

CITY OF LAKEWAY, TEXAS

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

**For the Year Ended
September 30, 2009**

Singleton, Moore & Company, LLP
Certified Public Accountants

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**FOR THE YEAR ENDED
SEPTEMBER 30, 2009**

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Independent Auditors' Report

Honorable Mayor and City Council Members
City of Lakeway, Texas
1102 Lohmans Crossing Road
Lakeway, Texas 78734

Honorable Mayor and City Council Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lakeway, Texas (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express an opinion 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 opinion.

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 the City of Lakeway, Texas as of September 30, 2009, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3-8 of this report is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Singleton, Moore & Company, LLP

Singleton, Moore & Company, LLP
Cedar Park, Texas

January 5, 2010

CITY OF LAKEWAY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Lakeway, Texas's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the City of Lakeway, Texas's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the year ended September 30, 2009 the General Fund of the City of Lakeway, Texas experienced a fund balance increase of \$16,860 to end at \$2,110,047.
- Total governmental-type funds (the General Fund plus all Special Revenue Funds and the Debt Service Fund) of the City of Lakeway, Texas reported an overall fund balance decrease of \$321,524 to end at \$4,393,430.
- The total cost of the City of Lakeway, Texas's activities was \$9,568,192. This amount is inclusive of depreciation expense recorded on the capital assets of the City.

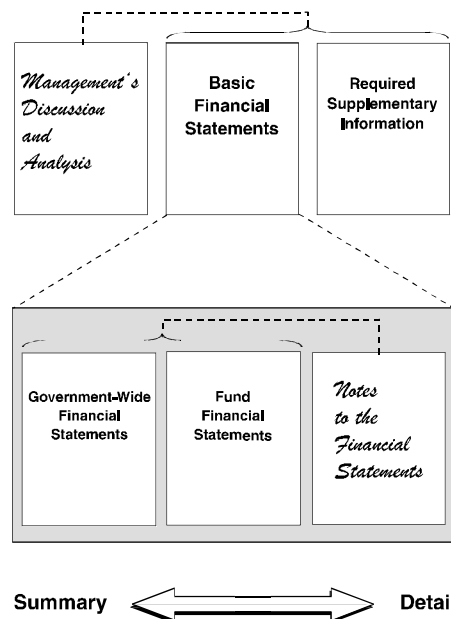
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of statements that present different views of the City of Lakeway, Texas:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City of Lakeway, Texas's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City of Lakeway, Texas operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1. Required Components of the City's Annual Financial



Government-Wide Statements

The government-wide statements report information about the City of Lakeway, Texas as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City of Lakeway, Texas's net assets and how they have changed. Net assets - the difference between the assets and liabilities - is one way to measure the City's financial health or position. Over time, increases or decreases in net assets are an indicator of whether financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City of Lakeway, Texas include the *governmental activities*. All of the City of Lakeway, Texas's basic services are included here, such as building inspection and development, code enforcement, public safety, municipal court, parks and recreation services, and general administration. Sales and property taxes finance most of these activities.

FINANCIAL ANALYSIS OF THE CITY OF LAKEWAY AS A WHOLE

Our analysis here focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental activities.

Table I
Net Assets
(in thousands of dollars)

	Governmental Activities		
	2009	2008	Change
Assets			
Current and Other Assets	\$ 5,588	\$ 5,113	\$ 475
Capital Assets	<u>20,639</u>	<u>20,852</u>	<u>(213)</u>
Total Assets	<u>26,228</u>	<u>25,965</u>	<u>263</u>
Liabilities			
Current Liabilities	955	715	240
Long-term Liabilities	<u>7,126</u>	<u>7,536</u>	<u>(410)</u>
Total Liabilities	<u>8,081</u>	<u>8,250</u>	<u>(169)</u>
Net Assets			
Invested in Capital Assets, Net of Debt	13,513	13,316	197
Restricted	1,345	2,608	(1,263)
Unrestricted	<u>3,288</u>	<u>1,791</u>	<u>1,497</u>
Total Net Assets	<u>\$ 18,146</u>	<u>\$ 17,715</u>	<u>\$ 431</u>

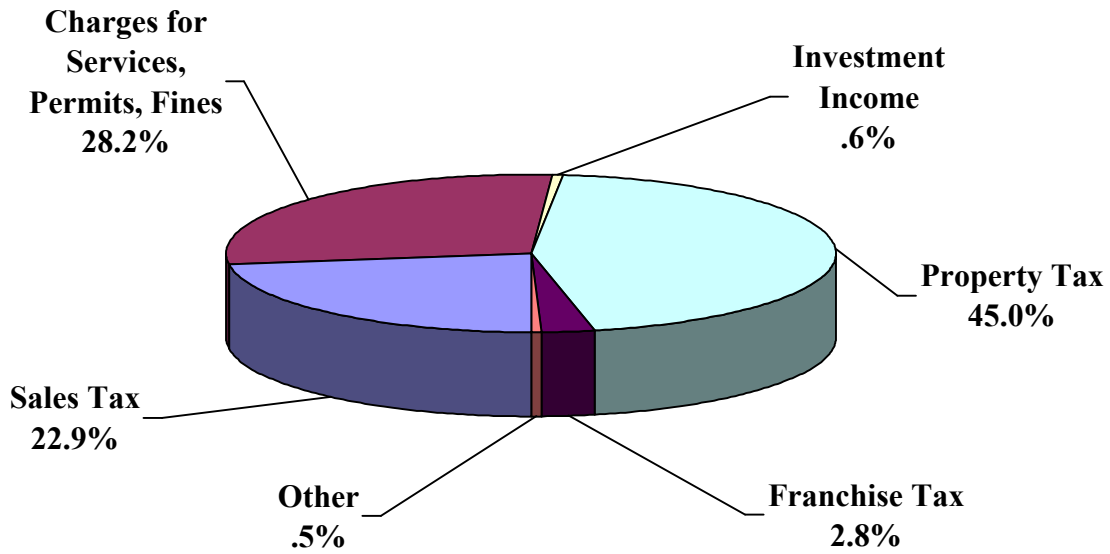
Table II
Changes in Net Assets
(in thousands of dollars)

	Governmental Activities		
	2009	2008	Change
Revenues			
Program Revenues:			
Charges for services	\$ 2,671	\$ 2,642	\$ 29
General Revenues:			
Sales tax	2,172	1,787	385
Property tax	4,264	4,275	(11)
Grants and contributions	-	48	(48)
Investment earnings	59	183	(124)
Other	318	302	16
Total Revenues	<u>9,485</u>	<u>9,237</u>	<u>248</u>
Expenses			
General government	1,373	1,045	328
Public safety	3,222	2,921	301
Public works	1,244	1,662	(418)
Solid Waste/recycling	946	679	267
Planning & development	824	1,083	(259)
Activity Center	381	391	(10)
Swim Center	466	421	45
Parks & recreation	473	341	132
Municipal court	314	319	(5)
Interest & fiscal charges	326	343	(17)
Total Expenses	<u>9,568</u>	<u>9,205</u>	<u>363</u>
Loss on Sale of Equipment	(29)	-	(29)
Change in Net Assets	<u>(113)</u>	<u>32</u>	<u>(145)</u>
Beginning Net Assets	<u>17,715</u>	<u>17,683</u>	<u>32</u>
Prior Period Adjustment	<u>544</u>	<u>-</u>	<u>544</u>
Ending Net Assets	<u>\$ 18,146</u>	<u>\$ 17,715</u>	<u>\$ 431</u>

Governmental Activities

As indicated by the chart on the following page, the City of Lakeway, Texas's primary revenue source is property taxes, representing approximately 45% of the total revenue for FY 2008-2009. The City of Lakeway, Texas's fiscal year 2008-2009 property tax rate was \$0.1827 per \$100 property valuation.

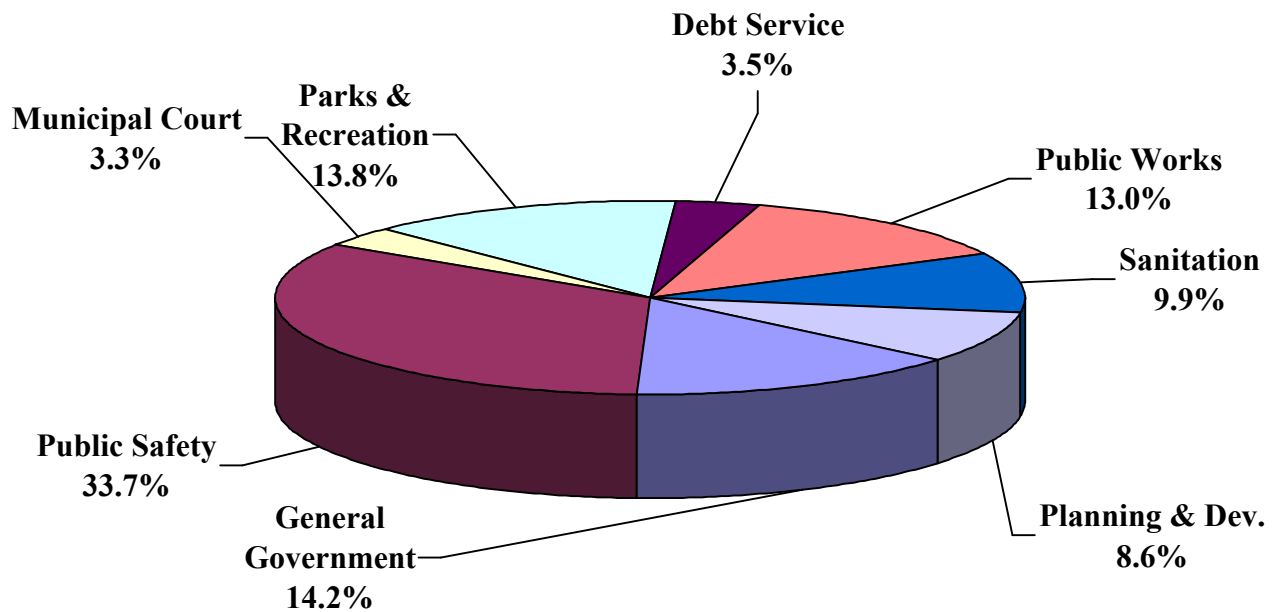
FY 2008-2009 Revenue Percentages



Departmental Expenditures

The City of Lakeway, Texas's various departmental expenditures totaled \$9.6 million for the year ended September 30, 2009. The percentage distribution by department is illustrated in the table below.

FY 2008-2009 Expenditures



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year end, the City of Lakeway, Texas had invested approximately \$20.6 million in a broad range of capital assets, including land, infrastructure, buildings, and equipment (see table below). This amount is net of accumulated depreciation and represents an increase of \$3.4 million over the prior year. Given the organizational growth on our immediate horizon, we will continue to see a increases in capital assets.

Table III
City of Lakeway, Texas
Summary of Capital Assets

	Governmental Activities 2009	Governmental Activities 2008	Change
Land	\$ 6,914	\$ 6,914	\$ -
Works of Art	64	5	59
Infrastructure	24,538	24,296	241
Buildings and Improvements	7,946	7,877	69
Equipment and Vehicles	2,013	1,778	236
Other Improvements	1,241	1,241	-
Totals at historical cost	<u>42,716</u>	<u>42,110</u>	<u>606</u>
Less accumulated depreciation	<u>(22,077)</u>	<u>(21,258)</u>	<u>(818)</u>
Capital assets, net of depreciation	<u>\$ 20,639</u>	<u>\$ 20,852</u>	<u>\$ (213)</u>

Long Term Debt

City of Lakeway, Texas
Summary of Long-Term Debt

	Governmental Activities 2009	Governmental Activities 2008	Change
Bonds Payable	\$ 6,810	\$ 7,250	\$ (440)
Capital Leases	<u>316</u>	<u>286</u>	<u>30</u>
Totals	<u>\$ 7,126</u>	<u>\$ 7,536</u>	<u>\$ (410)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the Fiscal Year 2010 budget and tax rates. One of the main influences was the state of the economy. With the near collapse of the real estate markets, the city faced acute reductions in revenue from development fees and building permits. This, in conjunction with waning sales tax revenue, resulted in lower than expected revenue for Fiscal Year 2010.

The City's FY 2010 budget reflects a five percent increase in expenditures and a five percent increase in revenues. The revenue increase results chiefly from an increase in the property tax base and a slight increase in the property tax rate. Sales tax, the City's other primary source of revenue, is expected to have a nine percent drop over the previous year's budget. Expenditures were budgeted to match revenues and retain a balanced budget. In FY 2010, General Fund revenues are budgeted at \$8.1 million, and expenses are budgeted at \$8.1 million.

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).

GOVERNMENT-WIDE STATEMENTS

CITY OF LAKEWAY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009

EXHIBIT A-1

	Primary Government
	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 2,168,852
Investments	2,465,410
Receivables (net of allowance for uncollectibles)	827,742
Prepaid Items	1,600
Capitalized Debt Issuance Costs	124,848
Capital Assets:	
Land	6,913,619
Infrastructure, net	5,607,417
Buildings, net	6,146,331
Machinery and Equipment, net	1,135,475
Other Capital Assets, net	836,281
Total Assets	26,227,576
LIABILITIES	
Accounts Payable	547,998
Intergovernmental Payable	134
Accrued Interest Payable	46,622
Deferred Revenues	111,454
Other Current Liabilities	26,739
Payable from Restricted Assets	222,740
Noncurrent Liabilities	
Due Within One Year	586,615
Due in More Than One Year	6,539,298
Total Liabilities	8,081,600
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	13,513,210
Restricted for:	
Restricted for Debt Service	233,421
Restricted for Capital Outlay	831,440
Restricted for Other Purposes	279,849
Unrestricted Net Assets	3,288,055
Total Net Assets	\$ 18,145,976

The notes to the Financial Statements are an integral part of this statement.

CITY OF LAKEWAY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT B-1

Net (Expense)
Revenue and
Changes in Net
Assets

Primary Gov.
Governmental
Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

	Expenses	Charges for Services	Operating Grants and Contributions	
General Government	\$ 1,103,835	\$ 6,084	-	\$ (1,097,751)
Municipal Court	313,522	61,668	-	(251,854)
Financial Administration	268,993	-	-	(268,993)
Public Safety	3,221,987	926,002	-	(2,295,985)
Public Works	1,243,556	-	-	(1,243,556)
Sanitation	945,988	637,286	-	(308,702)
Parks & Recreation	473,439	165,550	-	(307,889)
Swim Center	465,610	143,135	-	(322,475)
Activity Center	381,112	107,854	-	(273,258)
Planning & Development	823,741	623,190	-	(200,551)
Bond Interest	314,719	-	-	(314,719)
Fiscal Agent's Fees	623	-	-	(623)
Issuance Costs	11,067	-	-	(11,067)
Define - Capital Outlay	-	-	-	-
TOTAL PRIMARY GOVERNMENT:	<u>\$ 9,568,192</u>	<u>\$ 2,670,769</u>	<u>\$ -</u>	<u>(6,897,423)</u>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes	3,590,093
Property Taxes, Levied for Debt Service	641,537
Sales Taxes	2,103,086
Selective Sales and Use Tax for Mixed Drinks	69,407
Franchise Taxes	268,313
Penalty and Interest	32,803
Miscellaneous Revenue	49,551
Investment Earnings	59,239
Loss on Sale of Equipment	(29,133)
Total General Revenues and Transfers	<u>6,784,896</u>

Change in Net Assets (112,527)

Net Assets--Beginning	17,714,908
Prior Period Adjustment	543,595
Net Assets--Ending	<u>\$ 18,145,976</u>

The notes to the Financial Statements are an integral part of this statement.

FUND BASIS STATEMENTS

CITY OF LAKEWAY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Parkland Fund	Capital Reserve Fund
ASSETS			
Cash and Cash Equivalents	\$ 1,973,755	\$ 48,104	\$ 15,939
Investments - Current	370,415	783,336	873,269
Taxes Receivable	126,178	-	-
Allowance for Uncollectible Taxes (credit)	(6,309)	-	-
Receivables (Net)	411,135	-	-
Due from Other Funds	7,633	-	-
Prepaid Items	1,600	-	-
Total Assets	\$ 2,884,407	\$ 831,440	\$ 889,208
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 36,315	\$ -	\$ -
Wages and Salaries Payable	248,955	-	-
Compensated Absences Payable	8,154	-	-
Contracts Payable	-	-	-
Intergovernmental Payable	134	-	-
Due to Other Funds	-	-	-
Deferred Revenues	231,323	-	-
Other Current Liabilities	26,739	-	-
Liabilities Payable from Restricted Assets	222,740	-	-
Total Liabilities	774,360	-	-
Fund Balances:			
Reserved For:			
Debt Service	-	-	-
Capital Outlay	-	831,440	-
Other Purposes	-	-	-
Unreserved Designated For:			
Sanitation Operations	-	-	-
Capital Projects	-	-	889,208
Unreserved and Undesignated:			
Reported in the General Fund	2,110,047	-	-
Total Fund Balances	2,110,047	831,440	889,208
Total Liabilities and Fund Balances	\$ 2,884,407	\$ 831,440	\$ 889,208

The notes to the Financial Statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 131,054	\$ 2,168,852
438,390	2,465,410
47,464	173,642
(3,745)	(10,054)
52,605	463,740
-	7,633
-	1,600
<u>\$ 665,768</u>	<u>\$ 5,270,823</u>
\$ 53,817	\$ 90,132
3,763	252,718
-	8,154
14,173	14,173
-	134
7,633	7,633
23,647	254,970
-	26,739
-	222,740
<u>103,033</u>	<u>877,393</u>
233,421	233,421
-	831,440
279,849	279,849
49,465	49,465
-	889,208
-	2,110,047
<u>562,735</u>	<u>4,393,430</u>
<u>\$ 665,768</u>	<u>\$ 5,270,823</u>

CITY OF LAKEWAY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2009

Total Fund Balances - Governmental Funds	\$	4,393,430
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$42,110,042 and the accumulated depreciation was \$21,258,198. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		20,851,844
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		(6,391,323)
The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(925,088)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		217,113
Net Assets of Governmental Activities	<u>\$</u>	<u>18,145,976</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF LAKEWAY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Parkland Fund	Capital Reserve Fund
REVENUES:			
Taxes:			
Property Taxes	\$ 3,590,147	\$ -	\$ -
General Sales and Use Taxes	1,792,919	-	-
Selective Sales and Use Tax for Mixed Drinks	69,407	-	-
Franchise Tax	268,313	-	-
Penalty and Interest on Taxes	32,803	-	-
Licenses and Permits	623,189	-	-
Charges for Services	526,062	-	-
Fines	616,064	-	-
Special Assessments	-	-	-
Investment Earnings	41,677	6,348	8,254
Other Revenue	44,297	-	-
Total Revenues	<u>7,604,878</u>	<u>6,348</u>	<u>8,254</u>
EXPENDITURES:			
Current:			
General Government	923,262	-	-
Municipal Court	248,857	-	-
Financial Administration	240,138	-	-
Public Safety:			
Public Safety	3,157,642	-	-
Public Works	1,047,889	-	-
Sanitation	-	-	-
Culture and Recreation:			
Parks & Recreation	474,984	-	-
Swim Center	487,368	-	-
Activity Center	357,803	-	-
Conservation and Development:			
Planning & Development	786,325	-	-
Debt Service:			
Debt Principal	-	-	-
Debt Interest	-	-	-
Fiscal Agent's Fees	-	-	-
Issuance Costs	-	-	-
Capital Outlay:			
Capital Outlay	-	-	219,680
Total Expenditures	<u>7,724,268</u>	<u>-</u>	<u>219,680</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(119,390)</u>	<u>6,348</u>	<u>(211,426)</u>
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Sale of Real and Personal Property	14,250	-	-
Proceeds from Capital Leases	122,000	-	-
Refunding of Bonds	-	-	-
Total Other Financing Sources (Uses)	<u>136,250</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	16,860	6,348	(211,426)
Fund Balance - October 1 (Beginning)	1,562,947	825,092	1,100,634
Prior Period Adjustment	530,240	-	-
Fund Balance - September 30 (Ending)	<u>\$ 2,110,047</u>	<u>\$ 831,440</u>	<u>\$ 889,208</u>

The notes to the Financial Statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 640,173	\$ 4,230,320
310,167	2,103,086
-	69,407
-	268,313
-	32,803
-	623,189
649,053	1,175,115
-	616,064
49,901	49,901
2,960	59,239
11,340	55,637
<u>1,663,594</u>	<u>9,283,074</u>
-	923,262
31,861	280,718
-	240,138
22,989	3,180,631
130,620	1,178,509
852,094	852,094
-	474,984
-	487,368
-	357,803
-	786,325
460,000	460,000
293,712	293,712
623	623
25,000	25,000
-	219,680
<u>1,816,899</u>	<u>9,760,847</u>
<u>(153,306)</u>	<u>(477,774)</u>
895,000	895,000
-	14,250
-	122,000
<u>(875,000)</u>	<u>(875,000)</u>
<u>20,000</u>	<u>156,250</u>
<u>(133,306)</u>	<u>(321,524)</u>
682,686	4,171,359
13,355	543,595
<u>\$ 562,735</u>	<u>\$ 4,393,430</u>

CITY OF LAKEWAY, 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, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	(321,524)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.		1,144,478
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(925,088)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(10,392)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(112,527)</u>

The notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of City of Lakeway, Texas, 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 for all its operations. The City evaluated whether any other entity should be included in these financial statements as a “component unit”. 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 have 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 presentation 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.

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FOR THE YEAR ENDED SEPTEMBER 30, 2009

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 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 when a liability is incurred, regardless of the timing of the related cash flows. 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. 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.

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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 upon receipt of the tax bill and are delinquent if not paid by 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 taxes within the General and Debt Service Funds are based on 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.

b. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting period and are reported 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 assets or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Infrastructure	15-40 years
Buildings	15-40 years
Building Improvements	10-25 years
Vehicles	5-7 years
Equipment	7-20 years

d. Receivable and Payable Balances

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

There are not significant receivables which are not scheduled for collection within one year of year end.

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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 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 receivable 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.

B. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank 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 Deposits:

At September 30, 2009, the carrying amount of the City's deposits (cash, certificates of deposit, money market, and interest-bearing savings accounts included in temporary investments) was \$2,166,357 and the bank balance was \$2,335,831. The City's cash deposits at September 30, 2009 and during the period ended September 30, 2009, 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 \$2,494 in various petty cash 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 City were in accordance with local policies.

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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, 2009 are shown below.

Investment	Carrying Amount	Fair Value
TexPool	<u>\$ 2,465,411</u>	<u>\$ 2,465,411</u>
	<u>\$ 2,465,411</u>	<u>\$ 2,465,411</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 of 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 all with the TexPool which had a credit quality rating of AAAM by Standard and Poor’s.

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 is the risk of loss attributed to the magnitude of a government’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in securities of a single issuer. Investments issued by the U.S. government and investments in investment pools are excluded from the 5 percent disclosure requirement. The City is not currently exposed to concentration of credit risk.

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The weighted average maturity for the City's investment in external investment pools is less than 60 days and therefore interest rate risk is minimal.

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 deposits 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 or 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 pools 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, 2009

C. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009, was as follows:

<u>Description</u>	<u>Balance</u> <u>9/30/2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/2009</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,913,619	\$ -	\$ -	\$ 6,913,619
Works of Art	<u>5,000</u>	<u>59,289</u>	<u>-</u>	<u>64,289</u>
Total capital assets not being depreciated	<u>6,918,619</u>	<u>59,289</u>	<u>-</u>	<u>6,977,908</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	24,296,480	241,242		24,537,722
Buildings and Improvements	7,876,546	69,448	-	7,945,994
Equipment & Vehicles	1,777,557	385,771	150,109	2,013,219
Improvements other than Buildings	<u>1,240,840</u>	<u>-</u>	<u>-</u>	<u>1,240,840</u>
Total capital assets being depreciated	<u>35,191,423</u>	<u>696,461</u>	<u>150,109</u>	<u>35,737,775</u>
Less accumulated depreciation for:				
Infrastructure	(18,520,376)	(409,929)	-	(18,930,305)
Buildings and Improvements	(1,557,510)	(242,153)	-	(1,799,663)
Equipment & Vehicles	(764,136)	(220,334)	106,726	(877,744)
Improvements other than Buildings	<u>(416,176)</u>	<u>(52,672)</u>	<u>-</u>	<u>(468,848)</u>
Total accumulated depreciation	<u>(21,258,198)</u>	<u>(925,088)</u>	<u>106,726</u>	<u>(22,076,560)</u>
Total capital assets being depreciated, net	<u>13,933,225</u>	<u>(228,627)</u>	<u>43,383</u>	<u>13,661,215</u>
Governmental Activities Capital Assets, net	<u>\$ 20,851,844</u>	<u>\$ (169,338)</u>	<u>\$ 43,383</u>	<u>\$ 20,639,123</u>

Depreciation expense was allocated to the governmental functions as follows:

General Government	\$ 162,242
Public Safety	309,538
Public Works	114,692
Sanitation	82,925
Municipal Court	27,319
Financial Administration	23,371
Swim Center	47,430
Planning & Development	76,525
Parks & Recreation	46,225
Activity Center	<u>34,821</u>
Total	<u>\$ 925,088</u>

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

D. INTERFUND BALANCES AND ACTIVITY

Transfers To and From Other Funds – None.

Interfund balances as of September 30, 2009 consisted of the following:

	<u>Due From</u>	<u>Due To</u>	
General Fund			
Due from Debt Service Fund	\$ 7,633	\$ -	
Debt Service Fund			
Due to General Fund	-	7,633	
Total Interfund Balances	<u>\$ 7,633</u>	<u>\$ 7,633</u>	

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 for the year ended September 30, 2009, are as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Amounts Outstanding 9/30/2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amounts Outstanding 9/30/2009</u>	<u>Due In One Year</u>
Governmental activities:								
<u>Bonds Payable</u>								
General Obligation Bonds, 1997	5.25%-6.75%	\$ 1,600,000	\$ 49,603	\$ 960,000	\$ -	\$ (960,000)	\$ -	\$ -
General Obligation Bonds, 2002	4.75%-5.00%	2,000,000	78,756	1,750,000	-	(105,000)	1,645,000	110,000
General Imp. & Ref. Bonds, 2004	2.5%-4.40%	4,765,000	165,129	4,300,000	-	(150,000)	4,150,000	145,000
Tax Notes 2004	1.00%-2.75%	800,000	6,300	240,000	-	(120,000)	120,000	120,000
General Oblig. Bonds, Series 2009	2.5%-4.00%	895,000	10,085	-	895,000	-	895,000	100,000
Total Bonds Payable			<u>309,873</u>	<u>7,250,000</u>	<u>895,000</u>	<u>(1,335,000)</u>	<u>6,810,000</u>	<u>475,000</u>
<u>Loans Payable</u>								
Loans Payable	5.00%-6.00%		17,278	285,801	122,000	(91,888)	315,913	111,615
Total Notes Payable			<u>17,278</u>	<u>285,801</u>	<u>122,000</u>	<u>(91,888)</u>	<u>315,913</u>	<u>111,615</u>
Grand Total Debt			<u>\$ 327,151</u>	<u>\$ 7,535,801</u>	<u>\$ 1,017,000</u>	<u>\$ (1,426,888)</u>	<u>\$ 7,125,913</u>	<u>\$ 586,615</u>

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2009, are as follows:

Year Ended September 30,	Bonds Payable		
	Principal	Interest	Total Requirements
2010	475,000	265,279	\$ 740,279
2011	365,000	249,873	614,873
2012	375,000	236,917	611,917
2013	390,000	223,903	613,903
2014	405,000	209,708	614,708
2015-2019	2,150,000	793,673	2,943,673
2020-2024	2,170,000	341,161	2,511,161
2025	480,000	10,558	490,558
Total	\$ 6,810,000	\$ 2,331,072	\$ 9,141,072

Year Ended September 30,	Capital Leases Payable		
	Principal	Interest	Total Requirements
2010	\$ 111,615	\$ 11,370	\$ 122,985
2011	90,741	9,607	100,348
2012	45,902	5,747	51,649
2013	36,763	3,698	40,461
2014	26,721	2,149	28,870
2015-2016	4,772	896	5,668
	\$ 316,514	\$ 33,467	\$ 349,981

F. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2009, 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 claim from these risks have not exceeded coverage in any of the past three fiscal years.

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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.tmr.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, 2009, 2008, and 2007 were \$385,040, \$373,991, and \$333,255, respectively and were equal to the required contributions each year.

3. Annual Pension Cost

The City's annual pension cost of \$385,040 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 of 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, 2008 valuation is effective for rates beginning January 2010).

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, 2008 valuation date, a 7% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

CITY OF LAKEWAY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 SEPTEMBER 30, 2009

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2007	\$ 333,225	100%	\$ -
September 30, 2008	373,991	100%	-
September 30, 2009	385,040	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 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 regulation 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, 2009.

I. PRIOR PERIOD ADJUSTMENTS

Compensated Absences

Governments typically liquidate their accrued liabilities with expendable available financial resources. Therefore, an expenditure normally is recognized in a governmental fund at the same time that a liability is incurred. Such is not the case however for certain long-term accrued obligations, such as compensated absences, that local governments normally do not expect to liquidate with expendable available financial resources within the year.

In prior years, the City of Lakeway recorded the full accrued liability for employee compensated absences in the General Fund. Management has elected to discontinue this practice in order to align more fully with generally accepted accounting principles followed by local governments. The accrued liability for employee compensated absences will continue to be reported in the full-accrual government wide financial statements of the City.

CITY OF LAKEWAY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

I. PRIOR PERIOD ADJUSTMENTS (continued)

Receivables and Payables

The modified accrual method of accounting followed by most local governmental entities dictates that revenue is recognized when it is both measurable and available. Revenue is considered to be available when it is collectible within 60 days after the year end. In prior years the City did not recognize as revenue and a related receivable the amounts received for Sales Taxes and Franchise Taxes that were collected within 60 days after year end. These amounts are considered to be material each year and more appropriately recognized into the prior period. The City has elected to begin recognizing this revenue and related receivable. In addition, in prior years a significant payable, the monthly sanitation bill for September, was not recognized as an expenditure of the prior year as would be appropriate under modified accrual accounting. This bill will now begin being recognized in the prior period even though it is paid in October.

Payroll Accrual

It was noted that in the prior year, the accrual for unpaid salaries and wages was materially misstated. This correction is being reflected in conjunction with the other prior period adjustments.

The effect of the prior period adjustments described is as follows:

	General Fund	Solid Waste Fund	Road Tax Fund
Fund Balances as Previously Stated at 9/30/08	\$ 1,562,947	\$ 308,413	\$ 91,490
Effect of Removal of Accrued Compensated Absences	236,925	-	-
Effect of Recording Receivables for Sales and Franchise Taxes	325,138	-	58,178
Effect of Accruing as A/P the September sanitation bill	-	(44,257)	-
Correction of Prior Year Payroll Accrual	(31,822)	(565)	-
Fund Balances as Restated at 9/30/08	<u>\$ 2,093,187</u>	<u>\$ 263,590</u>	<u>\$ 149,668</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKEWAY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT G-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 4,251,885	\$ 3,551,885	\$ 3,590,147	\$ 38,262
General Sales and Use Taxes	2,100,000	2,100,000	1,792,919	(307,081)
Selective Sales and Use Tax for Mixed Drinks	-	-	69,407	69,407
Franchise Tax	240,000	240,000	268,313	28,313
Penalty and Interest on Taxes	-	-	32,803	32,803
Licenses and Permits	610,000	610,000	623,189	13,189
Charges for Services	423,000	423,000	526,062	103,062
Fines	560,000	560,000	616,064	56,064
Investment Earnings	96,000	96,000	41,677	(54,323)
Contributions & Donations from Private Sources	6,000	6,000	-	(6,000)
Other Revenue	131,625	131,625	44,297	(87,328)
Total Revenues	<u>8,418,510</u>	<u>7,718,510</u>	<u>7,604,878</u>	<u>(113,632)</u>
EXPENDITURES:				
Current:				
General Government	817,325	817,325	923,262	(105,937)
Municipal Court	262,510	262,510	248,857	13,653
Financial Administration	258,361	258,361	240,138	18,223
Public Safety:				
Public Safety	3,095,190	3,095,190	3,157,642	(62,452)
Public Works	1,194,095	1,194,095	1,047,889	146,206
Culture and Recreation:				
Parks & Recreation	344,837	344,837	474,984	(130,147)
Swim Center	517,574	517,574	487,368	30,206
Activity Center	393,805	393,805	357,803	36,002
Conservation and Development:				
Planning & Development	833,823	833,823	786,325	47,498
Intergovernmental:				
Debt Transfers	700,000	-	-	-
Total Expenditures	<u>8,417,520</u>	<u>7,717,520</u>	<u>7,724,268</u>	<u>(6,748)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>990</u>	<u>990</u>	<u>(119,390)</u>	<u>(120,380)</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	14,250	14,250
Proceeds from Capital Leases	-	-	122,000	122,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>136,250</u>	<u>136,250</u>
Net Change in Fund Balances	990	990	16,860	15,870
Fund Balance - October 1 (Beginning)	2,093,187	2,093,187	1,562,947	(530,240)
Prior Period Adjustment	-	-	530,240	530,240
Fund Balance - September 30 (Ending)	<u>\$ 2,094,177</u>	<u>\$ 2,094,177</u>	<u>\$ 2,110,047</u>	<u>\$ 15,870</u>

COMBINING SCHEDULES

CITY OF LAKEWAY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

	Solid Waste Fund	Road Tax Fund	Court Bldg. Security Fund	Court Technology Fund
ASSETS				
Cash and Cash Equivalents	\$ 16,879	\$ 68,854	\$ 7,392	\$ 4,973
Investments - Current	84,267	99,682	6,831	6,556
Taxes Receivable	22,572	-	-	-
Allowance for Uncollectible Taxes (credit)	(2,500)	-	-	-
Receivables (Net)	-	52,605	-	-
Total Assets	<u>\$ 121,218</u>	<u>\$ 221,141</u>	<u>\$ 14,223</u>	<u>\$ 11,529</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 53,817	\$ -	\$ -	\$ -
Wages and Salaries Payable	3,763	-	-	-
Contracts Payable	14,173	-	-	-
Due to Other Funds	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>71,753</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	-	-
Other Purposes	-	221,141	14,223	11,529
Unreserved Designated For:				
Sanitation Operations	49,465	-	-	-
Total Fund Balances	<u>49,465</u>	<u>221,141</u>	<u>14,223</u>	<u>11,529</u>
Total Liabilities and Fund Balances	<u>\$ 121,218</u>	<u>\$ 221,141</u>	<u>\$ 14,223</u>	<u>\$ 11,529</u>

The notes to the Financial Statements are an integral part of this statement.

Child Safety Fund	Juvenile Case Mgr. Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ 10,129	\$ 22,827	\$ 131,054	\$ -	\$ 131,054
-	-	197,336	241,054	438,390
-	-	22,572	24,892	47,464
-	-	(2,500)	(1,245)	(3,745)
-	-	52,605	-	52,605
<u>\$ 10,129</u>	<u>\$ 22,827</u>	<u>\$ 401,067</u>	<u>\$ 264,701</u>	<u>\$ 665,768</u>
\$ -	\$ -	\$ 53,817	\$ -	\$ 53,817
-	-	3,763	-	3,763
-	-	14,173	-	14,173
-	-	-	7,633	7,633
-	-	-	23,647	23,647
-	-	<u>71,753</u>	<u>31,280</u>	<u>103,033</u>
-	-	-	233,421	233,421
10,129	22,827	279,849	-	279,849
-	-	49,465	-	49,465
<u>10,129</u>	<u>22,827</u>	<u>329,314</u>	<u>233,421</u>	<u>562,735</u>
<u>\$ 10,129</u>	<u>\$ 22,827</u>	<u>\$ 401,067</u>	<u>\$ 264,701</u>	<u>\$ 665,768</u>

CITY OF LAKEWAY, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Solid Waste Fund	Road Tax Fund	Court Bldg. Security Fund	Court Technology Fund
REVENUES:				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
General Sales and Use Taxes	-	310,167	-	-
Charges for Services	637,286	-	11,767	-
Special Assessments	-	-	-	15,661
Investment Earnings	683	586	55	68
Other Revenue	-	11,340	-	-
Total Revenues	<u>637,969</u>	<u>322,093</u>	<u>11,822</u>	<u>15,729</u>
EXPENDITURES:				
Current:				
General Government:				
Municipal Court	-	-	15,527	16,334
Public Safety:				
Public Safety	-	-	-	-
Public Works	-	130,620	-	-
Sanitation	852,094	-	-	-
Debt Service:				
Debt Principal	-	120,000	-	-
Debt Interest	-	-	-	-
Fiscal Agent's Fees	-	-	-	-
Issuance Costs	-	-	-	-
Total Expenditures	<u>852,094</u>	<u>250,620</u>	<u>15,527</u>	<u>16,334</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(214,125)</u>	<u>71,473</u>	<u>(3,705)</u>	<u>(605)</u>
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	-	-
Refunding of Bonds	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(214,125)	71,473	(3,705)	(605)
Fund Balance - October 1 (Beginning)	308,413	91,490	17,928	12,134
Prior Period Adjustment	(44,823)	58,178	-	-
Fund Balance - September 30 (Ending)	<u>\$ 49,465</u>	<u>\$ 221,141</u>	<u>\$ 14,223</u>	<u>\$ 11,529</u>

The notes to the Financial Statements are an integral part of this statement.

Child Safety Fund	Juvenile Case Mgr. Fund	Total Nonmajor Special Revenue Funds	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 640,173	\$ 640,173
-	-	310,167	-	310,167
-	-	649,053	-	649,053
16,991	17,249	49,901	-	49,901
-	-	1,392	1,568	2,960
-	-	11,340	-	11,340
<u>16,991</u>	<u>17,249</u>	<u>1,021,853</u>	<u>641,741</u>	<u>1,663,594</u>
-	-	31,861	-	31,861
22,989	-	22,989	-	22,989
-	-	130,620	-	130,620
-	-	852,094	-	852,094
-	-	120,000	340,000	460,000
-	-	-	293,712	293,712
-	-	-	623	623
-	-	-	25,000	25,000
<u>22,989</u>	<u>-</u>	<u>1,157,564</u>	<u>659,335</u>	<u>1,816,899</u>
<u>(5,998)</u>	<u>17,249</u>	<u>(135,711)</u>	<u>(17,595)</u>	<u>(153,306)</u>
-	-	-	895,000	895,000
-	-	-	(875,000)	(875,000)
-	-	-	20,000	20,000
<u>(5,998)</u>	<u>17,249</u>	<u>(135,711)</u>	<u>2,405</u>	<u>(133,306)</u>
16,127	5,578	451,670	231,016	682,686
-	-	13,355	-	13,355
<u>\$ 10,129</u>	<u>\$ 22,827</u>	<u>\$ 329,313</u>	<u>\$ 233,422</u>	<u>\$ 562,735</u>

CITY OF LAKEWAY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

EXHIBIT J-1

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 650,215	\$ 650,215	\$ 640,173	\$ (10,042)
Investment Earnings	650	650	1,568	918
Total Revenues	<u>650,865</u>	<u>650,865</u>	<u>641,741</u>	<u>(9,124)</u>
EXPENDITURES:				
Current:				
Debt Service:				
Debt Principal	190,000	190,000	340,000	(150,000)
Debt Interest	450,200	450,200	293,712	156,488
Fiscal Agent's Fees	625	625	623	2
Issuance Costs	-	-	25,000	(25,000)
Total Expenditures	<u>640,825</u>	<u>640,825</u>	<u>659,335</u>	<u>(18,510)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,040</u>	<u>10,040</u>	<u>(17,595)</u>	<u>(27,635)</u>
OTHER FINANCING SOURCES (USES):				
Capital-related Debt Issued (Regular Bonds)	-	-	895,000	895,000
Refunding of Bonds	-	-	(875,000)	(875,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Change in Fund Balance	10,040	10,040	2,405	(7,635)
Fund Balance - October 1 (Beginning)	<u>231,016</u>	<u>231,016</u>	<u>231,016</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 241,056</u>	<u>\$ 241,056</u>	<u>\$ 233,422</u>	<u>\$ (7,634)</u>

The accompanying notes are an integral part of this statement.

OTHER INFORMATION REQUIRED BY GAO



930 S. Bell Blvd., Suite 404 Cedar Park, Texas 78613
phone (512) 310-5600 fax (512) 310-5689

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*

Independent Auditors' Report

Honorable Mayor and City Council Members
City of Lakeway, Texas
1102 Lohmans Crossing Road
Lakeway, Texas 78734

Honorable Mayor and City Council Members:

We have audited the financial statements of the City of Lakeway, Texas (the "City") as of and for the year ended September 30, 2009, and have issued our report thereon dated January 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the City's trustees, the audit committee, and the administration and is not intended to be used and should not be used by anyone other than these specified parties.

Singleton, Moore & Company, LLP

Singleton, Moore & Company, LLP
Cedar Park, Texas

January 5, 2010