

CITY OF LOCKHART, TEXAS

ANNUAL FINANCIAL REPORT

September 30, 2013

**CITY OF LOCKHART, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Lockhart, Texas
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 remaining fund information of the City of Lockhart, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Lockhart, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of

Lockhart, Texas, as of September 30, 2013 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2014, on our consideration of the City of Lockhart, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lockhart, Texas' internal control over financial reporting and compliance.

ABIP, PC

Certified Public Accountants

San Antonio, Texas

March 18, 2014

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, 2013.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year ended September 30, 2013, by \$43,478,291. Of this amount, \$10,123,862 of unrestricted net position is available to meet the City's ongoing obligations to citizens and creditors.
- The total cost of all City activities was \$25,837,183 for the fiscal year. The net expense was \$5,071,935.
- During the year, the City's general revenues were \$233,845 more than net expenses. This represents a 0.54% increase in net position from the previous fiscal year as a result of operations.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of \$6,576,221, a net decrease of \$660,116 in comparison with prior year. The decrease in fund balance was primarily due to the expenditures in various capital project funds.
- At September 30, 2013, the committed and unassigned fund balances for the General Fund was \$3,202,113 or 35.85% 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 11

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 49

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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.

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Fund Financial Statements - (Continued)

The City maintained twenty-six individual governmental funds during the 2013 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-four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs/operations. The accounting used for fiduciary funds is similar to proprietary funds.

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

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, net position exceeded liabilities by \$43,478,291 at the close of the fiscal year 2013.

By far, the largest portion of the City's net position (66.11%) reflects its investment in capital assets (i.e., land, buildings, infrastructure, machinery and equipment, and construction in progress), less a related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 7,759,446	\$ 8,372,403	\$ 11,449,444	\$ 8,084,473	\$ 19,208,890	\$ 16,456,876
Capital assets (net)	25,327,841	25,890,600	19,895,538	19,613,774	45,223,379	45,504,374
Other noncurrent assets	81,474	94,590	1,009,724	1,220,627	1,091,198	1,315,217
Total assets	33,168,761	34,357,593	32,354,706	28,918,874	65,523,467	63,276,467
Current liabilities	1,460,361	1,130,851	1,766,399	1,672,309	3,226,760	2,803,160
Noncurrent liabilities (net)	9,272,162	10,217,536	9,546,254	7,011,325	18,818,416	17,228,861
Total liabilities	10,732,523	11,348,387	11,312,653	8,683,634	22,045,176	20,032,021
Net assets:						
Invested in capital assets, net of related debt	18,393,579	18,958,675	10,349,284	12,161,005	28,742,863	31,119,680
Restricted	1,162,143	910,946	3,449,423	363,365	4,611,566	1,274,311
Unrestricted	2,880,516	3,139,585	7,243,346	7,710,870	10,123,862	10,850,455
Total net assets	\$ 22,436,238	\$ 23,009,206	\$ 21,042,053	\$ 20,235,240	\$ 43,478,291	\$ 43,244,446

An additional portion of the City's net position (10.61%) represents resources that are subject to external restrictions on how they may be used (i.e., debt service). The balance of unrestricted net position (\$10,123,862) 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 position for the primary government as a whole.

Governmental activities. Governmental activities decreased the City's net position by \$572,968, an improvement of \$311,055 from the previous year. Key elements of the improvement are as follows:

- Charges for services revenues increased \$135,207 (8.5%) as a result of the privatization of EMS.
- Increase in transfers in of \$442,327 (20.6%) from utility funds.
- General government expenses increased \$761,395 (63.9%) mainly due to reclassification of departmental expenses.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Business-type activities. Business-type activities increased the City's net position by \$806,813. Key elements of this increase are as follows:

- Increase in capital grants and contributions \$684,371 (265.4%) due to a grant for the airport improvements.
- Increase in transfers out of \$442,327 (20.6%).

City of Lockhart, Texas

Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,730,385	\$ 1,595,178	\$ 16,965,505	\$ 17,331,461	\$ 18,695,890	\$ 18,926,639
Operating grants and contributions	935,161	842,045	34,606	-	969,767	842,045
Capital grants and contributions	157,320	156,886	942,271	257,900	1,099,591	414,786
General revenues:						
Property taxes	3,381,542	3,411,404	-	-	3,381,542	3,411,404
Sales taxes	1,296,151	1,292,841	-	-	1,296,151	1,292,841
Franchise taxes	308,180	293,375	-	-	308,180	293,375
Other taxes	81,614	104,650	-	-	81,614	104,650
Impact fees	-	-	37,846	32,398	37,846	32,398
Investment earnings	22,967	24,992	15,294	13,906	38,261	38,898
Miscellaneous	162,186	195,425	-	-	162,186	195,425
Total revenues	8,075,506	7,916,796	17,995,522	17,635,665	26,071,028	25,552,461
Expenses:						
General government	1,952,419	1,191,024	-	-	1,952,419	1,191,024
Public safety	5,550,020	5,599,728	-	-	5,550,020	5,599,728
Public Works	2,509,328	2,870,543	-	-	2,509,328	2,870,543
Health and welfare	26,528	5,834	-	-	26,528	5,834
Culture and recreation	783,053	823,923	-	-	783,053	823,923
Interest on long-term debt	416,095	456,409	-	-	416,095	456,409
Electric	-	-	8,722,855	8,928,955	8,722,855	8,928,955
Water	-	-	2,874,616	2,974,676	2,874,616	2,974,676
Wastewater	-	-	1,836,078	1,937,230	1,836,078	1,937,230
Sanitation	-	-	1,090,003	1,069,763	1,090,003	1,069,763
Airport	-	-	76,188	75,469	76,188	75,469
Total expenses	11,237,443	10,947,461	14,599,740	14,986,093	25,837,183	25,933,554
Change in net assets before special items and transfers	(3,161,937)	(3,030,665)	3,395,782	2,649,572	233,845	(381,093)
Transfers	2,588,969	2,146,642	(2,588,969)	(2,146,642)	-	-
Change in net assets	(572,968)	(884,023)	806,813	502,930	233,845	(381,093)
Net assets - beginning, as restated	23,009,206	23,893,229	20,235,240	19,732,310	43,244,446	43,625,539
Net assets - ending	\$ 22,436,238	\$ 23,009,206	\$ 21,042,053	\$ 20,235,240	\$ 43,478,291	\$ 43,244,446

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 \$6,576,221, a decrease of \$660,116 from the prior year.

Approximately 99.19% of this total amount (\$6,523,100) constitutes fund balance which is available for spending at the government's discretion. The remainder fund balance of \$53,121 or .81% is nonspendable to indicate that it is not available for new spending because it has already been allocated: 1) for prepaid expenditures (\$20,452); and 2) for inventory (\$32,669).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned and committed fund balances totaled \$3,202,113. These fund balances represent 35.85% of total General Fund expenditures. The fund balance of the City's General Fund increased by \$281,431 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 position of the Utility Funds at the end of the current fiscal year amounted to \$7,243,346. The total decrease for the funds was \$467,524.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual fiscal year expenditures in the General Fund were \$771,616 less than the final budgeted amounts or appropriations. The major differences in expenditures were:

- \$1,276,516 decrease in general government expenditures.
- \$297,517 increase in public safety expenditures.

The fiscal year 2013 budget was amended from the original budget adopted by Council reflecting a decreased deficiency of revenues under expenditures by \$154,206.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities amounts to \$45,223,379 (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 .62%.

City of Lockhart, Texas

Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 1,393,853	\$ 1,409,717	\$ 574,710	\$ 574,710	\$ 1,968,563	\$ 1,984,427
Buildings	9,120,593	8,410,159	4,500,538	4,500,538	13,621,131	12,910,697
Equipment	5,670,713	5,533,921	5,368,395	5,331,495	11,039,108	10,865,416
Infrastructure	72,567,765	72,495,021	32,013,562	30,568,141	104,581,327	103,063,162
Construction work in progress	771,932	253,070	136,500	153,912	908,432	406,982
Less: accumulated depreciation	<u>(64,197,015)</u>	<u>(62,211,288)</u>	<u>(22,698,167)</u>	<u>(21,515,022)</u>	<u>(86,895,182)</u>	<u>(83,726,310)</u>
Total capital assets	<u>\$ 25,327,841</u>	<u>\$ 25,890,600</u>	<u>\$ 19,895,538</u>	<u>\$ 19,613,774</u>	<u>\$ 45,223,379</u>	<u>\$ 45,504,374</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 debt outstanding of \$17,049,998. Of this amount, \$5,310,000 represents General Obligation Tax and Revenue Bonds and \$8,139,998 of Combination Tax and Revenue Certificates of Obligation. The remainder of the City's debt is comprised of a \$3,600,000 loan from the State Infrastructure Bank.

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 2013-2014 fiscal year totaled \$1,879,826 (including funds dispersed to the Lockhart Economic Development Corporation). This amount is an increase of approximately \$47,264 (2.58%) 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 2013-2014 fiscal year.

The certified assessed taxable property valuations for the 2013 tax roll total \$487,288,444 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 \$3,441,841 for the 2013 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.

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
September 30, 2013

	Primary Government	
	Governmental Activities	Business-type Activities
Assets		
Cash and cash equivalents-unrestricted	\$ 6,793,396	\$ 4,660,759
Cash and cash equivalents-restricted	-	3,449,175
Receivables:		
Delinquent ad valorem taxes	298,351	-
Sales and use tax	219,999	-
Customer	-	2,781,172
Miscellaneous	385,862	198,179
Due from other funds	8,717	-
Prepaid items	20,452	111
Inventory at cost	32,669	360,048
Capital assets (net of accumulated depreciation):		
Land	1,393,853	574,710
Construction in progress	771,932	136,500
Furniture, fixtures and equipment	1,715,870	1,474,292
Buildings	5,930,585	1,619,816
Infrastructure	15,515,601	16,090,220
Contractual Settlement	-	927,840
Deferred charges-issuance costs	81,474	81,884
Total Assets	33,168,761	32,354,706
Liabilities		
Accounts payable	578,128	1,184,248
Payroll related accruals	166,836	43,344
Other payables	131,751	69,429
Due to other funds	8,159	558
Deferred revenues	-	3,253
Due to other governments	-	44,264
Accrued interest	63,304	-
Customer deposits	-	293,345
Compensated absences	512,183	127,958
Noncurrent liabilities:		
Due within one year	795,796	1,230,593
Due in more than one year	8,476,366	8,315,661
Total Liabilities	10,732,523	11,312,653
Net Position		
Net investment in capital assets	18,393,579	10,349,284
Restricted for:		
Debt service	515,468	-
Special revenue	590,589	-
Construction	56,086	3,184,668
Impact fees	-	264,755
Unrestricted	2,880,516	7,243,346
Total Net Position	\$ 22,436,238	\$ 21,042,053

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
September 30, 2013

Primary Government Total	Component Unit
\$	\$
11,454,155	1,048,075
3,449,175	-
298,351	-
219,999	110,000
2,781,172	-
584,041	-
8,717	-
20,563	-
392,717	404,909
1,968,563	108,000
908,432	-
3,190,162	-
7,550,401	587,520
31,605,821	-
927,840	-
163,358	-
65,523,467	2,258,504
1,762,376	10,000
210,180	-
201,180	-
8,717	-
3,253	-
44,264	-
63,304	-
293,345	-
640,141	-
2,026,389	13,626
16,792,027	251,725
22,045,176	275,351
28,742,863	430,169
515,468	-
590,589	-
3,240,754	-
264,755	-
10,123,862	1,552,984
\$ 43,478,291	\$ 1,983,153

CITY OF LOCKHART, TEXAS
STATEMENT OF ACTIVITIES
September 30, 2013

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ (1,952,419)	\$ 517,628	\$ 27,294	\$ 57,513
Public safety	(5,550,020)	1,180,320	290,152	99,807
Public works	(2,509,328)	-	88,442	-
Health and welfare	(26,528)	-	132,845	-
Culture and recreation	(783,053)	32,437	29,938	-
Interest on long-term debt	(416,095)	-	366,490	-
Total governmental activities	(11,237,443)	1,730,385	935,161	157,320
Business-type activities:				
Electric	(8,722,855)	10,388,956	16,606	-
Water	(2,874,616)	3,050,522	-	-
Wastewater	(1,836,078)	2,108,828	-	273,000
Sanitation	(1,090,003)	1,349,400	18,000	-
Airport	(76,188)	67,799	-	669,271
Total business-type activities	(14,599,740)	16,965,505	34,606	942,271
Total primary government	\$ (25,837,183)	\$ 18,695,890	\$ 969,767	\$ 1,099,591

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 position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
STATEMENT OF ACTIVITIES
September 30, 2013

Net (Expense) Revenue and Changes in Net Position

Primary Government		Component Unit
Governmental Activities	Business-type Activities	
\$ (1,349,984)		
(3,979,741)		
(2,420,886)		
106,317		
(720,678)		
(49,605)		
<u>(8,414,577)</u>		
	\$ 1,682,707	
	175,906	
	545,750	
	277,397	
	<u>660,882</u>	
	3,342,642	
<u>(8,414,577)</u>	<u>3,342,642</u>	
		<u>\$ (437,214)</u>
2,843,226		-
538,316		-
1,296,151		646,507
308,180		-
81,614		-
22,967	15,294	2,955
-	37,846	-
162,186	-	51,600
<u>2,588,969</u>	<u>(2,588,969)</u>	-
<u>7,841,609</u>	<u>(2,535,829)</u>	<u>701,062</u>
(572,968)	806,813	263,848
23,009,206	20,235,240	1,719,305
<u>\$ 22,436,238</u>	<u>\$ 21,042,053</u>	<u>\$ 1,983,153</u>

**CITY OF LOCKHART, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2013**

	<u>General</u>	<u>2009 Certificate of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 3,395,022	\$ 2,288,499	\$ 1,109,875	\$ 6,793,396
Receivables:				
Ad valorem taxes	247,951	-	50,400	298,351
Sales and use taxes	219,999	-	-	219,999
Miscellaneous	279,465	-	106,397	385,862
Due from other funds	8,717	-	-	8,717
Prepaid expenses	20,452	-	-	20,452
Inventory, at cost	32,669	-	-	32,669
Total Assets	<u>\$ 4,204,275</u>	<u>\$ 2,288,499</u>	<u>\$ 1,266,672</u>	<u>\$ 7,759,446</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable - trade	438,515	93,643	45,970	578,128
Payroll related liabilities	166,836	-	-	166,836
Other payables	3,229	128,522	-	131,751
Deferred revenues	247,951	-	50,400	298,351
Due to other funds	-	-	8,159	8,159
Total Liabilities	<u>\$ 856,531</u>	<u>\$ 222,165</u>	<u>\$ 104,529</u>	<u>\$ 1,183,225</u>
Fund Balances:				
Nonspendable	53,121	-	-	53,121
Restricted-construction	-	2,066,334	56,086	2,122,420
Restricted-debt service	-	-	515,468	515,468
Restricted-special revenue	92,510	-	590,589	683,099
Committed fund balances:				
Sidewalks	31,333	-	-	31,333
Revolving loan	254,346	-	-	254,346
Industrial park	459,980	-	-	459,980
Unassigned	2,456,454	-	-	2,456,454
Total Fund Balances	<u>3,347,744</u>	<u>2,066,334</u>	<u>1,162,143</u>	<u>6,576,221</u>
Total Liabilities and Fund Balances	<u>\$ 4,204,275</u>	<u>\$ 2,288,499</u>	<u>\$ 1,266,672</u>	<u>\$ 7,759,446</u>

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
September 30, 2013

Total fund balance-total governmental funds (page 16)	\$	6,576,221
 Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		25,327,841
Receivables that are not available to pay current year expenditures are deferred in the funds.		298,351
Bond issue costs which will be amortized in future years are not reported in the the funds.		81,474
Accrued vacation and sick leave payable is not due and payable in the current period and, therefore, is not reported in the funds.		(512,183)
Long-term liabilities consisting of bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.		(9,272,162)
Accrued interest payable on bonded debt is not reported in the funds.		(63,304)
 Total net position of governmental activities (page 12)	 \$	 <u>22,436,238</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	<u>General</u>	<u>2009 Certificate of Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes:				
Ad valorem	\$ 2,843,226	\$ -	\$ 538,316	\$ 3,381,542
Sales and other taxes	1,616,362	-	81,614	1,697,976
Fines, fees, and forfeitures	657,071	-	442,904	1,099,975
Licenses and permits	63,152	-	-	63,152
Grants and intergovernmental	326,085	-	218,803	544,888
Charges for services	812,579	-	-	812,579
Interest Income	10,912	8,285	3,808	23,005
Miscellaneous	398,525	2,400	338,119	739,044
Total revenues	<u>6,727,912</u>	<u>10,685</u>	<u>1,623,564</u>	<u>8,362,161</u>
Expenditures				
Current:				
General government	1,578,260	-	369,203	1,947,463
Public Safety	5,404,404	-	21,556	5,425,960
Public works	968,867	-	5,542	974,409
Health and welfare	26,176	-	-	26,176
Culture and recreation	773,164	-	8,975	782,139
Capital outlay	-	1,088,877	-	1,088,877
Debt service:				
Administrative charges	-	-	400	400
Interest	3,081	-	417,367	420,448
Principal retirement	179,161	-	766,213	945,374
Total expenditures	<u>8,933,113</u>	<u>1,088,877</u>	<u>1,589,256</u>	<u>11,611,246</u>
Excess (deficiency) of revenues over (under) expenditures	(2,205,201)	(1,078,192)	34,308	(3,249,085)
Other financing sources (uses):				
Transfers in	2,875,882	-	517,337	3,393,219
Transfers out	(389,250)	-	(415,000)	(804,250)
Total other financing sources (uses)	<u>2,486,632</u>	<u>-</u>	<u>102,337</u>	<u>2,588,969</u>
Net change in fund balances	281,431	(1,078,192)	136,645	(660,116)
Fund balances - beginning	3,066,313	3,144,526	1,025,498	7,236,337
Fund balances - ending	<u>\$ 3,347,744</u>	<u>\$ 2,066,334</u>	<u>\$ 1,162,143</u>	<u>\$ 6,576,221</u>

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, 2013

Net change in fund balances-governmental funds (page 18) \$ (660,116)

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. 1,553,724

Loss on sale of assets sold is recorded as an expense in the government-wide statements (29,268)

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 for 2013 depreciation. (2,087,215)

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. (287,105)

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. 945,374

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 2012. 4,754

Change in net position of governmental activities (page 14) \$ (572,968)

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2013

	Electric	Water	Wastewater
ASSETS			
Current assets:			
Cash and cash equivalents - unrestricted	\$ 1,555,338	\$ 1,916,028	\$ 808,018
Cash and cash equivalents - restricted	725,355	1,273,100	1,450,720
Accounts receivable:			
Customer accounts	1,800,846	480,452	311,695
Contractual settlement	-	198,179	-
Inventory	360,048	-	-
Prepaid items	-	111	-
Total current assets	4,441,587	3,867,870	2,570,433
Noncurrent assets			
Contractual settlement	-	927,840	-
Capital assets (net):			
Land and other assets not being depreciated	40,000	295,812	182,828
Building, improvements and equipment	2,413,332	10,082,858	5,005,193
Bond issue costs	2,086	68,903	10,895
Total noncurrent assets	2,455,418	11,375,413	5,198,916
Total assets	\$ 6,897,005	\$ 15,243,283	\$ 7,769,349
LIABILITIES			
Current liabilities:			
Accounts payable - trade	\$ 821,702	\$ 150,851	\$ 132,226
Payroll related liabilities	23,441	8,871	7,400
Other payables	17,946	36,179	14,179
Deferred revenues	-	-	-
Due to other funds	-	-	-
Due to other governments	44,264	-	-
Customer deposits	212,313	75,007	-
Accrued compensated absences	78,803	26,366	14,077
Current portion of long-term liabilities:			
Capital leases	203,823	141,640	-
Bonds and notes	80,040	522,877	227,213
Total current liabilities	1,482,332	961,791	395,095
Noncurrent liabilities			
Capital lease payable	838,342	582,577	-
Bonds and notes	1,142,771	3,911,960	1,777,975
Total noncurrent liabilities	1,981,113	4,494,537	1,777,975
Total liabilities	3,463,445	5,456,328	2,173,070
Net position:			
Net investment in capital assets	188,356	5,219,616	3,182,833
Restricted net position	725,355	1,273,348	1,450,720
Unrestricted net position	2,519,849	3,293,991	962,726
Total net position	3,433,560	9,786,955	5,596,279
Total liabilities and net position	\$ 6,897,005	\$ 15,243,283	\$ 7,769,349

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2013

<u>Other Funds</u>	<u>Total</u>
\$ 381,375	\$ 4,660,759
-	3,449,175
188,179	2,781,172
-	198,179
-	360,048
-	111
<u>569,554</u>	<u>11,449,444</u>
-	927,840
192,570	711,210
1,682,945	19,184,328
-	81,884
<u>1,875,515</u>	<u>20,905,262</u>
<u>\$ 2,445,069</u>	<u>\$ 32,354,706</u>
\$ 79,469	\$ 1,184,248
3,632	43,344
1,125	69,429
3,253	3,253
558	558
-	44,264
6,025	293,345
8,712	127,958
-	345,463
<u>55,000</u>	<u>885,130</u>
<u>157,774</u>	<u>2,996,992</u>
-	1,420,919
<u>62,036</u>	<u>6,894,742</u>
<u>62,036</u>	<u>8,315,661</u>
<u>219,810</u>	<u>11,312,653</u>
1,758,479	10,349,284
-	3,449,423
<u>466,780</u>	<u>7,243,346</u>
<u>2,225,259</u>	<u>21,042,053</u>
<u>\$ 2,445,069</u>	<u>\$ 32,354,706</u>

CITY OF LOCKHART, TEXAS
STATEMENT OF REVEUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2013

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Other Funds</u>	<u>Total</u>
Operating revenues:					
Charges for service	\$ 10,353,718	\$ 3,009,860	\$ 2,108,267	\$ 1,377,272	\$ 16,849,117
Miscellaneous	35,238	40,662	561	39,927	116,388
Total operating revenues	<u>10,388,956</u>	<u>3,050,522</u>	<u>2,108,828</u>	<u>1,417,199</u>	<u>16,965,505</u>
Operating expenses:					
Personnel services	859,415	301,867	251,303	127,722	1,540,307
Contracts and services	157,616	18,085	21,269	952,843	1,149,813
Materials and supplies	77,763	38,999	15,395	14,332	146,489
Maintenance and repairs	243,548	47,714	38,511	7,528	337,301
Power, water, water treatment	6,891,205	1,651,864	1,267,694	-	9,810,763
Depreciation and amortization	347,334	608,408	186,448	48,365	1,190,555
Miscellaneous	74,891	18,345	12,438	6,757	112,431
Total operating expenses	<u>8,651,772</u>	<u>2,685,282</u>	<u>1,793,058</u>	<u>1,157,547</u>	<u>14,287,659</u>
Net operating income	<u>1,737,184</u>	<u>365,240</u>	<u>315,770</u>	<u>259,652</u>	<u>2,677,846</u>
Non-operating revenues (expenses)					
Interest income	4,936	5,794	3,516	1,048	15,294
Interest expense	(71,083)	(189,334)	(43,020)	(8,644)	(312,081)
Impact fees	-	23,255	14,591	-	37,846
Total non-operating revenues (expenses)	<u>(66,147)</u>	<u>(160,285)</u>	<u>(24,913)</u>	<u>(7,596)</u>	<u>(258,941)</u>
Income before contributions and transfers	1,671,037	204,955	290,857	252,056	2,418,905
Capital Contributions					
Grants and contributions	16,606	-	273,000	687,271	976,877
Transfers in	-	6,763	5,150	16,006	27,919
Transfers out	(1,845,978)	(213,694)	(336,477)	(220,739)	(2,616,888)
	<u>(1,829,372)</u>	<u>(206,931)</u>	<u>(58,327)</u>	<u>482,538</u>	<u>(1,612,092)</u>
Change in net position	(158,335)	(1,976)	232,530	734,594	806,813
Total net position-beginning of year	3,591,895	9,788,931	5,363,749	1,490,665	20,235,240
Total net position-end of year	<u>\$ 3,433,560</u>	<u>\$ 9,786,955</u>	<u>\$ 5,596,279</u>	<u>\$ 2,225,259</u>	<u>\$ 21,042,053</u>

The accompanying notes are an integral part of this statement.

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CITY OF LOCKHART
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30,2013

	Electric	Water
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from customers	\$ 10,415,527	\$ 3,122,295
Payments to suppliers for goods and services	(7,246,423)	(1,757,628)
Payments for salaries	(947,627)	(305,812)
Net cash provided by operating activities	2,221,477	1,058,855
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(1,845,978)	(213,694)
Transfers from other funds	-	6,763
Contractual payment	-	198,179
	(1,845,978)	(8,752)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Impact fees	-	23,255
Capital grants received	-	-
Acquisition and construction of capital assets	(287,996)	(105,436)
Capital grants received	16,606	-
Issuance of debt	1,109,187	1,288,850
Principal paid on bond and debt	(35,362)	(454,656)
Principal paid on capital leases	(187,205)	(158,059)
Interest paid on bond and debt	(71,083)	(189,338)
Net cash provided (used) by capital and related financing activities	544,147	404,616
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,936	5,794
Net cash provided (used) by investing activities	4,936	5,794
Net increase (decrease) in cash and cash equivalents	924,582	1,460,513
Cash and cash equivalents at beginning of period	1,356,111	1,728,615
Cash and cash equivalents at end of period	\$ 2,280,693	\$ 3,189,128
Cash and cash equivalents unrestricted	\$ 1,555,338	\$ 1,916,028
Cash and cash equivalents unrestricted	725,355	1,273,100
	\$ 2,280,693	\$ 3,189,128

The accompanying notes are an integral part of this statement.

	<u>Wastewater</u>	<u>Other Funds</u>	<u>Total</u>
\$	2,104,498	\$ 1,422,139	\$ 17,064,459
	(1,389,193)	(981,057)	(11,374,301)
	<u>(255,772)</u>	<u>(127,689)</u>	<u>(1,636,900)</u>
	459,533	313,393	4,053,258
	(336,477)	(220,739)	(2,616,888)
	5,150	16,006	27,919
	-	-	198,179
	<u>(331,327)</u>	<u>(204,733)</u>	<u>(2,390,790)</u>
	14,591	-	37,846
	-	687,271	687,271
	(384,207)	(687,271)	(1,464,910)
	273,000	-	289,606
	1,201,963		
	(173,770)	(56,018)	(719,806)
	-	-	(345,264)
	<u>(43,020)</u>	<u>(8,644)</u>	<u>(312,085)</u>
	888,557	(64,662)	1,772,658
	3,516	1,048	15,294
	<u>3,516</u>	<u>1,048</u>	<u>15,294</u>
	1,020,279	45,046	3,450,420
	1,238,459	336,329	4,659,514
\$	<u>2,258,738</u>	<u>381,375</u>	<u>8,109,934</u>
\$	808,018	\$ 381,375	\$ 4,660,759
	1,450,720	-	3,449,175
\$	<u>2,258,738</u>	<u>381,375</u>	<u>8,109,934</u>

Continued

CITY OF LOCKHART
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30,2013

RECONCILIATION OF UTILITY OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>Electric</u>	<u>Water</u>
Operating income	\$ 1,737,184	\$ 365,240
Depreciation	347,099	602,779
Amortization	696	10,303
(Increase) decrease in assets:		
Accounts receivable	35,660	75,473
Inventory	(27,305)	-
Prepaid expenses	100	(111)
Increase (decrease) in liabilities:		
Accounts payable	147,344	12,816
Accrued payroll	(13,772)	(4,723)
Due to other funds	-	-
Due to other governments	(267)	-
Customer deposits	(9,089)	(3,700)
Deferred revenue	-	-
Accrued compensated absences	3,827	778
Net cash provided (used) by operating activities	<u><u>\$ 2,221,477</u></u>	<u><u>\$ 1,058,855</u></u>

	<u>Wastewater</u>		<u>Other Funds</u>		<u>Total</u>
\$	315,770	\$	259,652	\$	2,677,846
	184,902		48,366		1,183,146
	1,724		-		12,723
	(4,330)		5,851		112,654
	-		-		(27,305)
	111		-		100
	(34,175)		402		126,387
	(4,099)		(698)		(23,292)
	-		558		558
	-		-		(267)
	-		(1,175)		(13,964)
	-		(294)		(294)
	(370)		731		4,966
\$	<u>459,533</u>	\$	<u>313,393</u>	\$	<u>4,053,258</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF NET POSITION
FIDUCIARY FUNDS
September 30, 2013

	Agency Funds		
	Unclaimed Property	Police Evidence Property	Total Agency Funds
Assets			
Cash and cash equivalents	\$ 7,173	\$ 6,872	\$ 14,045
Total assets	\$ 7,173	\$ 6,872	\$ 14,045
Liabilities			
Due to others	\$ 7,173	6,872	14,045
Total liabilities:	\$ 7,173	\$ 6,872	\$ 14,045

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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 position 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

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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).

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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, 2012 and past due after January 31, 2013. 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 position 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.

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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:

Asset Type	Years
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 position. 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.

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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 POSITION

Net position represent the difference between assets and liabilities. Net investment in capital assets 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 position 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 position of its business type activity. Such appropriations reflect the intended use of the net position.

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.

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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.

20. CHANGE IN ACCOUNTING POLICY

The District adopted the provisions of GASB #63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement requires governments to account for deferred outflows of resources, deferred inflows resources and net position as they relate to derivatives and service concession arrangements. Under the provisions of this statement, governments will also present a Statement of Net Position and changes the caption "Net Assets" to "Net Position". The District has no deferred outflows or inflows of resources, but the statement titles and captions have been changed in conformity with the statement.

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, 2013, the carrying amount of the primary government's (the City) deposits in the bank were \$3,078,703 and the book balance was \$2,902,811. 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)

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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.

The City's cash, and cash equivalents and that of LEDC at September 30, 2013 are as shown below:

City of Lockhart: <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	\$ 5,450,950	45.38%	n/a	AAAm
TexSTAR	3,553,500	29.59%	n/a	AAAm
Texas CLASS	3,006,265	25.03%	n/a	AAAm
Total investments held by the City	<u>12,010,715</u>			
Cash in banks	2,902,811			
Petty cash	3,868			
Total investments and cash held by City	<u>14,917,394</u>			
Less cash held in trust and agency funds	(14,064)			
Total cash and cash equivalents reported on statement of net assets	<u>\$ 14,903,330</u>			
 Lockhart Economic Development Corporation:				
<u>Investment or Investment Type</u>				
TexPool Investment Pool	\$ <u>1,048,075</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, 2013, 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

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financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

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

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market value of its underlying investment portfolio within one half of one percent of the value of its shares.

NOTE C—DUE TO OTHER GOVERNMENTS

Amounts due to other governments are as follows:

Fund	Amount
Electric Fund	
Sales tax due to State	\$ <u>44,264</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, 2012, upon which the fiscal 2013 levy was based, was \$568,291,137 (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, 2013 was \$.7227 per \$100 of assessed value, which means that the City has a tax margin of \$1.7773 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.

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NOTE E—INTERFUND TRANSACTIONS

Transfers consisted of the following:

Transfers Out	Transfers In					
	General	Governmental Nonmajor	Water Fund	Wastewater Fund	Business-type Nonmajor	Total
General	\$ -	\$ 428,329	\$ 6,763	\$ 5,150	\$ -	\$ 440,242
Electric	1,829,972	-	-	-	16,006	1,845,978
Water	213,694	-	-	-	-	213,694
Wastewater	336,477	-	-	-	-	336,477
Solid Waste	220,739	-	-	-	-	220,739
Nonmajor governmental	275,000	89,008	-	-	-	364,008
	<u>\$ 2,875,882</u>	<u>\$ 517,337</u>	<u>\$ 6,763</u>	<u>\$ 5,150</u>	<u>\$ 16,006</u>	<u>\$ 3,421,138</u>

Amounts due among funds is as follows:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Non-major enterprise fund	\$ 558	Short-term loans
General Fund	Non-major governmental funds	8,159	Short-term loans
		<u>\$ 8,717</u>	

NOTE F—CAPITAL ASSETS

Governmental capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balances	Reclasses and Increases	Reclasses and Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,409,717	\$ -	\$ (15,864)	\$ 1,393,853
Construction in progress	253,070	731,433	(212,571)	771,932
Total capital assets not being depreciated	<u>1,662,787</u>	<u>731,433</u>	<u>(228,435)</u>	<u>2,165,785</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	72,495,021	72,744	-	72,567,765
Buildings and improvements	8,410,159	710,434	-	9,120,593
Equipment	5,533,921	251,684	(114,892)	5,670,713
Total capital assets being depreciated	<u>86,439,101</u>	<u>1,034,862</u>	<u>(114,892)</u>	<u>87,359,071</u>
Less accumulated depreciation for:				
Infrastructure	(55,623,652)	(1,428,512)	-	(57,052,164)
Buildings and improvements	(3,017,493)	(172,515)	-	(3,190,008)
Equipment	(3,570,143)	(486,188)	101,488	(3,954,843)
Total accumulated depreciation	<u>(62,211,288)</u>	<u>(2,087,215)</u>	<u>101,488</u>	<u>(64,197,015)</u>
Total capital assets being depreciated, net	<u>24,227,813</u>	<u>(1,052,353)</u>	<u>(13,404)</u>	<u>23,162,056</u>
Governmental activities capital assets, net	<u>\$ 25,890,600</u>	<u>\$ (320,920)</u>	<u>\$ (241,839)</u>	<u>\$ 25,327,841</u>

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Depreciation Expense was charged to the governmental functions as follows:

General government	\$	92,246
Public safety		396,905
Public works		1,539,071
Health and welfare		352
Culture and recreation		58,641
	\$	<u>2,087,215</u>

Business-type capital asset activity for the year ended September 30, 2013, 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	153,912	136,500	(153,912)	136,500
Total capital assets not being depreciated	<u>728,622</u>	<u>136,500</u>	<u>(153,912)</u>	<u>711,210</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	30,568,141	1,445,421	-	32,013,562
Buildings and improvements	4,500,538	-	-	4,500,538
Equipment	5,331,495	36,900	-	5,368,395
Total capital assets being depreciated	<u>40,400,174</u>	<u>1,482,321</u>	<u>-</u>	<u>41,882,495</u>
Less accumulated depreciation for:				
Infrastructure	(15,141,626)	(781,716)	-	(15,923,342)
Buildings and improvements	(2,848,924)	(31,798)	-	(2,880,722)
Equipment	(3,524,472)	(369,631)	-	(3,894,103)
Total accumulated depreciation	<u>(21,515,022)</u>	<u>(1,183,145)</u>	<u>-</u>	<u>(22,698,167)</u>
Total capital assets being depreciated, net	<u>18,885,152</u>	<u>299,176</u>	<u>-</u>	<u>19,184,328</u>
Business-type activities capital assets, net	<u>\$ 19,613,774</u>	<u>\$ 435,676</u>	<u>\$ (153,912)</u>	<u>\$ 19,895,538</u>

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NOTE G—LONG-TERM DEBT

Long-term debt and obligations payable at September 30, 2013 were comprised of the following issues:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Certificates of obligation	\$ 8,225,979	\$ -	\$ (336,042)	\$ 7,889,937	\$ 350,342
General obligation bonds	1,812,396	-	(430,171)	1,382,225	445,454
Bond obligations	10,038,375	-	(766,213)	9,272,162	795,796
Capital leases	179,161	-	(179,161)	-	-
	10,217,536	-	(945,374)	9,272,162	795,796
Compensated absences *	482,466	323,038	(293,321)	512,183	512,183
Total governmental activities	\$ 11,569,356	\$ 323,038	\$ (1,238,695)	\$ 9,784,345	\$ 1,307,979

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	\$ 319,021	\$ -	\$ (68,960)	\$ 250,061	\$ 69,657
General obligation bonds	4,577,604	-	(649,829)	3,927,775	674,543
SIB Loan	-	3,600,000	-	3,600,000	140,930
	4,896,625	3,600,000	(718,789)	7,777,836	885,130
Bond premium	3,054	-	(1,018)	2,036	-
Capital leases	2,111,646	-	(345,264)	1,766,382	345,463
	7,011,325	3,600,000	(1,065,071)	9,546,254	1,230,593
Compensated absences *	122,992	68,314	(63,348)	127,958	127,958
Total governmental activities	\$ 7,134,317	\$ 3,668,314	\$ (1,128,419)	\$ 9,674,212	\$ 1,358,551

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
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

The annual requirements to amortize all long-term debt and obligations outstanding as of September 30, 2013, 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>
2014	\$ 795,796	\$ 388,260	\$ 1,184,056
2015	825,382	357,967	1,183,349
2016	855,330	326,528	1,181,858
2017	393,595	293,930	687,525
2018	407,899	276,196	684,095
2019-2023	2,524,160	1,102,717	3,626,877
2024-2028	3,470,000	468,873	3,938,873
	<u>\$ 9,272,162</u>	<u>\$ 3,214,471</u>	<u>\$ 12,486,633</u>

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	885,130	250,075	1,135,205
2015	919,072	219,708	1,138,780
2016	887,734	188,069	1,075,803
2017	283,169	159,073	442,242
2018	292,663	149,465	442,128
2019-2023	1,593,956	592,505	2,186,461
2024-2028	1,843,252	308,202	2,151,454
2029-2033	1,072,860	81,789	1,154,649
	<u>\$ 7,777,836</u>	<u>\$ 1,948,886</u>	<u>\$ 9,726,722</u>

Future commitments on capital leases are as follows:

<u>Business-type Activities</u>	
<u>Year Ending September 30:</u>	
2014	\$ 469,184
2015	467,089
2016	489,386
2017	506,751
2018	298,715
Total Minimum Rentals	<u>2,231,125</u>
Less Amount Representing Interest	<u>(464,743)</u>
Net Present Value	<u>\$ 1,766,382</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 agreement that enabled GBRA to pump treated water from the Luling Water Treatment Plant to the Lockhart Treatment Plant ground storage reservoir through the water delivery system.

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

GBRA issued \$6,370,000 in Contract Revenue Bonds in fiscal year 2004 for the water delivery system. As of September 30, 2013, there was \$5,045,000 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, 2013, \$2,415,000 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 2018. The remaining balance due the City is reported as a receivable in the accompanying government wide and proprietary fund Statements of Net Position.

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.

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2013

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 to 2013
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:

Actuarial valuation date	12/31/2010	12/31/2011	12/31/2012
Actuarial value of assets	\$16,205,151	\$17,759,096	\$19,380,550
Actuarial accrued liability	\$20,118,218	\$21,609,909	\$22,523,513
Unfunded actuarial accrued liability	\$3,913,067	\$3,850,813	\$3,142,963
Funded ratio	80.55%	82.18%	86.05%
Annual covered payroll	\$5,764,523	\$5,784,879	\$5,729,148
Unfunded actuarial liability as a percent of payroll	67.88%	66.57%	54.86%

CITY OF LOCKHART, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information of the latest actuarial valuation at December 31, 2012 also follows:

Actuarial valuation date	12/31/2010	12/31/2011	12/31/2012
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	7.00%	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. 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.

A schedule of contribution rates follows:

Plan Year	Annual Required Contribution Rate	Actual Contribution Made	Percentage of ARC Contributed
2013	0.19%	0.19%	100.00%
2012	0.19%	0.19%	100.00%
2011	0.27%	0.27%	100.00%

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2013

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, 2013 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, 2013, 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
	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.

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, 2012, total contributions (dues and prior services) of \$3,517,455 were paid to TESRS by the

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2013

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, 2012 and 2013. Total contributions made were equal to the contributions required by the State statute and equal to the contributions required based on the August 31, 2010 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, 2012 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, 2013 (\$528,538 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 \$530,000 each year to help pay for TESRS's administrative expenses. Expected contributions for the fiscal year ended August 31, 2013 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, 2010, and 2012 valuation dates:

Actuarial valuation date	8/31/2008	8/31/2010	8/31/2012
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar, open	Level dollar, open	Level dollar, open
Amortization period	6 years	30 years	Infinity
Asset valuation method	market value smoothed	market value smoothed	market value smoothed
Actuarial assumptions:			
Investment return	8.00%	7.75%	7.75%
Projected salary increases	none	none	none
Inflation	3.50%	3.50%	3.50%
Cost of living adjustments	none	none	none

Funding information:

Actuarial valuation date	8/31/2010	8/31/2012
Actuarial value of assets	\$64,113,803	\$67,987,487
Actuarial accrued liability	\$81,264,230	\$101,856,042
Unfunded actuarial accrued liability (UAAL)	\$17,150,427	\$33,868,555
Funded ratio	78.90%	66.75%
Total members covered	8,644	9,448
UAAL per member covered	1,984	3,585

CITY OF LOCKHART, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2013

Trend information. State wide:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2012	3,020,214	100%	-
September 30, 2010	2,880,440	100%	-
September 30, 2009	2,698,271	100%	-

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 Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Nonspendable	\$ 53,121	\$ -	\$ -	\$ 53,121
Restricted-construction	-	2,066,334	56,086	2,122,420
Restricted-debt service	-	-	515,468	515,468
Restricted-special revenue	92,510	-	590,589	683,099
Committed fund balances:				
Sidewalks	31,333	-	-	31,333
Revolving loan	254,346	-	-	254,346
Industrial park	459,980	-	-	459,980
Unassigned	2,456,454	-	-	2,456,454
Total Fund Balances	<u>\$ 3,347,744</u>	<u>\$ 2,066,334</u>	<u>\$ 1,162,143</u>	<u>\$ 6,576,221</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, 2013

Construction Commitments

As of September 30, 2013 the City was committed under various ongoing construction contracts. Those commitments are as follows:

Commitments:

General Government

Library improvements	\$ 1,544,427
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Business-Type

Highway 183 engineering fees	186,000
Electric substation	254,000
	<u>\$ 1,984,427</u>

Funding Sources:

General Government

Unspent bond proceeds	\$ 1,544,427
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Business-Type:

Unspent bond proceeds	47,500
SBA loan funding	138,500
Electric capital fund	254,000
	<u>\$ 1,984,427</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.

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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, 2013

	<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	\$ 2,843,226	\$ 26,837
Sales and other taxes	1,571,124	1,571,124	1,616,362	45,238
Fines, fees, and forfeitures	350,947	350,947	657,071	306,124
Licenses and permits	84,787	84,787	63,152	(21,635)
Grants and intergovernmental	192,184	288,182	326,085	37,903
Charges for services	784,319	784,319	812,579	28,260
Interst Income	12,000	12,000	10,912	(1,088)
Miscellaneous	439,734	604,607	398,525	(206,082)
Total revenues	<u>6,251,484</u>	<u>6,512,355</u>	<u>6,727,912</u>	<u>215,557</u>
Expenditures				
Current:				
General government	2,659,517	2,854,776	1,578,260	1,276,516
Public Safety	5,164,717	5,106,887	5,404,404	(297,517)
Public works	989,862	961,603	968,867	(7,264)
Health and welfare	5,554	15,554	26,176	(10,622)
Culture and recreation	799,541	765,909	773,164	(7,255)
Debt service:				
Interest	-	-	3,081	(3,081)
Principal retirement	-	-	179,161	(179,161)
Total expenditures	<u>9,619,191</u>	<u>9,704,729</u>	<u>8,933,113</u>	<u>771,616</u>
Excess (deficiency) of revenues over (under) expenditures	(3,367,707)	(3,192,374)	(2,205,201)	987,173
Other financing sources (uses):				
Transfers in	2,879,728	2,879,728	2,875,882	(3,846)
Transfers out	(433,686)	(454,813)	(389,250)	65,563
Total other financing sources (uses)	<u>2,446,042</u>	<u>2,424,915</u>	<u>2,486,632</u>	<u>61,717</u>
Net change in fund balances	(921,665)	(767,459)	281,431	1,048,890
Fund balances - beginning	<u>3,066,313</u>	<u>3,066,313</u>	<u>3,066,313</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,144,648</u>	<u>\$ 2,298,854</u>	<u>\$ 3,347,744</u>	<u>\$ 1,048,890</u>

The accompanying notes are an integral part of this statement.

CITY OF LOCKHART, TEXAS
NOTE TO REQUIRED SUPPLEMENTAL INFORMATION
September 30, 2013

- A. The City Council adopts an “appropriated budget” on a Generally Accepted Accounting Principles (GAAP) basis. At a minimum, the City is required to present the original and the final amended budgets for revenues and expenditures as compared to actual.

**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2013**

	<u>Police Federal COPS Grant</u>	<u>Radio Tower Replacement</u>	<u>Forfeited Property</u>	<u>Hotel/Motel Occupancy Tax</u>	<u>TCEQ NPS Grant</u>
Assets					
Cash and cash equivalents	\$ -	\$ 81,162	\$ 1,193	\$ 782	\$ -
Receivables:					
Ad valorem taxes	-	-	-	-	-
Miscellaneous	-	-	-	19,375	13,939
Due from other funds	-	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 81,162</u>	<u>\$ 1,193</u>	<u>\$ 20,157</u>	<u>\$ 13,939</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable - trade	\$ -	\$ -	\$ -	\$ 9,376	\$ -
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	8,159
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,376</u>	<u>8,159</u>
Fund Balances:					
Restricted-debt service	-	-	-	-	-
Restricted-capital projects funds	-	-	-	-	-
Restricted-special revenue funds	-	81,162	1,193	10,781	5,780
Total fund balances	<u>-</u>	<u>81,162</u>	<u>1,193</u>	<u>10,781</u>	<u>5,780</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 81,162</u>	<u>\$ 1,193</u>	<u>\$ 20,157</u>	<u>\$ 13,939</u>

**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2013**

	<u>Road Impact Fee</u>	<u>Radio System Maintenance Fund</u>	<u>Court Technology</u>	<u>Court Security</u>	<u>Child Safety</u>
Assets					
Cash and cash equivalents	\$ 44,173	\$ 24,047	\$ 30,301	\$ 10,634	\$ 19,802
Receivables:					
Ad valorem taxes	-	-	-	-	-
Miscellaneous	-	-	4,353	3,252	-
Due from other funds	-	-	-	-	-
Total Assets	<u>\$ 44,173</u>	<u>\$ 24,047</u>	<u>\$ 34,654</u>	<u>\$ 13,886</u>	<u>\$ 19,802</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable - trade	\$ -	\$ 5,325	\$ 83	\$ -	\$ -
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>5,325</u>	<u>83</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted-debt service	-	-	-	-	-
Restricted-capital projects funds	-	-	-	-	-
Restricted-special revenue funds	44,173	18,722	34,571	13,886	19,802
Total fund balances	<u>44,173</u>	<u>18,722</u>	<u>34,571</u>	<u>13,886</u>	<u>19,802</u>
Total liabilities and fund balances	<u>\$ 44,173</u>	<u>\$ 24,047</u>	<u>\$ 34,654</u>	<u>\$ 13,886</u>	<u>\$ 19,802</u>

**CITY OF LOCKHART, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2013**

<u>Court Efficiency</u>	<u>Cable Education Fund</u>	<u>Transportation Improvements</u>	<u>Drainage Improvements</u>
\$ 7,045	\$ 90,533	\$ 163,610	\$ 18,321
-	-	-	-
763	5,268	37,604	20,495
-	-	-	-
<u>\$ 7,808</u>	<u>\$ 95,801</u>	<u>\$ 201,214</u>	<u>\$ 38,816</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
7,808	95,801	201,214	38,816
7,808	95,801	201,214	38,816
<u>\$ 7,808</u>	<u>\$ 95,801</u>	<u>\$ 201,214</u>	<u>\$ 38,816</u>

**CITY OF LOCKHART, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2013**

	<u>Law Enforcement Education</u>	<u>Confiscated Property</u>	<u>Glosserman Fund</u>	<u>Brock Cabin</u>	<u>Special Revenue Total</u>
Assets					
Cash and cash equivalents	\$ 8,290	\$ 536	\$ 504	\$ 6,738	\$ 507,671
Receivables:					
Ad valorem taxes	-	-	-	-	-
Miscellaneous	1,348	-	-	-	106,397
Due from other funds	-	-	-	-	-
Total Assets	\$ 9,638	\$ 536	\$ 504	\$ 6,738	\$ 614,068
Liabilities and Fund Balances					
Liabilities:					
Accounts payable - trade	\$ -	\$ 536	\$ -	\$ -	\$ 15,320
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	8,159
Total Liabilities	-	536	-	-	23,479
Fund Balances:					
Restricted-debt service	-	-	-	-	-
Restricted-capital projects funds	-	-	-	-	-
Restricted-special revenue funds	9,638	-	504	6,738	590,589
Total fund balances	9,638	-	504	6,738	590,589
Total liabilities and fund balances	\$ 9,638	\$ 536	\$ 504	\$ 6,738	\$ 614,068

**CITY OF LOCKHART, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 September 30, 2013**

<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>
\$ 515,468	\$ -	\$ 21,256	\$ 16,079	\$ 26,846
50,400	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 565,868</u>	<u>\$ -</u>	<u>\$ 21,256</u>	<u>\$ 16,079</u>	<u>\$ 26,846</u>
\$ -	\$ -	\$ 17,450	\$ 13,200	\$ -
50,400	-	-	-	-
-	-	-	-	-
<u>50,400</u>	<u>-</u>	<u>17,450</u>	<u>13,200</u>	<u>-</u>
515,468	-	-	-	-
-	-	3,806	2,879	26,846
-	-	-	-	-
<u>515,468</u>	<u>-</u>	<u>3,806</u>	<u>2,879</u>	<u>26,846</u>
<u>\$ 565,868</u>	<u>\$ -</u>	<u>\$ 21,256</u>	<u>\$ 16,079</u>	<u>\$ 26,846</u>

**CITY OF LOCKHART, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2013**

	<u>2006-A Bond Fund</u>	<u>Capital Projects Total</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 22,555	\$ 86,736	\$ 1,109,875
Receivables:			
Ad valorem taxes	-	-	50,400
Miscellaneous	-	-	106,397
Due from other funds	-	-	-
Total Assets	<u>\$ 22,555</u>	<u>\$ 86,736</u>	<u>\$ 1,266,672</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable - trade	\$ -	\$ 30,650	\$ 45,970
Deferred revenue	-	-	50,400
Due to other funds	-	-	8,159
Total Liabilities	<u>-</u>	<u>30,650</u>	<u>104,529</u>
Fund Balances:			
Restricted-debt service	-	-	515,468
Restricted-capital projects funds	22,555	56,086	56,086
Restricted-special revenue funds	-	-	590,589
Total fund balances	<u>22,555</u>	<u>56,086</u>	<u>1,162,143</u>
Total liabilities and fund balances	<u>\$ 22,555</u>	<u>\$ 86,736</u>	<u>\$ 1,266,672</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	<u>Radio Tower Replacement</u>	<u>Forfeited Property</u>	<u>Hotel/Motel Occupancy Tax</u>	<u>TCEQ NPS Grant</u>
Revenues				
Taxes:				
Ad valorem	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	81,614	-
Fines, fees, and forfeitures	-	-	-	-
Grants and contributions	-	-	-	88,441
Interest income	240	4	47	-
Miscellaneous	-	-	-	16,573
Total revenues	<u>240</u>	<u>4</u>	<u>81,661</u>	<u>105,014</u>
Expenditures				
Current:				
General government	-	-	32,645	147,403
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	8,975	-
Capital outlay	-	-	-	-
Debt service				
Administrative charges	-	-	-	-
Interest	-	-	-	-
Principal retirement	-	-	-	-
Total expenditures:	<u>-</u>	<u>-</u>	<u>41,620</u>	<u>147,403</u>
Excess (deficiency) of revenues over (under) expenditures	<u>240</u>	<u>4</u>	<u>40,041</u>	<u>(42,389)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	-	88,793
Transfers out	-	-	(40,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>88,793</u>
Net change in fund balances	240	4	41	46,404
Fund balances - beginning	80,922	1,189	10,740	(40,624)
Fund balances - ending	<u>\$ 81,162</u>	<u>\$ 1,193</u>	<u>\$ 10,781</u>	<u>\$ 5,780</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	<u>Road Impact Fee</u>	<u>Radio System Maintenance Fund</u>	<u>Court Technology</u>	<u>Court Security</u>
Revenues				
Taxes:				
Ad valorem	\$ -	\$ -	\$ -	\$ -
Sales and other taxes	-	-	-	-
Fines, fees, and forfeitures	37,745	-	5,438	4,076
Grants and contributions	-	112,166	-	-
Interest income	66	90	86	33
Miscellaneous	-	-	-	-
Total revenues	<u>37,811</u>	<u>112,256</u>	<u>5,524</u>	<u>4,109</u>
Expenditures				
Current:				
General government	-	179,770	-	-
Public safety	-	-	9,803	5,156
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service				
Administrative charges	-	-	-	-
Interest	-	-	-	-
Principal retirement	-	-	-	-
Total expenditures:	<u>-</u>	<u>179,770</u>	<u>9,803</u>	<u>5,156</u>
Excess (deficiency) of revenues over (under) expenditures	<u>37,811</u>	<u>(67,514)</u>	<u>(4,279)</u>	<u>(1,047)</u>
Other Financing Sources (Uses)				
Transfers in	-	80,559	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>80,559</u>	<u>-</u>	<u>-</u>
Net change in fund balances	37,811	13,045	(4,279)	(1,047)
Fund balances - beginning	6,362	5,677	38,850	14,933
Fund balances - ending	<u>\$ 44,173</u>	<u>\$ 18,722</u>	<u>\$ 34,571</u>	<u>\$ 13,886</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

<u>Child Safety</u>	<u>Court Efficiency</u>	<u>Cable Education Fund</u>	<u>Transportation Improvements</u>	<u>Drainage Improvements</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
2,028	964	-	254,136	138,517
-	-	-	-	-
54	18	238	434	133
-	-	21,546	-	-
<u>2,082</u>	<u>982</u>	<u>21,784</u>	<u>254,570</u>	<u>138,650</u>
-	-	-	-	-
-	594	4,713	-	-
-	-	-	1,970	3,572
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>-</u>	<u>594</u>	<u>4,713</u>	<u>1,970</u>	<u>3,572</u>
<u>2,082</u>	<u>388</u>	<u>17,071</u>	<u>252,600</u>	<u>135,078</u>
-	-	-	-	-
-	-	-	(240,000)	(135,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(240,000)</u>	<u>(135,000)</u>
2,082	388	17,071	12,600	78
17,720	7,420	78,730	188,614	38,738
<u>\$ 19,802</u>	<u>\$ 7,808</u>	<u>\$ 95,801</u>	<u>\$ 201,214</u>	<u>\$ 38,816</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	<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	30	-	1	35
Miscellaneous	-	-	-	-
Total revenues	<u>30</u>	<u>-</u>	<u>1</u>	<u>35</u>
Expenditures				
Current:				
General government	-	-	-	5,891
Public safety	1,290	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Administrative charges	-	-	-	-
Interest	-	-	-	-
Principal retirement	-	-	-	-
Total expenditures:	<u>1,290</u>	<u>-</u>	<u>-</u>	<u>5,891</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,260)</u>	<u>-</u>	<u>1</u>	<u>(5,856)</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>(1,260)</u>	<u>-</u>	<u>1</u>	<u>(5,856)</u>
Fund balances - beginning	<u>10,898</u>	<u>-</u>	<u>503</u>	<u>12,594</u>
Fund balances - ending	<u>\$ 9,638</u>	<u>\$ -</u>	<u>\$ 504</u>	<u>\$ 6,738</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

Special Revenue Total	Interest and Sinking Fund	1996 Certificates of Obligation	Clearfork Detention Basin	Clearfork Section 1 Sidewalk	2006 Certificates of Obligation
\$ -	\$ 538,316	\$ -	\$ -	\$ -	\$ -
81,614	-	-	-	-	-
442,904	-	-	-	-	-
200,607	11,931	-	-	-	6,265
1,509	2,053	6	63	48	62
38,119	300,000	-	-	-	-
<u>764,753</u>	<u>852,300</u>	<u>6</u>	<u>63</u>	<u>48</u>	<u>6,327</u>
365,709	-	3,494	-	-	-
21,556	-	-	-	-	-
5,542	-	-	-	-	-
8,975	-	-	-	-	-
-	-	-	-	-	-
-	400	-	-	-	-
-	417,367	-	-	-	-
-	766,213	-	-	-	-
<u>401,782</u>	<u>1,183,980</u>	<u>3,494</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>362,971</u>	<u>(331,680)</u>	<u>(3,488)</u>	<u>63</u>	<u>48</u>	<u>6,327</u>
169,352	347,985	-	-	-	-
(415,000)	-	-	-	-	-
<u>(245,648)</u>	<u>347,985</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
117,323	16,305	(3,488)	63	48	6,327
473,266	499,163	3,488	3,743	2,831	20,519
<u>\$ 590,589</u>	<u>\$ 515,468</u>	<u>\$ -</u>	<u>\$ 3,806</u>	<u>\$ 2,879</u>	<u>\$ 26,846</u>

CITY OF LOCKHART, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2013

	<u>2006-A Bond Fund</u>	<u>Capital Projects Total</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues			
Taxes:			
Ad valorem	\$ -	\$ -	\$ 538,316
Sales and other taxes	-	-	81,614
Fines, fees, and forfeitures	-	-	442,904
Grants and contributions	-	6,265	218,803
Interest income	67	246	3,808
Miscellaneous	-	-	338,119
Total revenues	<u>67</u>	<u>6,511</u>	<u>1,623,564</u>
Expenditures			
Current:			
General government	-	3,494	369,203
Public safety	-	-	21,556
Public works	-	-	5,542
Culture and recreation	-	-	8,975
Capital outlay	-	-	-
Debt service			
Administrative charges	-	-	400
Interest	-	-	417,367
Principal retirement	-	-	766,213
Total expenditures:	<u>-</u>	<u>3,494</u>	<u>1,589,256</u>
Excess (deficiency) of revenues over (under) expenditures	<u>67</u>	<u>3,017</u>	<u>34,308</u>
Other Financing Sources (Uses)			
Transfers in	-	-	517,337
Transfers out	-	-	(415,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>102,337</u>
Net change in fund balances	67	3,017	136,645
Fund balances - beginning	22,488	53,069	1,025,498
Fund balances - ending	<u>\$ 22,555</u>	<u>\$ 56,086</u>	<u>\$ 1,162,143</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Lockhart, Texas as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Lockhart's basic financial statements, and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

ABIP, PC

Certified Public Accountants

San Antonio, Texas

March 18, 2014