City's issuance of certificates of obligation in November 2009. The proceeds from this issue will be used to fund various projects, the majority of which relate to infrastructure improvements.

The City reports the following major enterprise (proprietary) funds:

The Electric Fund accounts for the activities of the City related to its provision of electricity.

The Water Fund is used to account for the establishment and maintenance of water facilities within the municipal boundaries of the City.

The Wastewater Fund is used to account for the establishment and maintenance of sewage and drainage facilities within the municipal boundaries of the City.

Additionally, the City reports the following fund types:

Special Revenue Funds - Funds of this type account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund - This fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

Capital Projects Funds - These funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

Private Purpose Trust Funds - These funds are used to account for resources legally held in trust for use by organizations that are separate from the City. All resources of these funds, including any earnings on invested resources, may be used to support the organizations' activities. There is no requirement that any portion of these resources be preserved as capital.

Agency Funds - These funds are custodial in nature and are used to account for the receipt, temporary investment, and remittance of resources to third parties. Because of the nature of these funds, they do not present results of operations or have a measurement focus.

Private-sector standards of accounting and financial reporting promulgated by the Financial Accounting Standards Board (FASB) issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The Public Utility Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost connecting new customers to the water system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting

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

1. Between 60 and 90 days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them. A budget is prepared for the City's General Fund, Debt Service Fund, and its five Enterprise Funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is adopted by Council through the passage of an ordinance no later than the beginning of each fiscal year, or as soon thereafter as is practicable.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

D. Budgets and Budgetary Accounting - (Continued)

4. No funds may be expended or encumbered which will exceed appropriations; however, the City Manager is authorized to transfer budgeted amounts within and among departments of individual funds in amounts not to exceed \$5,000. Any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. The budgets for the City's governmental funds are prepared in accordance with the basis of accounting utilized by those funds. The budgets for the enterprise funds are adopted under a basis consistent with generally accepted accounting principles (GAAP), except that depreciation, certain capital expenses, nonoperating income, and expense items are not considered.
6. Formal budgetary integration is employed as a management control device during the year for all governmental funds and proprietary funds.
7. All appropriations lapse at year-end.

E. Deposits and Investments

The City's and its component unit's cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City may invest excess funds in any instruments authorized by the Texas Public Funds Investment Act and its adopted investment policy. The City's investment policy permits the following investments: obligations of the United States or its agencies and instrumentalities; certificates of deposit issued by a bank or savings and loan organized under Texas law, the laws of another state, or federal law, that has its main office or a branch office in Texas and that is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or secured by obligations in a manner and amount provided by law for deposits of the City; fully collateralized direct repurchase agreements and reverse repurchase agreements with a defined termination date, not to exceed 120 days to maturity, and secured by obligations of the United States or its agencies or instrumentalities; money market mutual funds that are no-load, registered and regulated by the Securities and Exchange Commission (SEC), have a dollar weighted average stated maturity of 90 days or less, are rated AAA by at least one nationally recognized rating service, and seek to maintain a net asset value of \$1.00 per share; and local government investment pools which meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, seek to maintain a \$1.00 net asset value, and are authorized by resolution or ordinance by the City Council. The investments of the City are in compliance with the Council's adopted investment policies.

In the accompanying financial statements investments of the City as well as those of its component unit are reported at amortized cost which approximates fair value. See Note 3 for further discussion.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

F. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All receivables are reported net of an applicable allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 4.5% of outstanding property taxes at September 30, 2010.

The Caldwell County Appraisal District bills and collects property taxes for the City. These taxes are levied on October 1<sup>st</sup> of each year and are payable by the following January 31<sup>st</sup>, at which time penalties and interest charges are assessed on unpaid balances. An enforceable lien on property is attached on all ad valorem taxes unpaid as of January 1<sup>st</sup> following the year of levy.

G. Inventories and Prepaid Items

All inventories are valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the lives of assets are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no construction period interest expense was capitalized by the City's enterprise funds.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-50
Public Domain Infrastructure	10-40
Utility System Infrastructure	30-50
Machinery and Equipment	5-10

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

I. Compensated Absences

It is the City's policy to accumulate vacation and sick pay benefits. Unused vacation benefits for all eligible employees and unused sick pay benefits for civil service employees are reported in the accompanying financial statements according to the provisions of GASB Statement No. 16. Earned but unused sick pay benefits by non-civil service employees are not recorded as liabilities as the City's policy for payment of these benefits excludes them based on the applicable GASB and FASB pronouncements.

J. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, losses on refunding, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable deferred amounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

L. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires the City to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

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**NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Excess Expenditures Over Appropriations**

General Fund expenditures in various departments exceeded the amount appropriated during the current fiscal year. These variances are detailed below.

<u>General Fund Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Information systems	\$ 79,020	\$ 93,520	\$ (14,500)
Community facility	8,108	43,738	(35,630)
Police	1,779,825	1,882,048	(102,223)
EMS	1,150,855	1,169,851	(18,996)
Library	272,829	274,965	(2,136)
Principal retirement	-	155,378	(155,378)
Interest and fiscal charges	-	7,066	(7,066)

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pools		
TEXPOOL	\$ 6,306,012	34
MBIA Texas CLASS	3,920,039	42
TexStar	3,666,116	47
Total fair value	<u>\$ 13,892,167</u>	

The investment pools operate in a manner consistent with the SEC Rule 2(a)(7) of the Investment Company Act of 1940 but are not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares in the pools.

**A. Interest Rate Risk**

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to one year or less from the time of purchase.

**B. Credit Risk**

It is the City's policy to limit its investments to those that are authorized under the Texas Public Funds Investment Act. Additionally, any money market mutual funds or local government investment pools must be rated no lower than AAA by at least one nationally recognized rating service. As of September 30, 2010, TEXPOOL, TexStar and MBIA Texas CLASS were rated AAAM by Standard and Poor's.

**NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**

C. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the City was not exposed to concentration of credit risk.

D. Custodial Credit Risk - Deposits

The City's custodial credit risk refers to the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. During the fiscal year and at year-end all deposits held in the depository bank were fully collateralized and therefore the city was not exposed to custodial credit risk.

E. Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2010, and for the year then ended, the City was not exposed to any custodial credit risk.

**NOTE 4: RECEIVABLES**

Receivables as of year-end for the City's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Nonmajor Business-type Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Receivables:							
Ad valorem taxes	\$ 353,863	\$ -	\$ -	\$ -	\$ -	\$ 74,595	\$ 428,458
Franchise taxes	59,250	-	-	-	-	6,058	65,308
Municipal court fines	1,350,488	-	-	-	-	28,749	1,379,237
EMS charges	4,199,177	-	-	-	-	-	4,199,177
Customer accounts	-	2,264,937	510,463	303,088	200,897	98,398	3,377,783
Litigation settlements	-	-	1,648,747	-	-	-	1,648,747
Occupancy taxes	-	-	-	-	-	22,084	22,084
Miscellaneous	51,499	305,361	137,607	130,543	-	-	625,010
Gross receivables	6,014,277	2,570,298	2,296,817	433,631	200,897	229,884	11,745,804
Less: Allowance for uncollectibles	(5,267,480)	(96,029)	(9,949)	(7,846)	(6,283)	(38,177)	(5,425,764)
Net total receivables	\$ 746,797	\$ 2,474,269	\$ 2,286,868	\$ 425,785	\$ 194,614	\$ 191,707	\$ 6,320,040

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**NOTE 4: RECEIVABLES - (Continued)**

The City is permitted by a local charter to levy taxes up to limits set by the Constitution and laws of the State of Texas. Currently, the State of Texas does not set limits on the rate at which ad valorem taxes may be assessed. The combined tax rate for the year ended September 30, 2010, was \$0.7090 per \$100 of assessed valuation. Property taxes attach as an enforceable lien on property as of January 1<sup>st</sup>. Taxes are levied on October 1<sup>st</sup> and payable by the following January 31<sup>st</sup>, which comprises the collection dates for the current tax roll.

The City's governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period (unavailable). The governmental funds may also defer revenue recognition in connection with resources that have been received, but not yet recognizable (unearned). At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
General Fund			
Ad valorem taxes	\$ 275,063	\$ -	\$ 275,063
Charges for services	406,527	-	406,527
Nonmajor Funds			
Ad valorem taxes	<u>59,519</u>	<u>-</u>	<u>59,519</u>
	<u>\$ 741,109</u>	<u>\$ -</u>	<u>\$ 741,109</u>

**NOTE 5: DUE FROM OTHER GOVERNMENTS**

Various funds of the City reported amounts due from other governments as of the end of the current fiscal year. These amounts are comprised of the following at September 30, 2010:

	<u>General</u>
Sales taxes	\$ 215,003
Interlocal agreements	<u>107,255</u>
	<u>\$ 322,258</u>

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**NOTE 6: CAPITAL ASSETS**

The capital asset activity of the City was as follows for the year ended September 30, 2010:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 1,389,123	\$ -	\$ 7,716	\$ 1,381,407
Construction in progress	46,819	2,377,762	715,390	1,709,191
Total capital assets not being depreciated	<u>1,435,942</u>	<u>2,377,762</u>	<u>723,106</u>	<u>3,090,598</u>
Capital assets, being depreciated				
Machinery and equipment	3,686,216	1,674,338	98,112	5,262,442
Buildings	8,289,676	107,963	-	8,397,639
Infrastructure	69,161,557	191,475	-	69,353,032
Total capital assets being depreciated	<u>81,137,449</u>	<u>1,973,776</u>	<u>98,112</u>	<u>83,013,113</u>
Less accumulated depreciation for				
Machinery and equipment	2,621,244	354,460	98,112	2,877,592
Buildings	2,478,425	191,378	-	2,669,803
Infrastructure	51,694,582	1,268,648	-	52,963,230
Total accumulated depreciation	<u>56,794,251</u>	<u>1,814,486</u>	<u>98,112</u>	<u>58,510,625</u>
Total capital assets being depreciated, net	<u>24,343,198</u>	<u>159,290</u>	<u>-</u>	<u>24,502,488</u>
Governmental activities capital assets, net	<u>\$ 25,779,140</u>	<u>\$ 2,537,052</u>	<u>\$ 723,106</u>	<u>\$ 27,593,086</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 574,710	\$ -	\$ -	\$ 574,710
Construction in progress	119,086	326,761	86,577	359,270
Total capital assets not being depreciated	<u>693,796</u>	<u>326,761</u>	<u>86,577</u>	<u>933,980</u>
Capital assets, being depreciated				
Machinery and equipment	5,001,732	150,967	12,345	5,140,354
Buildings and improvements	4,500,538	-	-	4,500,538
Infrastructure	26,795,814	1,529,858	-	28,325,672
Total capital assets being depreciated	<u>36,298,084</u>	<u>1,680,825</u>	<u>12,345</u>	<u>37,966,564</u>
Less accumulated depreciation for				
Machinery and equipment	2,446,564	370,564	12,345	2,804,783
Buildings and improvements	2,723,872	41,684	-	2,765,556
Infrastructure	12,865,035	727,115	-	13,592,150
Total accumulated depreciation	<u>18,035,471</u>	<u>1,139,363</u>	<u>12,345</u>	<u>19,162,489</u>
Total capital assets being depreciated, net	<u>18,262,613</u>	<u>541,462</u>	<u>-</u>	<u>18,804,075</u>
Business-type activities capital assets, net	<u>\$ 18,956,409</u>	<u>\$ 868,223</u>	<u>\$ 86,577</u>	<u>\$ 19,738,055</u>

**NOTE 6: CAPITAL ASSETS - (Continued)**

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

<b>Governmental activities</b>	
General government	\$ 90,724
Public safety	108,869
Public works	1,469,734
Parks and recreation	<u>145,159</u>
Total depreciation expense - governmental activities	<u>\$ 1,814,486</u>
<b>Business-type activities</b>	
Electric	\$ 337,747
Water	594,339
Wastewater	162,727
Solid Waste	5,583
Airport	<u>38,967</u>
Total depreciation expense - business-type activities	<u>\$ 1,139,363</u>

**NOTE 7: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

A. Interfund Receivables and Payables

At times during the fiscal year the various funds of the City were involved in transactions that created interfund receivable and payable balances. These transactions related to such things as the purchase of goods by one fund on behalf of another and the receipt of revenue in one fund that belongs to or is designated for another fund. Interfund receivable and payable balances as of September 30, 2010, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Business-type	\$ 1,097
Nonmajor Governmental	Nonmajor Governmental	10,000
	Fiduciary	<u>1,020</u>
		<u>\$ 12,117</u>

B. Interfund Transfers

Each year various funds of the City transfer funds to other funds. These transfers are intended to provide the necessary resources to meet the operating and debt service obligations of the receiving funds. During the current fiscal year, transfers between funds consisted of the following:

<u>Transfers out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General</u>	<u>Governmental Nonmajor</u>	<u>Business-type Nonmajor</u>	
General	\$ -	\$ 156,017	\$ -	\$ 156,017
Electric	2,084,692	-	14,402	2,099,094
Water	111,090	-	-	111,090
Wastewater	101,436	-	-	101,436
Solid Waste	175,718	-	-	175,718
Nonmajor governmental	<u>376,877</u>	<u>261,271</u>	<u>20,346</u>	<u>658,494</u>
	<u>\$ 2,849,813</u>	<u>\$ 417,288</u>	<u>\$ 34,748</u>	<u>\$ 3,301,849</u>

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**NOTE 8: LEASE OBLIGATIONS****A. Operating Leases**

The City is obligated under various operating lease agreements relating to office equipment. Lease payments made pursuant to these agreements totaled \$23,690 during the current fiscal year. The City expects these leases to be replaced in the ordinary course of business with similar leases. Future minimum lease payments under the existing agreements are as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2011	\$ 21,881	\$ 280
2012	15,866	280
2013	15,242	280
2014	14,610	-
2015	8,474	-
	<u>\$ 76,073</u>	<u>\$ 840</u>

**B. Capital Leases**

The City has entered into lease agreements to finance its purchase of various vehicles and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of their various dates of inception.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Vehicles	\$ 160,968	\$ 134,867
Other equipment	640,420	3,892,188
	801,388	4,027,055
Less: Accumulated depreciation	(86,167)	(1,965,818)
	<u>\$ 715,221</u>	<u>\$ 2,061,237</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010, are as follows:

<u>Year ending September 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2011	\$ 189,352	\$ 394,968
2012	189,352	435,435
2013	188,381	446,649
2014	-	458,046
2015	-	440,520
2016-2018	-	1,119,800
Total minimum lease payments	567,085	3,295,418
Less: Amounts representing interest	(44,578)	(573,430)
Present value of minimum lease payments	<u>\$ 522,507</u>	<u>\$ 2,721,988</u>

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**NOTE 9: LESSOR AGREEMENTS**

The City's General Fund and Airport Fund have entered into various ground leases with various unrelated third parties. Following is an analysis of minimum future rentals due the City under noncancelable lease agreements as of September 30, 2010:

Year ending September 30	Governmental Activities	Business-type Activities
2011	\$ 2,011	\$ 7,271
2012	11	7,271
2013	10	7,271
2014	10	7,271
	2,042	29,084
Thereafter	60	37,721
	<u>\$ 2,102</u>	<u>\$ 66,805</u>

**NOTE 10: LONG-TERM DEBT**A. Changes in Long-Term Liabilities

Long-term liability activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 9,056,844	\$ -	\$ 197,391	\$ 8,859,453	\$ 307,087
General obligation bonds	3,107,432	-	430,210	2,677,222	449,940
Total bonds and certificates payable	12,164,276	-	627,601	11,536,675	757,027
Capital leases payable	704,123	-	181,616	522,507	168,149
Compensated absences	353,115	335,497	270,202	418,410	418,410
Total governmental activity long-term liabilities	<u>\$ 13,221,514</u>	<u>\$ 335,497</u>	<u>\$ 1,079,419</u>	<u>\$ 12,477,592</u>	<u>\$ 1,343,586</u>
<b>Business-type activities</b>					
Bonds and certificates payable					
Certificates of obligation	\$ 503,111	\$ -	\$ 57,564	\$ 445,547	\$ 62,913
General obligation bonds	6,247,613	-	509,835	5,737,778	535,062
Total bonds and certificates payable	6,750,724	-	567,399	6,183,325	597,975
Capital leases payable	2,989,885	-	267,897	2,721,988	265,990
Compensated absences	59,324	91,607	84,759	66,172	66,172
Total business-type activity long-term liabilities	<u>\$ 9,799,933</u>	<u>\$ 91,607</u>	<u>\$ 920,055</u>	<u>\$ 8,971,485</u>	<u>\$ 930,137</u>

**NOTE 10: LONG-TERM DEBT - (Continued)**

B. Bonds, Certificates, and Notes - Governmental Activities

The long-term obligations of the City's governmental activities at September 30, 2010, were comprised of the following individual issues:

2009 Certificates of Obligation due in annual installments ranging from \$105,000 to \$760,000 through August 1, 2028; interest rates varying between 4.35% and 5.50%.	\$ 6,100,000
2008 General Obligation Refunding Bonds due in annual installments ranging from \$65,535 to \$476,221 through August 1, 2016; interest rate at 3.19%.	2,297,158
2006 General Obligation Bonds due in annual installments ranging from \$364,656 to \$380,064 through August 1, 2011; interest rate at 3.71%.	380,064
2006 Combination Certificates of Obligation due in annual installments ranging from \$30,000 to \$45,000 through August 1, 2021; interest rate at 4.10%.	420,000
2006-A Combination Certificates of Obligation due in annual installments ranging from \$167,436 to \$260,456 through August 1, 2021; interest rate at 4.12%.	<u>2,339,453</u>
	<u>\$ 11,536,675</u>

Annual debt service requirements to maturity for the City's governmental activity bonds, certificates, and notes are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 757,027	\$ 476,091	\$ 1,233,118
2012	741,250	445,667	1,186,917
2013	766,190	417,405	1,183,595
2014	795,776	388,258	1,184,034
2015	825,363	357,966	1,183,329
2016-2020	2,535,498	1,396,882	3,932,380
2021-2025	2,935,571	877,733	3,813,304
2026-2028	<u>2,180,000</u>	<u>193,628</u>	<u>2,373,628</u>
	<u>\$ 11,536,675</u>	<u>\$ 4,553,630</u>	<u>\$ 16,090,305</u>

The City is scheduled to receive \$300,000 per year from LEDC through the 2016 fiscal year to be used to pay a portion of the debt service requirements of the 2006 and 2008 refunding bond issues.

**NOTE 10: LONG-TERM DEBT - (Continued)**

C. Bonds, Certificates, and Notes - Business-type Activities

The long-term obligations of the City's business-type activities at September 30, 2010, were comprised of the following individual issues:

2009 General Obligation Refunding Bonds due in annual installments of \$80,000 to \$200,000 through February 1, 2028; interest rates varying between 4.25% and 4.50%.	\$ 2,415,000
2008 General Obligation Refunding Bonds due in annual installments ranging from \$90,125 to \$613,975 through August 1, 2016; interest rate at 3.19%.	2,962,842
2006 General Obligation Bonds due in annual installments ranging from \$323,456 to \$359,936 through August 1, 2011; interest rate at 3.71%.	359,936
2006-A Combination Certificates of Obligation due in annual installments ranging from \$10,123 to \$19,548 through August 1, 2021; interest rate at 4.12%.	175,547
2000 Combination Certificates of Obligation due in annual installments ranging from \$40,000 to \$60,000 through August 1, 2015; interest rates varying between 5.60% and 6.75%.	<u>270,000</u>
	<u>\$ 6,183,325</u>

The annual debt service requirements to maturity for the above-listed obligations of the City's business-type activities are as follows:

Year Ending September 30	Principal	Interest	Total
2011	\$ 597,975	\$ 234,282	\$ 832,257
2012	688,748	210,734	899,482
2013	718,811	186,040	904,851
2014	744,224	160,077	904,301
2015	774,638	133,232	907,870
2016-2020	1,304,502	389,319	1,693,821
2021-2025	789,427	209,588	999,015
2026-2028	<u>565,000</u>	<u>38,080</u>	<u>603,080</u>
	<u>\$ 6,183,325</u>	<u>\$ 1,561,352</u>	<u>\$ 7,744,677</u>

The revenues of the City's Electric, Water and Wastewater Funds are pledged for the payment of the 2006 General Obligation Refunding Bonds, the 2006-A Combination Tax & Revenue Certificates of Obligation, and the 2008 General Obligation Refunding Bonds. The revenues of the Water and Wastewater Fund are pledged for the repayment of the 2009 General Obligation Refunding Bonds and the surplus revenues of the Airport Fund are pledged for the repayment of the 2000 Tax and Airport Revenue Certificates of Obligation.

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**NOTE 10: LONG-TERM DEBT - (Continued)**

D. Covenant Compliance

The City's long-term debt issues contain various covenants with which the City is required to comply. Since all debt issues are backed by taxes, there is a requirement for the City to hold cash in liquid reserves in an Interest and Sinking Fund, a minimum of 2% of all outstanding principal. As of September 30, 2010, the City's requirements under the reserve covenants were as follows:

		<u>Reserve Requirement</u>
2000	Combination Certificates of Obligation	\$ 5,400
2006	Combination Certificates of Obligation	8,400
2006	General Obligation Refunding Bonds	14,800
2006-A	Certificates of Obligation	50,300
2008	General Obligation Refunding Bonds	105,200
2009	General Obligation Refunding Bonds	48,300
2009	Combination Certificates of Obligation	<u>122,000</u>
		<u>\$ 354,400</u>

The following assets were designated as of year-end to satisfy the above-listed reserve requirements:

<u>Fund</u>	<u>Cash</u>
Debt Service I & S Fund	\$ 354,400

The City complied in all material respects with the various covenants applicable to its long-term debt agreements for the year ending September 30, 2010.

**NOTE 11: CONDUIT DEBT OBLIGATIONS**

Lockhart-Luling Water Delivery System

The Guadalupe-Blanco River Authority (GBRA) contracted with the City in 2002 to provide a reliable quantity of treated water through the Luling Water Treatment Plant. For the mutual benefit of the parties, GBRA, the City of Luling, and the City of Lockhart entered into an agreement that enabled GBRA to pump treated water from the Luling Water Treatment Plant to the Lockhart Treatment Plant ground storage reservoir through the water delivery system.

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**NOTE 11: CONDUIT DEBT OBLIGATIONS - (Continued)**

Lockhart-Luling Water Delivery System - (Continued)

GBRA issued \$6,370,000 in Contract Revenue Bonds in fiscal year 2004 for the water delivery system. As of September 30, 2010, there was \$5,590,000 bonds outstanding. Through the agreement, the City has agreed to pay GBRA on an annual basis for twenty-five years the following:

(a.) principal and interest on any bonds issued to pay of the financing, refinancing, design, permitting, construction, and equipping the project; (b.) operation and maintenance of the water delivery system; (c.) operation and maintenance of the Luling Water Treatment Plant; (d.) reserve and contingency fund payments, if any; and (e.) capital recovery charges.

Lockhart Wastewater Treatment Plant

GBRA entered into a contract on June 15, 1994 with the City whereby GBRA would construct a Regional Wastewater Treatment System to receive, treat and dispose of wastewater collected by the City's collection system.

GBRA issued \$5,480,000 of Contract Revenue Bonds in the fiscal year 1996 for the treatment system. As of September 30, 2010 there was \$4,025,000 of refunding bonds outstanding. Under the provisions of the contract, the City has agreed to pay GBRA through 2017 the following: (a.) all operation and maintenance expenses of the Regional Wastewater Treatment System; (b.) amounts necessary to pay debt service on the bonds; (c.) amounts necessary to establish and maintain funds established by the resolution authorizing the issuance of the bonds; and (d.) amounts necessary to restore any deficiency in funds established by the resolution.

**NOTE 12: CONTRACTUAL SETTLEMENT**

The City reached a settlement agreement with a vendor during the 2006 fiscal year in a dispute over the performance of equipment used in its utility system infrastructure. Under the settlement agreement, the vendor agreed to pay the City a total of \$3,210,173 in multiple installments extending through the year 2018. As of September 30, 2010, the City had received \$1,561,426 in scheduled installment payments. The remaining balance due the City is reported as receivable in the accompanying government-wide and proprietary fund Statements of Net Assets.

**NOTE 13: 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. During the year ended September 30, 2010, the City purchased insurance through the Texas Municipal League (TML) to cover its risk of loss in these areas. Substantially all risk of loss for events occurring during the current year has been transferred to TML by the payment of insurance premiums. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 14: RELATED PARTY TRANSACTIONS**

During the fiscal year ending September 30, 2010, LEDC (a discretely presented component unit of the City) transferred a total of \$331,493 to the City. The City's Debt Service Fund, a nonmajor governmental fund, received \$300,000 to be used to pay debt service costs related to qualifying economic development projects previously paid for by debt issued by the City. The remaining transfers pertained to the reimbursement of eligible current period expenditures incurred by the City related to economic development activities and administrative services provided to LEDC by the City.

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**NOTE 15: CONTINGENCIES AND COMMITMENTS**

A. Litigation

The City was not involved in any significant litigation as of September 30, 2010, and management was not aware of any threatened litigation or unasserted claims as of that date.

B. Grant Programs

The City participates in grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any monies received may be required, and the collectibility of any related receivables at September 30, 2010, may be impaired. In the opinion of the administration of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the City's various grant programs.

C. Water Purchase Commitment

The City has entered into an agreement with the Guadalupe Blanco River Authority (GBRA) that obligates the City to purchase its water from GBRA through December 31, 2027.

D. Construction Commitments

As of September 30, 2010, the City was committed under various ongoing construction contracts. These commitments were as follows:

<u>Project Description</u>	<u>Remaining Commitment</u>
Infrastructure improvements	\$ 1,869,358
Water system improvements	1,645,555
Library reconstruction	1,804,538
Animal shelter	375,000
Wastewater system improvements	198,239
Airport runway and taxiway rehabilitation (design costs only)	76,000
Miscellaneous	40,000
Cemetery park/pool improvements	39,478
	<u>\$ 6,048,168</u>

Management anticipates funding these construction projects through a combination of unspent bond proceeds, grant reimbursements, and use of undesignated City funds as shown in the following table:

<u>Funding Source</u>	<u>Amount</u>
Unspent bond proceeds	\$ 5,947,634
Grant reimbursements	92,934
Designated funds	7,600
	<u>\$ 6,048,168</u>

**NOTE 15: CONTINGENCIES AND COMMITMENTS - (Continued)**

E. Other Commitments

The City is still participating in the City of Austin Police COPS grant program. This grant program is designed to provide area law enforcement agencies with upgraded radio communications equipment. It is currently estimated that the City's remaining matching requirement is \$175,000, which will be funded by the City's Radio Tower Equipment Replacement Fund and by the First Lockhart National Bank Lease Purchase Agreement.

**NOTE 16: PENSION PLAN**

Plan Description

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

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

	Plan Year 2009	Plan Year 2010
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

**NOTE 16: PENSION PLAN - (Continued)**

Contributions - (Continued)

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

Contributions Required and Contributions Made			
Year Ended September 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 634,927	100%	\$ -
2009	580,050	100%	-
2008	515,906	100%	-

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

	Actuarial Valuation Information		
	12/31/07	12/31/08	12/31/09
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit
Amortization method	level percent of payroll	level percent of payroll	level percent of payroll
Amortization period in years	30 - closed	29 - closed	28 - closed
Asset valuation method	amortized cost	amortized cost	10 year smoothed market
Investment return	7.00%	7.50%	7.50%
Projected salary increases	varies by age	varies by age	none
Inflation	3.00%	3.00%	3.50%
Cost of living adjustments	2.10%	2.10%	n/a

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
12/31/09	\$ 10,617,782	\$ 15,498,213	\$ 4,880,331	68.5%	\$ 5,654,236	86.3%
12/31/08	9,498,979	13,858,742	4,359,763	68.5%	5,186,128	84.1%
12/31/07	9,100,291	13,272,574	4,172,283	68.6%	4,458,226	93.7%
12/31/06	8,242,098	10,727,007	2,484,909	76.8%	4,404,932	56.4%
12/31/05	8,024,435	10,355,572	2,331,137	77.5%	4,352,318	53.6%
12/31/04	7,702,591	9,884,999	2,182,408	77.9%	4,344,168	50.2%
12/31/03	6,926,579	9,185,374	2,258,795	75.4%	4,276,046	52.8%

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**NOTE 17: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM**

Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost sharing multiple-employer pension system established and administered by the State of Texas (the "State") to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. TESRS is considered a component unit of the State of Texas financial reporting entity and is included in the State's financial reports as a pension trust fund. At August 31, 2010, there were 198 members of fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2010, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	2,152
Terminated Participants Entitled to Benefits but not yet receiving them	2,105
Active Participants (vested and nonvested)	<u>4,359</u>
	<u>8,616</u>

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS, and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005) recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contribution provisions were originally established by Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977) and were amended by board rule in 2006. No contributions are required by individual members of participating departments. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member and may contribute more. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS (prior service). The State may also be required to make annual contributions up to a limited amount to make TESRS actuarially sound.

**NOTE 17: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Annual Required Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2010, total contributions (dues and prior services) of \$2,875,103 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State did not appropriate any maximum State contribution for the fiscal years ending August 31, 2010 and 2011. Total contributions made were equal to the contributions required by the State statute and equal to the contributions required based on the August 31, 2008 actuarial valuation.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2010, revealed the adequacy of the expected contributions from the political subdivisions (dues and prior service contributions) together with the actual State appropriations for the fiscal year ending August 31, 2010 (\$502,941 to help pay the System's administrative expenses) and with the assumed continuation of legislative appropriations of 1) the maximum State contribution amount in future years as is necessary for the TESRS to have a 30-year amortization period, 2) approximately \$500,000 each year to help pay for TESRS's administrative expenses. Expected contributions for the fiscal year ending August 31, 2011, are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum state contribution amounts and the appropriation process.

Without the expected future annual contributions from the State, the System would have an inadequate contribution arrangement.

Actuarial Valuation Information

Following is a tabular summary of actuarial valuation information for the August 31, 2010 and August 31, 2008, valuation dates:

	Actuarial Valuation Information	
	8/31/08	8/31/10
Actuarial cost method	entry age	entry age
Amortization method	level dollar, open	level dollar, open
Amortization period in years	6 years	30 years
Asset valuation method	market value smoothed by a 5-year deferred recognition method with a 90% - 110% corridor on market value	market value smoothed by a 5-year deferred recognition method with a 80% - 120% corridor on market value
Investment return	8.00%, net of expenses	7.75%, net of expenses
Projected salary increases	n/a	n/a
Inflation	3.50%	3.50%
Cost of living adjustment	none	none

**NOTE 17: TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - (Continued)**

Required Supplementary Information

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability <sup>1</sup> (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Total Members Covered (c)	UAAL per Member Covered (b-a)/(c)
8/31/2006	\$42,268,305	\$58,082,828	\$15,814,523	72.8%	8,061	\$ 1,962
8/31/2008	60,987,157	64,227,341	3,240,184	95.0%	8,254	393
8/31/2010 <sup>3</sup>	64,113,803	79,953,215	15,839,412	80.2%	8,708	1,819

Notes:

<sup>1</sup> The actuarial accrued liability is based upon the entry age actuarial cost method.

<sup>2</sup> Changes in actuarial assumptions and methods, as well as benefit and contribution provisions, were first reflected in this valuation.

<sup>3</sup> Changes in actuarial assumptions were reflected in this valuation.

**Three-Year Trend Information - State-wide**

Fiscal Year Ending August 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2008	\$ 3,160,764 <sup>2</sup>	\$ 11,239,339 <sup>1</sup>	356%
2009	2,698,271 <sup>3</sup>	2,698,271	100%
2010	2,875,103 <sup>3</sup>	2,875,103	100%

Notes:

<sup>1</sup> Includes a State contribution of \$8,800,000.

<sup>2</sup> Based on the August 31, 2006, actuarial valuation.

<sup>3</sup> Based on the August 31, 2008, actuarial valuation.

**NOTE 18: SUPPLEMENTAL DEATH BENEFIT PLAN**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by 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<sup>st</sup> of any year to be effective the following January 1<sup>st</sup>.

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.

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 retired term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2010, 2009, and 2008 were \$13,614, \$14,524, and \$15,075, respectively, which equaled the required contributions each year.

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**NOTE 19: ISSUED BUT NON-EFFECTIVE PRONOUNCEMENT**

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," (the "Statement") was issued in February 2009. The Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances – nonspendable, restricted, committed, assigned, and unassigned. The Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of the Statement are effective for periods beginning after June 15, 2010.

**NOTE 20: RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS**

A restatement was made to the beginning balances of certain receivable accounts in the General Fund in the amount \$149,634. The September 30, 2009, balance of certain receivables and net assets have been decreased by this amount.

**NOTE 21: LOCKHART ECONOMIC DEVELOPMENT CORPORATION**

As described in Note 1, the Lockhart Economic Development Corporation is a component unit of the City. It is reported in a separate column to emphasize that it is legally separate for accounting purposes from the City. Following are note disclosures relating to this component unit:

A. Organization

The Lockhart Economic Development Corporation (LEDC), a public instrumentality and nonprofit corporation, was created under Section 4B of the Development Corporation Act of 1979, Article 5190.6 of the Revised Civil Statutes of Texas (the "Act") on June 26, 1996. Under the Act, the Board of Directors consists of seven members appointed by and who serve at the pleasure of the City Council of the City for two-year terms.

LEDC may enter into any project authorized by the Act including, but not limited to, such projects as promotion and development of new and expanded business enterprises, job training centers, infrastructure improvements, public safety, municipal buildings, civic centers, recreation facilities, and other related facilities.

LEDC prepares annual financial statements as of September 30<sup>th</sup> of each year. LEDC reports its financial results as a governmental type of entity.

B. Summary of Significant Accounting Policies

The accounting and reporting policies of LEDC conform to GAAP, as applicable to governmental units. The more significant of LEDC's accounting policies are described below.

1. Reporting Entity - Component Unit Status

LEDC meets the criteria established by GASB to be a component unit of the City, due to the fact that the City Council of Lockhart appoints each member of its Board of Directors. LEDC is included in the City's annual financial statements as a discretely presented component unit.

2. Government-wide and Fund Accounting

The combined government-wide and fund financial statements (i.e., the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance) report information on all activities of LEDC.

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**NOTE 21: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

2. Government-wide and Fund Accounting - (Continued)

The combined Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance demonstrate the degree to which the direct expenses of LEDC are offset by program revenues. Direct expenses are those that are clearly identifiable with the LEDC's specific function, that of economic development. Program revenues include a.) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and b.) 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 among program revenues are reported instead as general revenues. For the year ended September 30, 2010, all of LEDC's revenues were classified as general revenues.

The government-wide and fund financial statements are provided for LEDC with a column for adjustments between the two statements.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide information (i.e., the columns labeled "Statement of Net Assets" and "Statement of Activities") in the financial statements is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund (i.e., the column labeled "General 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, LEDC considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

Sales taxes and interest revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when LEDC receives cash.

The Corporation reports the following governmental fund type:

Major Fund - The General Fund is LEDC's operating fund. All financial resources are accounted for in the General Fund. The General Fund's transactions consist primarily of revenues realized from the collection of sales tax revenue dedicated to the purpose of economic development and transfers to the City (reported as economic development expenditures) to be used for purposes authorized by LEDC's enabling legislation.

LEDC reports no other funds.

**NOTE 21: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

B. Summary of Significant Accounting Policies - (Continued)

4. Cash, Cash Equivalents, and Investments

Cash includes all amounts on deposit with financial institutions in demand accounts. All short-term investments that are highly liquid are considered to be cash equivalents. An investment is considered highly liquid if it is convertible to a known amount of cash and has a maturity date of no longer than three months from the date the investment was purchased.

LEDC may invest in any instruments authorized by the Public Funds Investment Act of the State of Texas. These instruments include, but are not limited to, the following: obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposit issued by state or national banks which are guaranteed or insured by the FDIC; and deposits in statewide investment pools which meet certain restrictive criteria. LEDC reports its investments at fair value.

5. Budgets and Budgetary Accounting

The Board of Directors submits an annual budget to the City for approval in accordance with the Texas Municipal Budget Act. By September of each year, the Board of Directors, with approval by the City, adopts an annual fiscal year budget for the General Fund. Once approved, the Board of Directors may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budget of LEDC is prepared on a modified accrual basis of accounting. Revenues are budgeted in the year receipts are expected, and expenditures are budgeted in the year that the applicable purchase occurs. Any unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

6. Federal Income Taxes

LEDC is exempt from Federal income taxes due to its classification as a governmental entity under the guidelines of the Internal Revenue Service.

7. Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with GAAP requires LEDC to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

C. Deposits and Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Public Funds Investment Pools		
TEXPOOL	\$ 248,926	34
TexStar	144,718	47
Cutwater Texas CLASS	154,741	42
Total fair value	<u>\$ 548,385</u>	

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**NOTE 21: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

C. Deposits and Investments - (Continued)

The investment pools operate in a manner consistent with SEC Rule 2(a)(7) of the Investment Company Act of 1940 but are not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the shares in the pools.

LEDC pools its funds with the City for investment, and as such, follows the City's policies and procedures pertaining to investment transactions. Following is a discussion of various risks associated with the City's (and accordingly LEDC's) investments as of and for the year ending September 30, 2010:

1. Interest Rate Risk

In accordance with the City's investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio for investments to one year or less from the time of purchase.

2. Credit Risk

As previously mentioned, it is LEDC's policy to limit its investments to those that are authorized under the Texas Public Funds Investment Act. Additionally, any money market mutual funds or local government investment pools must be rated no lower than AAA by at least one nationally recognized rating service. As of September 30, 2010, TEXPOOL was rated AAAM by Standard and Poor's and MBIA Texas CLASS was rated AAA/V-1+ by Fitch.

3. Concentration of Credit Risk

The City's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. As such, at year-end LEDC was not exposed to concentration of credit risk.

4. Custodial Credit Risk - Deposits

Custodial credit risk refers to the risk that in the event of a bank failure, LEDC's deposits may not be returned to it. The City's investment policies require that deposits at financial institutions be insured by the FDIC and/or collateralized by securities pledged to the City by the depository in an amount equal to at least 102% of the carrying value of deposits held. As of September 30, 2010, and for the year then ended, the City and LEDC were not exposed to any custodial credit risk.

5. Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that securities be held in the name of the City and that all securities are purchased using the delivery versus payment method. As of September 30, 2010, and for the year then ended, the City and LEDC were not exposed to any custodial credit risk.

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**NOTE 21: LOCKHART ECONOMIC DEVELOPMENT CORPORATION - (Continued)**

D. Sales Taxes

LEDC, by law, is to receive one-half cent of the sales tax earned by the City and paid monthly to the City by the State of Texas. LEDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2010, was \$93,797. The City collects the sales tax from the State of Texas and then pays LEDC's portion monthly when collected.

E. Restricted Net Assets

The legislation under which LEDC was created restricts the use of sales tax revenue received by LEDC to projects related to quality of life improvements, including economic development that will attract and retain primary employers. Some of the types of projects authorized in the legislation are listed previously. There were no restrictions on LEDC's net assets as of September 30, 2010, other than those imposed through the enabling legislation.

F. Contingencies and Commitments

1. Litigation

LEDC was not involved in any litigation as of September 30, 2010, and management was not aware of any threatened litigation or unasserted claims as of that date.

2. Commitments

LEDC is committed to transferring \$300,000 per year to the City through the fiscal year ending September 30, 2016. These funds were initially designated to pay debt service costs related to the City's 1996 Certificates of Obligation debt issue. The City partially refunded this debt during the 1998 fiscal year and completed the refunding in 2006. As such, transfers made in future fiscal years will be used to pay a portion of the debt service requirements of the City's outstanding refunding bonds.

Also, as of September 30, 2010, LEDC had agreed to approximately \$125,000 in reimbursements to local businesses related to their construction on new facilities and the creation of jobs in the Lockhart area.

G. Land Held for Resale

During the 2010 fiscal year the LEDC purchased land from the City of Lockhart for the purpose of construction of a structure for the use of a future tenant. Once a structure is completed it is anticipated that the land and the structure will be subsequently sold through a financing arrangement with the future tenant.

H. Sales Taxes

LEDC, by law, is to receive one-half cent of the sales tax earned by the City and paid monthly to the City by the State of Texas. LEDC's outstanding receivable of the sales tax earned by the City for the year ended September 30, 2010, was \$107,502. The City collects the sales tax from the State of Texas and then pays LEDC's portion monthly when collected.

## **Combining Fund Statements**

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2010

	Special Revenue				
	Radio Tower Equipment Replacement	EMS Special	Sidewalk Fund	Miscellaneous Special Revenue	Forfeited Property
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 152,081	\$ 5,600	\$ 31,108	\$ 49,313	\$ 27,069
Receivables (net)	-	-	-	-	-
Due from other funds	-	-	-	-	1,020
Prepays	-	-	-	-	-
<b>Total assets</b>	<u>\$ 152,081</u>	<u>\$ 5,600</u>	<u>\$ 31,108</u>	<u>\$ 49,313</u>	<u>\$ 28,089</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 546	\$ -	\$ -	\$ 204
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>546</u>	<u>-</u>	<u>-</u>	<u>204</u>
<b>Fund balance</b>					
Unreserved, undesignated	<u>152,081</u>	<u>5,054</u>	<u>31,108</u>	<u>49,313</u>	<u>27,885</u>
<b>Total fund balance</b>	<u>152,081</u>	<u>5,054</u>	<u>31,108</u>	<u>49,313</u>	<u>27,885</u>
<b>Total liabilities and fund balance</b>	<u>\$ 152,081</u>	<u>\$ 5,600</u>	<u>\$ 31,108</u>	<u>\$ 49,313</u>	<u>\$ 28,089</u>

(continued)

<u>Special Revenue</u>						
<u>Hotel / Motel Occupancy Tax</u>	<u>Road Impact Fees</u>	<u>Revolving Loan</u>	<u>Municipal Court Technology</u>	<u>Municipal Court Security</u>	<u>Child Safety</u>	<u>Municipal Court Efficiency</u>
\$ 8,180	\$ 218,312	\$ 214,975	\$ 40,119	\$ 6,635	\$ 23,994	\$ 5,344
22,084	-	36,437	4,353	3,253	-	763
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 30,264</u>	<u>\$ 218,312</u>	<u>\$ 251,412</u>	<u>\$ 44,472</u>	<u>\$ 9,888</u>	<u>\$ 23,994</u>	<u>\$ 6,107</u>
\$ 12,084	\$ -	\$ -	\$ 250	\$ -	\$ -	\$ -
10,000	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>22,084</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>8,180</u>	<u>218,312</u>	<u>251,412</u>	<u>44,222</u>	<u>9,888</u>	<u>23,994</u>	<u>6,107</u>
<u>8,180</u>	<u>218,312</u>	<u>251,412</u>	<u>44,222</u>	<u>9,888</u>	<u>23,994</u>	<u>6,107</u>
<u>\$ 30,264</u>	<u>\$ 218,312</u>	<u>\$ 251,412</u>	<u>\$ 44,472</u>	<u>\$ 9,888</u>	<u>\$ 23,994</u>	<u>\$ 6,107</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2010

	Special Revenue				
	Industrial Park Reserve	Cable Education	Transportation System Improvmts	Drainage System Improvmts	Law Enforcement Education - Police
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 356,400	\$ 32,461	\$ 85,391	\$ 98,736	\$ 16,768
Receivables (net)	-	6,058	40,682	18,558	-
Due from other funds	-	-	-	-	-
Prepays	-	-	-	-	630
<b>Total assets</b>	<b>\$ 356,400</b>	<b>\$ 38,519</b>	<b>\$ 126,073</b>	<b>\$ 117,294</b>	<b>\$ 17,398</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ 2,016	\$ -	\$ 46
Due to others	-	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>2,016</b>	<b>-</b>	<b>46</b>
<b>Fund balance</b>					
Unreserved, undesignated	356,400	38,519	124,057	117,294	17,352
<b>Total fund balance</b>	<b>356,400</b>	<b>38,519</b>	<b>124,057</b>	<b>117,294</b>	<b>17,352</b>
<b>Total liabilities and fund balance</b>	<b>\$ 356,400</b>	<b>\$ 38,519</b>	<b>\$ 126,073</b>	<b>\$ 117,294</b>	<b>\$ 17,398</b>

(continued)

<u>Special Revenue</u>		<u>Capital Projects</u>				
<u>Total</u>	<u>Debt Service</u>	<u>1996 Certificates of Obligation</u>	<u>Clearfork Detention Basin</u>	<u>Clearfork Section 1 Sidewalk</u>	<u>2006 Certificates of Obligation</u>	<u>2006-A Bond Fund</u>
\$ 1,372,486	\$ 707,931	\$ 20,346	\$ 21,103	\$ 15,964	\$ 96,610	\$ 67,583
132,188	59,519	-	-	-	-	-
1,020	10,000	-	-	-	-	-
630	-	-	-	-	-	-
<u>\$ 1,506,324</u>	<u>\$ 777,450</u>	<u>\$ 20,346</u>	<u>\$ 21,103</u>	<u>\$ 15,964</u>	<u>\$ 96,610</u>	<u>\$ 67,583</u>
\$ 15,146	\$ -	\$ -	\$ 17,450	\$ 13,200	\$ -	\$ 23,052
10,000	-	-	-	-	-	-
-	59,519	-	-	-	-	-
<u>25,146</u>	<u>59,519</u>	<u>-</u>	<u>17,450</u>	<u>13,200</u>	<u>-</u>	<u>23,052</u>
1,481,178	717,931	20,346	3,653	2,764	96,610	44,531
1,481,178	717,931	20,346	3,653	2,764	96,610	44,531
<u>\$ 1,506,324</u>	<u>\$ 777,450</u>	<u>\$ 20,346</u>	<u>\$ 21,103</u>	<u>\$ 15,964</u>	<u>\$ 96,610</u>	<u>\$ 67,583</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
 September 30, 2010

(concluded)

	<u>Capital Projects</u>		Total Nonmajor Governmental Funds
	<u>Equipment Replacement</u>	<u>Total</u>	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 171,140	\$ 392,746	\$ 2,473,163
Receivables (net)	-	-	191,707
Due from other funds	-	-	11,020
Prepays	-	-	630
<b>Total assets</b>	<u>\$ 171,140</u>	<u>\$ 392,746</u>	<u>\$ 2,676,520</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 53,702	\$ 68,848
Due to other funds	-	-	10,000
Deferred revenue	-	-	59,519
<b>Total liabilities</b>	<u>-</u>	<u>53,702</u>	<u>138,367</u>
<b>Fund balance</b>			
Unreserved, undesignated	<u>171,140</u>	<u>339,044</u>	<u>2,538,153</u>
<b>Total fund balance</b>	<u>171,140</u>	<u>339,044</u>	<u>2,538,153</u>
<b>Total liabilities and fund balance</b>	<u>\$ 171,140</u>	<u>\$ 392,746</u>	<u>\$ 2,676,520</u>

**CITY OF LOCKHART, TEXAS**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

*NONMAJOR GOVERNMENTAL FUNDS*

*September 30, 2010*

	Special Revenue				
	Radio Tower Equipment Replacement	EMS Special	Sidewalk Fund	Miscellaneous Special Revenue	Forfeited Property
<b>REVENUES</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-	-	-
Fines, fees, and forfeitures	-	-	-	-	24,258
Intergovernmental and grants	-	4,849	-	-	-
Investment	422	2	77	125	40
Miscellaneous	-	1,152	-	2,437	-
<b>Total revenues</b>	<u>422</u>	<u>6,003</u>	<u>77</u>	<u>2,562</u>	<u>24,298</u>
<b>EXPENDITURES</b>					
Current					
General government	-	-	-	-	-
Public safety	-	1,939	-	-	6,213
Culture and recreation	-	-	-	2,437	-
Economic development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>1,939</u>	<u>-</u>	<u>2,437</u>	<u>6,213</u>
Excess (deficiency) of revenues over expenditures	422	4,064	77	125	18,085
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	18,160	-	-	-	-
Transfers out	(96,670)	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>(78,510)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(78,088)	4,064	77	125	18,085
Fund balances - beginning	230,169	990	31,031	49,188	9,800
<b>Fund balances - ending</b>	<u>\$ 152,081</u>	<u>\$ 5,054</u>	<u>\$ 31,108</u>	<u>\$ 49,313</u>	<u>\$ 27,885</u>

(continued)

Special Revenue						
Lone Star Libraries Grant	Hotel / Motel Occupancy Tax	Road Impact Fees	Revolving Loan	Municipal Court Technology	Municipal Court Security	Child Safety
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	79,607	-	-	-	-	-
-	-	4,844	100	8,982	6,713	-
7,402	-	-	-	-	-	-
-	34	534	1,531	95	24	59
-	-	-	35,755	-	-	142
<u>7,402</u>	<u>79,641</u>	<u>5,378</u>	<u>37,386</u>	<u>9,077</u>	<u>6,737</u>	<u>201</u>
-	795	-	-	8,372	6,423	-
-	-	-	-	-	-	-
7,402	8,539	-	-	-	-	-
-	30,273	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>7,402</u>	<u>39,607</u>	<u>-</u>	<u>-</u>	<u>8,372</u>	<u>6,423</u>	<u>-</u>
-	40,034	5,378	37,386	705	314	201
-	-	-	-	-	-	-
-	(40,000)	-	-	-	(1,877)	-
-	(40,000)	-	-	-	(1,877)	-
-	34	5,378	37,386	705	(1,563)	201
-	8,146	212,934	214,026	43,517	11,451	23,793
<u>\$ -</u>	<u>\$ 8,180</u>	<u>\$ 218,312</u>	<u>\$ 251,412</u>	<u>\$ 44,222</u>	<u>\$ 9,888</u>	<u>\$ 23,994</u>

**CITY OF LOCKHART, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2010

	Special Revenue				
	Municipal Court Efficiency	Industrial Park Reserve	Cable Education	Transportation System Improvmts	Drainage System Improvmts
<b>REVENUES</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-	-	-
Fines, fees, and forfeitures	1,574	-	-	252,843	134,318
Intergovernmental and grants	-	-	-	-	-
Investment	13	713	-	197	377
Miscellaneous	-	98,035	58,907	-	-
<b>Total revenues</b>	<u>1,587</u>	<u>98,748</u>	<u>58,907</u>	<u>253,040</u>	<u>134,695</u>
<b>EXPENDITURES</b>					
Current					
General government	1,622	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<u>1,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(35)	98,748	58,907	253,040	134,695
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	(20,388)	(275,000)	(200,000)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(20,388)</u>	<u>(275,000)</u>	<u>(200,000)</u>
Net change in fund balances	(35)	98,748	38,519	(21,960)	(65,305)
Fund balances - beginning	<u>6,142</u>	<u>257,652</u>	<u>-</u>	<u>146,017</u>	<u>182,599</u>
<b>Fund balances - ending</b>	<u>\$ 6,107</u>	<u>\$ 356,400</u>	<u>\$ 38,519</u>	<u>\$ 124,057</u>	<u>\$ 117,294</u>

(continued)

Special Revenue			Capital Projects			
Law Enforcement - Police	Law Enforcement - Fire	Total	Debt Service	1996 Certificates of Obligation	2003 Limited Tax Notes	Clearfork Detention Basin
\$ -	\$ -	\$ -	\$ 535,448	\$ -	\$ -	\$ -
-	-	79,607	-	-	-	-
-	-	433,632	-	-	-	-
4,059	-	16,310	-	-	-	-
42	-	4,285	2,258	74	11	52
-	-	196,428	300,000	-	-	-
<u>4,101</u>	<u>-</u>	<u>730,262</u>	<u>837,706</u>	<u>74</u>	<u>11</u>	<u>52</u>
-	-	17,212	1,750	-	-	-
4,138	-	12,290	-	-	-	-
-	-	18,378	-	-	-	-
-	-	30,273	-	-	-	-
-	-	-	-	51,761	30,333	-
-	-	-	627,601	-	-	-
-	-	-	539,353	-	-	-
<u>4,138</u>	<u>-</u>	<u>78,153</u>	<u>1,168,704</u>	<u>51,761</u>	<u>30,333</u>	<u>-</u>
(37)	-	652,109	(330,998)	(51,687)	(30,322)	52
4,165	-	22,325	273,162	48	-	-
-	(4,165)	(638,100)	-	(20,346)	-	-
<u>4,165</u>	<u>(4,165)</u>	<u>(615,775)</u>	<u>273,162</u>	<u>(20,298)</u>	<u>-</u>	<u>-</u>
4,128	(4,165)	36,334	(57,836)	(71,985)	(30,322)	52
<u>13,224</u>	<u>4,165</u>	<u>1,444,844</u>	<u>775,767</u>	<u>92,331</u>	<u>30,322</u>	<u>3,601</u>
<u>\$ 17,352</u>	<u>\$ -</u>	<u>\$ 1,481,178</u>	<u>\$ 717,931</u>	<u>\$ 20,346</u>	<u>\$ -</u>	<u>\$ 3,653</u>

**CITY OF LOCKHART, TEXAS**

*COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES*

*NONMAJOR GOVERNMENTAL FUNDS*

*September 30, 2010*

	Capital Projects				
	Clearfork Section 1 Sidewalk	2006 Certificates of Obligation	2006-A Bond Fund	Skateboard Park Project	Equipment Replacement
<b>REVENUES</b>					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-	-	-
Fines, fees, and forfeitures	-	-	-	-	-
Intergovernmental and grants	-	-	-	-	90,000
Investment	40	239	569	-	23
Miscellaneous	-	-	37,450	-	567,415
<b>Total revenues</b>	<u>40</u>	<u>239</u>	<u>38,019</u>	<u>-</u>	<u>657,438</u>
<b>EXPENDITURES</b>					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Economic development	-	-	-	-	-
Capital outlay	-	-	334,003	17,500	1,293,843
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>334,003</u>	<u>17,500</u>	<u>1,293,843</u>
Excess (deficiency) of revenues over expenditures	40	239	(295,984)	(17,500)	(636,405)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	121,753
Transfers out	-	-	-	(48)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48)</u>	<u>121,753</u>
Net change in fund balances	40	239	(295,984)	(17,548)	(514,652)
Fund balances - beginning	<u>2,724</u>	<u>96,371</u>	<u>340,515</u>	<u>17,548</u>	<u>685,792</u>
<b>Fund balances - ending</b>	<u>\$ 2,764</u>	<u>\$ 96,610</u>	<u>\$ 44,531</u>	<u>\$ -</u>	<u>\$ 171,140</u>

(concluded)

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<u>Capital Projects</u>	
<u>Total</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 535,448
-	79,607
-	433,632
90,000	106,310
1,008	7,551
<u>604,865</u>	<u>1,101,293</u>
<u>695,873</u>	<u>2,263,841</u>
-	18,962
-	12,290
-	18,378
-	30,273
1,727,440	1,727,440
-	627,601
-	<u>539,353</u>
<u>1,727,440</u>	<u>2,974,297</u>
(1,031,567)	(710,456)
121,801	417,288
<u>(20,394)</u>	<u>(658,494)</u>
<u>101,407</u>	<u>(241,206)</u>
(930,160)	(951,662)
<u>1,269,204</u>	<u>3,489,815</u>
<u>\$ 339,044</u>	<u>\$ 2,538,153</u>

**CITY OF LOCKHART, TEXAS****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL****NONMAJOR GOVERNMENTAL FUND - DEBT SERVICE FUND**

For the year ended September 30, 2010

With comparative totals for the year ended September 30, 2009

	2010		Variance	2009
	Final Budget	Actual	Positive (Negative)	Actual
<b>REVENUES</b>				
Taxes				
Ad valorem	\$ 512,923	\$ 535,448	\$ 22,525	\$ 610,662
Investment income	9,000	2,258	(6,742)	8,728
Miscellaneous	300,000	300,000	-	300,000
<b>Total revenues</b>	<u>821,923</u>	<u>837,706</u>	<u>15,783</u>	<u>919,390</u>
<b>EXPENDITURES</b>				
Curent				
General government	3,200	1,750	1,450	-
Debt service				
Principal retirement	627,601	627,601	-	881,890
Interest and fiscal charges	539,353	539,353	-	259,123
<b>Total expenditures</b>	<u>1,170,154</u>	<u>1,168,704</u>	<u>1,450</u>	<u>1,141,013</u>
Excess (deficiency) of revenues over expenditures	<u>(348,231)</u>	<u>(330,998)</u>	<u>17,233</u>	<u>(221,623)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>273,162</u>	<u>273,162</u>	<u>-</u>	<u>236,156</u>
<b>Total other financing sources (uses)</b>	<u>273,162</u>	<u>273,162</u>	<u>-</u>	<u>236,156</u>
Net change in fund balance	<u>\$ (75,069)</u>	<u>(57,836)</u>	<u>\$ 17,233</u>	<u>14,533</u>
Fund balance at beginning of year		<u>775,767</u>		<u>761,234</u>
<b>Fund balance at end of year</b>		<u>\$ 717,931</u>		<u>\$ 775,767</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING STATEMENT OF NET ASSETS**  
**NONMAJOR ENTERPRISE FUNDS**  
September 30, 2010

	<u>Sanitation</u>	<u>Airport</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 136,792	\$ 5	\$ 136,797
Receivables (net)	194,151	463	194,614
Prepaid services and supplies	75	-	75
Total current assets	<u>331,018</u>	<u>468</u>	<u>331,486</u>
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	120,409	72,161	192,570
Buildings, improvements, and equipment (net)	15,961	1,112,356	1,128,317
Total noncurrent assets	<u>136,370</u>	<u>1,184,517</u>	<u>1,320,887</u>
<b>Total assets</b>	<u>467,388</u>	<u>1,184,985</u>	<u>1,652,373</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	81,287	901	82,188
Payroll related payables	2,923	-	2,923
Accrued interest payable	-	2,601	2,601
Due to other funds	-	1,097	1,097
Customer deposits	-	5,775	5,775
Deferred revenue	-	4,663	4,663
Accrued compensated absences	9,166	-	9,166
Current portion of long-term liabilities			
Bonds and notes	-	50,000	50,000
Total current liabilities	<u>93,376</u>	<u>65,037</u>	<u>158,413</u>
Long-term liabilities, net of current portion			
Bonds and notes	-	225,092	225,092
Total noncurrent liabilities	<u>-</u>	<u>225,092</u>	<u>225,092</u>
<b>Total liabilities</b>	<u>93,376</u>	<u>290,129</u>	<u>383,505</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	136,370	909,425	1,045,795
Unrestricted net assets	<u>237,642</u>	<u>(14,569)</u>	<u>223,073</u>
<b>Total net assets</b>	<u>\$ 374,012</u>	<u>\$ 894,856</u>	<u>\$ 1,268,868</u>

**CITY OF LOCKHART, TEXAS****COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS****NONMAJOR ENTERPRISE FUNDS**

For the year ended September 30, 2010

	<u>Sanitation</u>	<u>Airport</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,308,316	\$ 68,710	\$ 1,377,026
Miscellaneous	-	1,900	1,900
Total operating revenues	<u>1,308,316</u>	<u>70,610</u>	<u>1,378,926</u>
<b>OPERATING EXPENSES</b>			
Personnel services	133,773	-	133,773
Contracts and services	949,044	17,012	966,056
Materials and supplies	8,692	6	8,698
Maintenance and repairs	5,653	5,837	11,490
Depreciation	5,583	38,967	44,550
Miscellaneous	-	421	421
Total operating expenses	<u>1,102,745</u>	<u>62,243</u>	<u>1,164,988</u>
<b>Operating income before nonoperating revenues (expenses) and transfers</b>	205,571	8,367	213,938
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	230	64	294
Noncapital grants and contributions	12,548	24,146	36,694
Interest expense	-	(17,060)	(17,060)
Net nonoperating revenues (expenses)	<u>12,778</u>	<u>7,150</u>	<u>19,928</u>
Income (loss) before transfers	218,349	15,517	233,866
Transfers in	-	34,748	34,748
Transfers out	<u>(175,718)</u>	<u>-</u>	<u>(175,718)</u>
Change in net assets	42,631	50,265	92,896
Net assets - beginning	<u>331,381</u>	<u>844,591</u>	<u>1,175,972</u>
<b>Net assets - ending</b>	<u>\$ 374,012</u>	<u>\$ 894,856</u>	<u>\$ 1,268,868</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR ENTERPRISE FUNDS**  
For the year ended September 30, 2010

	Sanitation	Airport	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 1,308,590	\$ 69,696	\$ 1,378,286
Cash payments to suppliers for goods and services	(959,465)	(22,627)	(982,092)
Cash payments to employees for services	(133,702)	-	(133,702)
<b>Net cash provided by operating activities</b>	<u>215,423</u>	<u>47,069</u>	<u>262,492</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Customer deposits received (refunded)	(100)	200	100
Noncapital grants and contributions received	12,548	24,146	36,694
Cash received from other funds	-	34,748	34,748
Cash paid to other funds	(175,718)	1,097	(174,621)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>(163,270)</u>	<u>60,191</u>	<u>(103,079)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>			
Acquisition of capital assets	-	(48,291)	(48,291)
Principal paid on capital debt	-	(45,000)	(45,000)
Interest paid on capital debt	-	(18,493)	(18,493)
<b>Net cash used by capital financing activities</b>	<u>-</u>	<u>(111,784)</u>	<u>(111,784)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment income	230	64	294
<b>Net cash provided (used) by investing activities</b>	<u>230</u>	<u>64</u>	<u>294</u>
Net increase in cash and cash equivalents	52,383	(4,460)	47,923
Cash and cash equivalents at beginning of year	84,409	4,465	88,874
<b>Cash and cash equivalents at end of year</b>	<u>\$ 136,792</u>	<u>\$ 5</u>	<u>\$ 136,797</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 205,571	\$ 8,367	\$ 213,938
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	5,583	38,967	44,550
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	(444)	1,606	1,162
Increase (decrease) in accounts and other payables	4,642	649	5,291
Increase (decrease) in payroll related liabilities	71	-	71
Increase (decrease) in deferred revenue	-	(2,520)	(2,520)
<b>Net cash provided by operating activities</b>	<u>\$ 215,423</u>	<u>\$ 47,069</u>	<u>\$ 262,492</u>

**CITY OF LOCKHART, TEXAS**  
**COMBINING STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
*September 30, 2010*

	Private Purpose Trusts		
	Glosserman Trust	Brock Cabin Trust	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 501	\$ 19,219	\$ 19,720
Other assets	-	-	-
<b>Total assets</b>	<u>501</u>	<u>19,219</u>	<u>19,720</u>
<b>LIABILITIES</b>			
Due to others	-	-	-
Due to other funds	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS</b>			
Held for various purposes	<u>\$ 501</u>	<u>\$ 19,219</u>	<u>\$ 19,720</u>

Agency Funds

Confiscated Property	Unclaimed Property	Bicycle Helmet	Police Evidence Property	Total
\$ 1,550	\$ 6,411	\$ 743	\$ 4,219	\$ 12,923
4,475	-	-	-	4,475
<u>\$ 6,025</u>	<u>\$ 6,411</u>	<u>\$ 743</u>	<u>\$ 4,219</u>	<u>\$ 17,398</u>
\$ 5,005	\$ 6,411	\$ 743	\$ 4,219	\$ 16,378
1,020	-	-	-	1,020
<u>\$ 6,025</u>	<u>\$ 6,411</u>	<u>\$ 743</u>	<u>\$ 4,219</u>	<u>\$ 17,398</u>

**CITY OF LOCKHART, TEXAS****COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS****PRIVATE PURPOSE TRUSTS***For the year ended September 30, 2010*

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	<u>Glosserman Trust</u>	<u>Brock Cabin Trust</u>	<u>Total</u>
<b>ADDITIONS</b>			
Investment income	\$ 1	\$ 42	\$ 43
Miscellaneous	-	11,616	11,616
<b>Total additions</b>	<u>1</u>	<u>11,658</u>	<u>11,659</u>
<b>DEDUCTIONS</b>			
Operating expenses	-	3,598	3,598
Change in net assets	1	8,060	8,061
Net assets - beginning	<u>500</u>	<u>11,159</u>	<u>11,659</u>
<b>Net assets - ending</b>	<u>\$ 501</u>	<u>\$ 19,219</u>	<u>\$ 19,720</u>

**OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION**



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**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**

The Honorable Mayor and  
Members of the City Council  
City of Lockhart, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregated remaining fund information of the City of Lockhart, Texas (the "City"), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

The Honorable Mayor and Members  
of City Council

This communication is intended solely for the information and use of management, the Mayor and City Council, others within the organization, and other federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Amison, Waldrop & Uherick, LLP.*

February 1, 2011