

**CITY OF LAKEWAY, TEXAS**

**ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED SEPTEMBER 30, 2008

City of Lakeway, Texas  
Annual Financial Report  
For The Year Ended September 30, 2008

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report on Financial Statements.....	1	
Management's Discussion and Analysis (Required Supplementary Information).....	3	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets.....	9	A-1
Statement of Activities.....	10	A-2
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	11	A-3
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets.....	13	A-4
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	14	A-5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	16	A-6
Notes to the Financial Statements .....	17	
 <u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	26	B-1
 <u>Combining Statements and Budgetary Comparison Schedules as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	27	C-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	28	C-2
 Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	29	C-3
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	31	C-4
 Debt Service Funds:		
Combining Balance Sheet - Nonmajor Debt Service Funds.....	33	C-5
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Debt Service Funds.....	35	C-6

City of Lakeway, Texas  
Annual Financial Report  
For The Year Ended September 30, 2008

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Budgetary Comparison Schedules:		
Activity Center General Obligation 1997.....	37	C-7
Pool Debt 2002.....	38	C-8
GO 2004.....	39	C-9
Debt 2004 TAN's.....	40	C-10
 OTHER SUPPLEMENTARY INFORMATION SECTION		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	41	

*Financial Section*

**West, Davis & Company, LLP**  
11615 Angus Road, Suite 219  
Austin, Texas 78759

**Independent Auditor's Report on Financial Statements**

City Council  
City of Lakeway, Texas  
1102 Lohmans Crossing  
Lakeway, Texas 78734-5159

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Lakeway, Texas as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Lakeway, Texas's management. Our responsibility is to express opinions on these financial statements based on our audit.

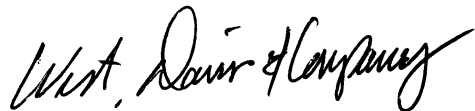
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Lakeway, Texas as of September 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2009, on our consideration of City of Lakeway, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the City of Lakeway, Texas's basic financial statements. The accompanying combining financial statements and supporting schedules 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 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "West, Davis & Company". The signature is written in a cursive, flowing style.

West, Davis & Company, LLP

March 4, 2009

## City of Lakeway, Texas

### MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of City of Lakeway, Texas (the City), discuss and analyze the City's financial performance for the year ended September 30, 2008. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements, which begin on page 9.

#### FINANCIAL HIGHLIGHTS

- The City's total net assets were \$17.71 million.
- The City's unrestricted net assets were \$1.79 million.
- The General Fund ended the year with a fund balance of \$1.56 million, \$847 thousand less than the previous year. This was primarily a result of a transfer of \$500 thousand to the Capital Reserve Fund and an abrupt reduction in building and development.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities on pages 9 and 10. These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements, starting on page 11, report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements starting on page 17 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

#### Reporting the City as a Whole

##### *The Statement of Net Assets and the Statement of Activities*

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are divided into those provided by outside parties who share the costs of some programs, such as solid waste/recycling service charges. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years (such as bonded debt).

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider non-financial factors as well, such as changes in the City's property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including the general government, public works and public safety. Property taxes, sales taxes and fees finance most of these activities.
- Business-type activities—The City has no such “business-type” activities.

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 11 and provide detailed information about the most significant funds—not the City as a whole. Laws and contracts require the City to establish some funds, such as grants. The City's administration establishes other funds to help it control and manage money for particular purposes. The City's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—The City's basic services are reported in governmental funds, i.e. the General Fund. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—As previously noted, the City reports no such funds.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental activities. Net assets of the City's governmental activities increased from \$17.68 million to \$17.71 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$1.79 million at September 30, 2008.

**Table I**  
**City of Lakeway, Texas**

**NET ASSETS**  
in thousands

	Governmental Activities	
	2008	2007
Current and other assets	5,113	5,235
Capital assets	20,852	21,161
Total assets	25,965	26,396
Long-term liabilities	6,979	7,481
Other liabilities	1,271	1,232
Total liabilities	8,250	8,713
Net Assets:		
Invested in capital assets net of related debt	13,316	13,164
Restricted	2,608	1,904
Unrestricted	1,791	2,615
Total net assets	17,715	17,683

**Table II**  
**City of Lakeway, Texas**

**CHANGES IN NET ASSETS**  
in thousands

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues:		
Charges for Services	2,642	2,945
General Revenues:		
General Property Taxes	4,275	3,656
General Sales Taxes	1,787	1,622
Grants and Contributions not restricted to specific functions	48	267
Investment Earnings	183	284
Other	302	303
Total Revenue	<u>9,237</u>	<u>9,077</u>
Expenses:		
General Government	1,045	937
Public Safety	2,921	2,740
Public Works	1,662	1,857
Solid Waste/Recycling	679	646
Planning & Development	1,083	759
Activity Center	391	367
Swim Center	421	443
Parks & Recreation	341	306
Municipal Court	319	278
Interest and Fiscal Charges	343	358
Total Expenses	<u>9,205</u>	<u>8,691</u>
Increase in net assets	32	386
Net assets at Beginning	<u>17,683</u>	<u>17,297</u>
Net assets at Ending	<u>17,715</u>	<u>17,683</u>

The cost of all governmental activities this year was \$9.21 million. The Statement of Activities on page 10 shows the amount that our property taxpayers ultimately financed for these activities through City taxes was only \$4.3 million.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement, bond covenants, and segregation for particular purposes.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$4.17 million; this represents approximately \$143 thousand decrease from last year. Approximately 37 percent of this total amount (\$1.56 million) constitutes unreserved, undesignated fund balance. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed for:

- Debt Service;
- Capital Projects;
- Other (solid waste/recycling, court building security, etc.).

The general fund is the primary operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$1.56 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to the total fund expenditures. Unreserved, undesignated fund balance represents 20 percent of the total general fund expenditures (a decrease from 35 percent in the previous year). The 20 percent still meets the City's goal for the unrestricted fund balance ratio.

The total fund balance of the City's general fund decreased by \$847 thousand. Key factors to this change are as follows:

- Decreased building and development;
- Delay in implementation of interlocal agreement with Bee Caves.

The City's total general revenues were \$7.26 million. A significant portion, \$3.52 million or 49 percent of the City's revenues come from property taxes. The majority of the other 51 percent of revenues is from sales taxes (20 percent), fines (8 percent), and PDCE fees (12 percent).

The debt service funds have a total fund balance of \$231 thousand, all of which is reserved for the payment of debt service.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the City recommended and the Council approved only one revision to budgeted revenue and appropriations. This amendment falls into the following category:

- Amendments to increase operational expenditures.

Following is a summary of amendments made to appropriations:

- Public Works increased \$50 thousand

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2008, the City had \$20.9 million invested in a broad range of capital assets, including facilities and equipment for general government and infrastructure activities. During the year, the City acquired infrastructure, buildings and improvements, equipment and vehicles, improvements other than buildings and implemented a Document Management Program. This resulted in an addition of approximately \$573 thousand in additions to the Capital Assets.

### **Debt**

At year-end, the City had \$7.5 million in long-term debt outstanding versus \$8 million last year. No new debt was issued in the current year. More detailed information about the City's long-term liabilities is presented in Note E to the financial statements.

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

The City's elected and appointed officials considered many factors when setting the fiscal year 2009 budget and tax rates. One of those factors is the economy.

The City budgeted a 4 percent decrease in expenditures for 2009 and a 4 percent decrease in revenues.

These indicators were taken into consideration when adopting the General Fund budget for 2009. Amounts available for appropriation in the General Fund budget are \$8.4 million. Budgeted expenditures are expected to be \$8.4 million. Expenditures were decreased by \$400 thousand from the 2008 to the 2009 budget. If estimates are realized, the City will have an overall decrease in revenues of \$400 thousand dollars.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance at the City's business office at City of Lakeway, 1102 Lohmans Crossing, Lakeway, Texas 78734-5159. Financial information is available on the City's website ([www.CityofLakeway.com](http://www.CityofLakeway.com)).

*Basic Financial Statements*

**CITY OF LAKEWAY, TEXAS**

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2008

	Governmental Activities
<b>ASSETS:</b>	
<i>Cash and Cash Equivalents</i>	\$ 4,637,165
<i>Taxes Receivables ( net of allowances for uncollectibles)</i>	142,204
<i>Other Receivables ( net of allowances for uncollectibles)</i>	222,341
<i>Prepaid items</i>	111,733
<b>Restricted Assets:</b>	
<i>Land</i>	6,913,618
<i>Buildings and Improvements</i>	6,319,035
<i>Improvements other than Buildings</i>	824,666
<i>Equipment and Vehicles</i>	1,013,421
<i>Infrastructure</i>	5,776,105
<i>Works of Art</i>	5,000
<b>Total Assets</b>	<u>25,965,288</u>
<b>LIABILITIES:</b>	
<i>Accounts Payable and Other Current Liabilities</i>	41,356
<i>Payroll Liabilities and Miscellaneous Payables</i>	37,088
<i>Accrued Interest Payable</i>	25,615
<i>Developers Escrow Deposits</i>	263,362
<i>Unearned Revenue</i>	109,757
<i>Compensated Absences</i>	237,401
<b>Noncurrent Liabilities-</b>	
<i>Due within one year</i>	556,398
<i>Due in more than one year</i>	6,979,403
<b>Total Liabilities</b>	<u>8,250,380</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	13,316,044
<b>Restricted For:</b>	
Debt Service	231,017
Capital Projects	1,925,726
Other Purposes	451,669
Unrestricted	1,790,452
<b>Total Net Assets</b>	<u>\$ 17,714,908</u>

The accompanying notes are an integral part of this statement.

**CITY OF LAKEWAY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Functions/Programs	Expenses	Program Revenues	Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:				Governmental Activities
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
<i>General Government</i>	\$ 1,045,421	\$ --		\$ (1,045,421)
<i>Public Safety</i>	2,920,694	14,805		(2,905,889)
<i>Public Works</i>	1,662,232	--		(1,662,232)
<i>Solid Waste/Recycling</i>	678,902	731,962		53,060
<i>Planning &amp; Development</i>	1,082,682	854,780		(227,902)
<i>Activity Center</i>	390,565	153,403		(237,162)
<i>Swim Center</i>	420,994	228,238		(192,756)
<i>Parks &amp; Recreation</i>	340,974	13,756		(327,218)
<i>Municipal Court</i>	319,471	644,963		325,492
<i>Interest and Fiscal Charges</i>	343,482	--		(343,482)
Total Governmental Activities	<u>9,205,417</u>	<u>2,641,907</u>		<u>(6,563,510)</u>
Total Primary Government	<u>\$ 9,205,417</u>	<u>\$ 2,641,907</u>		<u>(6,563,510)</u>
General Revenues:				
<i>General Property Taxes</i>				4,274,583
<i>Sales Taxes</i>				1,787,310
<i>Gross Receipts Business Taxes</i>				229,737
<i>Grants/Contributions Unrestricted to Specific Programs</i>				48,338
<i>Investment Earnings</i>				182,774
<i>Miscellaneous</i>				72,842
Total General Revenues				<u>6,595,584</u>
Change in Net Assets				32,074
Net Assets - Beginning				17,682,834
Net Assets - Ending				<u>\$ 17,714,908</u>

The accompanying notes are an integral part of this statement.

**CITY OF LAKEWAY, TEXAS**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2008**

	General Fund	Parkland Fund
	<u>                    </u>	<u>                    </u>
<b>ASSETS AND OTHER DEBITS</b>		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 2,250,618	\$ 825,092
<i>Taxes Receivable (net of allowance for uncollectibles)</i>	142,204	--
<i>Receivables ( net of allowances for uncollectibles):</i>	--	--
<i>Prepaid items</i>	818	--
<b>Total Assets and Other Debits</b>	<b><u>\$ 2,393,640</u></b>	<b><u>\$ 825,092</u></b>
<b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
<i>Accounts Payable</i>	\$ 41,356	\$ --
<i>Payroll Payables</i>	37,088	--
<i>Developer Escrow Deposits</i>	263,362	--
<i>Deferred Revenue</i>	251,962	--
<i>Compensated Absences</i>	236,925	--
<b>Total Liabilities</b>	<b><u>830,693</u></b>	<b><u>--</u></b>
Fund Balances:		
Reserved Fund Balances:		
<i>Reserved for Debt Service</i>	--	--
<i>Reserved for Capital Projects</i>	--	825,092
<i>Reserved for Other Purposes</i>	--	--
Unreserved	1,562,947	--
<b>Total Fund Balance</b>	<b><u>1,562,947</u></b>	<b><u>825,092</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 2,393,640</u></b>	<b><u>\$ 825,092</u></b>

The accompanying notes are an integral part of this statement.



Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,100,634	\$ 460,821	\$ 4,637,165
--	--	142,204
--	222,341	222,341
--	--	818
<u>\$ 1,100,634</u>	<u>\$ 683,162</u>	<u>\$ 5,002,528</u>
\$ --	\$ --	\$ 41,356
--	--	37,088
--	--	263,362
--	--	251,962
--	476	237,401
<u>--</u>	<u>476</u>	<u>831,169</u>
--	231,017	231,017
1,100,634	--	1,925,726
--	451,669	451,669
--	--	1,562,947
<u>1,100,634</u>	<u>682,686</u>	<u>4,171,359</u>
<u>\$ 1,100,634</u>	<u>\$ 683,162</u>	<u>\$ 5,002,528</u>

**CITY OF LAKEWAY, TEXAS**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2008

Total fund balances - governmental funds balance sheet	\$ 4,171,359
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	20,851,846
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	142,205
Payables for bond principal which are not due in the current period are not reported in the funds.	(7,250,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(25,615)
Payables for notes which are not due in the current period are not reported in the funds.	(285,801)
Bond issuance costs and similar items are expensed in the funds but capitalized in the SNA.	110,915
Rounding difference	(1)
	<u>17,714,908</u>
Net assets of governmental activities - statement of net assets	\$ <u>17,714,908</u>

The accompanying notes are an integral part of this statement.

# CITY OF LAKEWAY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Parkland Fund
	<u>                    </u>	<u>                    </u>
Revenue:		
Taxes:		
General Property Taxes	\$ 3,523,762	\$ --
Planning, Development, Code Enf. Fees	854,780	--
Sales Taxes	1,449,680	--
Charges for Services	--	--
Gross Receipts Business Taxes	229,737	--
Swim Center	228,238	--
Fines	608,693	--
General Parks & Recreation Fees	13,756	--
Investment Earnings	107,496	24,757
Contributions and Donations	13,338	35,000
Miscellaneous	76,748	--
Activity Center Fees	153,403	--
Total revenues	<u>7,259,631</u>	<u>59,757</u>
Expenditures:		
Current:		
General Government	995,427	--
Public Safety	2,778,381	--
Public Works	1,329,150	--
Solid Waste/Recycling	--	--
Municipal Court	265,952	--
Swim Center	407,266	--
Planning & Development	1,097,282	--
Parks & Recreation	331,642	--
Activity Center	366,857	--
Debt Service:		
Principal	78,668	--
Interest	20,190	--
Fiscal Agent's Fees	--	--
Capital Outlay:		
Public Works	--	--
Total Expenditures	<u>7,670,815</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(411,184)</u>	<u>59,757</u>
Other Financing Sources (Uses):		
Transfers In	--	--
Transfers Out	(500,000)	--
Loan Proceeds	64,045	--
Total Other Financing Sources (Uses)	<u>(435,955)</u>	<u>--</u>
Net Change in Fund Balances	(847,139)	59,757
Fund Balances - Beginning	2,410,086	765,335
Fund Balances - Ending	<u>\$ 1,562,947</u>	<u>\$ 825,092</u>

The accompanying notes are an integral part of this statement.

Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 720,982	\$ 4,244,744
--	--	854,780
--	337,630	1,787,310
--	731,962	731,962
--	--	229,737
--	--	228,238
--	51,075	659,768
--	--	13,756
34,511	16,010	182,774
--	--	48,338
--	--	76,748
--	--	153,403
<u>34,511</u>	<u>1,857,659</u>	<u>9,211,558</u>
--	--	995,427
--	12,930	2,791,311
--	260,652	1,589,802
--	678,902	678,902
--	36,720	302,672
--	--	407,266
--	--	1,097,282
--	--	331,642
--	--	366,857
--	440,000	518,668
--	315,540	335,730
--	1,512	1,512
1,400	--	1,400
<u>1,400</u>	<u>1,746,256</u>	<u>9,418,471</u>
33,111	111,403	(206,913)
500,000	--	500,000
--	--	(500,000)
--	--	64,045
<u>500,000</u>	<u>--</u>	<u>64,045</u>
533,111	111,403	(142,868)
567,523	571,283	4,314,227
<u>\$ 1,100,634</u>	<u>\$ 682,686</u>	<u>\$ 4,171,359</u>

**CITY OF LAKEWAY, TEXAS**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008*

Net change in fund balances - total governmental funds	\$ (142,868)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	572,386
The depreciation of capital assets used in governmental activities is not reported in the funds.	(870,666)
The gain or loss on the sale of capital assets is not reported in the funds.	(5,000)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	29,839
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	440,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	79,429
Bond issuance costs and similar items are amortized in the SOA but not in the funds	(8,289)
(Increase) decrease in accrued interest from beginning of period to end of period	1,288
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(64,045)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 32,074</u>

The accompanying notes are an integral part of this statement.

# CITY OF LAKEWAY, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2008

### A. Summary of Significant Accounting Policies

The combined financial statements of City of Lakeway, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

#### 1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

**Government-wide Statements:** The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

**CITY OF LAKEWAY, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2008*

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Parkland Fund. This fund accounts for the developers' fees and is reserved for park usage only. This fund is not a budgeted fund.

Capital Reserve Fund. This fund accounts for the proceeds from the sale of real estate owned by the City in addition to General Fund transfers and the subsequent disposition of those funds. This fund is not a budgeted fund.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**CITY OF LAKEWAY, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2008*

b. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. 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. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	15 - 40
Buildings	15 - 40
Building Improvements	10 - 25
Vehicles	5 - 7
Equipment	7 - 20

d. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

f. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.



**CITY OF LAKEWAY, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2008*

**B. Deposits and Investments**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect District 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 Deposits:**

At September 30, 2008, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$260,917 and the bank balance was \$499,718. The City's cash deposits at September 30, 2008 and during the period ended September 30, 2008, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City had on hand \$2,294 in various petty and change funds.

**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 for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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 District were in accordance with local policies.

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

The City's investments at September 30, 2008 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
TexPool Investment Pool	28 days average	AAAm	\$ 4,373,955	100%
Total Investments			<u>\$ 4,373,955</u>	

**3. 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. At year end, the City's investments were rated as noted above.

## **CITY OF LAKEWAY, TEXAS**

### *NOTES TO THE FINANCIAL STATEMENTS*

*FOR THE YEAR ENDED SEPTEMBER 30, 2008*

b. Custodial Credit Risk

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

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, 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. At year end, the City's investments representing more than 5% of total investments are disclosed above.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

#### Investment Accounting 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.

#### 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, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**CITY OF LAKEWAY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

C. Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,918,619	\$ --	\$ 5,000	\$ 6,913,619
Works of Art	5,000	--	--	5,000
Construction in progress	--	--	--	--
Total capital assets not being depreciated	<u>6,923,619</u>	<u>--</u>	<u>5,000</u>	<u>6,918,619</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	24,025,578	270,902	--	24,296,480
Buildings and improvements	7,848,234	28,312	--	7,876,546
Equipment & vehicles	1,618,617	198,171	39,231	1,777,557
Improvements other than Buildings	1,164,840	76,000	--	1,240,840
Total capital assets being depreciated	<u>34,657,269</u>	<u>573,385</u>	<u>39,231</u>	<u>35,191,423</u>
Less accumulated depreciation for:				
Infrastructure	(18,122,248)	(398,128)	--	(18,520,376)
Buildings and improvements	(1,319,838)	(237,672)	--	(1,557,510)
Equipment & vehicles	(614,338)	(182,194)	(32,396)	(764,136)
Improvements other than Buildings	(363,504)	(52,672)	--	(416,176)
Total accumulated depreciation	<u>(20,419,928)</u>	<u>(870,666)</u>	<u>(32,396)</u>	<u>(21,258,198)</u>
Total capital assets being depreciated, net	<u>14,237,341</u>	<u>(297,281)</u>	<u>6,835</u>	<u>13,933,225</u>
Governmental activities capital assets, net	<u>\$ 21,160,960</u>	<u>\$ (297,281)</u>	<u>\$ 11,835</u>	<u>\$ 20,851,844</u>

Depreciation was charged to functions as follows:

General Government	\$ 60,673
Public Safety	181,278
Public Works Including	
Depreciation of General Infrastructure Assets	480,391
Municipal Court	16,799
Swim Center	27,728
Planning & Development	59,757
Parks & Recreation	20,332
Activity Center	23,708
	<u>\$ 870,666</u>

D. Interfund Balances and Activity

Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2008, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Capital Reserve Fund	\$ 500,000	Supplement other funds sources
	Total	<u>\$ 500,000</u>	

**CITY OF LAKEWAY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**E. Long-Term Obligations**

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

**1. Long-Term Obligation Activity**

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2008, are as follows:

	Interest Rates	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>						
G.O. Bonds 1997	5.25-6.75%	\$ 1,040,000	\$ --	\$ 80,000	\$ 960,000	\$ 85,000
G.O. Bonds 2002	4.75-5.00%	1,850,000	--	100,000	1,750,000	105,000
<b>General Imp. &amp; Refunding</b>						
Bonds 2004	2.50-4.40%	4,445,000	--	145,000	4,300,000	150,000
Tax Notes 2004	1.00-2.75%	355,000	--	115,000	240,000	120,000
Loans Payable	5.00-6.00%	307,021	64,045	85,265	285,801	96,397
<b>Total governmental activities</b>		<b>\$ 7,997,021</b>	<b>\$ 64,045</b>	<b>\$ 525,265</b>	<b>\$ 7,535,801</b>	<b>\$ 556,397</b>

**2. Debt Service Requirements**

Debt service requirements on long-term debt at September 30, 2008, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 460,000	\$ 299,788	\$ 759,788
2010	465,000	282,861	747,861
2011	355,000	264,699	619,699
2012	370,000	249,460	619,460
2013	385,000	233,902	618,902
2014-2018	2,140,000	896,822	3,036,822
2019-2023	2,135,000	432,976	2,567,976
2024-2025	940,000	41,685	981,685
<b>Totals</b>	<b>\$ 7,250,000</b>	<b>\$ 2,702,193</b>	<b>\$ 9,952,193</b>

Year Ending September 30,	Loans		
	Principal	Interest	Total
2009	\$ 96,397	\$ 14,271	\$ 110,668
2010	100,728	8,569	109,297
2011	58,841	2,755	61,596
2012	29,835	558	30,393
<b>Totals</b>	<b>\$ 285,801</b>	<b>\$ 26,153</b>	<b>\$ 311,954</b>

**3. Continuing Disclosure**

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

## **CITY OF LAKEWAY, TEXAS**

### *NOTES TO THE FINANCIAL STATEMENTS*

*FOR THE YEAR ENDED SEPTEMBER 30, 2008*

#### **F. Risk Management**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2008, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

#### **G. Pension Plan**

##### **1. Plan Description**

The City's pension plan ("Plan") is a non-traditional, joint contributory, defined benefit plan which provides retirement, disability and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tMrs.org>.

##### **2. Funding Policy**

Plan members are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 10.26% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2008, 2007 and 2006 were \$373,991, \$333,255 and \$198,050 respectively, and were equal to the required contributions for each year.

##### **3. Annual Pension Cost**

The City's annual pension cost of \$373,991 for the Plan was equal to the City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City's contribution rate. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 2007 valuation is effective for rates beginning January 2009).

**CITY OF LAKEWAY, TEXAS**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2008*

Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City are based on TMRS as a whole. For the December 31, 2007 valuation date, an 7% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2006	\$ 198,050	\$ 100%	--
September 30, 2007	333,255	100%	--
September 30, 2008	373,991	100%	--

H. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30,2008.

## *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**CITY OF LAKEWAY, TEXAS**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**EXHIBIT B-1**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue:				
Taxes:				
<i>General Property Taxes</i>	\$ 3,586,968	\$ 3,586,968	\$ 3,523,762	\$ (63,206)
<i>Planning, Development, Code Enf. Fees</i>	1,550,850	1,550,850	854,780	(696,070)
<i>Sales Taxes</i>	1,440,000	1,440,000	1,449,680	9,680
<i>Gross Receipts Business Taxes</i>	280,500	280,500	229,737	(50,763)
<i>Swim Center</i>	269,024	269,024	228,238	(40,786)
<i>Fines</i>	550,000	550,000	608,693	58,693
<i>General Parks &amp; Recreation Fees</i>	13,000	13,000	13,756	756
<i>Investment Earnings</i>	185,000	185,000	107,496	(77,504)
<i>Contributions and Donations</i>	6,000	6,000	13,338	7,338
<i>Miscellaneous</i>	162,500	162,500	76,748	(85,752)
<i>Activity Center Fees</i>	125,000	125,000	153,403	28,403
Total revenues	<u>8,168,842</u>	<u>8,168,842</u>	<u>7,259,631</u>	<u>(909,211)</u>
Expenditures:				
Current:				
<i>General Government</i>	1,054,289	1,054,289	995,427	58,862
<i>Public Safety</i>	3,150,003	3,150,003	2,778,381	371,622
<i>Public Works</i>	1,379,431	1,429,431	1,329,150	100,281
<i>Municipal Court</i>	291,908	291,908	265,952	25,956
<i>Swim Center</i>	474,826	481,826	407,266	74,560
<i>Planning &amp; Development</i>	1,038,373	1,038,373	1,097,282	(58,909)
<i>Parks &amp; Recreation</i>	371,408	353,308	331,642	21,666
<i>Activity Center</i>	399,471	411,971	366,857	45,114
Debt Service:				
<i>Principal</i>	--	--	78,668	(78,668)
<i>Interest</i>	--	--	20,190	(20,190)
Total Expenditures	<u>8,159,709</u>	<u>8,211,109</u>	<u>7,670,815</u>	<u>540,294</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,133</u>	<u>(42,267)</u>	<u>(411,184)</u>	<u>(368,917)</u>
Other Financing Sources (Uses):				
<i>Transfers Out</i>	(500,000)	(500,000)	(500,000)	--
<i>Loan Proceeds</i>	--	--	64,045	64,045
Total Other Financing Sources (Uses)	<u>(500,000)</u>	<u>(500,000)</u>	<u>(435,955)</u>	<u>(64,045)</u>
Net Change in Fund Balances	(490,867)	(542,267)	(847,139)	(304,872)
Fund Balances - Beginning	2,410,086	2,410,086	2,410,086	--
Fund Balances - Ending	<u>\$ 1,919,219</u>	<u>\$ 1,867,819</u>	<u>\$ 1,562,947</u>	<u>\$ (304,872)</u>



*Combining Statements and Budget Comparisons  
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

**CITY OF LAKEWAY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2008**

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
<b>ASSETS AND OTHER DEBITS</b>			
Assets:			
<i>Cash and Cash Equivalents</i>	\$ 229,804	\$ 231,017	\$ 460,821
<i>Receivables ( net of allowances for uncollectibles):</i>	222,341	--	222,341
<b>Total Assets and Other Debits</b>	<u>\$ 452,145</u>	<u>\$ 231,017</u>	<u>\$ 683,162</u>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
<i>Compensated Absences</i>	\$ 476	\$ --	\$ 476
<b>Total Liabilities</b>	<u>476</u>	<u>--</u>	<u>476</u>
Fund Balances:			
Reserved Fund Balances:			
<i>Reserved for Debt Service</i>	--	231,017	231,017
<i>Reserved for Other Purposes</i>	451,669	--	451,669
<b>Total Fund Balance</b>	<u>451,669</u>	<u>231,017</u>	<u>682,686</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 452,145</u>	<u>\$ 231,017</u>	<u>\$ 683,162</u>

**CITY OF LAKEWAY, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Special Revenue Funds	Debt Service Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ --	\$ 720,982	\$ 720,982
<i>Sales Taxes</i>	337,630	--	337,630
<i>Charges for Services</i>	731,962	--	731,962
<i>Fines</i>	51,075	--	51,075
<i>Investment Earnings</i>	7,671	8,339	16,010
Total revenues	<u>1,128,338</u>	<u>729,321</u>	<u>1,857,659</u>
Expenditures:			
Current:			
<i>Public Safety</i>	12,930	--	12,930
<i>Public Works</i>	260,652	--	260,652
<i>Solid Waste/Recycling</i>	678,902	--	678,902
<i>Municipal Court</i>	36,720	--	36,720
Debt Service:			
<i>Principal</i>	115,000	325,000	440,000
<i>Interest</i>	--	315,540	315,540
<i>Fiscal Agent's Fees</i>	--	1,512	1,512
Total Expenditures	<u>1,104,204</u>	<u>642,052</u>	<u>1,746,256</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>24,134</u>	<u>87,269</u>	<u>111,403</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	24,134	87,269	111,403
Fund Balances - Beginning	427,535	143,748	571,283
Fund Balances - Ending	<u>\$ 451,669</u>	<u>\$ 231,017</u>	<u>\$ 682,686</u>

**CITY OF LAKEWAY, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**SEPTEMBER 30, 2008**

	Solid Waste/ Recycling Fund	Road Tax
	<u>                    </u>	<u>                    </u>
<b>ASSETS AND OTHER DEBITS</b>		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 86,548	\$ 91,490
<i>Receivables ( net of allowances for uncollectibles):</i>	222,341	--
<b>Total Assets and Other Debits</b>	<u>\$ 308,889</u>	<u>\$ 91,490</u>
<b>LIABILITIES AND FUND BALANCES:</b>		
Liabilities:		
<i>Compensated Absences</i>	\$ 476	\$ --
<b>Total Liabilities</b>	<u>476</u>	<u>--</u>
Fund Balances:		
Reserved Fund Balances:		
<i>Reserved for Other Purposes</i>	308,413	91,490
<b>Total Fund Balance</b>	<u>308,413</u>	<u>91,490</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 308,889</u>	<u>\$ 91,490</u>

Court Building Security Fund	Court Technology Fund	Child Safety Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 23,506	\$ 12,134	\$ 16,126	\$ 229,804
--	--	--	222,341
<u>\$ 23,506</u>	<u>\$ 12,134</u>	<u>\$ 16,126</u>	<u>\$ 452,145</u>
\$ --	\$ --	\$ --	\$ 476
--	--	--	476
<u>23,506</u>	<u>12,134</u>	<u>16,126</u>	<u>451,669</u>
<u>23,506</u>	<u>12,134</u>	<u>16,126</u>	<u>451,669</u>
<u>\$ 23,506</u>	<u>\$ 12,134</u>	<u>\$ 16,126</u>	<u>\$ 452,145</u>

**CITY OF LAKEWAY, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Solid Waste/ Recycling Fund	Road Tax
	<u>                    </u>	<u>                    </u>
Revenue:		
Taxes:		
<i>Sales Taxes</i>	\$ --	\$ 337,630
<i>Charges for Services</i>	731,962	--
<i>Fines</i>	--	--
<i>Investment Earnings</i>	2,663	4,480
Total revenues	<u>734,625</u>	<u>342,110</u>
Expenditures:		
Current:		
<i>Public Safety</i>	--	--
<i>Public Works</i>	--	260,652
<i>Solid Waste/Recycling</i>	678,902	--
<i>Municipal Court</i>	--	--
Debt Service:		
<i>Principal</i>	--	115,000
Total Expenditures	<u>678,902</u>	<u>375,652</u>
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	<u>55,723</u>	<u>(33,542)</u>
Other Financing Sources (Uses):		
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>
Net Change in Fund Balances	55,723	(33,542)
Fund Balances - Beginning	252,690	125,032
Fund Balances - Ending	<u>\$ 308,413</u>	<u>\$ 91,490</u>

Court Building Security Fund	Court Technology Fund	Child Safety Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ --	\$ 337,630
--	--	--	731,962
18,742	17,528	14,805	51,075
216	312	--	7,671
<u>18,958</u>	<u>17,840</u>	<u>14,805</u>	<u>1,128,338</u>
--	--	12,930	12,930
--	--	--	260,652
--	--	--	678,902
19,250	17,470	--	36,720
--	--	--	115,000
<u>19,250</u>	<u>17,470</u>	<u>12,930</u>	<u>1,104,204</u>
(292)	370	1,875	24,134
--	--	--	--
(292)	370	1,875	24,134
23,798	11,764	14,251	427,535
<u>\$ 23,506</u>	<u>\$ 12,134</u>	<u>\$ 16,126</u>	<u>\$ 451,669</u>

**CITY OF LAKEWAY, TEXAS**

COMBINING BALANCE SHEET

NONMAJOR DEBT SERVICE FUNDS

SEPTEMBER 30, 2008

	Activity Center GO 1997 Fund	Pool Debt 2002 Fund
ASSETS AND OTHER DEBITS		
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 71,681	\$ 71,210
<b>Total Assets and Other Debits</b>	<u>\$ 71,681</u>	<u>\$ 71,210</u>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Fund Balances:		
Reserved Fund Balances:		
<i>Reserved for Debt Service</i>	\$ 71,681	\$ 71,210
<b>Total Fund Balance</b>	<u>71,681</u>	<u>71,210</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 71,681</u>	<u>\$ 71,210</u>



GO 2004 Fund	Debt 2004 TAN's Fund	Total Nonmajor Debt Service Funds (See Exhibit C-1)
\$ 84,876	\$ 3,250	\$ 231,017
<u>\$ 84,876</u>	<u>\$ 3,250</u>	<u>\$ 231,017</u>
\$ 84,876	\$ 3,250	\$ 231,017
<u>84,876</u>	<u>3,250</u>	<u>231,017</u>
<u>\$ 84,876</u>	<u>\$ 3,250</u>	<u>\$ 231,017</u>

**CITY OF LAKEWAY, TEXAS**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Activity Center GO 1997 Fund	Pool Debt 2002 Fund
	<u>                    </u>	<u>                    </u>
Revenue:		
Taxes:		
<i>General Property Taxes</i>	\$ 151,043	\$ 207,059
<i>Investment Earnings</i>	2,408	2,501
Total revenues	<u>153,451</u>	<u>209,560</u>
Expenditures:		
Debt Service:		
<i>Principal</i>	80,000	100,000
<i>Interest</i>	53,955	83,881
<i>Fiscal Agent's Fees</i>	477	412
Total Expenditures	<u>134,432</u>	<u>184,293</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>19,019</u>	<u>25,267</u>
Other Financing Sources (Uses):		
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>
Net Change in Fund Balances	19,019	25,267
Fund Balances - Beginning	52,662	45,943
Fund Balances - Ending	<u>\$ 71,681</u>	<u>\$ 71,210</u>

GO 2004 Fund	Debt 2004 TAN's Fund	Total Nonmajor Debt Service Funds (See Exhibit C-2)
\$ 352,894	\$ 9,986	\$ 720,982
3,267	163	8,339
<u>356,161</u>	<u>10,149</u>	<u>729,321</u>
145,000	--	325,000
168,816	8,888	315,540
--	623	1,512
<u>313,816</u>	<u>9,511</u>	<u>642,052</u>
<u>42,345</u>	<u>638</u>	<u>87,269</u>
<u>--</u>	<u>--</u>	<u>--</u>
42,345	638	87,269
42,531	2,612	143,748
<u>\$ 84,876</u>	<u>\$ 3,250</u>	<u>\$ 231,017</u>

**CITY OF LAKEWAY, TEXAS**

ACTIVITY CENTER GENERAL OBLIGATION 1997  
 DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

**EXHIBIT C-7**

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 133,501	\$ 151,043	\$ 17,542
<i>Investment Earnings</i>	--	2,408	2,408
Total revenues	<u>133,501</u>	<u>153,451</u>	<u>19,950</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	80,000	80,000	--
<i>Interest</i>	53,501	53,955	(454)
<i>Fiscal Agent's Fees</i>	--	477	(477)
Total Expenditures	<u>133,501</u>	<u>134,432</u>	<u>(931)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>19,019</u>	<u>19,019</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	--	19,019	19,019
Fund Balances - Beginning	52,662	52,662	--
Fund Balances - Ending	<u>\$ 52,662</u>	<u>\$ 71,681</u>	<u>\$ 19,019</u>

**CITY OF LAKEWAY, TEXAS**  
 POOL DEBT 2002  
 DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

**EXHIBIT C-8**

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 189,293	\$ 207,059	\$ 17,766
<i>Investment Earnings</i>	--	2,501	2,501
Total revenues	<u>189,293</u>	<u>209,560</u>	<u>20,267</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	100,000	100,000	--
<i>Interest</i>	88,881	83,881	5,000
<i>Fiscal Agent's Fees</i>	412	412	--
Total Expenditures	<u>189,293</u>	<u>184,293</u>	<u>5,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>25,267</u>	<u>25,267</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	--	25,267	25,267
Fund Balances - Beginning	45,943	45,943	--
Fund Balances - Ending	<u>\$ 45,943</u>	<u>\$ 71,210</u>	<u>\$ 25,267</u>

**CITY OF LAKEWAY, TEXAS**  
 GO 2004  
 DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT C-9

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 312,678	\$ 352,894	\$ 40,216
<i>Investment Earnings</i>	--	3,267	3,267
Total revenues	<u>312,678</u>	<u>356,161</u>	<u>43,483</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	145,000	145,000	--
<i>Interest</i>	167,678	168,816	(1,138)
Total Expenditures	<u>312,678</u>	<u>313,816</u>	<u>(1,138)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>42,345</u>	<u>42,345</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	--	42,345	42,345
Fund Balances - Beginning	42,531	42,531	--
Fund Balances - Ending	<u>\$ 42,531</u>	<u>\$ 84,876</u>	<u>\$ 42,345</u>

**CITY OF LAKEWAY, TEXAS**

**EXHIBIT C-10**

DEBT 2004 TAN'S  
 DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
<i>General Property Taxes</i>	\$ 11,246	\$ 9,986	\$ (1,260)
<i>Investment Earnings</i>	--	163	163
Total revenues	<u>11,246</u>	<u>10,149</u>	<u>(1,097)</u>
Expenditures:			
Debt Service:			
<i>Interest</i>	11,246	8,888	2,358
<i>Fiscal Agent's Fees</i>	--	623	(623)
Total Expenditures	<u>11,246</u>	<u>9,511</u>	<u>1,735</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>638</u>	<u>638</u>
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	--	638	638
Fund Balances - Beginning	2,612	2,612	--
Fund Balances - Ending	<u>\$ 2,612</u>	<u>\$ 3,250</u>	<u>\$ 638</u>

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.



**West, Davis & Company, LLP**  
11615 Angus Road, Suite 219  
Austin, Texas 78759

**Independent Auditors' Report**

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

City Council  
City of Lakeway, Texas  
1102 Lohmans Crossing  
Lakeway, Texas 78734-5159

Members of the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Lakeway, Texas as of and for the year ended September 30, 2008, which collectively comprise the City of Lakeway, Texas's basic financial statements and have issued our report thereon dated March 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Lakeway, Texas's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Lakeway, Texas's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lakeway, Texas's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lakeway, Texas's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lakeway, Texas's financial statements that is more than inconsequential will not be prevented by the City of Lakeway, Texas's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lakeway, Texas's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lakeway, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read "West, Davis & Company". The signature is written in a cursive, flowing style.

West, Davis & Company, LLP

March 4, 2009