

CITY OF LOCKHART, TEXAS

ANNUAL FINANCIAL REPORT

September 30, 2012

**CITY OF LOCKHART, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Lockhart
308 West San Antonio Street
Lockhart, Texas 78644

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, (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lockhart'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lockhart, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 March 15, 2013, on our consideration of the City of Lockhart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and budgetary comparison information on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lockhart's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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.

Alonzo, Bacarisse, Irvine & Palmer, P.C.

March 15, 2013

**Management's Discussion and Analysis
September 30, 2012**

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, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2012, by \$43,244,446. Of this amount, \$10,850,455 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 \$25,933,554 for the fiscal year. The net expense was \$5,750,084.
- During the year, the City's general revenues were \$381,093 less than net expenses. This represents a 0.87% decrease in net assets from the previous fiscal year as a result of operations.
- At September 30, 2012, the City's governmental funds reported combined ending fund balances of \$7,236,336, a net decrease of \$1,005,437 in comparison with prior year. The decrease in fund balance was primarily due to the expenditures in various capital project funds.
- At September 30, 2012, the committed and unassigned fund balances for the General Fund was \$2,921,304 or 34.05% 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 12 to 15

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.
Pages 16 to 28

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.
Pages 29 to 50

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.

Management's Discussion and Analysis September 30, 2012

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, health and welfare, culture 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.

Management's Discussion and Analysis
September 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintained twenty-four individual governmental funds during the 2012 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-two 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 page 28 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 \$43,244,446 at the close of the fiscal year 2012.

By far, the largest portion of the City's net assets (71.96%) 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.

**Management's Discussion and Analysis
September 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

City of Lockhart, Texas						
Net Assets						
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 8,372,403	\$ 9,666,502	\$ 8,084,473	\$ 8,558,510	\$ 16,456,876	\$ 18,225,012
Capital assets (net)	25,890,600	26,345,262	19,613,774	19,699,846	45,504,374	46,045,108
Other noncurrent assets	94,590	107,706	1,220,627	1,419,197	1,315,217	1,526,903
Total assets	34,357,593	36,119,470	28,918,874	29,677,553	63,276,467	65,797,023
Current liabilities	1,130,851	1,094,452	1,672,309	1,930,392	2,803,160	3,024,844
Noncurrent liabilities (net)	10,217,536	11,131,789	7,011,325	8,014,851	17,228,861	19,146,640
Total liabilities	11,348,387	12,226,241	8,683,634	9,945,243	20,032,021	22,171,484
Net assets:						
Invested in capital assets, net of related debt	18,958,675	19,526,461	12,161,005	10,801,725	31,119,680	30,328,186
Restricted	910,946	1,061,870	363,365	361,783	1,274,311	1,423,653
Unrestricted	3,139,585	3,304,898	7,710,870	8,568,802	10,850,455	11,873,700
Total net assets	\$ 23,009,206	\$ 23,893,229	\$ 20,235,240	\$ 19,732,310	\$ 43,244,446	\$ 43,625,539

An additional portion of the City's net assets (2.95%) 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 (\$10,850,455) 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 \$884,023, an improvement of \$229,092 from the previous year. Key elements of the improvement are as follows:

- Public safety expenses decreased \$191,202 (3.30%).
- Decrease in transfers of \$167,487 (7.24%) from utility funds.
- General government expenses decreased \$199,271 (14.33%)

Management's Discussion and Analysis
September 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type activities. Business-type activities increased the City's net assets by \$502,930. Key elements of this increase are as follows:

- Increase in capital grants and contributions \$257,900 (100%).
- Decrease in transfers out \$167,487 (7.24%).

City of Lockhart, Texas						
Changes in Net Assets						
	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,595,178	\$ 2,199,754	\$ 17,331,461	\$ 17,424,288	\$ 18,926,639	\$ 19,624,042
Operating grants and contributions	842,045	178,104	-	50,251	842,045	228,355
Capital grants and contributions	156,886	133,700	257,900	-	414,786	133,700
General revenues:						
Property taxes	3,411,404	3,402,371	-	-	3,411,404	3,402,371
Sales taxes	1,292,841	1,213,592	-	-	1,292,841	1,213,592
Franchise taxes	293,375	293,304	-	-	293,375	293,304
Other taxes	104,650	99,570	-	-	104,650	99,570
Impact fees	-	-	32,398	67,816	32,398	67,816
Investment earnings	24,992	14,162	13,906	6,848	38,898	21,010
Miscellaneous	195,425	351,463	-	-	195,425	351,463
Total revenues	<u>7,916,796</u>	<u>7,886,020</u>	<u>17,635,666</u>	<u>17,549,203</u>	<u>25,552,461</u>	<u>25,435,223</u>
Expenses:						
General government	1,191,024	1,390,295	-	-	1,191,024	1,390,295
Public safety	5,599,728	5,790,930	-	-	5,599,728	5,790,930
Public Works	2,870,543	2,829,285	-	-	2,870,543	2,829,285
Health and welfare	5,834	5,086	-	-	5,834	5,086
Culture and recreation	823,923	807,824	-	-	823,923	807,824
Interest on long-term debt	456,409	489,844	-	-	456,409	489,844
Electric	-	-	8,928,955	8,858,995	8,928,955	8,858,995
Water	-	-	2,974,676	2,821,798	2,974,676	2,821,798
Wastewater	-	-	1,937,230	1,815,146	1,937,230	1,815,146
Sanitation	-	-	1,069,763	1,112,592	1,069,763	1,112,592
Airport	-	-	75,469	76,657	75,469	76,657
Total expenses	<u>10,947,461</u>	<u>11,313,264</u>	<u>14,986,093</u>	<u>14,685,188</u>	<u>25,933,554</u>	<u>25,998,452</u>
Change in net assets before special items and transfers	(3,030,665)	(3,427,244)	2,649,572	2,864,015	(381,093)	(563,229)
Transfers	2,146,642	2,314,129	(2,146,642)	(2,314,129)	-	-
Change in net assets	(884,023)	(1,113,115)	502,930	549,886	(381,093)	(563,229)
Net assets - beginning, as restated	23,893,229	25,006,344	19,732,310	19,182,424	43,625,539	44,188,768
Net assets - ending	<u>\$ 23,009,206</u>	<u>\$ 23,893,229</u>	<u>\$ 20,235,240</u>	<u>\$ 19,732,310</u>	<u>\$ 43,244,446</u>	<u>\$ 43,625,539</u>

**Management's Discussion and Analysis
September 30, 2012**

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,236,336, a decrease of \$1,005,437 from the prior year.

Approximately 99.31% of this total amount (\$7,186,046) constitutes fund balance which is available for spending at the government's discretion. The remainder fund balance of \$50,290 or .69% is nonspendable to indicate that it is not available for new spending because it has already been allocated: 1) for prepaid expenditures (\$19,180); and 2) for inventory (\$31,110).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned and committed fund balances were \$2,921,304. These fund balances represent 34.05% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$172,683 during the current fiscal year.

Proprietary Fund

The City's proprietary funds, the Utility Funds, provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility Fund at the end of the current fiscal year amounted to \$7,710,870. The total decrease for the funds was \$862,005.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual fiscal year expenditures in the General Fund were \$252,021 less than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$271,140 due to decrease in public safety expenditures.

The fiscal year 2012 budget was amended from the original budget adopted by Council reflecting an increased deficiency of revenues under expenditures by \$20,261.

**Management's Discussion and Analysis
September 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$45,504,374 (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 decrease in the City's investment in capital assets was 1.17%.

City of Lockhart, Texas

Capital Assets

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,409,717	\$ 1,411,863	\$ 574,710	\$ 574,710	\$ 1,984,427	\$ 1,986,573
Buildings	8,410,159	8,397,639	4,500,538	4,500,538	12,910,697	12,898,177
Equipment	5,533,921	5,507,438	5,331,495	5,163,238	10,865,416	10,670,676
Infrastructure	72,495,021	71,100,771	30,568,141	29,189,586	103,063,162	100,290,357
Construction work in progress	253,070	280,707	153,912	608,460	406,982	889,167
Less: accumulated depreciation	<u>(62,211,288)</u>	<u>(60,353,156)</u>	<u>(21,515,022)</u>	<u>(20,336,686)</u>	<u>(83,726,310)</u>	<u>(80,689,842)</u>
Total capital assets	<u>\$ 25,890,600</u>	<u>\$ 26,345,262</u>	<u>\$ 19,613,774</u>	<u>\$ 19,699,846</u>	<u>\$ 45,504,374</u>	<u>\$ 46,045,108</u>

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

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$14,935,000. Of this amount, \$6,285,000 represents General Obligation Tax and Revenue Bonds. The remainder of the City's bonded debt is comprised of \$8,650,000 of Combination Tax and Revenue Certificates of Obligation.

**Management's Discussion and Analysis
September 30, 2012**

CAPITAL ASSET AND DEBT ADMINISTRATION - (Continued)

Long-Term Debt - (Continued)

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.

Additional information on the City's long-term debt can be found in Note G.

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 2012-2013 fiscal year totaled \$1,832,562 (including funds dispersed to the Lockhart Economic Development Corporation). This amount is an increase of approximately \$101,454 (5.86%) over the previous year's budget.
- Interest rates are remaining at lower levels and should result in decreased interest earnings.
- The City continues to experience economic growth with the construction of new businesses in the retail and manufacturing sectors.

All of these factors were considered in preparing the City's budget for the 2012-2013 fiscal year.

The certified assessed taxable property valuations for the 2012 tax roll total \$476,867,951 with a tax rate of \$0.7227 per \$100 valuation. \$0.6077 was allocated for maintenance and operations, and \$0.1150 was allocated for interest and sinking (debt service). The projected total property tax due is \$3,358,263 for the 2012 tax 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, 2012

	Primary Government	
	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents	\$ 6,985,019	\$ 4,659,514
Receivables:		
Delinquent ad valorem taxes	298,351	-
Sales and use tax	206,784	-
Customer	-	2,905,597
Miscellaneous	831,959	186,408
Prepaid items	19,180	211
Inventory at cost	31,110	332,743
Capital assets (net of accumulated depreciation):		
Land	1,409,717	728,622
Construction in progress	253,070	-
Furniture, fixtures and equipment	1,963,778	1,807,023
Buildings	5,392,666	1,651,614
Infrastructure	16,871,369	15,426,515
Contractual Settlement	-	1,126,019
Deferred charges-issuance costs	94,590	94,608
Total Assets	34,357,593	28,918,874
Liabilities		
Accounts payable	283,069	1,045,654
Payroll related accruals	295,032	66,639
Other payables	2,227	81,638
Deferred revenues	-	3,547
Due to other governments	-	44,531
Accrued interest	68,057	-
Customer deposits	-	307,308
Compensated absences	482,466	122,992
Noncurrent liabilities:		
Due within one year	766,211	1,036,083
Due in more than one year	9,451,325	5,975,242
Total Liabilities	11,348,387	8,683,634
Net Assets		
Invested in capital assets, net of related debt	18,958,675	12,161,005
Nonspendable	-	-
Restricted for:		
Debt service	431,106	-
Special revenue	473,266	-
Construction	6,574	-
Impact fees	-	363,365
Unrestricted	3,139,585	7,710,870
Total Net Assets	\$ 23,009,206	\$ 20,235,240

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS
STATEMENT OF NET ASSETS
September 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ (1,191,024)	\$ 527,226	\$ 28,277	\$ -
Public safety	(5,599,728)	1,028,070	493,789	153,231
Public works	(2,870,543)	-	-	-
Health and welfare	(5,834)	11,498	-	-
Culture and recreation	(823,923)	28,384	19,979	3,655
Interest on long-term debt	(456,409)	-	300,000	-
Total governmental activities	(10,947,461)	1,595,178	842,045	156,886
Business-type activities:				
Electric	(8,928,955)	10,678,214	-	-
Water	(2,974,676)	3,193,225	-	168,000
Wastewater	(1,937,230)	2,065,623	-	89,900
Sanitation	(1,069,763)	1,323,672	-	-
Airport	(75,469)	70,727	-	-
Total business-type activities	(14,986,093)	17,331,461	-	257,900
Total primary government	\$ (25,933,554)	\$ 18,926,639	\$ 842,045	\$ 414,786

Component Unit:
Lockhart Economic Development Corporation

Ad valorem taxes levied for general purposes
Ad valorem taxes levied for debt service
Sales and use tax
Franchise tax
Other taxes
Interest on deposits
Impact fees
Miscellaneous revenues
Transfers

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
STATEMENT OF NET ASSETS
September 30, 2012

Net (Expense) Revenue and Changes in Net Assets

Primary Government		Component Unit
Governmental Activities	Business-type Activities	
\$ (635,521)		
(3,924,638)		
(2,870,543)		
5,664		
(771,905)		
(156,409)		
<u>(8,353,352)</u>		
	\$ 1,749,259	
	386,549	
	218,293	
	253,909	
	<u>(4,742)</u>	
	2,603,268	
<u>(8,353,352)</u>	<u>2,603,268</u>	
		<u>\$ (388,741)</u>
2,869,130		-
542,274		-
1,292,841		646,421
293,375		-
104,650		-
24,992	13,906	2,234
-	32,398	-
195,425	-	453,367
<u>2,146,642</u>	<u>(2,146,642)</u>	<u>-</u>
<u>7,469,329</u>	<u>(2,100,338)</u>	<u>1,102,022</u>
<u>(884,023)</u>	<u>502,930</u>	<u>713,281</u>
23,893,229	19,732,310	1,006,024
<u>\$ 23,009,206</u>	<u>\$ 20,235,240</u>	<u>\$ 1,719,305</u>

CITY OF LOCKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2012

	<u>General</u>	<u>2009 Certificate of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 2,720,313	\$ 3,209,455	\$ 1,055,251	\$ 6,985,019
Receivables:				
Ad valorem taxes	247,951	-	50,400	298,351
Sales and use taxes	206,784	-	-	206,784
Miscellaneous	701,372	-	130,587	831,959
Due from other funds	66,885	-	-	66,885
Prepaid expenses	19,180	-	-	19,180
Inventory, at cost	31,110	-	-	31,110
Total Assets	<u>\$ 3,993,595</u>	<u>\$ 3,209,455</u>	<u>\$ 1,236,238</u>	<u>\$ 8,439,288</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable - trade	125,680	64,929	92,460	283,069
Payroll related liabilities	295,032	-	-	295,032
Other payables	2,227	-	-	2,227
Deferred revenues	504,344	-	51,395	555,739
Due to other funds	-	-	66,885	66,885
Total Liabilities	<u>\$ 927,283</u>	<u>\$ 64,929</u>	<u>\$ 210,740</u>	<u>\$ 1,202,952</u>
Fund Balances:				
Nonspendable	50,290	-	-	50,290
Restricted-construction	-	3,144,526	53,069	3,197,595
Restricted-debt service	-	-	499,163	499,163
Restricted-special revenue	94,718	-	473,266	567,984
Committed fund balances:				
Capital lease	179,161	-	-	179,161
Sidewalks	31,241	-	-	31,241
Revolving loan	253,335	-	-	253,335
Industrial park	330,599	-	-	330,599
Unassigned	2,126,968	-	-	2,126,968
Total Fund Balances	<u>3,066,312</u>	<u>3,144,526</u>	<u>1,025,498</u>	<u>7,236,336</u>
Total Liabilities and Fund Balances	<u>\$ 3,993,595</u>	<u>\$ 3,209,455</u>	<u>\$ 1,236,238</u>	<u>\$ 8,439,288</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, 2012

Total fund balance-total governmental funds (page 16)	\$ 7,236,336
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,890,600
Receivables that are not available to pay current year expenditures are deferred in the funds.	555,739
Bond issue costs which will be amortized in future years are not reported in the funds.	94,590
Accrued vacation and sickleave payable is not due and payable in the current period and, therefore, is not reported in the funds.	(482,466)
Long-term liabilities consisting of bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	(10,038,375)
Accrued interest payable on bonded debt is not reported in the funds.	(68,057)
Long-term liabilities consisting of capital leases payable are not due and payable in the current period and, therefore, are not reported in the funds.	(179,161)
Total net assets of governmental activities (page 12)	\$ <u><u>23,009,206</u></u>

CITY OF LOCKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>General</u>	<u>2009 Certificate of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes:				
Ad valorem	\$ 2,860,933	\$ -	\$ 541,119	\$ 3,402,052
Sales and other taxes	1,597,814	-	93,052	1,690,866
Fines, fees, and forfeitures	1,314,608	-	411,057	1,725,665
Charges for service	45,155	-	-	45,155
Licenses and permits	61,138	-	-	61,138
Grants and intergovernmental	433,636	-	221,567	655,203
Interst Income	10,648	9,819	4,524	24,991
Miscellaneous	250,287	-	352,255	602,542
Total revenues	<u>6,574,219</u>	<u>9,819</u>	<u>1,623,574</u>	<u>8,207,612</u>
Expenditures				
Current:				
General government	1,093,368	-	41,585	1,134,953
Public Safety	5,242,534	-	184,152	5,426,686
Public works	1,295,622	-	315,940	1,611,562
Health and welfare	5,434	-	-	5,434
Culture and recreation	754,965	-	17,554	772,519
Capital outlay	-	659,137	374,131	1,033,268
Debt service:				
Administrative charges	-	-	400	400
Interest	14,958	-	445,658	460,616
Principal retirement	172,980	-	741,273	914,253
Total expenditures	<u>8,579,861</u>	<u>659,137</u>	<u>2,120,693</u>	<u>11,359,691</u>
Excess (deficiency) of revenues over (under) expenditures	(2,005,642)	(649,318)	(497,119)	(3,152,079)
Other financing sources (uses):				
Transfers in	2,356,642	-	318,317	2,674,959
Transfers out	(178,317)	-	(350,000)	(528,317)
Total other financing sources (uses)	<u>2,178,325</u>	<u>-</u>	<u>(31,683)</u>	<u>2,146,642</u>
Net change in fund balances	172,683	(649,318)	(528,802)	(1,005,437)
Fund balances - beginning	2,893,629	3,793,844	1,554,300	8,241,773
Fund balances - ending	<u>\$ 3,066,312</u>	<u>\$ 3,144,526</u>	<u>\$ 1,025,498</u>	<u>\$ 7,236,336</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, 2012

Net change in fund balances-governmental funds (page 18)	\$	(1,005,437)
 Amounts reported in governmental activities and in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized.		1,552,408
Loss on sale of assets sold is recorded as an expense in the government-wide statements		(6,047)
Capital assets are not recorded in government funds and therefore are not depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives. This is the amount of 2012 depreciation.		(2,001,023)
Revenues that are deferred in governmental activities because they do not provide current financial resources are not deferred in the Statement of Activities. This is the change in deferred from the prior year.		(284,769)
Bond issue costs are expended in the governmental activities, but are capitalized and amortized over the life of the bond in the Statement of Activities. This is the current year amortization.		(13,116)
The repayment of principal on debt consumes current financial resources and is expended in the governmental funds, but is a reduction of the liability and does not affect the Statement of Activities.		914,253
Amounts to be expended for long-term employee leave is not recorded as an expenditure in the funds, but is an expense in the Statement of Activities. This is the change in compensated absences in 2012.		(44,899)
Governmental funds do not accrue interest payable because it is not paid out of current resources. These are reported as expenditures in the government-wide statements. This is the change in accrued interest payable from 2011.		4,607
Change in net assets of governmental activities (page 14)	\$	<u>(884,023)</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2012

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,356,111	\$ 1,728,615	\$ 1,238,459
Accounts receivable:			
Customer accounts	1,836,506	568,256	307,365
Contractual settlement	-	185,848	-
Other	-	-	-
Inventory	332,743	-	-
Prepaid items	100	-	111
Total current assets	<u>3,525,460</u>	<u>2,482,719</u>	<u>1,545,935</u>
Noncurrent assets			
Contractual settlement	-	1,126,019	-
Capital assets (net):			
Land and other assets not being depreciated	-	241,312	294,740
Building, improvements and equipment	2,512,435	10,634,701	4,693,976
Bond issue costs	2,783	79,206	12,619
Total noncurrent assets	<u>2,515,218</u>	<u>12,081,238</u>	<u>5,001,335</u>
Total assets	<u>\$ 6,040,678</u>	<u>\$ 14,563,957</u>	<u>\$ 6,547,270</u>
LIABILITIES			
Current liabilities:			
Accounts payable - trade	\$ 692,304	\$ 144,537	\$ 130,284
Payroll related liabilities	37,213	13,597	11,499
Other payables	-	29,679	50,296
Deferred revenues	-	-	-
Due to other governments	44,531	-	-
Customer deposits	221,402	78,706	-
Accrued compensated absences	74,976	25,588	14,447
Current portion of long-term liabilities:			
Capital leases	187,204	130,091	-
Bonds and notes	35,362	454,657	173,769
Total current liabilities	<u>1,292,992</u>	<u>876,855</u>	<u>380,295</u>
Noncurrent liabilities			
Capital lease payable	1,042,166	752,185	-
Bonds and notes	113,625	3,145,986	803,226
Total noncurrent liabilities	<u>1,155,791</u>	<u>3,898,171</u>	<u>803,226</u>
Total liabilities	<u>2,448,783</u>	<u>4,775,026</u>	<u>1,183,521</u>
Net assets:			
Invested in capital assets, net of related debt	1,136,861	6,230,988	3,729,600
Restricted net assets	-	119,342	244,023
Unrestricted net assets	2,455,034	3,438,601	1,390,126
Total net assets	<u>3,591,895</u>	<u>9,788,931</u>	<u>5,363,749</u>
Total liabilities and net assets	<u>\$ 6,040,678</u>	<u>\$ 14,563,957</u>	<u>\$ 6,547,270</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2012**

<u>Other Funds</u>	<u>Total</u>
\$ 336,329	\$ 4,659,514
193,470	2,905,597
-	185,848
560	560
-	332,743
-	211
<u>530,359</u>	<u>8,084,473</u>

-	1,126,019
192,570	728,622
1,044,040	18,885,152
-	94,608
<u>1,236,610</u>	<u>20,834,401</u>
<u>\$ 1,766,969</u>	<u>\$ 28,918,874</u>

\$ 78,529	\$ 1,045,654
4,330	66,639
1,663	81,638
3,547	3,547
-	44,531
7,200	307,308
7,981	122,992
-	317,295
<u>55,000</u>	<u>718,788</u>
<u>158,250</u>	<u>2,708,392</u>

-	1,794,351
<u>118,054</u>	<u>4,180,891</u>
<u>118,054</u>	<u>5,975,242</u>
<u>276,304</u>	<u>8,683,634</u>

1,063,556	12,161,005
-	363,365
<u>427,109</u>	<u>7,710,870</u>
<u>1,490,665</u>	<u>20,235,240</u>
<u>\$ 1,766,969</u>	<u>\$ 28,918,874</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF REVEUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2012

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Other Funds</u>	<u>Total</u>
Operating revenues:					
Charges for service	\$ 10,634,428	\$ 3,148,649	\$ 2,063,618	\$ 1,380,368	\$ 17,227,063
Miscellaneous	43,786	44,576	2,005	14,031	104,398
Total operating revenues	<u>10,678,214</u>	<u>3,193,225</u>	<u>2,065,623</u>	<u>1,394,399</u>	<u>17,331,461</u>
Operating expenses:					
Personnel services	848,106	301,190	251,066	104,645	1,505,007
Contracts and services	151,455	15,940	20,042	968,500	1,155,937
Materials and supplies	61,991	51,561	24,489	8,534	146,575
Maintenance and repairs	231,963	53,237	42,071	9,415	336,686
Power, water, water treatment	7,198,782	1,708,090	1,378,506	-	10,285,378
Depreciation and amortization	330,959	635,833	179,003	40,414	1,186,209
Miscellaneous	39,255	6,152	2,945	1,097	49,449
Total operating expenses	<u>8,862,511</u>	<u>2,772,003</u>	<u>1,898,122</u>	<u>1,132,605</u>	<u>14,665,241</u>
Net operating income	<u>1,815,703</u>	<u>421,222</u>	<u>167,501</u>	<u>261,794</u>	<u>2,666,220</u>
Non-operating revenues (expenses)					
Interest income	3,956	4,968	4,160	822	13,906
Interest expense	(66,444)	(202,673)	(39,108)	(12,627)	(320,852)
Impact fees	-	26,926	5,472	-	32,398
Total non-operating revenues (expenses)	<u>(62,488)</u>	<u>(170,779)</u>	<u>(29,476)</u>	<u>(11,805)</u>	<u>(274,548)</u>
Income before contributions and transfers	1,753,215	250,443	138,025	249,989	2,391,672
Capital Contributions					
Grants and contributions	-	168,000	89,900	-	257,900
Transfers in	-	-	-	13,732	13,732
Transfers out	(1,624,182)	(63,870)	(361,548)	(110,774)	(2,160,374)
	<u>(1,624,182)</u>	<u>104,130</u>	<u>(271,648)</u>	<u>(97,042)</u>	<u>(1,888,742)</u>
Change in net assets	129,033	354,573	(133,623)	152,947	502,930
Total net assets-beginning of year	3,462,862	9,434,358	5,497,372	1,337,718	19,732,310
Total net assets-end of year	<u>\$ 3,591,895</u>	<u>\$ 9,788,931</u>	<u>\$ 5,363,749</u>	<u>\$ 1,490,665</u>	<u>\$ 20,235,240</u>

The accompanying notes are an integral part of this statement.

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CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2012

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments received from customers	\$ 11,256,536	\$ 3,356,175	\$ 2,189,842
Payments to suppliers for goods and services	(7,843,472)	(1,994,843)	(1,413,518)
Payments for salaries	(835,026)	(297,452)	(248,973)
Net cash provided by operating activities	<u>2,578,038</u>	<u>1,063,880</u>	<u>527,351</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(1,624,182)	(63,870)	(361,548)
Transfers from other funds	-	-	-
Contractual payment	-	185,848	-
	<u>(1,624,182)</u>	<u>121,978</u>	<u>(361,548)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Impact fees	-	26,926	5,472
Acquisition and construction of capital assets	(322,180)	(463,015)	(307,069)
Capital grants received	-	168,000	89,900
Principal paid on bond and debt	(34,105)	(437,241)	(170,435)
Principal paid on capital leases	(171,590)	(146,263)	-
Interest paid on bond and debt	(66,447)	(198,000)	(35,873)
Net cash provided (used) by capital and related financing activities	<u>(594,322)</u>	<u>(1,049,593)</u>	<u>(418,005)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	3,956	4,968	4,160
Net cash provided (used) by investing activities	<u>3,956</u>	<u>4,968</u>	<u>4,160</u>
Net increase (decrease) in cash and cash equivalents	<u>363,490</u>	<u>141,233</u>	<u>(248,042)</u>
Cash and cash equivalents at beginning of period	992,621	1,587,382	1,486,501
Cash and cash equivalents at end of period	<u>\$ 1,356,111</u>	<u>\$ 1,728,615</u>	<u>\$ 1,238,459</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, 2012**

<u>Other Funds</u>	<u>Total</u>
\$ 1,381,994	\$ 18,184,547
(985,011)	(12,236,844)
<u>(105,542)</u>	<u>(1,486,993)</u>
291,441	4,460,710
(110,774)	(2,160,374)
13,732	13,732
-	185,848
<u>(97,042)</u>	<u>(1,702,894)</u>
-	32,398
-	(1,092,264)
-	257,900
(46,946)	(688,727)
-	(317,853)
<u>(12,627)</u>	<u>(312,947)</u>
(59,573)	(2,121,493)
<u>822</u>	<u>13,906</u>
822	13,906
<u>135,648</u>	<u>392,329</u>
<u>200,681</u>	<u>4,267,185</u>
\$ <u><u>336,329</u></u>	\$ <u><u>4,659,514</u></u>

Continued

CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2012

**RECONCILIATION OF UTILITY OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>
Operating income	\$ 1,815,703	\$ 416,549	\$ 167,323
Depreciation	330,263	630,203	177,457
Amortization	696	10,302	1,724
(Increase) decrease in assets:			
Accounts receivable	606,882	159,797	124,219
Inventory	(17,954)	-	-
Prepaid expenses	140	-	(111)
Increase (decrease) in liabilities:			
Accounts payable	(136,248)	(159,862)	54,646
Accrued payroll	4,638	2,200	1,661
Due to other governments	(5,964)	-	-
Customer deposits	(28,560)	3,153	-
Deferred revenue	-	-	-
Accrued compensated absences	8,442	1,538	432
Net cash provided (used) by operating activities	\$ <u>2,578,038</u>	\$ <u>1,063,880</u>	\$ <u>527,351</u>

**CITY OF LOCKHART, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2012**

<u>Other Funds</u>	<u>Total</u>
\$ 261,794	\$ 2,661,369
40,414	1,178,337
-	12,722
(6,608)	884,290
-	(17,954)
-	29
2,536	(238,928)
(1,074)	7,425
-	(5,964)
75	(25,332)
(5,873)	(5,873)
177	10,589
<u>\$ 291,441</u>	<u>\$ 4,460,710</u>

The accompanying notes are an integral part of this statement.

**CITY OF LOCKHART, TEXAS
 COMBINING STATEMENT OF NET ASSETS
 FIDUCIARY FUNDS
 September 30, 2012**

	Agency Funds		
	Unclaimed Property	Police Evidence Property	Total Agency Funds
Assets			
Cash and cash equivalents	\$ 6,804	\$ 6,872	\$ 13,676
Total assets	\$ 6,804	\$ 6,872	\$ 13,676
Liabilities			
Accounts payable	\$ 101	\$ -	\$ 101
Due to others	6,703	6,872	13,575
Total liabilities:	\$ 6,804	\$ 6,872	\$ 13,676

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lockhart, Texas (“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 and provides the following services as authorized by its charter: police and fire protection, maintenance of streets, planning and zoning, culture and recreation, general administrative services, electric, water, wastewater, solid waste, and airport services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Proprietary type funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City’s accounting policies are described below:

1. REPORTING ENTITY

In evaluating how to define the government, for financial purposes, management has considered all potential component units and associated component units. The decision to include a potential component unit or associated component unit in the reporting entity was made by applying the criteria set forth in GASB statement 14, “The Financial Reporting Entity” and GASB Statement 39 “Determining Whether Certain Organizations are Component Units”. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the criteria of GASB Nos. 14 and 39, the Lockhart Economic Development Corporation (LEDC) is considered to be a discretely presented component unit. The LEDC is financially accountable to the City because City Council approves the LEDC budget and must approve any debt issuance. The component unit’s board is appointed by City Council and its activities benefit the City by promoting growth and development opportunities.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net assets and statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. The value of interfund services provided and used are not eliminated in the government-wide financial statements, as elimination of those charges would distort the direct costs reported for the various functions. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed whole or in part by fees charged to external parties for goods and services. Separate financial statements are prepared for the fiduciary funds which are not included in the government-wide statements because those funds are held in trust for others.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. The General Fund and the 2009 Certificate of Obligation Capital Projects Fund are the funds that meet the criteria as major governmental funds. The combined amounts for all nonmajor funds are reflected in a single column in the fund level Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for nonmajor funds are presented within Combining and Individual Fund Statements and Schedules.

3. 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. This measurement focus is also used for the proprietary and fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash revenue types, which have been accrued, revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as program revenues and general revenues. Program revenues include 1) charges to customers or applicants for good, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs and investment earnings.

Governmental fund level financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables, including property taxes, which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Sales taxes, franchise taxes, hotel/motel taxes, and fees associated with the current fiscal year are considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items received by the government are considered to be measurable and available only when the cash is received by the City.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general government, public safety, public works, health and welfare, culture and recreation, capital acquisition, and debt service.

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The 2009 Certificate of Obligation Capital Projects Fund is used to account for the proceeds of a debt issue and their expenditures on the approved projects for which the debt was issued, mainly infrastructure improvements.

Nonmajor funds include Special Revenue Funds, Capital Projects Funds, and a Debt Services Fund.

Proprietary fund level financial statements are used to account for activities, which are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Funds are the Electric, Water, Wastewater, Solid Waste, and Airport Funds.

The Proprietary Fund is accounted for using the accrual basis of accounting as follows:

- Revenues are recognized when earned, and expenses are recognized when liabilities are incurred.
- Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Enterprise Funds consider all highly liquid investments including cash in banks, cash on hand, money market accounts, deposits in local government investment pools, and restricted cash and temporary investments to be cash equivalents.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) – (d). Statutes allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market investments and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost. Likewise, certificates of deposit, if any, are stated at amortized cost (see Note B).

CITY OF LOCKHART, TEXAS
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6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2011 and past due after January 31, 2012. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

8. INVENTORIES

The City accounts for inventories using the consumption method. Inventories consist primarily of supplies and are valued at cost determined by the average cost method.

9. BUDGET

An operating budget is adopted each fiscal year for all City governmental funds. The budget is adopted on the GAAP basis of accounting.

10. RESTRICTED ASSETS

Certain Enterprise Fund revenues are collected for a specific purpose by State law and City ordinances such as impact fees for infrastructure improvements and the purchase of future water rights. These funds are classified as restricted assets on the statement of net assets and balance sheet because their use is limited by law.

11. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sidewalks, curbs and bridges. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF LOCKHART, TEXAS
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The Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

12. COMPENSATED ABSENCES

Vested or accumulated vacation leave and sick pay that is expected to be liquidated with expendable available resources is reported as an expenditure and fund liability of the governmental fund that will pay for it. Amounts of vested or accumulated vacation leave and sick pay that are not expected to be liquidated with expendable available financial resources are reported in the government wide statements. Vested or accumulated vacation leave and sick pay of the enterprise funds are recorded as an expense and liability of that fund as the benefits accrue to employees. The General Fund is the governmental fund that has typically been used in prior years to liquidate the liability for compensated absences.

13. DEFERRED/UNEARNED REVENUE

Property tax revenues, emergency medical services, and court fines are recognized when they become both measurable and available in fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue, emergency medical service, and court fines revenue not expected to be available for the current period are reflected as deferred revenue in the funds.

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expense/expenditures are reflected as unearned revenue.

14. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net assets. On new bond issues, bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the term of the related debt.

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.

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

15. FUND BALANCE

The City adopted GASB 54. Governmental Accounting Standards Board Statement Number 54 (GASB 54) *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement provides guidance for fund balance categories and classifications and governmental fund type definitions. GASB 54 changed the way we look at cash balances, specifically reporting what cash balances, by major governmental fund type, are or are not available for public purposes. Five categories of cash balances were created and defined by GASB 54. These five categories are as follows:

- Non-spendable - These funds are not available for expenditures based on legal or contractual requirements. An example might be inventories and prepaid expenditures.
- Restricted - These funds are governed by externally enforceable restrictions.
- Committed - Fund balances in this category are limited by the government's highest level of decision making (in this case the City Council). Any changes of this designation must be done in the same manner that it was implemented. For example, if funds are committed by resolution, the commitment could only be released with another resolution.
- Assigned - For funds to be assigned, there must be an intended use which can be established by the City Council or an official delegated by the council, such as a city administrator or finance director. For example, during the budget process, the council decided to use some existing fund balance to support activities in the upcoming year.
- Unassigned - This classification is the default for all funds that do not fit into the other categories.

Restricted amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. The City's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year.

16. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The City has elected to appropriate net assets of its business type activity. Such appropriations reflect the intended use of the net assets.

17. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

18. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for electric, water, and sewer services.

CITY OF LOCKHART, TEXAS
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Operating expenses are necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

19. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B—CASH AND CASH EQUIVALENTS

The City's funds are required to be deposited and invested under the terms of the depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. CASH

At September 30, 2012, the carrying amount of the primary government's (the City) deposits in the bank were \$3,206,277 and the book balance was \$3,064,738. The City's cash was fully collateralized. The component unit's deposits were invested in TexPool. This balance was fully collateralized.

2. INVESTMENTS

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date of the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposits.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investments pools, 9) guaranteed investment contracts, and 10) commercial paper.

CITY OF LOCKHART, TEXAS
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The City's cash, and cash equivalents and that of LEDC at September 30, 2012 are as shown below:

<u>City of Lockhart:</u> <u>Investment or Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total Portfolio</u>	<u>Weighted Average Maturity in Days</u>	<u>Rating S&P</u>
TexPool Investment Pool	\$ 2,587,297	30.12%	n/a	AAAm
TexSTAR	3,000,888	34.94%	n/a	AAAm
Texas CLASS	<u>3,001,396</u>	34.94%	n/a	AAAm
Total investments held by the City	8,589,581			
Cash in banks	3,064,738			
Petty cash	<u>3,890</u>			
Total investments and cash held by City	11,658,209			
Less cash held in trust and agency funds	(13,676)			
Total cash and cash equivalents reported on statement of net assets	<u>\$ 11,644,533</u>			
 <u>Lockhart Economic Development Corporation:</u>				
<u>Investment or Investment Type</u>				
TexPool Investment Pool	<u>\$ 787,325</u>	100.00%	n/a	AAAm

ANALYSIS OF SPECIFIC DEPOSIT AND INVESTMENT RISKS

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. City investment policy follows state guidelines. The City policy allows investments in certificates of deposit with banks in Texas, investments in U.S. Treasuries and Agencies, and investment pools that invest in obligations of the United States or its agencies and instrumentalities to name a few.

At September 30, 2012, the City's investments were in investment pools. Public funds investment pools hold securities to maintain a continuous rating of no lower than Aaa or AAAm or an equivalent rating by at least one nationally recognized rating service.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

CITY OF LOCKHART, TEXAS
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Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year-end and per City policy all funds were in the City's name and collateralized with securities that maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service. The City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. All City funds are in the external investment pool as allowed by the City's investment policy, and the investment pool invests in hundreds of authorized securities that minimize concentrations of credit risk. At year-end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair market value of an investment. At year-end, the City was not exposed to interest rate risk due to investment in an external investment pool as authorized by the City's investment policy.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. The City's policy does not allow investment in foreign currency. At year end the City was not exposed to foreign currency risk.

4. INVESTMENT POLICY

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

5. PUBLIC FUNDS INVESTMENT POOLS

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, as are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

CITY OF LOCKHART, TEXAS
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NOTE C—DUE TO OTHER GOVERNMENTS

Amounts due to other governments are as follows:

Fund	Amount
Electric Fund	
Sales tax due to State	\$ <u>44,531</u>

NOTE D—PROPERTY TAX CALENDAR

The City’s property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Caldwell County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2011, upon which the fiscal 2012 levy was based, was \$477,753,000 (market value less exemptions).

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2012 was \$.7228 per \$100 of assessed value, which means that the City has a tax margin of \$1.7772 for each \$100 value. The City may not, however, adopt a tax rate that exceeds the rollback rate or the effective rate, whichever is lower, without first having two public hearings. If the City adopts a tax rate that exceeds the rollback tax rate, registered voters may petition the City for an election on the tax increase. A successful election limits the City’s current tax rate to the rollback rate.

Property taxes are recorded as receivables and deferred revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in the time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.

CITY OF LOCKHART, TEXAS
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NOTE E—INTERFUND TRANSACTIONS

Transfers consisted of the following:

Transfers Out	Transfers In			Total
	General	Governmental Nonmajor	Business-type Nonmajor	
General	\$ -	\$ 178,317	\$ -	\$ 178,317
Electric	1,610,450	-	13,732	1,624,182
Water	63,870	-	-	63,870
Wastewater	361,548	-	-	361,548
Solid Waste	110,774	-	-	110,774
Nonmajor governmental	210,000	140,000	-	350,000
	<u>\$ 2,356,642</u>	<u>\$ 318,317</u>	<u>\$ 13,732</u>	<u>\$ 2,688,691</u>

Amounts due among funds is as follows:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special Revenue	\$ 66,885	Short-term loans
		<u>\$ 66,885</u>	

NOTE F—CAPITAL ASSETS

Governmental capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balances	Reclasses and Increases	Reclasses and Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,411,863	\$ 3,500	\$ (5,646)	\$ 1,409,717
Construction in progress	280,707	1,051,133	(1,078,770)	253,070
Total capital assets not being depreciated	<u>1,692,570</u>	<u>1,054,633</u>	<u>(1,084,416)</u>	<u>1,662,787</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	71,100,771	1,394,250	-	72,495,021
Buildings and improvements	8,397,639	12,520	-	8,410,159
Equipment	5,507,438	169,775	(143,292)	5,533,921
Total capital assets being depreciated	<u>85,005,848</u>	<u>1,576,545</u>	<u>(143,292)</u>	<u>86,439,101</u>
Less accumulated depreciation for:				
Infrastructure	(54,282,695)	(1,340,957)	-	(55,623,652)
Buildings and improvements	(2,843,920)	(173,573)	-	(3,017,493)
Equipment	(3,226,541)	(486,493)	142,891	(3,570,143)
Total accumulated depreciation	<u>(60,353,156)</u>	<u>(2,001,023)</u>	<u>142,891</u>	<u>(62,211,288)</u>
Total capital assets being depreciated, net	<u>24,652,692</u>	<u>(424,478)</u>	<u>(401)</u>	<u>24,227,813</u>
Governmental activities capital assets, net	<u>\$ 26,345,262</u>	<u>\$ 630,155</u>	<u>\$ (1,084,817)</u>	<u>\$ 25,890,600</u>

CITY OF LOCKHART, TEXAS
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Depreciation Expense was charged to the governmental functions as follows:

General government	\$ 83,362
Public safety	401,194
Public works	1,459,326
Health and welfare	400
Culture and recreation	56,741
	<u>\$ 2,001,023</u>

Business-type capital asset activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Reclasses and Increases</u>	<u>Reclasses and Decreases</u>	<u>Ending Balances</u>
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 574,710	\$ -	\$ -	\$ 574,710
Construction in progress	608,460	153,912	(608,460)	153,912
Total capital assets not being depreciated	<u>1,183,170</u>	<u>153,912</u>	<u>(608,460)</u>	<u>728,622</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	29,189,586	1,378,555	-	30,568,141
Buildings and improvements	4,500,538	-	-	4,500,538
Equipment	5,163,238	168,257	-	5,331,495
Total capital assets being depreciated	<u>38,853,362</u>	<u>1,546,812</u>	<u>-</u>	<u>40,400,174</u>
Less accumulated depreciation for:				
Infrastructure	(14,361,822)	(779,804)	-	(15,141,626)
Buildings and improvements	(2,807,240)	(41,684)	-	(2,848,924)
Equipment	(3,167,624)	(356,848)	-	(3,524,472)
Total accumulated depreciation	<u>(20,336,686)</u>	<u>(1,178,336)</u>	<u>-</u>	<u>(21,515,022)</u>
Total capital assets being depreciated, net	<u>18,516,676</u>	<u>368,476</u>	<u>-</u>	<u>18,885,152</u>
Business-type activities capital assets, net	<u>\$ 19,699,846</u>	<u>\$ 522,388</u>	<u>\$ (608,460)</u>	<u>\$ 19,613,774</u>

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE G—LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2012 were comprised of the following issues:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of obligation	\$ 8,552,366	\$ -	\$ (326,387)	\$ 8,225,979	\$ 336,040
General obligation bonds	2,227,282	-	(414,886)	1,812,396	430,171
Bond obligations	10,779,648	-	(741,273)	10,038,375	766,211
Capital leases	352,141	-	(172,980)	179,161	-
	11,131,789	-	(914,253)	10,217,536	766,211
Compensated absences *	437,567	355,985	(311,086)	482,466	482,466
Total governmental activities	\$ 11,569,356	\$ 355,985	\$ (1,225,339)	\$ 10,700,002	\$ 1,248,677

Interest rates on bonds range from 3.19% to 5.5%. The capital lease interest rate is 3.99%

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General Fund

In 2008 the Series 1997 Certificates of Obligation and the series 1998 Refunding Bonds were advance refunded. The refunded debt has been called.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Certificates of obligation	\$ 382,634	\$ -	\$ (63,613)	\$ 319,021	\$ 68,960
General obligation bonds	5,202,718	-	(625,114)	4,577,604	649,828
Bond premium	4,073	-	(1,019)	3,054	-
Capital leases	2,429,499	-	(317,853)	2,111,646	317,295
	8,014,851	-	(1,007,599)	7,011,325	1,036,083
Compensated absences *	112,403	66,042	(55,453)	122,992	122,992
Total governmental activities	\$ 8,127,254	\$ 66,042	\$ (1,063,052)	\$ 7,134,317	\$ 1,159,075

Interest rates on the bonds range from 3.19% to 6.75%. The rates of capital leases range from 3.99% to 5.07%

CITY OF LOCKHART, TEXAS
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SEPTEMBER 30, 2012

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2012, including interest payments, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 766,211	\$ 417,407	\$ 1,183,618
2014	795,794	388,260	1,184,054
2015	825,384	357,967	1,183,351
2016	855,330	326,528	1,181,858
2017	393,597	293,930	687,527
2018-2022	2,327,059	1,201,271	3,528,330
2023-2027	3,315,000	613,075	3,928,075
2028-2031	760,000	33,440	793,440
	<u>\$ 10,038,375</u>	<u>\$ 3,631,878</u>	<u>\$ 13,670,253</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	718,788	186,037	904,825
2014	744,207	160,075	904,282
2015	774,616	133,231	907,847
2016	739,670	105,204	844,874
2017	131,403	79,909	211,312
2018-2022	737,941	307,985	1,045,926
2023-2027	850,000	139,489	989,489
2028-2031	200,000	4,400	204,400
	<u>\$ 4,896,625</u>	<u>\$ 1,116,330</u>	<u>\$ 6,012,955</u>

Future commitments on capital leases are as follows:

<u>Governmental Activities</u>	
<u>Year Ending September 30:</u>	
2013	\$ -
2014	187,954
Total Minimum Rentals	<u>187,954</u>
Less Amount Representing Interest	<u>(8,793)</u>
Net Present Value	<u>\$ 179,161</u>

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

<u>Business-type Activities</u>	
<u>Year Ending September 30:</u>	
2013	\$ 418,445
2014	469,184
2015	467,089
2016	489,386
2017	506,751
2018	<u>298,715</u>
Total Minimum Rentals	<u>2,649,570</u>
Less Amount Representing Interest	<u>(537,924)</u>
Net Present Value	<u>\$ 2,111,646</u>

NOTE H—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 agreements 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.

GBRA issued \$6,370,000 in Contract Revenue Bonds in fiscal year 2004 for the water delivery system. As of September 30, 2012, there was \$5,235,000 of bonds outstanding. Through the agreements, 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 off 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 fiscal year 1996 for the treatment system. That issue was refunded by the Series 2010 Contract Revenue Bonds totaling \$4,025,000. As of September 30, 2012, \$2,960,000 of refunding bonds was 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 I—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

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

2018. As of September 30, 2012 the City received \$1,898,306 in scheduled installment payments. The remaining balance due the City is reported as a receivable in the accompanying government wide and proprietary fund Statements of Net Assets.

NOTE J—EMPLOYEES’ RETIREMENT SYSTEM

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

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

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

	Plan years 2011 and 2012
Employee deposit rate	6.00%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service requirement eligibility (expressed as age/years of service)	60/10, 0/20
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating

Contributions- Under the state law governing TMRS, the contribution rate for each entity 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 (over-funded) actuarial liability (asset) over the applicable period for that entity. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as updated service credits and annuity increases.

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

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

Funding information:

Actuarial valuation date	12/31/2009	12/31/2010	12/31/2011
Actuarial value of assets	\$10,617,782	\$16,205,151	\$17,759,096
Actuarial accrued liability	\$15,498,213	\$20,118,218	\$21,609,909
Unfunded actuarial accrued liability	\$4,880,431	\$3,913,067	\$3,850,813
Funded ratio	68.51%	80.55%	82.18%
Annual covered payroll	\$5,654,236	\$5,764,523	\$5,784,879
Unfunded actuarial liability as a percent of payroll	86.31%	67.88%	66.57%

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information of the latest actuarial valuation at December 31, 2011 also follows:

Actuarial valuation date	12/31/2009	12/31/2010	12/31/2011
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	10 year smoothed	10 year smoothed	10 year smoothed
Actuarial assumptions:			
Investment return	7.50%	7.00%	7.00%
Projected salary increases	varies by age	varies by age	varies by age
Inflation	3.00%	3.00%	3.00%
Cost of living adjustments	2.10%	2.10%	2.10%

Supplemental Death Benefits Fund

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

Benefits- 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 post employment benefit" or OPEB.

Contributions- The City contributes to the SDBF at a contractually required contribution rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance.

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions for 2012, 2011, and 2010 were \$12,277, \$14,929, and \$13,614 respectively and equaled the required contributions for those years. A schedule of contribution rates follows:

Plan Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
2012	0.19%	0.19%	100.00%
2011	0.27%	0.27%	100.00%
2010	0.23%	0.23%	100.00%

NOTE K—TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

Plan Description

The Fire Fighters 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 ("State") to provide pension benefits for emergency service 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, 2012 there were 199 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, 2012, TESRS membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,758
Terminated participants entitled to benefits but not yet receiving them	2,260
Active participants (vested and nonvested)	4,230
	9,248

Senate Bill 411, 65th Legislature, Regular Session (1977) created TESRS, and established the applicable benefit provisions. The 79th 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 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.

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

Funding Policy

Contribution provisions were originally established by Senate Bill 411, 65th 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.

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 ended August 31, 2010, total contributions (dues and prior services) of \$2,875,103 were paid to 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 2012. 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 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 State appropriations for the fiscal year ended 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 ended August 31, 2012 are less than the contributions required because of the lag in time between an actuarial valuation that shows the need for maximum State contribution amount and the appropriation process.

Actuarial Valuation Information

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

Actuarial valuation date	8/31/2008	8/31/2010
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open
Amortization period	6 years	30 years
Asset valuation method	market value smoothed	market value smoothed
Actuarial assumptions:		
Investment return	8.00%	7.75%
Projected salary increases	none	none
Inflation	3.50%	3.50%
Cost of living adjustments	none	none

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

Funding information:

Actuarial valuation date	8/1/2008	8/31/2010
Actuarial value of assets	\$60,987,157	\$64,113,803
Actuarial accrued liability	\$64,227,341	\$81,264,230
Unfunded actuarial accrued liability (UAAL)	\$3,240,184	\$17,150,427
Funded ratio	94.96%	78.90%
Total members covered	8,254	8,644
UAAL per member covered	393	1,984

Trend information, State wide:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2011	See *		
September 30, 2010	2,875,103	100%	-
September 30, 2009	2,698,271	100%	-

* This amount is not available at the time of issuing this report.

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE L—FUND BALANCE CATEGORIES

The fund balance categories after adopting GASB 54 (see Note A section 15) are as follows:

	<u>General</u>	<u>2009 Certificate of Obligation</u>	<u>Other Government al Funds</u>	<u>Total Government al Funds</u>
Fund Balances:				
Nonspendable	\$ 50,290	\$ -	\$ -	\$ 50,290
Restricted-construction	-	3,144,526	53,069	3,197,595
Restricted-debt service	-	-	499,163	499,163
Restricted-special revenue	-	-	473,266	473,266
Committed fund balances:				
Capital lease	179,161	-	-	179,161
Sidewalks	31,241	-	-	31,241
Revolving loan	253,335	-	-	253,335
Industrial park	330,599	-	-	330,599
Parks	24,533	-	-	24,533
Library improvements	4,995	-	-	4,995
Asbestos settlement	23,655	-	-	23,655
Children's library	13,514	-	-	13,514
Fire apparatus building	25,020	-	-	25,020
Library E-books	3,001	-	-	3,001
Unassigned	2,126,968	-	-	2,126,968
Total Fund Balances	\$ <u>3,066,312</u>	\$ <u>3,144,526</u>	\$ <u>1,025,498</u>	\$ <u>7,236,336</u>

NOTE M—CONTINGENCIES

Grant Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed claims, including amounts already collected may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Water Purchase Commitment

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

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2012

Construction Commitments

As of September 30, 2012 the City was committed under various ongoing construction contracts. Those commitments are as follows:

Commitments:

General Government

Infrastructure improvements	\$	83,533
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Business-Type

Waste water system improvements		330,783
	\$	<u>414,316</u>

Funding Sources:

General Government

Unspent bond proceeds	\$	58,533
Unspent grant funding		25,000

Business-Type

Grant funding		273,000
Unspent bond proceeds		32,713
Budgeted wastewater funds		25,070
	\$	<u>414,316</u>

NOTE N—RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contribution amounts. During the past three years, no settlements have exceeded insurance coverage.

CITY OF LOCKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance With Budget Positive (Negative)</u>
Revenues				
Taxes:				
Ad valorem	\$ 2,816,389	\$ 2,816,389	\$ 2,860,933	\$ 44,544
Sales and other taxes	1,467,488	1,467,488	1,597,814	130,326
Fines, fees, and forfeitures	1,104,386	1,104,386	1,314,608	210,222
Charges for service	-	-	45,155	45,155
Licenses and permits	86,679	86,679	61,138	(25,541)
Grants and intergovernmental	372,036	468,034	433,636	(34,398)
Interest Income	3,000	3,000	10,648	7,648
Miscellaneous	104,581	104,581	250,287	145,706
Total revenues	<u>5,954,559</u>	<u>6,050,557</u>	<u>6,574,219</u>	<u>523,662</u>
Expenditures				
Current:				
General government	1,171,999	1,171,999	1,093,368	78,631
Public Safety	5,397,415	5,513,674	5,242,534	271,140
Public works	1,292,951	1,292,951	1,295,622	(2,671)
Health and welfare	95,006	95,006	5,434	89,572
Culture and recreation	758,252	758,252	754,965	3,287
Debt service:				
Interest	-	-	14,958	(14,958)
Principal retirement	-	-	172,980	(172,980)
Total expenditures	<u>8,715,623</u>	<u>8,831,882</u>	<u>8,579,861</u>	<u>252,021</u>
Excess (deficiency) of revenues over (under) expenditures	(2,761,064)	(2,781,325)	(2,005,642)	(775,683)
Other financing sources (uses):				
Transfers in	2,509,728	2,509,728	2,356,642	(153,086)
Transfers out	(104,094)	(104,094)	(178,317)	(74,223)
Total other financing sources (uses)	<u>2,405,634</u>	<u>2,178,325</u>	<u>2,178,325</u>	<u>(227,309)</u>
Net change in fund balances	(355,430)	(375,691)	172,683	548,374
Fund balances - beginning	2,893,629	2,893,629	2,893,629	-
Fund balances - ending	<u><u>\$ 2,538,199</u></u>	<u><u>\$ 2,517,938</u></u>	<u><u>\$ 3,066,312</u></u>	<u><u>\$ 548,374</u></u>

**CITY OF LOCKHART, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2012**

	<u>Police Federal COPS Grant</u>	<u>Radio Tower Replacement</u>	<u>Forfeited Property</u>
Assets			
Cash and cash equivalents	\$ -	\$ 80,922	\$ 1,189
Receivables:			
Ad valorem taxes	-	-	-
Miscellaneous	13,749	-	-
Due from other funds	-	-	-
Total Assets	<u>\$ 13,749</u>	<u>\$ 80,922</u>	<u>\$ 1,189</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable - trade	\$ -	\$ -	\$ -
Deferred revenue	-	-	-
Due to other funds	13,749	-	-
Total Liabilities	<u>13,749</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted-debt service	-	-	-
Restricted-capital projects funds	-	-	-
Restricted-special revenue funds	-	80,922	1,189
Total fund balances	<u>-</u>	<u>80,922</u>	<u>1,189</u>
Total liabilities and fund balances	<u>\$ 13,749</u>	<u>\$ 80,922</u>	<u>\$ 1,189</u>

**CITY OF LOCKHART, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2012**

<u>Hotel/Motel Occupancy Tax</u>	<u>TCEQ NPS Grant</u>
\$ 740	\$ -
-	-
21,886	20,296
<u>-</u>	<u>-</u>
<u>\$ 22,626</u>	<u>\$ 20,296</u>
\$ 11,886	\$ 7,784
-	-
<u>-</u>	<u>53,136</u>
<u>11,886</u>	<u>60,920</u>
-	-
-	-
<u>10,740</u>	<u>(40,624)</u>
<u>10,740</u>	<u>(40,624)</u>
<u>\$ 22,626</u>	<u>\$ 20,296</u>

**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012**

	<u>Road Impact Fee</u>	<u>Court Technology</u>	<u>Radio System Maintenance Fund</u>	<u>Court Security</u>
Assets				
Cash and cash equivalents	\$ 6,362	\$ 34,580	\$ 17,811	\$ 11,680
Receivables:				
Ad valorem taxes	-	-	-	-
Miscellaneous	-	4,270	-	3,253
Due from other funds	-	-	-	-
Total Assets	<u>\$ 6,362</u>	<u>\$ 38,850</u>	<u>\$ 17,811</u>	<u>\$ 14,933</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable - trade	\$ -	\$ -	\$ 12,134	\$ -
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>12,134</u>	<u>-</u>
Fund Balances:				
Restricted-debt service	-	-	-	-
Restricted-capital projects funds	-	-	-	-
Restricted-special revenue funds	6,362	38,850	5,677	14,933
Total fund balances	<u>6,362</u>	<u>38,850</u>	<u>5,677</u>	<u>14,933</u>
Total liabilities and fund balances	<u>\$ 6,362</u>	<u>\$ 38,850</u>	<u>\$ 17,811</u>	<u>\$ 14,933</u>

**CITY OF LOCKHART, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2012**

<u>Child Safety</u>	<u>Court Efficiency</u>	<u>Cable Education Fund</u>	<u>Transportation Improvements</u>	<u>Drainage Improvements</u>
\$ 17,720	\$ 6,657	\$ 73,364	\$ 149,430	\$ 17,548
-	-	-	-	-
-	763	5,366	39,184	21,190
-	-	-	-	-
<u>\$ 17,720</u>	<u>\$ 7,420</u>	<u>\$ 78,730</u>	<u>\$ 188,614</u>	<u>\$ 38,738</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
17,720	7,420	78,730	188,614	38,738
<u>17,720</u>	<u>7,420</u>	<u>78,730</u>	<u>188,614</u>	<u>38,738</u>
<u>\$ 17,720</u>	<u>\$ 7,420</u>	<u>\$ 78,730</u>	<u>\$ 188,614</u>	<u>\$ 38,738</u>

**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012**

	Law Enforcement Education	Confiscated Property	Glosserman Fund	Brock Cabin
Assets				
Cash and cash equivalents	\$ 10,645	\$ 533	\$ 503	\$ 12,594
Receivables:				
Ad valorem taxes	-	-	-	-
Miscellaneous	630	-	-	-
Due from other funds	-	-	-	-
Total Assets	\$ 11,275	\$ 533	\$ 503	\$ 12,594
Liabilities and Fund Balances				
Liabilities:				
Accounts payable - trade	\$ 377	\$ 533	\$ -	\$ -
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Total Liabilities	377	533	-	-
Fund Balances:				
Restricted-debt service	-	-	-	-
Restricted-capital projects funds	-	-	-	-
Restricted-special revenue funds	10,898	-	503	12,594
Total fund balances	10,898	-	503	12,594
Total liabilities and fund balances	\$ 11,275	\$ 533	\$ 503	\$ 12,594

**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012**

<u>Special Revenue Total</u>	<u>Interest and Sinking Fund</u>	<u>1996 Certificates of Obligation</u>	<u>Clearfork Detention Basin</u>	<u>Clearfork Section 1 Sidewalk</u>	<u>2006 Certificates of Obligation</u>
\$ 442,278	\$ 500,158	\$ 31,656	\$ 21,193	\$ 16,031	\$ 20,519
-	-	-	-	-	-
-	50,400	-	-	-	-
130,587	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 572,865</u>	<u>\$ 550,558</u>	<u>\$ 31,656</u>	<u>\$ 21,193</u>	<u>\$ 16,031</u>	<u>\$ 20,519</u>
32,714	\$ -	\$ 28,168	\$ 17,450	\$ 13,200	\$ -
-	51,395	-	-	-	-
66,885	-	-	-	-	-
<u>99,599</u>	<u>51,395</u>	<u>28,168</u>	<u>17,450</u>	<u>13,200</u>	<u>-</u>
-	499,163	-	-	-	-
-	-	3,488	3,743	2,831	20,519
473,266	-	-	-	-	-
<u>473,266</u>	<u>499,163</u>	<u>3,488</u>	<u>3,743</u>	<u>2,831</u>	<u>20,519</u>
<u>\$ 572,865</u>	<u>\$ 550,558</u>	<u>\$ 31,656</u>	<u>\$ 21,193</u>	<u>\$ 16,031</u>	<u>\$ 20,519</u>

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**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2012**

	<u>2006-A Bond Fund</u>	<u>Capital Projects Total</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 23,416	\$ 112,815	\$ 1,055,251
Receivables:			
Ad valorem taxes	-	-	50,400
Miscellaneous	-	-	130,587
Due from other funds	-	-	-
Total Assets	<u>\$ 23,416</u>	<u>\$ 112,815</u>	<u>\$ 1,236,238</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable - trade	\$ 928	\$ 59,746	\$ 92,460
Deferred revenue	-	-	51,395
Due to other funds	-	-	66,885
Total Liabilities	<u>928</u>	<u>59,746</u>	<u>210,740</u>
Fund Balances:			
Restricted-debt service	-	-	499,163
Restricted-capital projects funds	22,488	53,069	53,069
Restricted-special revenue funds	-	-	473,266
Total fund balances	<u>22,488</u>	<u>53,069</u>	<u>1,025,498</u>
Total liabilities and fund balances	<u>\$ 23,416</u>	<u>\$ 112,815</u>	<u>\$ 1,236,238</u>

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CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	Police Federal COPS Grant	Radio Tower Replacement	Forfeited Property
Revenues			
Taxes:			
Ad valorem	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-
Fines, fees, and forfeitures	-	-	745
Grants and contributions	27,756	-	-
Interest income	-	254	3
Miscellaneous	-	-	-
Total revenues	27,756	254	748
Expenditures			
Current:			
General government	-	-	-
Public safety	27,756	18,958	56
Public works	-	-	-
Culture and recreation	-	-	-
Capital outlay	-	-	-
Debt service			
Administrative charges	-	-	-
Interest	-	-	-
Principal retirement	-	-	-
Total expenditures:	27,756	18,958	56
Excess (deficiency) of revenues over (under) expenditures	-	(18,704)	692
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	-	(18,704)	692
Fund balances - beginning	-	99,626	497
Fund balances - ending	\$ -	\$ 80,922	\$ 1,189

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

<u>Hotel/Motel Occupancy Tax</u>	<u>TCEQ NPS Grant</u>
\$ -	\$ -
93,052	-
-	-
-	125,474
45	-
-	-
<u>93,097</u>	<u>125,474</u>
41,585	-
-	-
-	209,400
11,467	-
-	-
-	-
-	-
<u>53,052</u>	<u>209,400</u>
<u>40,045</u>	<u>(83,926)</u>
-	43,302
<u>(40,000)</u>	<u>-</u>
<u>(40,000)</u>	<u>43,302</u>
45	(40,624)
10,695	-
<u>\$ 10,740</u>	<u>\$ (40,624)</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>Road Impact Fee</u>	<u>Court Technology</u>	<u>Radio System Maintenance Fund</u>	<u>Court Security</u>
Revenues				
Taxes:				
Ad valorem	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-	-
Fines, fees, and forfeitures	6,351	6,237	-	4,676
Grants and contributions	-	-	68,337	-
Interest income	11	95	31	31
Miscellaneous	-	-	-	-
Total revenues	<u>6,362</u>	<u>6,332</u>	<u>68,368</u>	<u>4,707</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	9,857	111,772	2,947
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Administrative charges	-	-	-	-
Interest	-	-	-	-
Principal retirement	-	-	-	-
Total expenditures:	<u>-</u>	<u>9,857</u>	<u>111,772</u>	<u>2,947</u>
Excess (deficiency) of revenues over (under) expenditures	<u>6,362</u>	<u>(3,525)</u>	<u>(43,404)</u>	<u>1,760</u>
Other Financing Sources (Uses)				
Transfers in	-	-	49,081	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>49,081</u>	<u>-</u>
Net change in fund balances	<u>6,362</u>	<u>(3,525)</u>	<u>5,677</u>	<u>1,760</u>
Fund balances - beginning	-	42,375	-	13,173
Fund balances - ending	<u>\$ 6,362</u>	<u>\$ 38,850</u>	<u>\$ 5,677</u>	<u>\$ 14,933</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

<u>Child Safety</u>	<u>Court Efficiency</u>	<u>Cable Education Fund</u>	<u>Transportation Improvements</u>	<u>Drainage Improvements</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
826	973	-	253,252	137,997
-	-	-	-	-
51	18	184	213	229
-	-	21,323	-	-
<u>877</u>	<u>991</u>	<u>21,507</u>	<u>253,465</u>	<u>138,226</u>
-	-	-	-	-
8,478	456	1,356	-	-
-	-	-	57,881	48,659
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>8,478</u>	<u>456</u>	<u>1,356</u>	<u>57,881</u>	<u>48,659</u>
<u>(7,601)</u>	<u>535</u>	<u>20,151</u>	<u>195,584</u>	<u>89,567</u>
-	-	-	-	-
-	-	-	(151,667)	(158,333)
-	-	-	(151,667)	(158,333)
(7,601)	535	20,151	43,917	(68,766)
25,321	6,885	58,579	144,697	107,504
<u>\$ 17,720</u>	<u>\$ 7,420</u>	<u>\$ 78,730</u>	<u>\$ 188,614</u>	<u>\$ 38,738</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>Law Enforcement Education</u>	<u>Confiscated Property</u>	<u>Glosserman Fund</u>	<u>Brock Cabin</u>
Revenues				
Taxes:				
Ad valorem	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-	-
Fines, fees, and forfeitures	-	-	-	-
Grants and contributions	-	-	-	-
Interest income	32	-	1	51
Miscellaneous	-	-	502	18,630
Total revenues	<u>32</u>	<u>-</u>	<u>503</u>	<u>18,681</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	2,516	-	-	-
Public works				
Culture and recreation	-	-	-	6,087
Capital outlay	-	-	-	-
Debt service				
Administrative charges	-	-	-	-
Interest	-	-	-	-
Principal retirement	-	-	-	-
Total expenditures:	<u>2,516</u>	<u>-</u>	<u>-</u>	<u>6,087</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,484)</u>	<u>-</u>	<u>503</u>	<u>12,594</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(2,484)</u>	<u>-</u>	<u>503</u>	<u>12,594</u>
Fund balances - beginning	13,382	-	-	-
Fund balances - ending	<u>\$ 10,898</u>	<u>\$ -</u>	<u>\$ 503</u>	<u>\$ 12,594</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

Special Revenue Total	Interest and Sinking Fund	1996 Certificates of Obligation	Clearfork Detention Basin	Clearfork Section 1 Sidewalk	2006 Certificates of Obligation
\$ -	\$ 541,119	\$ -	\$ -	\$ -	\$ -
93,052	-	-	-	-	-
411,057	-	-	-	-	-
221,567	-	-	-	-	-
1,249	2,280	743	60	45	53
40,455	311,800	-	-	-	-
<u>767,380</u>	<u>855,199</u>	<u>743</u>	<u>60</u>	<u>45</u>	<u>53</u>
-					
-					
-					
41,585	-	-	-	-	-
184,152	-	-	-	-	-
315,940	-	-	-	-	-
17,554	-	-	-	-	-
-	-	351,929	-	-	-
-	400	-	-	-	-
-	445,658	-	-	-	-
-	741,273	-	-	-	-
<u>559,231</u>	<u>1,187,331</u>	<u>351,929</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>208,149</u>	<u>(332,132)</u>	<u>(351,186)</u>	<u>60</u>	<u>45</u>	<u>53</u>
-					
-					
92,383	225,934	-	-	-	-
(350,000)	-	-	-	-	-
<u>(257,617)</u>	<u>225,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-					
(49,468)	(106,198)	(351,186)	60	45	53
522,734	605,361	354,674	3,683	2,786	20,466
<u>\$ 473,266</u>	<u>\$ 499,163</u>	<u>\$ 3,488</u>	<u>\$ 3,743</u>	<u>\$ 2,831</u>	<u>\$ 20,519</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2012

	<u>2006-A Bond Fund</u>	<u>Capital Projects Total</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues			
Taxes:			
Ad valorem	\$ -	\$ -	\$ 541,119
Sales and other taxes	-	-	93,052
Fines, fees, and forfeitures	-	-	411,057
Grants and contributions	-	-	221,567
Interest income	94	995	4,524
Miscellaneous	-	-	352,255
Total revenues	<u>94</u>	<u>995</u>	<u>1,623,574</u>
Expenditures			
Current:			
General government	-	-	41,585
Public safety	-	-	184,152
Public works	-	-	315,940
Culture and recreation	-	-	17,554
Capital outlay	22,202	374,131	374,131
Debt service		-	
Administrative charges	-	-	400
Interest	-	-	445,658
Principal retirement	-	-	741,273
Total expenditures:	<u>22,202</u>	<u>374,131</u>	<u>2,120,693</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(22,108)</u>	<u>(373,136)</u>	<u>(497,119)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	318,317
Transfers out	-	-	(350,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(31,683)</u>
Net change in fund balances	<u>(22,108)</u>	<u>(373,136)</u>	<u>(528,802)</u>
Fund balances - beginning	44,596	426,205	1,554,300
Fund balances - ending	<u>\$ 22,488</u>	<u>\$ 53,069</u>	<u>\$ 1,025,498</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF NET ASSETS-NONMAJOR ENTERPRISE FUNDS
September 30, 2012

	<u>Sanitation</u>	<u>Airport</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 334,401	\$ 1,928	\$ 336,329
Accounts receivable:			
Customer accounts	193,470	-	193,470
Other	-	560	560
Total current assets	<u>527,871</u>	<u>2,488</u>	<u>530,359</u>
Noncurrent assets			
Capital assets (net):			
Land and other assets not being depreciated	120,409	72,161	192,570
Building, improvements and equipment	10,548	1,033,492	1,044,040
Total noncurrent assets	<u>130,957</u>	<u>1,105,653</u>	<u>1,236,610</u>
Total assets	<u>\$ 658,828</u>	<u>\$ 1,108,141</u>	<u>\$ 1,766,969</u>
LIABILITIES			
Current liabilities:			
Accounts payable - trade	\$ 78,009	\$ 520	\$ 78,529
Payroll related liabilities	4,330	-	4,330
Other payables	-	1,663	1,663
Deferred revenues	-	3,547	3,547
Customer deposits	1,250	5,950	7,200
Accrued compensated absences	7,981	-	7,981
Current portion of long-term liabilities:			
Bonds and notes	-	55,000	55,000
Total current liabilities	<u>91,570</u>	<u>66,680</u>	<u>158,250</u>
Noncurrent liabilities			
Capital lease payable	-	-	
Bonds and notes	-	118,054	118,054
Total noncurrent liabilities	<u>-</u>	<u>118,054</u>	<u>118,054</u>
Total liabilities	<u>91,570</u>	<u>184,734</u>	<u>276,304</u>
Net assets:			
Invested in capital assets, net of related debt	130,957	932,599	1,063,556
Unrestricted net assets	436,301	(9,192)	427,109
Total net assets	<u>567,258</u>	<u>923,407</u>	<u>1,490,665</u>
Total liabilities and net assets	<u>\$ 658,828</u>	<u>\$ 1,108,141</u>	<u>\$ 1,766,969</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, 2012

	<u>Sanitation</u>	<u>Airport</u>	<u>Total</u>
Operating revenues:			
Charges for service	\$ 1,312,195	\$ 68,173	\$ 1,380,368
Miscellaneous	11,477	2,554	14,031
Total operating revenues	<u>1,323,672</u>	<u>70,727</u>	<u>1,394,399</u>
Operating expenses:			
Personnel services	104,645	-	104,645
Contracts and services	947,384	21,116	968,500
Materials and supplies	8,534	-	8,534
Maintenance and repairs	8,041	1,374	9,415
Depreciation and amortization	981	39,433	40,414
Miscellaneous	178	919	1,097
Total operating expenses	<u>1,069,763</u>	<u>62,842</u>	<u>1,132,605</u>
Net operating income	<u>253,909</u>	<u>7,885</u>	<u>261,794</u>
Non-operating revenues (expenses)			
Interest income	748	74	822
Interest expense	-	(12,627)	(12,627)
Total nonoperating revenues (expenses)	<u>748</u>	<u>(12,553)</u>	<u>(11,805)</u>
Income before contributions and transfers	254,657	(4,668)	249,989
Capital contributions:			
Grants and contributions	-	-	-
Transfers in	-	13,732	13,732
Transfers out	(110,774)	-	(110,774)
	<u>(110,774)</u>	<u>13,732</u>	<u>(97,042)</u>
Change in net assets	143,883	9,064	152,947
Total net assets-beginning of year	423,375	914,343	1,337,718
Total net assets-end of year	<u>\$ 567,258</u>	<u>\$ 923,407</u>	<u>\$ 1,490,665</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Lockhart
308 West San Antonio Street
Lockhart, Texas 78644

We have audited the 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 (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City of Lockhart's basic financial statements and have issued our report thereon dated March 15, 2013. 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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lockhart'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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Alonzo, Bacarisse, Irvine & Palmer, P.C.

March 15, 2013