

**CITY OF LAKEWAY, TEXAS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2010**



CITY OF LAKEWAY, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTORY SECTION</b>	
Letter of Transmittal	i
Principal City Officials	v
Organizational Chart	vi
<b>FINANCIAL SECTION</b>	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	16
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Notes to the Financial Statements	20
Required Supplementary Information:	
Schedule of Funding Progress	34
Combining and Individual Fund Statements and Schedules:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	35
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	37
Budgetary Comparison Schedule – Debt Service Fund	39
<b><u>OTHER INFORMATION REQUIRED BY GAO</u></b>	
Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40



## **INTRODUCTORY SECTION**



MAYOR  
*Dave DeOme*

MAYOR PRO TEM  
*Dee Ann Burns-Farrell*

COUNCILMEMBERS  
*Bruce Harris*  
*Joe Bain*  
*Alan Tye*  
*Dennis Wallace*

CITY MANAGER  
*Steve Jones*

DEPUTY CITY MANAGER  
*Chessie Blanchard*



February 21, 2011

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lakeway:

The Comprehensive Annual Financial Report (“CAFR”) of the City of Lakeway (“the City”) for the fiscal year ended September 30, 2010, including the independent auditor’s report, is hereby submitted. The CAFR is published to provide the Mayor and City Council, city staff, citizens, representatives of financial institutions, bondholders, and other interested parties with detailed information concerning the financial condition and activities of the City.

The responsibility for both the accuracy of the presented information and the completeness and fairness of the presentation of the data, including all disclosures, rests with the City. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the results of our operations in each of the various funds reported by the City. All disclosures necessary to enable the reader to gain an understanding of the City’s financial activities have been included.

The City has established and maintains a system of internal accounting controls designed in part to provide reasonable assurance that assets are safeguarded against loss, theft, or unauthorized use, and that financial records can be relied upon to produce financial statements in accordance with generally accepted accounting principles (“GAAP”). The internal control structure is designed to provide reasonable, but not absolute assurance, that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

In compliance with Section 8.12 of the Lakeway City Charter, the financial statements and notes contained in this report have been audited by the independent auditors of Singleton, Clark & Company, PC, Certified Public Accountants. The independent auditors have issued an unqualified opinion on the City of Lakeway’s financial statements for the year ended September 30, 2010. The auditor’s opinion is located at the front of the financial section of this report.

Management’s discussion and analysis (“MD&A”) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

### ***Profile of the government***

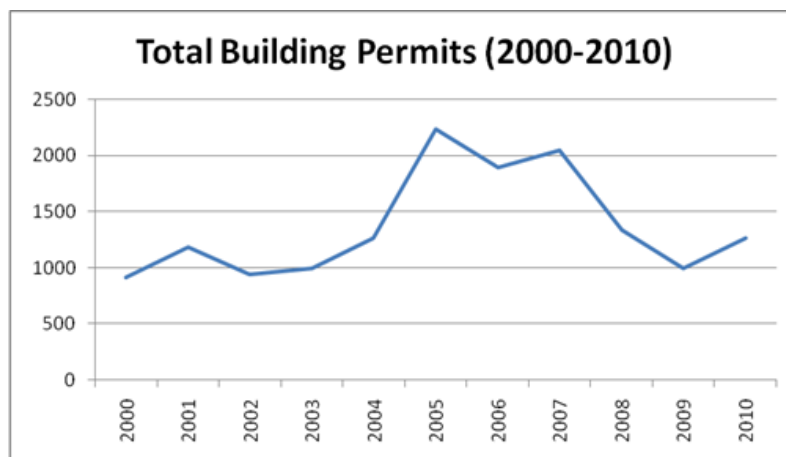
The City of Lakeway, incorporated in 1974, is located in the western portion of Travis County sixteen miles west of Austin serving an estimated full-time population of approximately 11,391. The population estimate reflects a 43% population increase since the 2000 Census. The original development of what is currently known as the City of Lakeway began with the construction of the Lakeway Inn in 1963, now Lakeway Resort and Spa, near Lake Travis. The City's fortunate location near Lake Travis makes the City a frequent recreation and leisure destination.

The City operates as a home rule city, under a council-manager form of government and provides a full range of services as authorized by the City's charter, including police protection; construction and maintenance of highways, streets and other infrastructure; parks and recreation; municipal court; solid waste collection; building and development; and general administrative services. The City is governed by a Mayor and six City Council members with day-to-day activities directed by the City Manager.

Each year, on or before September 30, the City Council adopts an annual operating budget for the ensuing fiscal year. The budget includes projected revenues and expenditures for the general fund, debt service fund, special revenue funds, and proprietary fund. The budget is a planning tool that defines the type, quality, and quantity of goods and services that will be provided to the citizens. The annual budget is also a control mechanism that serves as a system of "checks and balances" between levels of City government. The budgetary system ensures that departments contain their expenditures within the limitations set by City management, and that City management contains expenditures for the City within limitations set by the City Council.

### ***Local economy***

The City's economic position remains strong, though the rate of economic growth has slowed. Although the City has not experienced the dramatically dreary economy weathered by many areas of the country, Lakeway has not been completely immune. For example, the total appraised value of property fell 5% in fiscal year 2010 compared to the prior year. However, sales tax receipts remained positive during the same period which totaled \$1,929,443, a 7.6% increase compared to the previous year. Additionally, increases in building permits in 2010 signaled improvements in economic growth. The graph below shows the changes in building permits over the past eleven years.





Fiscal year 2010 brought exciting news in development with the approval of plans for The Lakeway Regional Medical Center (LRMC), construction of which is currently underway. The facility will provide a full continuum of both inpatient and outpatient services including cardiology, obstetrics, oncology, and orthopedics. LRMC will also provide a full array of diagnostic and treatment services, including an emergency department/urgent care clinic planned to manage up to 40,000 visits per year. The key to the facility's success is its ability to expand in the future. The Lakeway community has experienced a pattern of steady growth for over a decade, and this growth is expected to continue. LRMC is expected to open in three phases with the initial opening scheduled for April of 2012. This initial phase will include the hospital and a commercial building. The second phase, which is scheduled for completion in April of 2013, will include the opening of a hotel and the first expansion of the hospital. The third phase is expected to be completed between 2017 and 2019 and will include a second expansion to the hospital.

### ***Financial planning***

The City is in the process of developing a master plan and needs assessment for all the City's departments and facilities. The master plan will be a tool from which the City can methodically prepare for future needs over the next twenty years. The City is positioning itself to provide the highest quality of service to the community by planning for growth proactively. The capital improvement portion of the master plan will include evaluation of potential projects for infrastructure, parks and recreation, police, municipal court, and an animal shelter.

It has been an established intention of the City Council and City management to maintain a sound financial foundation which includes the goal of maintaining at least a 25% General Fund fund balance to expenditure ratio. The fund balance in the General Fund was \$2,578,122 as of September 30, 2010, which was 31% of budgeted expenditures for fiscal year 2011. These resources allow the City to avoid disruptions in services during economic downturns and to ensure that there will be adequate liquid resources to serve as a financial "cushion" against the potential shock of unanticipated circumstances and events.

Additionally, the City has a special revenue fund titled the Capital Reserve Fund which is intended to provide a source of funding for significant capital asset additions, improvements, and replacements too large to be funded in a single budget year, yet not large enough to warrant separate bond funding. The policy that governs the Capital Reserve Fund states that appropriation of assets from the fund typically have a lifespan in excess of ten years and a value in excess of \$100,000. Proceeds from the fund may also be used to make bond payments or otherwise reduce the city's long-term debt obligations. From time to time, the City Council may direct the transfer of certain funds to the Capital Reserve Fund. Typically these transfers would represent general funds which are deemed to be in excess of an appropriate reserve level. The fund balance in the fund as of September 30, 2010 was \$460,423.



### ***Major initiatives***

The City of Lakeway Police Department completed the installation of a mobile data computer system. The project uses mobile data computers and global positioning system mapping technology in police vehicles to allow supervisors to monitor police car location and ensure city-wide coverage. The system allows responding police officers to see call locations and optimal routes on in-car map screens which have increased the efficient distribution of officers and has improved their safety during responses. These mobile computers have also assisted newer police officers as they learn the residential street configuration of the City made complex by geographic barriers, dead-end streets, and cul-de-sacs.

### ***Acknowledgements***

The preparation of the CAFR would not have been possible without the efficient and dedicated services of the entire staff of the finance department. I would like to express my appreciation to all members of the finance department and other City staff who assisted and contributed to the preparation of the CAFR. Credit also must be given to the Mayor, the City Council, and the City Manager for their support for maintaining the highest standards of professionalism in the management of the City of Lakeway's finances.

Respectfully submitted,

Julie Oakley, CPA  
Director of Finance



**CITY OF LAKEWAY, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the fiscal year ended September 30, 2010

**MAYOR**

David P. DeOme

**MAYOR PRO TEM**

Dee Ann Burns-Farrell

**COUNCILMEMBERS**

Joe Bain

Bruce Harris

Dave Taylor

Alan Tye

Dennis Wallace

**CITY MANAGER**

Steve Jones

**DEPUTY CITY MANAGER**

Chessie Blanchard-Zimmerman

**CITY SECRETARY**

Donna Boyle

**DEPARTMENT DIRECTORS**

Julie Oakley

Todd Radford

David Ferry

Andra Streeby

Shannon Burke

Finance Director

Chief of Police

Director of Public Works

Director of Parks & Recreation

Director of Building & Development

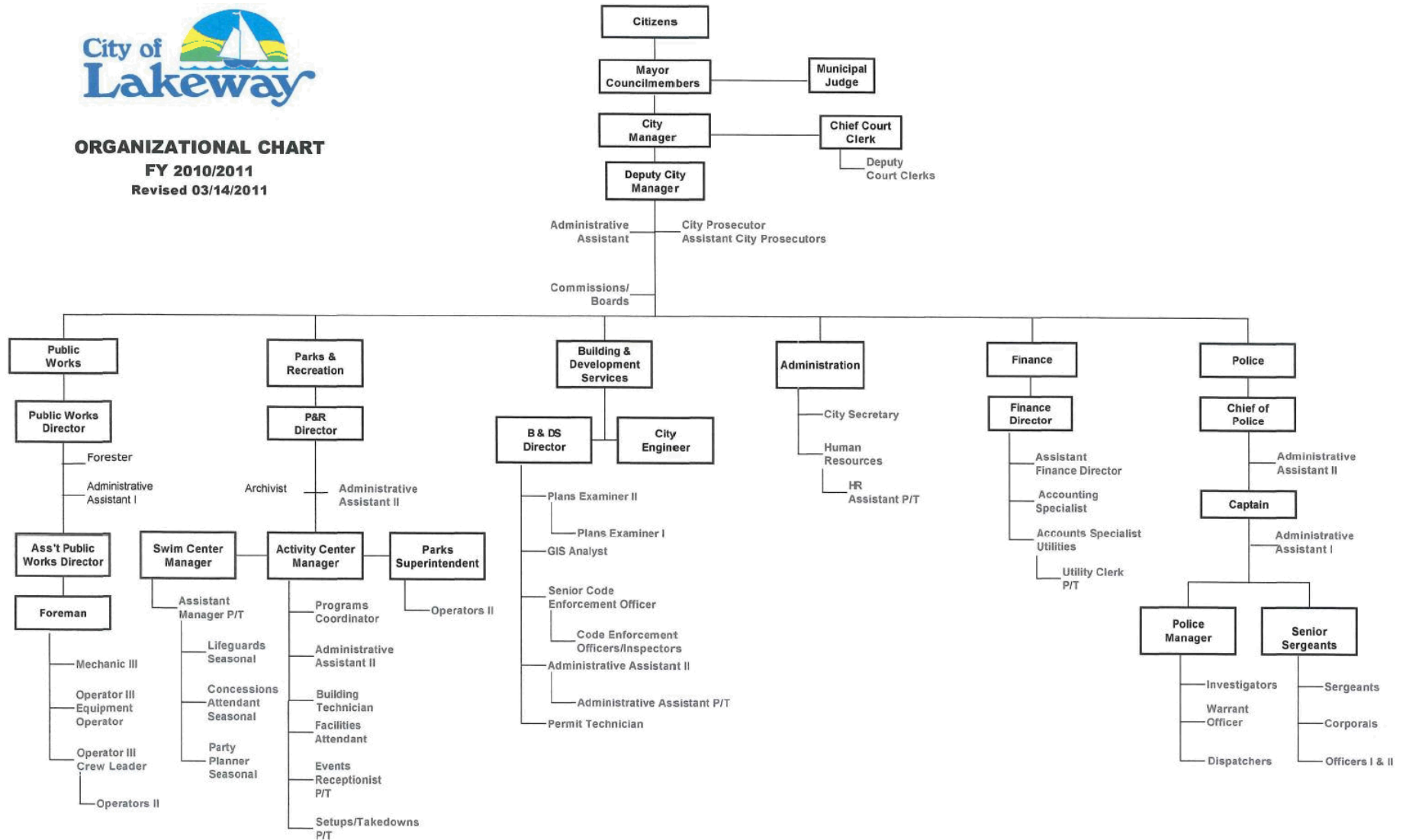


# CITY OF LAKEWAY, TEXAS

## ORGANIZATIONAL CHART



**ORGANIZATIONAL CHART**  
**FY 2010/2011**  
**Revised 03/14/2011**







## **FINANCIAL SECTION**





**SINGLETON, CLARK**  
**& COMPANY, PC**  
CERTIFIED PUBLIC ACCOUNTANTS

930 S. Bell Blvd., Suite 105 Cedar Park, Texas 78613  
phone (512) 310-5600 fax (512) 310-5689

### **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, the proprietary 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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's 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.

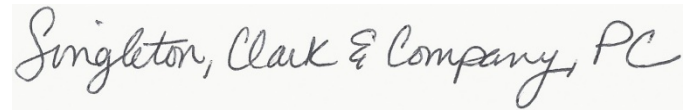
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of the City of Lakeway, Texas as of September 30, 2010, 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 3-9 of this report is not a required part of the basic financial statements but is supplementary information required by the Governmental 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 February 21, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

A handwritten signature in cursive script that reads "Singleton, Clark & Company, PC". The signature is written in black ink on a light gray rectangular background.

Singleton, Clark & Company, PC  
Cedar Park, Texas

February 21, 2011



# CITY OF LAKEWAY, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Lakeway's ("the City") Management's Discussion and Analysis ("MD&A") is designed to provide a narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2010. Since the MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the transmittal letter, financial statements, and related footnotes.

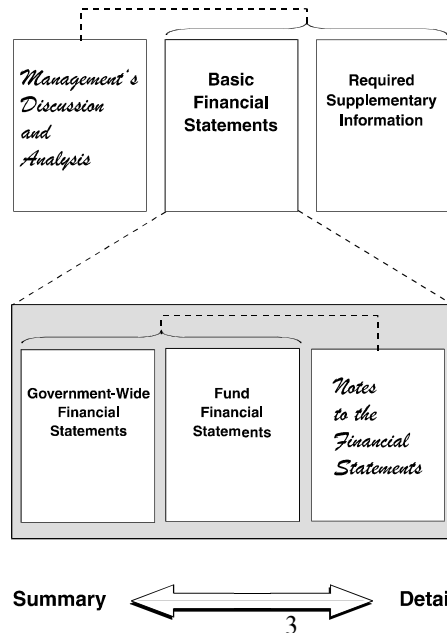
### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$18,461,134 (net assets). Of this amount, \$13,759,126 is invested in capital assets net of related debt, \$4,009,515 is unrestricted and may be used to meet ongoing obligations to citizens and creditors, and \$692,491 is restricted for specific future uses.
- The City's total net assets increased by \$315,158. This is primarily the result of favorable budget variances in both revenues and expenditures of the General Fund during the year.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,564,053, an increase of \$220,087 in comparison with the prior year.
- As of September 30, 2010, unreserved, undesignated fund balance for the General Fund was \$2,578,122, or 33.4 percent of the total actual fiscal year 2010 General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the financial statements themselves.

The following illustration summarizes the required components of this financial report.



## Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances. Included in the government-wide financial statements are a *statement of net assets* and a *statement of activities*. Both of these statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred *regardless of the timing of the related cash flows*. This accounting method produces a view of financial position in a manner similar to private-sector companies.

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

The *statement of activities* presents the City's revenues and expenses for the period, with the difference between the two resulting in the current year *change in net assets*. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, municipal court, public safety, public works, parks and recreation, and building and development. The business-type activity of the City is solid waste.

The government-wide financial statements can be found on pages 10 and 11 of this report.

## Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. *Fund financial statements* provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City may establish other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies. All funds of the City can be divided into two categories – governmental funds and proprietary funds.

- *Governmental funds* – The City's governmental funds are used to account for essentially the same basic services reported in the governmental activities category of the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Also unlike the government-wide financial statements, governmental funds are reported using the modified accrual method of accounting, which measures cash and only those assets that can be readily converted to cash. Because governmental fund financial statements do not encompass the additional long-term focus of the government-wide financial statements, additional information is provided that explains the relationship (or differences) between the two statements in a reconciliation following the fund financial statements.



The City maintains twelve governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Parkland Fund which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements beginning on page 34 of this report.

- *Proprietary fund* – The City charges customers for collection of solid waste and reports this service in an enterprise fund which is a type of proprietary fund. The proprietary fund financial statements provide the same type information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 17-19 of this report.

**Notes to the Financial Statements** – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-33 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents combining fund statements and schedules that further support the information in the financial statements. The combining fund statements and schedules for non-major funds are presented immediately following the notes to the financial statements beginning on page 34 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As previously noted, net assets may serve over time as a useful indicator of a government’s financial position. The City’s assets exceeded liabilities by \$18,461,134 as of September 30, 2010. The following schedule provides condensed financial information derived from the Statement of Net Assets on page 10 of this report and focuses on the net assets for the City.

	<b>Net Assets</b>					
	<b>(in thousands of dollars)</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>						
Current and Other Assets	\$ 5,756	\$ 5,588	\$ 169	\$ -	\$ 5,925	\$ 5,588
Capital Assets	20,300	20,639	-	-	20,300	20,639
Total Assets	<u>\$ 26,056</u>	<u>\$ 26,227</u>	<u>\$ 169</u>	<u>\$ -</u>	<u>\$ 26,225</u>	<u>\$ 26,227</u>
<b>Liabilities</b>						
Current Liabilities	\$ 1,121	\$ 955	\$ 102	\$ -	\$ 1,223	\$ 955
Long-term Liabilities	6,541	7,126	-	-	6,541	7,126
Total Liabilities	<u>7,662</u>	<u>8,081</u>	<u>102</u>	<u>-</u>	<u>7,764</u>	<u>8,081</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net	13,759	13,513	-	-	13,759	13,513
Restricted	692	1,345	-	-	692	1,345
Unrestricted	3,943	3,288	67	-	4,010	3,288
Total Net Assets	<u>\$ 18,394</u>	<u>\$ 18,146</u>	<u>\$ 67</u>	<u>\$ -</u>	<u>\$ 18,461</u>	<u>\$ 18,146</u>

The largest portion of the City's net assets in the amount of \$13,759,126 (74.5 percent) reflects its investments in capital assets (e.g., land, buildings, equipment, vehicles, improvements, and infrastructure) less any outstanding debt used to acquire those assets. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets in the amount of \$692,491 represent City resources that are subject to external restriction on how they may be used. The remaining balance of \$4,009,517 is unrestricted and may be used to meet the City's ongoing obligation to citizens and creditors.

Governmental activities increased the City's net assets by \$297,539 and business-type activities increased the City's net assets by \$17,619. The key elements of these increases are contained in the following table.

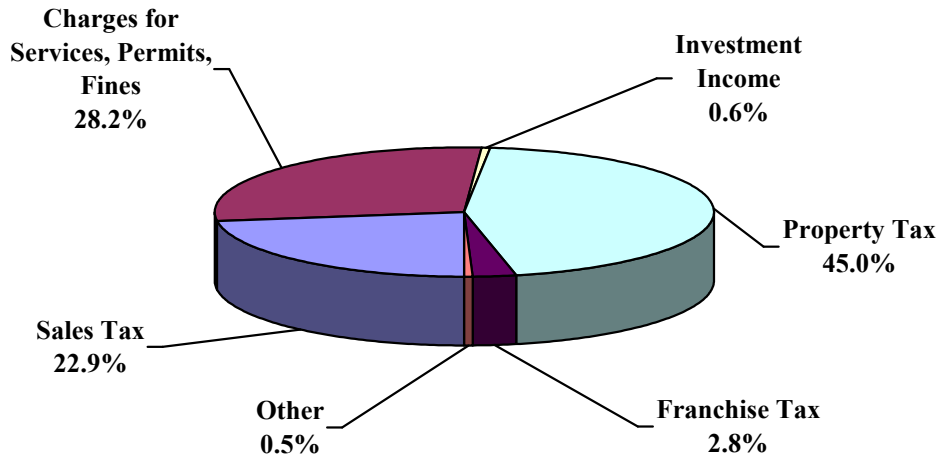
**Changes in Net Assets  
(in thousands of dollars)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 1,656	\$ 2,671	\$ 795	\$ -	\$ 2,451	\$ 2,671
General Revenues:						
Property tax	4,771	4,264	-	-	4,771	4,264
Sales tax	2,335	2,172	-	-	2,335	2,172
Franchise fees	267	268			267	268
Grants and contributions	134	-	-	-	134	-
Investment earnings	35	59	-	-	35	59
Other	70	50	-	-	70	50
<b>Total Revenues</b>	<b>9,268</b>	<b>9,484</b>	<b>795</b>	<b>-</b>	<b>10,063</b>	<b>9,484</b>
<b>Expenses</b>						
General government	1,195	1,373	-	-	1,195	1,373
Municipal court	362	314	-	-	362	314
Public safety	3,519	3,222	-	-	3,519	3,222
Public works	1,125	1,244	-	-	1,125	1,244
Solid Waste/recycling	-	946	778	-	778	946
Building & development	914	824	-	-	914	824
Parks & recreation	1,459	1,320	-	-	1,459	1,320
Interest & fiscal charges	289	326	-	-	289	326
<b>Total Expenses</b>	<b>8,863</b>	<b>9,569</b>	<b>778</b>	<b>-</b>	<b>9,641</b>	<b>9,569</b>
Loss on Sale of Equipment	(108)	(29)	-	-	(108)	(29)
<b>Change in Net Assets</b>	<b>297</b>	<b>(114)</b>	<b>17</b>	<b>-</b>	<b>314</b>	<b>(114)</b>
<b>Beginning Net Assets</b>	<b>18,146</b>	<b>17,715</b>	<b>-</b>	<b>-</b>	<b>18,146</b>	<b>17,715</b>
<b>Prior Period Adjustment</b>	(49)	544	49	-	-	544
<b>Ending Net Assets</b>	<b>\$ 18,394</b>	<b>\$ 18,145</b>	<b>\$ 66</b>	<b>\$ -</b>	<b>\$ 18,460</b>	<b>\$ 18,145</b>

## Governmental Activities

As indicated by the following chart, the City's primary revenue source is property taxes, representing approximately 45 percent of the total revenue for FY 2009-2010. The City of Lakeway, Texas's fiscal year 2009-2010 property tax rate was \$0.1929 per \$100 property valuation.

### FY 2009-2010 Revenue Percentages

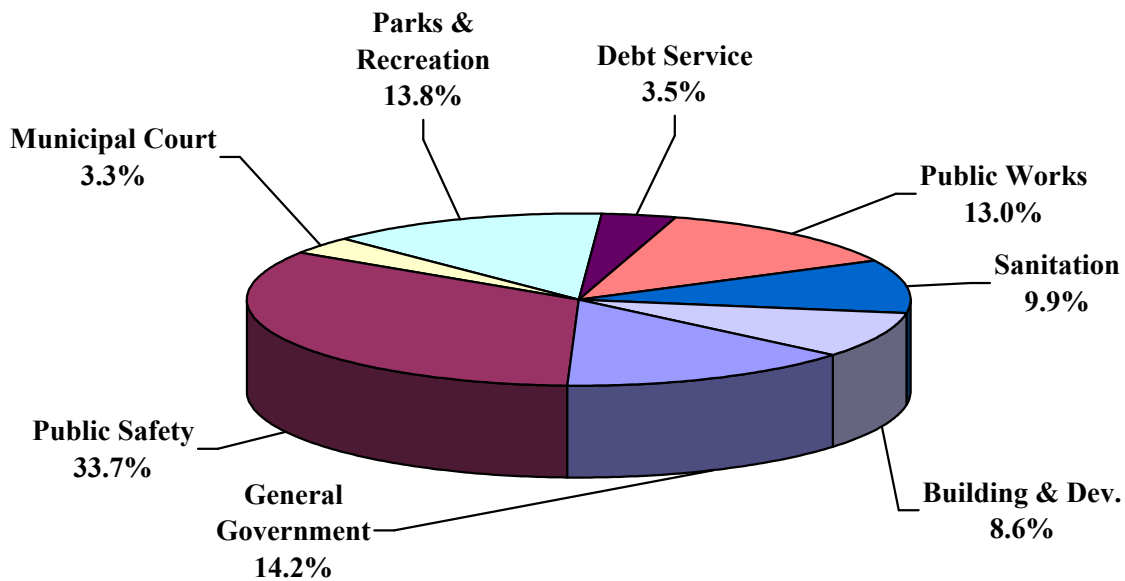


## Departmental Expenditures

The City's various departmental expenditures totaled \$9.6 million for the year ended September 30, 2010. The most significant governmental activities expense was in providing public safety, which incurred expenses of \$3,518,968. The largest portion of public safety is the cost of personnel. Other significant governmental activities expense for the City is parks and recreation which includes expenses for the city parks, activity center, and swim center.

The percentage distribution of expenses by department is illustrated in the table below.

### FY 2009-2010 Expenditures



## Business-type activities

As previously mentioned, the Solid Waste Fund is the sole business-type activity in the City. Net assets increased by \$17,619 accounting for 4 percent of the growth in the entity-wide net assets. Rates remained the same for the second consecutive year generating \$795,183 in revenues. The primary expense for the Solid Waste Fund is the contract with a third-party for solid waste collection services which totaled \$653,284.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At year end, the City had invested approximately \$20.3 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 a decrease of \$0.3 million over the prior year. Additional information on the City's capital assets can be found in Note C on page 26 of this report.

#### City of Lakeway, Texas Summary of Capital Assets (in thousands of dollars)

	Governmental Activities 2010	Governmental Activities 2009	Change
Land	\$ 6,914	\$ 6,914	\$ -
Works of Art	64	64	-
Construction in Progress	33	-	33
Infrastructure	25,064	24,538	526
Buildings and Improvements	7,957	7,946	11
Equipment and Vehicles	1,993	2,013	(20)
Other Improvements	1,241	1,241	-
Totals at Historical Cost	43,266	42,716	550
Less Accumulated Depreciation	(22,966)	(22,077)	(889)
Capital Assets, Net of Depreciation	\$ 20,300	\$ 20,639	\$ (339)

## Long Term Debt

As of September 30, 2010, the city had \$6.5 million in bonds and capital leases outstanding as compared to \$7.1 million at the end of the prior fiscal year, a decrease of 8.3 percent, as shown in the table below. More detailed information regarding the City's long-term liabilities is shown in Note E on page 27 of this report.

**City of Lakeway, Texas**  
**Summary of Long-Term Debt**  
**(in thousands of dollars)**

	Governmental Activities 2010	Governmental Activities 2009	Change
Bonds Payable	\$ 6,335	\$ 6,810	\$ (475)
Capital Leases	204	316	(112)
Totals	<u>\$ 6,539</u>	<u>\$ 7,126</u>	<u>\$ (587)</u>

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

Growth in the Lakeway community is expected to continue; hence the demand for city services is expected to increase as well. As a result, the City's 2010-2011 budget includes the resources to provide City services to meet those demands.

The City's 2010-2011 general fund budget reflects an overall four percent increase in expenditures and a two percent increase in revenues. The increase in expenditures is primarily attributable to personnel costs. The revenue increase results predominately from an increase in projected sales tax revenues and development fees. In consideration of the economic hardship felt by many Lakeway citizens due to the dreary national economy, the city council adopted a total property tax rate of \$0.1996 per \$100 valuation, which is slightly less than the effective tax rate. The effective tax rate is the rate that would impose the same total taxes as the previous year when comparing properties taxed in both years. The 2010-2011 budget also includes the use of unrestricted fund balance in the amount of \$154,959, while continuing to maintain an estimated 25 percent fund balance to expenditure ratio.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional financial information, contact the Julie Oakley, Finance Director, 1102 Lohmans Crossing, Lakeway, Texas 78734-5159 or call (512) 314-7510. Financial information is also available on the City's website ([www.lakeway-tx.gov](http://www.lakeway-tx.gov)).



GOVERNMENT-WIDE STATEMENTS

CITY OF LAKEWAY, TEXAS  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and Pooled Cash	\$ 2,863,736	\$ 2,287	\$ 2,866,023
Investments	1,582,855	160,530	1,743,385
Receivables (net of allowance for uncollectibles)	853,654	6,088	859,742
Prepaid Items	341,972	-	341,972
Capitalized Debt Issuance Costs	113,781	-	113,781
Capital Assets:			
Land	6,913,619	-	6,913,619
Infrastructure, net	5,696,696	-	5,696,696
Buildings, net	5,913,147	-	5,913,147
Machinery and Equipment, net	960,330	-	960,330
Other Capital Assets, net	783,609	-	783,609
Construction in Progress	32,879	-	32,879
Total Assets	<u>\$ 26,056,278</u>	<u>\$ 168,905</u>	<u>\$ 26,225,183</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 360,125	\$ 55,488	\$ 415,613
Accrued Salaries and Benefits	255,971	4,739	260,710
Accrued Interest Payable	43,375	-	43,375
Accrued Liabilities	75,569	-	75,569
Deferred Revenues	83,011	-	83,011
Other Current Liabilities	22,423	41,594	64,017
Payable from Restricted Assets	280,600	-	280,600
Noncurrent Liabilities:			
Due Within One Year	455,741	-	455,741
Due in More Than One Year	6,085,413	-	6,085,413
Total Liabilities	<u>7,662,228</u>	<u>101,821</u>	<u>7,764,049</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	13,759,126	-	13,759,126
Restricted For:			
Restricted for Debt Service	240,467	-	240,467
Restricted for Other Purposes	452,024	-	452,024
Unrestricted Net Assets	3,942,433	67,084	4,009,517
Total Net Assets	<u>\$ 18,394,050</u>	<u>\$ 67,084</u>	<u>\$ 18,461,134</u>

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



CITY OF LAKEWAY, TEXAS  
STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
<b>Primary Government</b>						
GOVERNMENTAL ACTIVITIES:						
General Government	\$ 1,194,625	\$ -	\$ 32,879	\$ (1,161,746)	\$ -	\$ (1,161,746)
Municipal Court	362,041	-	-	(362,041)	-	(362,041)
Public Safety	3,518,968	636,123	86,851	(2,795,994)	-	(2,795,994)
Public Works	1,125,130	-	-	(1,125,130)	-	(1,125,130)
Parks & Recreation	1,458,818	447,191	14,224	(997,403)	-	(997,403)
Building & Development	914,434	573,135	-	(341,299)	-	(341,299)
Interest on Long-Term Debt Issuance Costs	277,748 11,067	- -	- -	(277,748) (11,067)	- -	(277,748) (11,067)
<b>Total Governmental Activities:</b>	<b>8,862,831</b>	<b>1,656,449</b>	<b>133,954</b>	<b>(7,072,428)</b>	<b>-</b>	<b>(7,072,428)</b>
BUSINESS-TYPE ACTIVITIES:						
Solid Waste Fund	777,564	794,921	-	-	17,357	17,357
<b>Total Business-Type Activities</b>	<b>777,564</b>	<b>794,921</b>	<b>-</b>	<b>-</b>	<b>17,357</b>	<b>17,357</b>
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 9,640,395</b>	<b>\$ 2,451,370</b>	<b>\$ 133,954</b>	<b>(7,072,428)</b>	<b>17,357</b>	<b>(7,055,071)</b>

**General Revenues:**

Taxes:

Property, Levied for General Purposes	4,108,093	-	4,108,093
Property, Levied for Debt Service	631,024	-	631,024
Penalties and Interest	32,037	-	32,037
Sales and Use	2,248,369	-	2,248,369
Mixed Beverage	87,086	-	87,086
Franchise Fees	266,581	-	266,581
Miscellaneous	69,522	-	69,522
Investment Earnings	35,069	262	35,331
Loss on Disposal of Assets	(107,814)	-	(107,814)
<b>Total General Revenues</b>	<b>7,369,967</b>	<b>262</b>	<b>7,370,229</b>
Change in Net Assets	297,539	17,619	315,158
Net Assets - Beginning	18,145,976	-	18,145,976
Prior Period Adjustment	(49,465)	49,465	-
<b>Net Assets - Ending</b>	<b>\$ 18,394,050</b>	<b>\$ 67,084</b>	<b>\$ 18,461,134</b>

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, 2010

	General Fund	Parkland Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Pooled Cash	\$ 2,739,829	\$ -	\$ 136,657	\$ 2,876,486
Investments	17,263	833,017	732,574	1,582,854
Property Taxes Receivable (net of allowance for uncollectibles)	148,837	-	26,251	175,088
Other Receivables	499,297	-	73,204	572,501
Prepaid Items	61,187	-	280,786	341,973
Total Assets	<u>\$ 3,466,413</u>	<u>\$ 833,017</u>	<u>\$ 1,249,472</u>	<u>\$ 5,548,902</u>
<b>LIABILITIES &amp; FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ 103,760	\$ -	\$ 20,877	\$ 124,637
Wages and Salaries Payable	249,661	-	3,147	252,808
Retainage Payable	-	-	46,282	46,282
Deferred Revenues	231,848	-	26,252	258,100
Other Current Liabilities	22,422	-	-	22,422
Liabilities from Restricted Assets	280,600	-	-	280,600
Total Liabilities	<u>888,291</u>	<u>-</u>	<u>96,558</u>	<u>984,849</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	240,467	240,467
Capital Outlay	-	833,017	-	833,017
Other Purposes	-	-	452,024	452,024
Unreserved Designated for:				
Capital Projects	-	-	460,423	460,423
Unreserved, Undesignated Reported in:				
General Fund	2,578,122	-	-	2,578,122
Total Fund Balances	<u>2,578,122</u>	<u>833,017</u>	<u>1,152,914</u>	<u>4,564,053</u>
Total Liabilities and Fund Balances	<u>\$ 3,466,413</u>	<u>\$ 833,017</u>	<u>\$ 1,249,472</u>	<u>\$ 5,548,902</u>

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

CITY OF LAKEWAY, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<b>Total Fund Balances - Governmental Funds</b>	\$ 4,564,053
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 \$42,715,683 and the accumulated depreciation was \$22,076,559. In addition, current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide financial statements. The effect of these differences in accounting for capital assets in the government-wide financial statements is an increase (decrease) in net assets.	21,269,261
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the fund basis financial statements. In addition, long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of these differences is an increase (decrease) net assets in the government-wide financial statements.	(6,678,778)
Depreciation expense is not recorded at the fund basis financial statements level since the underlying assets being depreciated are not present. At the government-wide financial statement level, depreciation expense and related accumulated depreciation is recorded. The net effect of the current year's depreciation is to increase (decrease) net assets.	(968,981)
Uncollected property taxes are not recorded as revenue at the fund basis financial statements level since these funds are not yet available for spending. At the government-wide financial statement level, uncollected property taxes are recorded as earned revenue in the year levied. The effect of this difference in accounting is an increase (decrease) in net assets.	175,090
Other miscellaneous expenses reported in the statement of activities do not result in or require the use of current financial resources and, therefore, are not reported in the governmental funds. The net effect of these items resulted in an increase (decrease) in net assets.	33,405
<b>Net Assets of Governmental Activities</b>	<b>\$ 18,394,050</b>

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, 2010

	General Fund	Parkland Fund	Other Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property	\$ 4,079,839	\$ -	\$ 627,704	\$ 4,707,543
Penalties and Interest	32,037	-	-	32,037
Sales and Use	1,929,443	-	318,927	2,248,370
Mixed Beverage	87,086	-	-	87,086
Licenses and Permits	573,135	-	-	573,135
Franchise Fees	266,581	-	-	266,581
Grants and Contributions	101,075	-	32,879	133,954
Charges for Services	599,327	-	-	599,327
Fines	528,966	-	51,420	580,386
Special Assessments	-	-	3,850	3,850
Investment Earnings	30,995	1,577	2,496	35,068
Miscellaneous	39,154	-	-	39,154
Total Revenues	<u>8,267,638</u>	<u>1,577</u>	<u>1,037,276</u>	<u>9,306,491</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,043,663	-	29,837	1,073,500
Municipal Court	277,641	-	42,265	319,906
Public Safety	3,194,380	-	17,607	3,211,987
Public Works	957,533	-	22,536	980,069
Parks and Recreation	1,319,130	-	-	1,319,130
Building and Development	803,501	-	-	803,501
Debt Service:				
Debt Principal	109,759	-	475,000	584,759
Debt Interest	14,805	-	265,279	280,084
Fees and Issuance Costs	-	-	912	912
Capital Outlay:				
Capital Outlay	-	-	559,447	559,447
Total Expenditures	<u>7,720,412</u>	<u>-</u>	<u>1,412,883</u>	<u>9,133,295</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>547,226</u>	<u>1,577</u>	<u>(375,607)</u>	<u>173,196</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Real and Personal Property	22,423	-	-	22,423
Insurance Recovery	24,469	-	-	24,469
Transfers In	-	-	126,043	126,043
Transfers Out	(126,043)	-	-	(126,043)
Total Other Financing Sources (Uses)	<u>(79,151)</u>	<u>-</u>	<u>126,043</u>	<u>46,892</u>
Net Change in Fund Balances	468,075	1,577	(249,564)	220,088
Fund Balance - October 1 (Beginning)	2,110,047	831,440	1,451,943	4,393,430
Prior Period Adjustment	-	-	(49,465)	(49,465)
Fund Balance - September 30 (Ending)	<u>\$ 2,578,122</u>	<u>\$ 833,017</u>	<u>\$ 1,152,914</u>	<u>\$ 4,564,053</u>

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

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, 2010

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 220,088</b>
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 \$24,641,547 and the accumulated depreciation was \$4,834,136. In addition, current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide financial statements. The effect of these differences in accounting for capital assets in the government-wide financial statements is an increase in net assets.	630,137
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the fund basis financial statements. In addition, long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as reductions in long-term debt in the government-wide financial statements. The net effect of these differences is an increase (decrease) net assets in the government-wide financial statements.	516,175
Depreciation expense is not recorded at the fund basis financial statements level since the underlying assets being depreciated are not present. At the government-wide financial statement level, depreciation expense and related accumulated depreciation is recorded. The net effect of the current year's depreciation is to decrease net assets.	(968,981)
Uncollected property taxes are not recorded as revenue at the fund basis financial statements level since these funds are not yet available for spending. At the government-wide financial statement level, uncollected property taxes are recorded as earned revenue in the year levied. The effect of this difference in accounting is an increase in net assets.	31,575
Other miscellaneous expenses reported in the statement of activities do not result in or require the use of current financial resources and, therefore, are not reported in the governmental funds. The net effect of these items resulted in an increase (decrease) in net assets.	(131,455)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 297,539</b>

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 -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property	\$ 4,069,570	\$ 4,129,570	\$ 4,079,839	\$ (49,731)
Penalties and Interest	90,000	30,000	32,037	2,037
Sales and Use	1,840,896	1,840,896	1,929,443	88,547
Mixed Beverage	73,000	73,000	87,086	14,086
Licenses and Permits	375,500	470,500	573,135	102,635
Franchise Fees	280,000	280,000	266,581	(13,419)
Grants and Contributions	89,367	89,367	101,075	11,708
Charges for Services	410,600	410,600	599,327	188,727
Fines	642,000	642,000	528,966	(113,034)
Investment Earnings	44,000	44,000	30,995	(13,005)
Miscellaneous	176,200	176,200	39,154	(137,046)
Total Revenues	<u>8,091,133</u>	<u>8,186,133</u>	<u>8,267,638</u>	<u>81,505</u>
<b>EXPENDITURES</b>				
Current:				
General Government	1,168,737	1,164,787	1,043,663	121,124
Municipal Court	291,618	291,618	277,641	13,977
Public Safety	3,452,932	3,383,718	3,194,380	189,338
Public Works	1,004,401	976,735	957,533	19,202
Parks and Recreation	1,420,214	1,407,825	1,319,130	88,695
Building and Development	753,231	829,726	803,501	26,225
Debt Service				
Debt Principal	-	116,907	109,759	7,148
Debt Interest	-	14,817	14,805	12
Total Expenditures	<u>8,091,133</u>	<u>8,186,133</u>	<u>7,720,412</u>	<u>465,721</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>547,226</u>	<u>547,226</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Real and Personal Property	-	-	22,423	22,423
Insurance Recovery	-	-	24,469	24,469
Transfers Out	-	(126,043)	(126,043)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(126,043)</u>	<u>(79,151)</u>	<u>46,892</u>
Net Change in Fund Balances	-	(126,043)	468,075	594,118
Fund Balance - October 1 (Beginning)	<u>2,093,187</u>	<u>2,110,047</u>	<u>2,110,047</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 2,093,187</u>	<u>\$ 1,984,004</u>	<u>\$ 2,578,122</u>	<u>\$ 594,118</u>

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



PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF LAKEWAY, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2010

	Business-Type Activities
	Solid Waste Fund
<b>ASSETS</b>	
Cash and Pooled Cash	\$ 2,287
Investments	160,530
Accounts Receivable (net of allowance for uncollectibles)	6,088
Total Assets	\$ 168,905
<b>LIABILITIES</b>	
Accounts Payable	\$ 55,488
Wages and Salaries Payable	4,739
Due to Customers	41,594
Total Liabilities	101,821
<b>NET ASSETS</b>	
Unrestricted Net Assets	67,084
Total Net Assets	\$ 67,084

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

CITY OF LAKEWAY, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-Type Activities
	Solid Waste Fund
OPERATING REVENUES:	
Charges for Sanitation Services	\$ 794,921
Total Operating Revenues	794,921
OPERATING EXPENSES:	
Personnel Services	73,211
Contract Services	685,139
Supplies	2,126
Other Operating Expenses	17,088
Total Operating Expenses	777,564
Operating Income (Loss)	17,357
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	262
Total Non-Operating Revenue (Expenses)	262
CHANGE IN NET ASSETS	17,619
Total Net Assets - Oct 1 (Beginning)	-
Prior Period Adjustment	49,465
Total Net Assets - Sept 30 (Ending)	\$ 67,084

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



CITY OF LAKEWAY, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-Type Activities
	Solid Waste Fund
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from User Charges	\$ 836,326
Cash Payments to Employees for Services	(72,235)
Cash Payments for Purchased Services	(685,139)
Cash Payments for Supplies	(455)
Cash Payments for Other Op. Expenses	(17,088)
Net Cash Provided (Used) by Operating Activities	61,409
<b><u>Cash Flows from Investing Activities:</u></b>	
Purchase of Investments	(76,263)
Interest and Dividends on Investments	262
Net Cash Provided (Used) by Investing Activities	(76,001)
Net Increase (Decrease) in Cash & Pooled Cash	(14,592)
Cash & Pooled Cash - Beginning of the Year	16,879
Cash & Pooled Cash - End of the Year	\$ 2,287
<b><u>Reconciliation of Operating Income to Net</u></b>	
<b><u>Cash Provided by Operating Activities:</u></b>	
Operating Income (Loss)	\$ 17,357
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:	
Decrease (Increase) in Receivables	13,984
Increase (Decrease) in Wages Payable	976
Increase (Decrease) in Accounts Payable	1,671
Increase (Decrease) in Deposits Payable	27,421
Net Cash Provided (Used) by Operating Activities	\$ 61,409

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, 2010

**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 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, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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.

CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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.

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. Non-exchange 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, 2010

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 February 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 scheduled for collection within one year of year end.

CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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, 2010, the carrying amount of the City's deposits (cash, certificates of deposit, money market, and interest-bearing savings accounts included in temporary investments) was \$2,863,529 and the bank balance was \$3,006,899. The City's cash deposits at September 30, 2010 and during the period then ended 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, 2010

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, 2010 are shown below.

Investment	Carrying Amount	Fair Value
TexPool	\$ 1,743,385	\$ 1,743,385
	\$ 1,743,385	\$ 1,743,385

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 five 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 five 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, 2010

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 AAAM 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, 2010

**C. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2010, was as follows:

<u>Description</u>	<u>Balance</u> <u>9/30/2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/2010</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,913,619	\$ -	\$ -	\$ 6,913,619
Works of Art	64,289	-	-	64,289
Construction in Progress	-	32,879	-	32,879
Total capital assets, not being depreciated	<u>6,977,908</u>	<u>32,879</u>	<u>-</u>	<u>7,010,787</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	24,537,724	526,568	-	25,064,292
Buildings and Improvements	7,945,994	11,210	-	7,957,204
Equipment & Vehicles	2,013,219	189,716	(210,197)	1,992,738
Improvements other than Buildings	1,240,840	-	-	1,240,840
Total capital assets, being depreciated	<u>35,737,777</u>	<u>727,494</u>	<u>(210,197)</u>	<u>36,255,074</u>
Less accumulated depreciation for:				
Infrastructure	(18,930,305)	(437,289)	-	(19,367,594)
Buildings and Improvements	(1,799,663)	(244,395)	-	(2,044,058)
Equipment & Vehicles	(877,744)	(234,625)	79,960	(1,032,409)
Improvements other than Buildings	(468,848)	(52,672)	-	(521,520)
Total accumulated depreciation	<u>(22,076,560)</u>	<u>(968,981)</u>	<u>79,960</u>	<u>(22,965,581)</u>
Total capital assets, being depreciated, net	<u>13,661,217</u>	<u>(241,487)</u>	<u>(130,237)</u>	<u>13,289,493</u>
Govt Activities Capital Assets, net	<u>\$20,639,125</u>	<u>\$ (208,608)</u>	<u>\$ (130,237)</u>	<u>\$20,300,280</u>

Depreciation expense was allocated to the governmental functions as follows:

General Government	\$ 144,592
Municipal Court	39,010
Public Safety	399,849
Public Works	121,780
Building & Development	99,840
Parks & Recreation	163,910
Total	<u>\$ 968,981</u>

CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**D. INTERFUND BALANCES AND ACTIVITY**

As of year-end, there were no interfund balances between City funds.

During the year, the General Fund transferred \$126,043 to the Capital Reserve Fund for future capital projects.

**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, 2010, are as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/30/2009	Additions	Deletions	Amounts Outstanding 9/30/2010	Due In One Year
Governmental activities:								
<u>Bonds Payable</u>								
General Obligation Bonds, 2002	4.75-5.00%	\$ 2,000,000	\$ 73,381	\$ 1,645,000	\$ -	\$ (110,000)	\$ 1,535,000	\$ 120,000
General Imp. & Ref. Bonds, 2004	2.50-4.40%	4,765,000	161,260	4,150,000	-	(145,000)	4,005,000	140,000
Maintenance Tax Notes, 2004	1.00-2.75%	800,000	3,300	120,000	-	(120,000)	-	-
General Obligation Bonds, 2009	2.50-4.00%	895,000	27,338	895,000	-	(100,000)	795,000	105,000
Total Bonds Payable			265,279	6,810,000	-	(475,000)	6,335,000	365,000
<u>Loans Payable</u>								
Loans Payable	5.00-6.00%		14,805	315,913	-	(111,013)	204,900	90,741
Total Notes Payable			14,805	315,913	-	(111,013)	204,900	90,741
Grand Total Debt			\$ 280,084	\$ 7,125,913	\$ -	\$ (586,013)	\$ 6,539,900	\$ 455,741

CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2010, are as follows:

Year Ended September 30,	Bonds Payable		Total Requirements
	Principal	Interest	
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	425,000	194,120	619,120
2016-2020	2,170,000	703,651	2,873,651
2021-2025	2,205,000	247,623	2,452,623
Total	\$ 6,335,000	\$ 2,065,795	\$ 8,400,795

Year Ended September 30,	Capital Leases Payable		Total Requirements
	Principal	Interest	
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	4,773	896	5,669
Total	\$ 204,900	\$ 22,097	\$ 226,997

**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 2010, 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, 2010

**G. PENSION PLAN**

*Plan Description*

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid-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 with 837 members. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G, as a retirement system for municipal employees in the State of Texas and is governed by a six-member Board of Trustees appointed by the governor with the advice and consent of the senate. 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; in addition, the report is available at the TMRS web site, <http://www.tMrs.org>.

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. Members of the City’s plan are eligible to retire at age sixty and above with at least five years of service or twenty years of service regardless of age. Generally, members are vested after five years of service and service credit with other statewide retirement systems or government entities may also qualify for credit toward vesting. Members who withdraw their personal contribution upon termination prior to vesting forfeit pension benefits provided by the City.

Upon retirement, benefits depend upon the sum of the employee’s contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee’s accumulated contributions. In addition, the City has the option to grant, either annually or on an annually repeating basis, another type of credit referred to as an updated service credit. This monetary credit is determined by hypothetically recomputing the member’s account balance by assuming the current member deposit rate of the City (7%) has always been in effect. The computation also assumes the member’s salary has always been the member’s average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by three percent each year, and increased by the city match currently in effect (200%). The resulting sum is then compared to the member’s actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Update Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted (100%). At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity.

CITY OF LAKEWAY, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2010

*Funding Policy and Annual Pension Cost*

The required contribution rate for employees is seven percent, and the City matching ratio is currently 2 to 1, both as adopted by ordinance by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the city contribution rate using the Projected Unit Credit actuarial cost method. 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 portion of an active member’s projected benefit allocated annually. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan’s 25-year open amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases (COLAs). Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate is effective. The actuarially determined rates for calendar years 2010, 2009, and 2008 are 11.74%, 11.14%, and 10.26%, respectively. However, in 2009 the City elected to contribute a minimum amount equal to the annual required contribution (ARC) less a “phase in” of the increase from the change to the Projected Unit Credit cost method in the 2007 valuation. By doing so, the City contributed less than the ARC and as such accrued a net pension obligation (NPO) on the government-wide financial statements for calendar year 2009. The City’s contribution to the TMRS for 2010 equaled the ARC. The annual pension cost and net pension obligation are as follows:

Annual required contributions	\$ 467,301
Interest on net pension obligation	1,580
Adjustment to annual required contribution	(1,287)
Annual pension cost	467,594
Contributions made	(459,376)
Increase (decrease) in net pension obligation	8,218
Net pension obligation beginning of year	21,069
Net pension obligation end of year	\$ 29,287

**Three-Year Trend Information for TMRS Funding**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2008	\$386,048	100%	\$0
9/30/2009	\$423,654	95%	\$21,069
9/30/2010	\$467,594	98%	\$29,287

The required contribution rates for fiscal year ending September 30, 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations because the actuarial valuation is prepared on a calendar year which is not the City’s fiscal year. Additional information as of the latest actuarial valuation, December 31, 2009, is detailed in the chart below.

CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single	30 years	29 years	28 years
Amortization Period	closed period	closed period	closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Invested Rate of Return	7.0%	7.5%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.10%	2.10%	2.10%

The funded status as of the last three valuation dates is as follows:

**Schedule of Funding Progress for the Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / (c)
12/31/2007	2,819,031	4,838,976	2,019,945	58.3%	3,151,958	64.1%
12/31/2008	3,324,820	5,646,308	2,321,488	58.9%	3,780,059	61.4%
12/31/2009	4,081,961	6,521,111	2,439,150	62.6%	3,918,154	62.3%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, also presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

*Supplemental death benefit fund*

The City contributes to a cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group-term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined annually, and the rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund described above. The TMRS Act requires the Pension Trust Fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net assets available for postemployment benefits other than pension benefits (OPEB). The City's contributions to the TMRS SDBF for retirees for the fiscal years ended September 30, 2008, 2009, and 2010, were \$380, \$389, and \$404, respectively, which equaled the required contributions each year.

Payments from this fund are similar to group-term life insurance benefits and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary. The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the Pension Trust Fund.

**H. COMMITMENTS AND CONTIGENCIES**

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 collectability 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, 2010.





CITY OF LAKEWAY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010

**I. PRIOR PERIOD ADJUSTMENT**

The City reclassified the activities of the Solid Waste Fund during the year from governmental to proprietary. As a result, the ending fund balance in this fund in the amount of \$49,465 as of September 30, 2009, was reclassified as a prior period adjustment from the governmental fund statements to the proprietary fund statements.



CITY OF LAKEWAY  
 SCHEDULE OF FUNDING PROGRESS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Funding Progress for the Retirement Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / (c)
12/31/2007	2,819,031	4,838,976	2,019,945	58.3%	3,151,958	64.1%
12/31/2008	3,324,820	5,646,308	2,321,488	58.9%	3,780,059	61.4%
12/31/2009	4,081,961	6,521,111	2,439,150	62.6%	3,918,154	62.3%



## COMBINING SCHEDULES

CITY OF LAKEWAY, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2010

	Solid Waste Fund	Court Bldg. Security Fund	Court Technology Fund	Child Safety Fund
<b>ASSETS</b>				
Cash and Pooled Cash	\$ -	\$ 1,218	\$ 669	\$ 2,357
Investments - Current	-	5,644	5,365	6,200
Property Taxes Receivable (net of allowance for uncollectibles)	-	-	-	-
Other Receivables	-	-	-	890
Prepaid Items	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ 6,862</u>	<u>\$ 6,034</u>	<u>\$ 9,447</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ -	\$ 103	\$ 837	\$ -
Wages and Salaries Payable	-	547	-	1,356
Retainage Payable	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>-</u>	<u>650</u>	<u>837</u>	<u>1,356</u>
<b>Fund Balances:</b>				
<b>Reserved For:</b>				
Debt Service	-	-	-	-
Other Purposes	-	6,212	5,197	8,091
<b>Designated For:</b>				
Capital Projects	-	-	-	-
Total Fund Balances	<u>-</u>	<u>6,212</u>	<u>5,197</u>	<u>8,091</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 6,862</u>	<u>\$ 6,034</u>	<u>\$ 9,447</u>

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

Juvenile Case Mgr. Fund	Parkland Highland Fund	Road Tax Fund	Capital Reserve Fund	Donation Fund	Nonmajor Special Revenue Funds	Debt Service Fund	Nonmajor Governmental Funds
\$ 1,022	\$ -	\$ 500	\$ 128,046	\$ -	\$ 133,812	\$ 2,845	\$ 136,657
31,001	3,850	57,045	385,846	-	494,951	237,623	732,574
-	-	-	-	-	-	26,251	26,251
-	-	60,824	-	11,490	73,204	-	73,204
-	-	279,526	-	1,260	280,786	-	280,786
<u>\$ 32,023</u>	<u>\$ 3,850</u>	<u>\$ 397,895</u>	<u>\$ 513,892</u>	<u>\$ 12,750</u>	<u>\$ 982,753</u>	<u>\$ 266,719</u>	<u>\$ 1,249,472</u>
\$ -	\$ -	\$ -	\$ 7,187	\$ 12,750	\$ 20,877	\$ -	\$ 20,877
1,244	-	-	-	-	3,147	-	3,147
-	-	-	46,282	-	46,282	-	46,282
-	-	-	-	-	-	26,252	26,252
<u>1,244</u>	<u>-</u>	<u>-</u>	<u>53,469</u>	<u>12,750</u>	<u>70,306</u>	<u>26,252</u>	<u>96,558</u>
-	-	-	-	-	-	240,467	240,467
30,779	3,850	397,895	-	-	452,024	-	452,024
-	-	-	460,423	-	460,423	-	460,423
<u>30,779</u>	<u>3,850</u>	<u>397,895</u>	<u>460,423</u>	<u>-</u>	<u>912,447</u>	<u>240,467</u>	<u>1,152,914</u>
<u>\$ 32,023</u>	<u>\$ 3,850</u>	<u>\$ 397,895</u>	<u>\$ 513,892</u>	<u>\$ 12,750</u>	<u>\$ 982,753</u>	<u>\$ 266,719</u>	<u>\$ 1,249,472</u>

CITY OF LAKEWAY, TEXAS  
 COMBINING SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Solid Waste Fund	Court Bldg. Security Fund	Court Technology Fund	Child Safety Fund
<b>REVENUES</b>				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Sales and Use	-	-	-	-
Grants & Contributions	-	-	-	-
Fines	-	9,433	12,508	15,569
Special Assessments	-	-	-	-
Investment Earnings	-	13	9	-
<b>Total Revenues</b>	<b>-</b>	<b>9,446</b>	<b>12,517</b>	<b>15,569</b>
<b>EXPENDITURES</b>				
Current:				
General Government	-	-	-	-
Municipal Court	-	17,457	18,849	-
Public Safety	-	-	-	17,607
Public Works	-	-	-	-
Debt Service:				
Debt Principal	-	-	-	-
Debt Interest	-	-	-	-
Fees and Issuance Costs	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	-	-
<b>Total Expenditures</b>	<b>-</b>	<b>17,457</b>	<b>18,849</b>	<b>17,607</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(8,011)	(6,332)	(2,038)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balance	-	(8,011)	(6,332)	(2,038)
Fund Balance - October 1 (Beginning)	49,465	14,223	11,529	10,129
Prior Period Adjustment	(49,465)	-	-	-
Fund Balance - September 30 (Ending)	<b>\$ -</b>	<b>\$ 6,212</b>	<b>\$ 5,197</b>	<b>\$ 8,091</b>

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



Juvenile Case Mgr. Fund	Parkland Highland Fund	Road Tax Fund	Capital Reserve Fund	Donation Fund	Nonmajor Special Revenue Funds	Debt Service Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 627,704	\$ 627,704
-	-	318,927	-	-	318,927	-	318,927
-	-	-	-	32,879	32,879	-	32,879
13,910	-	-	-	-	51,420	-	51,420
-	3,850	-	-	-	3,850	-	3,850
1	-	363	1,577	-	1,963	533	2,496
<u>13,911</u>	<u>3,850</u>	<u>319,290</u>	<u>1,577</u>	<u>32,879</u>	<u>409,039</u>	<u>628,237</u>	<u>1,037,276</u>
-	-	-	29,837	-	29,837	-	29,837
5,959	-	-	-	-	42,265	-	42,265
-	-	-	-	-	17,607	-	17,607
-	-	22,536	-	-	22,536	-	22,536
-	-	120,000	-	-	120,000	355,000	475,000
-	-	-	-	-	-	265,279	265,279
-	-	-	-	-	-	912	912
-	-	-	526,568	32,879	559,447	-	559,447
<u>5,959</u>	<u>-</u>	<u>142,536</u>	<u>556,405</u>	<u>32,879</u>	<u>791,692</u>	<u>621,191</u>	<u>1,412,883</u>
<u>7,952</u>	<u>3,850</u>	<u>176,754</u>	<u>(554,828)</u>	<u>-</u>	<u>(382,653)</u>	<u>7,046</u>	<u>(375,607)</u>
-	-	-	126,043	-	126,043	-	126,043
-	-	-	126,043	-	126,043	-	126,043
7,952	3,850	176,754	(428,785)	-	(256,610)	7,046	(249,564)
22,827	-	221,141	889,208	-	1,218,522	233,421	1,451,943
-	-	-	-	-	(49,465)	-	(49,465)
<u>\$ 30,779</u>	<u>\$ 3,850</u>	<u>\$ 397,895</u>	<u>\$ 460,423</u>	<u>\$ -</u>	<u>\$ 912,447</u>	<u>\$ 240,467</u>	<u>\$ 1,152,914</u>



OTHER BUDGETARY SCHEDULES



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, 2010

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property Taxes	\$ 621,004	\$ 621,004	\$ 627,704	\$ 6,700
Investment Earnings	500	500	533	33
Total Revenues	<u>621,504</u>	<u>621,504</u>	<u>628,237</u>	<u>6,733</u>
<b>EXPENDITURES</b>				
Current:				
Debt Service:				
Debt Principal	355,000	355,000	355,000	-
Debt Interest	265,504	265,504	265,279	225
Issuance Costs	1,000	1,000	912	88
Total Expenditures	<u>621,504</u>	<u>621,504</u>	<u>621,191</u>	<u>313</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	7,046	6,420
<b>OTHER FINANCING SOURCES(USES)</b>				
Capital-related Debt Issued(Reg Bonds)	-	-	-	-
Refunding of Bonds	-	-	-	-
Total Other Financing Sources(Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	-	-	7,046	6,420
Fund Balance-October 1 (Beginning)	-	-	233,421	-
Fund Balance-September 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 240,467</u>	<u>\$ 6,420</u>

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



OTHER INFORMATION REQUIRED BY GAO







930 S. Bell Blvd., Suite 105 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 governmental activities, the proprietary 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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 21, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

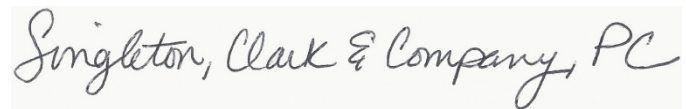
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 Council, 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.

A handwritten signature in cursive script that reads "Singleton, Clark & Company, PC". The signature is written in black ink on a light-colored background.

Singleton, Clark & Company, PC  
Cedar Park, Texas

February 21, 2011