

CITY OF LYTLE, TEXAS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended
SEPTEMBER 30, 2009

CITY OF LYTLE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lytle, Texas

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lytle, Texas, as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lytle, Texas's management. My responsibility is to express an opinion on these financial statements based on my audit.

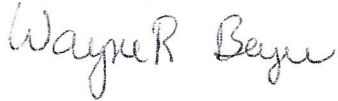
I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lytle, Texas, as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows, thereof, and the respective budgetary comparison for the General Fund and the Library Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and the analysis, the non-major budgetary comparison information, and the schedules of funding progress for the Public Employees Retirement System on pages 3 through 14, 52, and page 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lytle, Texas's basic financial statements. The combining and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "Wayne R. Beyers".

WAYNE R. BEYER
Certified Public Accountant
Pleasanton, Texas
March 8, 2010

Management's Discussion and Analysis

As management of the City of Lytle, Texas, we offer readers of the City of Lytle, Texas's financial statements this narrative overview and analysis of the financial activities of the City of Lytle, Texas for the fiscal year ended September 30, 2009.

Financial Highlights

- . The assets of the City of Lytle, Texas, exceeded its liabilities at the close of the most recent fiscal year by \$6,685,525 (net assets). Of this amount, \$2,135,195 or 32% (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- . The government's total net assets increased by \$300,906. This increase is mainly attributable to the water fund and the gas fund posting operating incomes of \$141,781 and \$65,089, respectively.
- . The City of Lytle, Texas's total restricted net assets at September 30, 2009 is \$890,235 at September 30, 2009 or 13%.
- . The City of Lytle, Texas's total debt decreased by \$102,467 (9 percent) during the current fiscal year. The key factors in this decrease was a payoff of existing bonded debt of \$105,000.
- . The City of Lytle, Texas's total capital assets increased by \$50,181 (1 percent) during the current fiscal year. The key factor in this increase was the building of a dog kennel for \$105,603.

Overview of the Financial Statements

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

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

The statement of net assets presents information on all of the City of Lytle, Texas'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 of Lytle, Texas is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lytle, Texas that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Lytle, Texas include general administration, public safety, public transportation, health and welfare, public facilities, capital projects, and culture and recreation. The business-type activities of the City of Lytle, Texas include a Water, Sewer, and Gas fund.

The government-wide financial statements include only the City of Lytle, Texas itself (known as the primary government).

The government-wide financial statements can be found on pages 15-16 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. The City of Lytle, Texas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lytle, Texas can be divided into two categories: governmental funds and proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lytle, Texas maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the library fund which are considered to be major funds. Data from the other four 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 elsewhere in this report.

The City of Lytle, Texas adopts an annual appropriated budget for its general fund and its library fund. A budgetary comparison statement has been provided for the General Fund, the Library Fund, and the Debt Service Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

Proprietary funds: The City of Lytle, Texas maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lytle, Texas uses enterprise funds to account for its Water, Sewer, and Gas activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water fund, the Gas fund, and the Sewer fund, each of which are considered to be major funds of the City of Lytle, Texas.

The basic proprietary fund financial statements can be found on pages 23-27 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-48 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Lytle, Texas's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 49 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 50-51 of this report. The budget comparison schedules in connection with the non-major governmental funds can be found on page 52 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lytle, Texas, assets exceeded liabilities by \$6,685,525 at the close of the most recent fiscal year.

Half the portion of the City of Lytle, Texas's net assets (55 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Lytle, Texas uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lytle, Texas'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.

CITY OF LYTLE, TEXAS NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other Assets	\$1,002,968	\$1,126,159	\$1,309,860	\$1,152,163	\$2,312,828	\$2,278,322
Restricted Assets:	379,770	344,078	551,574	495,808	931,344	839,886
Capital Assets:	940,141	864,141	3,829,954	3,855,773	4,770,095	4,719,914
Total Assets	2,322,879	2,334,378	5,691,388	5,503,744	8,014,267	7,838,122
Long-Term Liabilities	19,515	52,039	1,117,240	1,187,183	1,136,755	1,239,222
Other Liabilities	74,261	75,859	117,726	138,422	191,987	214,281
Total Liabilities	93,776	127,898	1,234,966	1,325,605	1,328,742	1,453,503
Invested in Capital Assets, Net of Related Debt	940,141	829,141	2,719,954	2,714,273	3,660,095	3,543,414
Restricted	394,215	358,522	496,020	440,517	890,235	799,039
Unrestricted	894,747	1,018,817	1,240,448	1,023,349	2,135,195	2,042,166
Total Net Assets	\$2,229,103	\$2,206,480	\$4,456,422	\$4,178,139	\$6,685,525	\$6,384,619

An additional portion of the City of Lytle, Texas's net assets (13 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$2,135,195) may be used to meet the governments on going obligations to citizens and creditors. At the end of the current fiscal year, the City of Lytle, Texas reported a positive balance in the governmental activities and a positive balance in the business-type activities. For the prior fiscal year, the City of Lytle, Texas reported positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

There was an increase of \$217,099 in unrestricted net assets reported in connection with the City of Lytle, Texas's activities. This increase included a capital grant of \$25,000.

The government's net assets increased by \$300,906 during the current fiscal year. This increase is mainly attributable to the water fund and the gas fund posting operating incomes of \$141,781 and \$65,089, respectively.

Governmental activities:

Governmental activities increased the City of Lytle, Texas's net assets by \$22,623, thereby accounting for 8 percent of the total growth in the net assets of the City of Lytle, Texas. This increase is mainly attributable to the fact that the City's revenues continue to exceed its expenses on an annual basis.

**CITY OF LYTLE, TEXAS
CHANGE IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	\$529,614	\$597,403	\$1,022,201	\$1,041,397	\$1,551,815	\$1,638,800
Capital Grants and Contributions	0	0	25,000	225,000	25,000	225,000
General Revenues:						
Maintenance and Operations Taxes	336,070	318,975			336,070	318,975
Sales taxes	493,576	482,041			493,576	482,041
Franchise Taxes	85,496	82,163			85,496	82,163
Other Taxes	25,260	25,141			25,260	25,141
Licenses and Permits	12,405	12,167			12,405	12,167
Unrestricted Investment Earnings	24,627	32,471	32,956	38,886	57,583	71,357
Miscellaneous	82,248	38,451			82,248	38,451
Total Revenue	1,589,296	1,588,812	1,080,157	1,305,283	2,669,453	2,894,095
Expenses:						
General Administration	282,731	258,662			282,731	258,662
Public Safety	637,281	674,682			637,281	674,682
Public Transportation	173,216	201,531			173,216	201,531
Environmental Protection	247,177	223,342			247,177	223,342
Culture and Recreation	217,253	154,039			217,253	154,039
Interest and Fiscal Charges	990	3,372			990	3,372
Water			349,802	309,310	349,802	309,310
Gas			222,058	306,157	222,058	306,157
Sewer			238,039	256,706	238,039	256,706
Total Expenses	1,558,648	1,515,628	809,899	872,173	2,368,547	2,387,801
Increase in net assets before transfers and special items	30,648	73,184	270,258	433,110	300,906	506,294
Transfers	(8,025)	(56,105)	8,025	56,105	0	0
Increase in Net Assets	22,623	17,079	278,283	489,215	300,906	506,294
Net Assets at 09/30/2008 - Restated	2,206,480	2,189,401	4,178,139	3,688,924	6,384,619	5,878,325
Net Assets at 09/30/2009	\$2,229,103	\$2,206,480	\$4,456,422	\$4,178,139	\$6,685,525	\$6,384,619

Expenses and Program Revenues - Governmental Activities

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Government activities:			
General Administration	\$282,731	\$0	\$0
Public Safety	637,281	275,098	
Public Transportation	173,216		
Environmental Protection	247,177	254,516	
Culture and Recreation	217,253		
Interest and Fiscal Charges	990		
Total Government Activities	\$1,558,648	\$529,614	\$0

Revenues by Source - Governmental Activities

	REVENUES	%
Charges for Services	\$529,614	33%
Capital Grants and Contributions	0	0%
Property Taxes, Levies for General Purposes	336,070	21%
Sales Taxes	493,576	31%
Franchise Taxes	85,496	5%
Other Taxes	25,260	2%
License and Permits	12,405	1%
Unrestricted Investment Earnings	24,627	2%
Miscellaneous	82,248	5%
	<u>\$1,589,296</u>	<u>100%</u>

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities:

Business-type activities increased the City of Lytle, Texas's net assets by \$278,283. This increase is mainly attributable to the water fund and the gas fund posting operating incomes of \$141,781 and \$65,089, respectively.

Expenses and Program Revenues - Business-type Activities

Functions/Programs	Expenses	Charges for Services	Capital Grants and Contributions
Primary Government			
Business-Type Activities:			
Water	\$349,802	\$491,583	\$25,000
Gas	222,058	287,147	
Sewer	238,039	243,471	
Total Business-Type Activities	<u>\$809,899</u>	<u>\$1,022,201</u>	<u>\$25,000</u>

Revenues by source - Business-Type Activities

	<u>REVENUES</u>	<u>%</u>
Unrestricted investment earnings	\$32,956	100.00%
	<u>\$32,956</u>	<u>100.00%</u>

Financial Analysis of the Government's Funds

As noted earlier, the City of Lytle, Texas's uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the City of Lytle, Texas's governmental funds reported combined ending fund balances of \$963,269, a decrease of \$61,012 in comparison with the prior year. Approximately 59 percent of this total amount (\$569,054) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to the following:

	General Fund	Other Governmental Funds
Ad Valorem Taxes	\$6,605	\$0
Christmas Decorations	4,367	
Civic Center	122,840	159,481
Construction		13,636
Debt Service		428
Disaster Relief	1,980	
Library	31,984	
Museum	32,971	
Police Seizures	1,106	
Tourism	15,806	
Tree Mitigation	3,011	
Total Restricted Net Assets	<u>\$220,670</u>	<u>\$173,545</u>

The general fund is the chief operating fund of the City of Lytle, Texas. At the end of the current fiscal year, unreserved fund balance of the general fund was \$371,118, while total fund balance reached \$591,788. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 25 percent of total general fund expenditures, while total fund balance represents 40 percent of that same amount.

The fund balance of the City of Lytle, Texas's general fund decreased by \$57,463 during the current fiscal year. The primary reason for the decrease is that expenditures increased by \$45,435.

The library fund has a total fund balance of \$197,936 all of which is to be used for library services. The net decrease in fund balance during the current year was \$3,549. This decrease is immaterial.

Proprietary funds:

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

Unrestricted net assets of the Water fund at the end of the year amounted to \$381,175, and those for the Gas fund amounted to \$346,552, and the net assets of the Sewer fund at the end of the year amounted to \$512,721. The increase (decrease) in unrestricted net assets for all the funds was \$189,307, \$70,899 and \$18,077 respectively. All three changes in the three funds are considered to be immaterial with the exception of the Water and Gas funds which showed operating incomes of \$141,781 and \$65,089, respectively. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City of Lytle, Texas's business-type activities.

General Fund Budgetary Highlights:

There was an increase of \$53,600 differences between the original budget and the final amended budget in the general fund. The major increase was in public transportation which increased by \$41,000; a major portion of the increase was drainage improvements. The increase was funded by the beginning reserve in the general fund.

There was an increase between the original budget and the final amended budget in the library fund.

Capital Asset and Debt Administration

Capital assets:

The City of Lytle, Texas's investment in capital assets for its governmental and business-type activities as of September 30, 2009, amounts to \$4,770,095 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City of Lytle, Texas's investment in capital assets for the current fiscal year was 1 percent (a 9 percent increase for governmental activities and a 1 percent decrease for business-type activities). The City had a dog kennel building project for \$105,603.

CITY OF LYTLE, TEXAS CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$99,607	\$99,607	\$503,169	\$437,169	\$602,776	\$536,776
Construction in Progress	0	0	0	360,080	0	360,080
Buildings	570,377	480,423	0	0	570,377	480,423
Machinery and Equipment	107,829	118,304	3,623	6,209	111,452	124,513
Infrastructure	162,328	165,807	3,323,162	3,052,315	3,485,490	3,218,122
Total	\$940,141	\$864,141	\$3,829,954	\$3,855,773	\$4,770,095	\$4,719,914

Additional information on the City of Lytle, Texas's capital assets can be found in note IV.C on page 41-42 of this report.

Long-term debt:

At the end of the current fiscal year, the City of Lytle, Texas had total bonded debt outstanding of \$1,110,000. Of this amount, \$0 comprises debt backed by the full faith and credit of the City of Lytle, Texas. The remainder of the City of Lytle, Texas's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

CITY OF LYTLE, TEXAS

Outstanding debt

Cert. of Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Certificates of Obligation	\$0	\$35,000			\$0	\$35,000
Revenue Bonds			1,110,000	1,180,000	1,110,000	1,180,000
Total	\$0	\$35,000	\$1,110,000	\$1,180,000	\$1,110,000	\$1,215,000

The City of Lytle, Texas's total bonded debt decreased by \$105,000 (9 percent) during the current fiscal year. The key factor in this decrease was the payment of bond principal of \$105,000.

State statutes limit the amount of general obligation debt a governmental entity may issue to 25 percent of its total assessed valuation. The current debt limitation for the City of Lytle, Texas is \$27,489,042, which is significantly in excess of the City of Lytle, Texas's outstanding general obligation debt.

Additional information on the City of Lytle, Texas's long-term debt can be found in note IV F on pages 43-44 of this report.

Requests for Information:

This financial report is designed to provide a general overview of the City of Lytle, Texas's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Secretary, P.O. Box 743, Lytle, Texas, 78052.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$601,827	\$1,185,201	\$1,787,028
Receivables (net of allowance for uncollectibles)	368,255	70,096	438,351
Due from other Funds	32,886		32,886
Inventories		19,563	19,563
Bond Issuance Costs		35,000	35,000
Restricted Assets:			
Cash and Cash Equivalents	379,770	551,574	931,344
Capital assets not being depreciated:			
Land	99,607	503,169	602,776
Construction in Progress			0
Total Capital assets being depreciated, net			
Building and Improvements	570,377	0	570,377
Machinery and Equipment	107,829	3,623	111,452
Infrastructure	162,328	3,323,162	3,485,490
Total Assets	<u>\$2,322,879</u>	<u>\$5,691,388</u>	<u>\$8,014,267</u>
LIABILITIES:			
Accounts Payable	\$73,053	\$15,190	\$88,243
Due to other Funds		32,886	32,886
Accrued Interest Payable		11,203	11,203
Accrued Wages	1,208	2,893	4,101
Consumer Meter Deposit		55,554	55,554
Noncurrent Liabilities:			
Due within one year	19,515	82,240	101,755
Due in more than one year		1,035,000	1,035,000
Total Liabilities	<u>93,776</u>	<u>1,234,966</u>	<u>1,328,742</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	940,141	2,719,954	3,660,095
Restricted	394,215	496,020	890,235
Unrestricted	894,747	1,240,448	2,135,195
Total Net Assets	<u>\$2,229,103</u>	<u>\$4,456,422</u>	<u>6,685,525</u>

The accompanying notes are an integral part of this statement.

CITY OF LYTLE, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in		Net (Expense) Revenue and
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Changes in
						Total
Primary government						
Government activities:						
General Administration	\$282,731	\$0	\$0	(\$282,731)		(\$282,731)
Public Safety	637,281	275,098		(362,183)		(362,183)
Public Transportation	173,216			(173,216)		(173,216)
Enviromental Protection	247,177	254,516		7,339		7,339
Culture and Recreation	217,253			(217,253)		(217,253)
Interest and Fiscal Charges	990			(990)		(990)
Total government activities	1,558,648	529,614	0	(1,029,034)	0	(1,029,034)
Business-type activities:						
Water	349,802	491,583	25,000		166,781	166,781
Gas	222,058	287,147			65,089	65,089
Sewer	238,039	243,471			5,432	5,432
Total business-type activities	809,899	1,022,201	25,000	0	237,302	237,302
Total Primary Government	\$2,368,547	\$1,551,815	\$25,000	(1,029,034)	237,302	(791,732)
General Revenues						
Property Taxes, Levies for General Purposes				336,070		336,070
Sales Taxes				493,576		493,576
Franchise Taxes				85,496		85,496
Other Taxes				25,260		25,260
License and Permits				12,405		12,405
Unrestricted Investment Earnings				24,627	32,956	57,583
Miscellaneous				82,248		82,248
Transfers				(8,025)	8,025	0
Total General Revenues and Transfers				1,051,657	40,981	1,092,638
Change in Net assets				22,623	278,283	300,906
Net Assets - Beginning - Restated				2,206,480	4,178,139	6,384,619
Net Assets - Ending				\$2,229,103	\$4,456,422	\$6,685,525

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF LYTLE, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	General Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$402,504	\$199,323	\$0	\$601,827
Receivables (net of allowance for uncollectibles)	88,813			88,813
Due from Other Funds	18,441	361	15,045	33,847
Restricted Assets:				
Cash and Cash Equivalents	220,670		159,100	379,770
Total Assets	\$730,428	\$199,684	\$174,145	\$1,104,257
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$71,822	\$1,231	\$0	\$73,053
Due to Other Funds	361		600	961
Accrued Wages	691	517		1,208
Unearned Revenues	65,766			65,766
Total Liabilities	138,640	1,748	600	140,988
Fund Balances:				
Reserved for Ad Valorem Taxes	6,605			6,605
Reserved for Christmas Decorations	4,367			4,367
Reserved for Civic Center	122,840		159,481	282,321
Reserved for Construction			13,636	13,636
Reserved for Debt Service			428	428
Reserved for Disaster Relief	1,980			1,980
Reserved for Library	31,984			31,984
Reserved for Museum	32,971			32,971
Reserved for Police Seizures	1,106			1,106
Reserved for Tourism	15,806			15,806
Reserved for Tree Mitigation	3,011			3,011
Unreserved, Reported in				
General Fund	371,118			371,118
Special Revenue Funds		197,936		197,936
Total Fund Balance	591,788	197,936	173,545	963,269
Total Liabilities and Fund Balances	\$730,428	\$199,684	\$174,145	\$1,104,257

The accompanying notes are an integral part of this statement.

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

Total Fund Balances - governmental funds balance sheet

Amounts reported for governmental activities in the statement of net assets
 ("SNA") are different because:

\$963,269

Capital assets used in governmental activities are not reported in the funds.

940,141

Property taxes receivable unavailable to pay for current period
 expenditures are deferred in the funds (net of allowance for uncollectibles).

65,766

Other long-term assets are not available to pay for current period
 expenditures and, therefore, are deferred in the funds.

279,442

Long-term liabilities, including bonds payable, are not due and payable in the
 current period and therefore are not reported in the funds.

(19,515)

Net assets of governmental activities - statement of net assets

\$2,229,103

The accompanying notes are an integral part of this statement.

CITY OF LYTLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Library Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Property	\$293,935	\$0	\$36,480	330,415
Sales	493,576			493,576
Franchise	85,496			85,496
Other	25,260			25,260
Licenses and Permits	12,405			12,405
Charges for Services	254,516			254,516
Fines and Forfeitures	306,132			306,132
Interest	21,062	3,565		24,627
Miscellaneous	36,877	45,371		82,248
Total Revenues	1,529,259	48,936	36,480	1,614,675
EXPENDITURES				
Current:				
General Administration	274,051			274,051
Public Safety	635,655			635,655
Public Transportation	267,534			267,534
Environmental Protection	247,177			247,177
Culture and Recreation	64,280	142,485		206,765
Debt Service				
Principal Retirement			35,000	35,000
Interest and Fiscal Charges			1,480	1,480
Total Expenditures	1,488,697	142,485	36,480	1,667,662
Excess (Deficiency) of Revenues Over (Under) Expenditures	40,562	(93,549)	0	(52,987)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In		90,000		90,000
Operating Transfers Out	(98,025)			(98,025)
Total Other Financing Sources (Uses)	(98,025)	90,000	0	(8,025)
Net Changes in Fund Balances	(57,463)	(3,549)	0	(61,012)
Fund Balances - Beginning - Restated	649,251	201,485	173,545	1,024,281
Fund Balances - Ending	\$591,788	\$197,936	\$173,545	\$963,269

The accompanying notes are an integral part of this statement.

CITY OF LYTLE, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 SEPTEMBER 30, 2009

Net Changes in Fund Balances - total governmental funds (\$61,012)

Amounts reported for governmental activities in the statement of net assets
 ("SNA") are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	76,000
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in these amounts this year.	(31,034)
(Increase) decrease in accrued interest from beginning of period to end of period.	490
(Increase) decrease in Compensated absences from beginning of period to end of period.	(2,476)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	5,655
Repayment of loan principal is an expenditure in the funds but not an expense in the SOA.	<u>35,000</u>

Change in net assets of governmental activities - statement of activities \$22,623

The accompanying notes are an integral part of this statement.

CITY OF LYTTLE, TEXAS

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property	\$295,520	\$296,720	\$293,935	(\$2,785)
Sales	480,000	485,000	493,576	8,576
Franchise	83,000	87,000	85,496	(1,504)
Other	26,000	26,000	25,260	(740)
Licenses and Permits	17,100	17,100	12,405	(4,695)
Charges for Services	251,000	259,700	254,516	(5,184)
Fines and Forfeitures	350,000	350,000	306,132	(43,868)
Interest	26,000	26,000	21,062	(4,938)
Miscellaneous	24,500	24,500	36,877	12,377
Total Revenues	1,553,120	1,572,020	1,529,259	(42,761)
EXPENDITURES				
Current:				
General Administration				
Administration	320,650	315,650	274,051	41,599
Public Safety				
Civil Defense and Fire Marshall	10,000	10,000	8,153	1,847
EMS	1,000	1,000	635	365
Fire Department	24,000	24,000	24,000	0
Municipal Court	176,100	176,100	159,628	16,472
Police Department	441,970	449,970	443,239	6,731
Public Transportation				
Streets	352,225	393,225	267,534	125,691
Enviromental Protection				
Sanitation	237,500	247,100	247,177	(77)
Culture and Recreation				
Annex	3,500	3,500	2,599	901
Community Center	20,500	20,500	2,261	18,239
Library	22,000	22,000	17,567	4,433
Museum	17,500	17,500	7,500	10,000
Parks	10,000	10,000	10,000	0
Tourism	26,000	26,000	24,353	1,647
Total Expenditures	1,662,945	1,716,545	1,488,697	227,848
Excess (Deficiency) of Revenues Over (Under) Expenditures	(109,825)	(144,525)	40,562	185,087
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(90,000)	(90,000)	(98,025)	(8,025)
Total Other Financing Sources (Uses)	(90,000)	(90,000)	(98,025)	(8,025)
Net Changes in Fund Balances	(199,825)	(234,525)	(57,463)	177,062
Fund Balances - Beginning - Restated	649,251	649,251	649,251	
Fund Balances - Ending	\$449,426	\$414,726	\$591,788	\$177,062

The notes to the financial statements are an integral part of this statement.

CITY OF LYTLE, TEXAS

LIBRARY FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$200	\$200	\$3,565	\$3,365
Miscellaneous	7,800	42,300	45,371	3,071
Total Revenues	8,000	42,500	48,936	6,436
EXPENDITURES				
Current:				
General Administration				
Library	102,000	103,300	142,485	(39,185)
Total Expenditures	102,000	103,300	142,485	(39,185)
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(94,000)	(60,800)	(93,549)	(32,749)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	90,000	90,000	90,000	0
Total Other Financing Sources (Uses)	90,000	90,000	90,000	0
Net Changes in Fund Balances	(4,000)	29,200	(3,549)	(32,749)
Fund Balances - Beginning	201,485	201,485	201,485	
Fund Balances - Ending	\$197,485	\$230,685	\$197,936	(\$32,749)

The notes to the financial statements are an integral part of this statement.

CITY OF LYTLE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS						
	WATER CURRENT YEAR	WATER PRIOR YEAR	GAS CURRENT YEAR	GAS PRIOR YEAR	SEWER CURRENT YEAR	SEWER PRIOR YEAR	TOTALS CURRENT YEAR
ASSETS							
Current Assets							
Cash and Cash Equivalents	\$318,568	\$203,792	\$329,550	\$271,548	\$537,083	\$529,389	\$1,185,201
Accounts receivables (net of allowance for uncollectibles)	35,630	32,652	15,165	19,572	19,301	20,410	70,096
Due from Other Funds	30,750	30,750	3,100	3,100			33,850
Inventories	9,954	18,147	9,251	8,563	358	9,590	19,563
Bond Issuance Costs					35,000	38,500	35,000
Total Current Assets	394,902	285,341	357,066	302,783	591,742	597,889	1,343,710
Noncurrent assets							
Restricted Assets:							
Cash and Cash Equivalents	500,078	447,410	43,150	43,078	8,346	5,320	551,574
Total Restricted Assets	500,078	447,410	43,150	43,078	8,346	5,320	551,574
Capital Assets							
Land	473,695	407,695	178	178	29,295	29,296	503,168
Construction in Progress	0	360,080					0
Buildings and Improvements			1,411	1,411	1,115	1,115	2,526
Machinery and Equipment	61,079	61,079	142,271	142,271	74,935	74,935	278,285
Infrastructure	3,648,338	3,255,233	301,885	301,885	3,412,848	3,412,848	7,363,071
Total Capital assets	4,183,112	4,084,087	445,745	445,745	3,518,193	3,518,194	8,147,050
Less Accumulated Depreciation	(2,077,122)	(2,008,225)	(432,216)	(429,141)	(1,807,758)	(1,754,887)	(4,317,096)
Total Capital Assets (net of accumulated depreciation)	2,105,990	2,075,862	13,529	16,604	1,710,435	1,763,307	3,829,954
Total noncurrent assets	2,105,990	2,075,862	13,529	16,604	1,710,435	1,763,307	3,829,954
TOTAL ASSETS	\$3,000,970	\$2,808,613	\$413,745	\$362,465	\$2,310,523	\$2,366,516	\$5,725,238
(continued)							

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS (continued)							
	WATER CURRENT YEAR	WATER PRIOR YEAR	GAS CURRENT YEAR	GAS PRIOR YEAR	SEWER CURRENT YEAR	SEWER PRIOR YEAR	TOTALS CURRENT YEAR
LIABILITIES, FUND EQUITY AND OTHER CREDITS							
Liabilities							
Current Liabilities (Payable from Current Assets)							
Accounts Payable	\$6,470	\$4,721	\$4,709	\$22,424	\$4,011	\$8,256	\$15,190
Accrued Wages	1,598	1,286	692	1,160	603	524	2,893
Due to Other Funds			5,000	5,000	61,736	61,736	66,736
Accrued Interest Payable					11,203	11,874	11,203
Compensated Absences	5,659	5,030	113	1,452	1,468	701	7,240
Revenue Bonds - Current					75,000	70,000	75,000
Total Current Liabilities	13,727	11,037	10,514	30,036	154,021	153,091	178,262
Current Liabilities (Payable from Restricted Assets)							
Consumer Meter deposits	36,780	36,420	18,774	18,871			55,554
Total Current Liabilities							
Payable from Restricted Assets	36,780	36,420	18,774	18,871	0	0	55,554
Noncurrent liabilities							
Revenue Bonds Payable (net of unamortized discounts and deferred amount on refunding)					1,035,000	1,110,000	1,035,000
Total Noncurrent Liabilities	0	0	0	0	1,035,000	1,110,000	1,035,000
Total Liabilities	50,507	47,457	29,288	48,907	1,189,021	1,263,091	1,268,816
Invested in Capital Assets, Net of Related debt	2,105,990	2,075,862	13,529	16,604	600,435	583,307	2,719,954
Restricted - Expendable	459,200	407,051	19,743	19,709	8,346	5,320	487,289
Restricted - Non-Expendable	4,098	3,939	4,633	4,498		0	8,731
Unrestricted	381,175	274,304	346,552	272,747	512,721	514,798	1,240,448
Total Net Assets	\$2,950,463	\$2,761,156	\$384,457	\$313,558	\$1,121,502	\$1,103,425	\$4,456,422

The notes to the financial statements are an integral part of this statement.

CITY OF LYTLE, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS						
	WATER CURRENT YEAR	WATER PRIOR YEAR	GAS CURRENT YEAR	GAS PRIOR YEAR	SEWER CURRENT YEAR	SEWER PRIOR YEAR	TOTALS CURRENT YEAR
OPERATING REVENUES:							
Charges for Services	\$477,490	\$481,738	\$279,287	\$289,801	\$236,143	\$242,781	\$992,920
Miscellaneous	14,093	10,813	7,860	7,793	7,328	8,471	29,281
Total Operating Revenues	491,583	492,551	287,147	297,594	243,471	251,252	1,022,201
OPERATING EXPENSES:							
Personal Services	159,572	138,728	93,103	88,410	37,477	33,354	290,152
Supplies	17,121	19,535	8,690	7,301	2,736	3,621	28,547
Other Services and Charges	104,212	79,532	15,094	19,452	71,896	76,775	191,202
Gas Purchases			102,097	183,136			102,097
Depreciation	68,897	71,515	3,074	7,858	52,871	65,989	124,842
Total Operating Expenses	349,802	309,310	222,058	306,157	164,980	179,739	736,840
Operating Income (Loss)	141,781	183,241	65,089	(8,563)	78,491	71,513	285,361
NON-OPERATING REVENUES (EXPENSES):							
Interest Income	14,501	13,678	5,810	6,365	12,645	18,843	32,956
Grant Revenue	25,000	225,000					25,000
Interest and Fiscal Charges					(73,059)	(76,967)	(73,059)
Total Non-Operating Revenues (Expenses)	39,501	238,678	5,810	6,365	(60,414)	(58,124)	(15,103)
Income Before Transfers	181,282	421,919	70,899	(2,198)	18,077	13,389	270,258
Transfers Out (Net)	8,025	56,105					8,025
Change in net assets	189,307	478,024	70,899	(2,198)	18,077	13,389	278,283
Total net assets - beginning	2,761,156	2,283,132	313,558	315,756	1,103,425	1,090,036	4,178,139
Total net assets - ending	\$2,950,463	\$2,761,156	\$384,457	\$313,558	\$1,121,502	\$1,103,425	\$4,456,422

The notes to the financial statements are an integral part of this statement.

CITY OF LYTLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS						
	WATER CURRENT YEAR	WATER PRIOR YEAR	GAS CURRENT YEAR	GAS PRIOR YEAR	SEWER CURRENT YEAR	SEWER PRIOR YEAR	TOTALS CURRENT YEAR
Cash Flows from Operating Activities							
Receipts From Customers and Users	\$488,965	\$498,529	\$291,458	\$300,503	\$244,580	\$252,086	\$1,025,003
Payments to Suppliers	(111,391)	(114,062)	(144,284)	(196,241)	(66,815)	(82,985)	(322,490)
Payments to Employees	(158,631)	(137,097)	(94,910)	(87,579)	(36,631)	(32,796)	(290,172)
Net Cash Provided (Used) By Operating Activities	218,943	247,370	52,264	16,683	141,134	136,305	412,341
Cash Flows from Non-Capital and Related Financing Activities							
Transfers In (Out) - Net	8,025	56,105	0	0	0	0	8,025
State and Federal Grant Receipts	25,000	225,000					25,000
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	33,025	281,105	0	0	0	0	33,025
Cash Flows from Capital and Related Financing Activities							
Principal Payment on Revenue Bonds, Notes and Capital Leases					(70,000)	(65,000)	(70,000)
Proceeds from Capital Debt		0	0	0	0	0	0
Interest and Fiscal Charges	0		0		(73,059)	(76,967)	(73,059)
Purchases of Capital Assets	(99,025)	(468,080)	0	0	0	(2,600)	(99,025)
Net Cash Provided (Used) By Capital and Related Financing Activities	(99,025)	(468,080)	0	0	(143,059)	(144,567)	(242,084)
Cash Flows from Investing Activities							
Interest Received	14,501	13,678	5,810	6,365	12,645	18,843	32,956
Net Cash Provided (Used) by Investment Activities	14,501	13,678	5,810	6,365	12,645	18,843	32,956
Net Increase (Decrease) in Cash Equivalents	167,444	74,073	58,074	23,048	10,720	10,581	236,238
Cash and Cash Equivalents at Beginning of Year	651,202	577,129	314,626	291,578	534,709	524,128	1,500,537
Cash and Cash Equivalents at End of Year	\$818,646	\$651,202	\$372,700	\$314,626	\$545,429	\$534,709	\$1,736,775

(continued)

BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS (continued)

	WATER CURRENT YEAR	WATER PRIOR YEAR	GAS CURRENT YEAR	GAS PRIOR YEAR	SEWER CURRENT YEAR	SEWER PRIOR YEAR	TOTALS CURRENT YEAR
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating Income (Loss)	\$141,781	\$183,241	\$65,089	(\$8,563)	\$78,491	\$71,513	\$285,361
Adjustments to Reconcile to Net Cash Flow							
Non-Cash Items Included in Net Income							
Depreciation	68,897	71,515	3,074	7,858	52,871	65,989	124,842
Changes in Current Items							
Decrease (Increase) in Accounts Receivable	(2,978)	3,219	4,407	2,299	1,109	834	2,538
Decrease (Increase) in Due from Other Funds	0	0	0	0	0	0	0
Decrease (Increase) in Inventory	8,193	(3,338)	(688)	198	9,232	(7,453)	16,737
Decrease (Increase) in Bond Issuance Costs	0	0	0	0	3,500	3,500	3,500
Increase (Decrease) in Accounts Payable	1,749	(11,657)	(17,715)	13,450	(4,245)	1,975	(20,211)
Increase (Decrease) in Accrued Wages	312	546	(468)	696	79	197	(77)
Increase (Decrease) in Due to Other Funds	0	0	0	0	1	1	1
Increase (Decrease) in Accrued Interest Payable	0	0	0	0	(671)	(612)	(671)
Increase (Decrease) in Compensated Absences	629	1,085	(1,339)	135	767	361	57
Increase (Decrease) in Consumer Meter Deposits	360	2,759	(96)	610	0	0	264
Net Cash Provided (Used)							
By Operating Activities	\$218,943	\$247,370	\$52,264	\$16,683	\$141,134	\$136,305	\$412,341
Noncash Investing, Capital, and Financing Activities:							
State and Federal Grant Receipts	\$25,000	\$225,000	\$0	\$0	\$0	\$0	\$25,000

Note: The above funds are all Enterprise Funds.

The notes to the financial statements are an integral part of this statement.

CITY OF LYTLE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

I. Summary of significant accounting policies

A. Reporting entity

The City of Lytle, Texas, was incorporated by an election. The City operates under a General Law type of government and provides the following services: public safety (fire, ambulance, and law enforcement), public transportation (streets), health, culture, recreation, public facilities, legal, election functions, and general administrative services. The accounting policies of the City of Lytle, Texas, (the City) conform to generally accepted accounting principles generally accepted in the United States of America. The City also applies all relevant Government Accounting Standards Boards (GASB) pronouncements. The following is a summary of the more significant policies.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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 demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The library fund is used to provide library services.

The government reports the following major proprietary funds:

The utility fund accounts for the activities of the government's water, sewer, and gas operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Under the full accrual method of accounting revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting that were issued on or before November 30, 1989, for its proprietary operations except for those that conflict with GASB pronouncements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury. Investments for the government are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable allowance within 30 days is equal to 1 percent of the outstanding amounts at September 30, 2009 and the trade accounts receivable allowance in excess of 30 days is equal to 50 percent of the outstanding amounts at September 30, 2009. The property tax receivable allowance is equal to 1 percent of current outstanding property taxes at September 30, 2009, and 10 percent of delinquent outstanding property taxes at September 30, 2009.

Property is appraised and a lien on such property becomes enforceable as of January 1, subject to certain procedures for rendition, appraisal, appraisal review and judicial review. Traditionally, property taxes are levied October 1, of the year in which assessed or as soon thereafter as practicable. Taxes are due and payable when levied since that is when the City bills the taxpayers. The City begins to collect the taxes as soon as the taxpayers are billed.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

There were no prepaid items at September 30, 2009.

4. Restricted assets

The restricted assets at September 30, 2009 were as follows:

	General Fund	Other Governmental Funds	Water Fund	Gas Fund	Sewer Fund	Total
Ad Valorem Taxes	\$6,605	\$0	\$0	\$0	\$0	\$6,605
Christmas Decorations	4,367					4,367
Civic Center	122,840	159,100				281,940
Construction			316,878			316,878
Debt Service				19,743	13	19,756
Disaster Relief	1,980					1,980
Library	31,984					31,984
Museum	32,971					32,971
Police Seizures	1,106					1,106
Tourism	15,806					15,806
Tree Mitigation	3,011					3,011
Meter Deposits			40,878	23,407		64,285
Sewer Impact Fee					8,333	8,333
Water Impact Fee			142,322			142,322
Total Restricted Assets	\$220,670	\$159,100	\$500,078	\$43,150	\$8,346	\$931,344

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The City had a dog kennel building project for \$105,603.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Building improvements	20
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, and proprietary fund financial statements. A liability for these amounts is reported in governmental funds.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Comparative data/reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$19,515 difference are as follows:

Compensated absences	<u>\$19,515</u>
	<u>\$19,515</u>

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$940,141 difference are as follows:

Capital outlay - non depreciable	\$99,607
Capital outlay - depreciable	1,664,768
Depreciation expense	(824,234)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$940,141</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.*)" The details of this \$65,766 difference are as follows:

Property taxes Receivable	\$71,695
Allowance for Doubtful Accounts	<u>(5,929)</u>
Net	<u>\$65,766</u>

The governmental fund balance sheet includes reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Municipal fines and fees receivable unavailable to pay for current period expenditures are deferred in the funds (net of allowance for uncollectibles.*)" The details of this \$279,442 difference are as follows:

Fines Receivable	\$772,128
Allowance for Doubtful Accounts	<u>(492,686)</u>
Net	<u>\$279,442</u>

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$76,000 difference are as follows:

Capital outlay - additions	\$128,808
Depreciation expense	(52,808)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$76,000</u>

III. Stewardship, compliance, and accountability

A. Budgetary information

The Mayor has been authorized by the city council to prepare the budget. He is assisted by the City Secretary. The budget is adopted on budgetary basis in conformity with generally accepted accounting principles. After the budget is prepared, it is reviewed by the City Council. The budget is adjusted by the City Council if desired. Then a final budget is prepared by the City Secretary. A public hearing is held on the budget by the City Council. Department heads may appear. Before determining the final budget, the City Council may increase or decrease the amounts requested by the various departments or citizens. Amounts finally budgeted may not exceed the estimate of revenues and available cash. Appropriations lapse at year end.

When the budget is adopted by the City Council, the City Secretary is responsible for monitoring the expenditures of the various departments of the City to prevent expenditures from exceeding budgeted appropriations and for keeping the members of the City Council advised of the conditions of the various funds and accounts. The level of control is the fund. Expenditures can exceed appropriations as long as they do not exceed available revenues and cash balances. The legal level of control (the level on which the City Council must approve over expenditures) is on an object class basis.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the council. The legal level of budgetary control (IE. the level at which expenditures may not legally exceed appropriations) is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year. There were no outstanding encumbrances at September 30, 2009.

B. Excess of expenditures over appropriations

For the year ended September 30, 2009, expenditures exceed appropriations in the library fund where expenditures of \$142,485 exceeded appropriations of \$103,300 by \$39,185. The general fund had no budget overage except for the sanitation department which showed a budget overage of \$77.

C. Deficit fund equity/net assets

There were no Deficit fund equity/net assets as of September 30, 2009.

IV. Detailed notes on all funds

A. Deposits and investments

Legal and Contractual Provisions Governing Deposits and Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City 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, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in compliance with the requirements of the Act and with local policies.

The City's deposits and certificates of deposit are entirely with the city depository covered by federal depository insurance (FDIC) or by collateral held by the government's agent in the government's name. The FDIC insures the first \$250,000 of the City's deposits at each financial institution. Deposit balances over \$250,000 are insured by the collateral. As of year end, the carrying amount of the City's bank balances totaled \$2,839,978 while the value of securities pledged at September 30, 2009 is \$3,435,315. The book amount for the City's cash is \$2,698,629.

As of September 30, 2009, the government had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (Years)</u>	<u>Weighted Average</u>
J.P. Morgan Chase	\$19,743	Less than 1 year	Less than 1 year

Interest rate risk: In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Concentration of credit risk: The City places no limit on the amount the City may invest in any one issuer. 100 percent of the City's investments are in a J.P. Morgan Chase mutual fund.

Custodial credit risk – investments: The City's general investment policy is to apply the prudent-person rule - investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. As of September 30, 2009, the City had \$19,709 in investments in an insured J.P. Morgan Chase account. The J.P. Morgan Chase Account had a P-1 rating from Moody's, an A-1+ rating from S & P, and an F1+ from Fitch.

B. Receivables

Receivables as of year end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water	Gas	Sewer	Total
<u>Receivables</u>					
Taxes	\$71,695				\$71,695
Accounts	24,298	38,038	15,921	20,845	99,102
Fines	772,128				772,128
Other		10			10
Gross receivables	868,121	38,048	15,921	20,845	942,935
Less: Allowance for uncollectibles	499,866	2,418	756	1,544	504,584
Net total receivables	<u>\$368,255</u>	<u>\$35,630</u>	<u>\$15,165</u>	<u>\$19,301</u>	<u>\$438,351</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (General fund)	<u>\$ 65,766</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 65,766</u>

C. Capital assets

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

Governmental Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
	\$99,607	\$0	\$0	\$99,607
Total capital assets not being depreciated:	99,607	0	0	99,607

Capital assets being depreciated:				
Building and Improvements	659,363	105,603	0	764,966
Machinery, Equipment and Vehicles	600,672	23,205	0	623,877
Infrastructure	275,925	0	0	275,925
Total capital assets being depreciated:	1,535,960	128,808	0	1,664,768

Less: Accumulated Depreciation for:				
Building and Improvements	178,940	15,649	0	194,589
Machinery, Equipment and Vehicles	482,368	33,680	0	516,048
Infrastructure	110,118	3,479	0	113,597
Total Accumulated Depreciation	771,426	52,808	0	824,234
Total Capital Assets Depreciated, Net	764,534	76,000	0	840,534
Governmental Activities capital assets, Net	\$864,141	\$76,000	\$0	\$940,141

Business-type Activities:	Beginning			Ending
Capital assets not being depreciated:	Balances	Increases	Decreases	Balances
Land	\$437,169	\$66,000	\$0	\$503,169
Construction in Progress	360,080	0	360,080	0
Total capital assets not being depreciated:	797,249	66,000	360,080	503,169

Capital assets being depreciated:				
Distribution System	6,969,966	393,105	0	7,363,071
Building and Improvements	2,526	0	0	2,526
Machinery, Equipment and Vehicles	278,284	0	0	278,284
Total capital assets being depreciated:	7,250,776	393,105	0	7,643,881

Less: Accumulated Depreciation for:				
Distribution System	3,917,651	122,258	0	4,039,909
Building and Improvements	2,526	0	0	2,526
Machinery, Equipment and Vehicles	272,076	2,585	0	274,661
Total Accumulated Depreciation	4,192,253	124,843	0	4,317,096
Total Capital Assets Depreciated, Net	3,058,523	268,262	0	3,326,785
Business-type Activities capital assets, Net	\$3,855,772	\$334,262	\$360,080	\$3,829,954

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General Administration	\$6,452
Public Safety	14,525
Public Transportation	21,343
Culture and Recreation	10,488
Total depreciation expense - governmental activities	<u>\$52,808</u>
Business-type activities	
Water	\$68,897
Gas	3,074
Sewer	52,871
Total depreciation expense - Business-type activities	<u>\$124,842</u>

Construction commitments: City had a dog kennel building project for \$105,603.

D. Interfund receivables, payables, and transfers

Due to/from other funds:

PRIMARY GOVERNMENT			EXPECTED TO BE	
DUE TO FUND	AMOUNT	DUE FROM FUND	REASON	LIQUIDATED
GENERAL FUND	\$24,038	SEWER FUND	ADMINISTRATION	WITHIN ONE YEAR
GAS FUND	(600)	SEWER CONSTRUCTION FUND	CONSTRUCTION	WITHIN ONE YEAR
SEWER CONSTRUCTION FUND	9,448	SEWER FUND	ADMINISTRATION	WITHIN ONE YEAR
	<u>\$32,886</u>			
INTER - GOVERNMENT			EXPECTED TO BE	
DUE TO FUND	AMOUNT	DUE FROM FUND	REASON	LIQUIDATED
WASTEWATER FUND	4,788	GENERAL FUND	CONSTRUCTION	WITHIN ONE YEAR
DEBT SERVICE FUND	428	GENERAL FUND	DEBT SERVICE	WITHIN ONE YEAR
LIBRARY FUND	361	GENERAL FUND	LIBRARY FEES	WITHIN ONE YEAR
CAPITAL PROJECTS FUND	381	GENERAL FUND	CONSTRUCTION	WITHIN ONE YEAR
WATER FUND	5,000	GAS FUND	UTILITY EXPENSES	WITHIN ONE YEAR
WATER FUND	25,750	SEWER FUND	UTILITY EXPENSES	WITHIN ONE YEAR
GAS FUND	2,500	SEWER FUND	UTILITY EXPENSES	WITHIN ONE YEAR
	<u>\$39,208</u>			

There were no advances at September 30, 2009.

The interfund fund transfers for the year ended September 30, 2009 were as follows:

<u>INTER - GOVERNMENT</u>			
<u>TRANSFER FROM</u>	<u>AMOUNT</u>	<u>TRANSFER TO</u>	<u>REASON</u>
GENERAL FUND	\$8,025	WATER FUND	GRANT
	<u>\$8,025</u>		

E. Leases

There were no operating leases or capital leases as of September 30, 2009.

F. Long-term debt

Certificates of Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Certificates of Obligation bonds have been issued for the business-type activities. The original amount of revenue bonds issued in prior years was \$1,550,000. The revenue bonds are a combination tax and subordinate lien revenue certificates of obligation, series 2000.

Revenue bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Rates</u>	<u>Amount</u>
Business-type activities	5.00-6.85	\$1,110,000

The utility fund is used to service the Certificates of Obligation bonds. The Certificates of Obligation were used for major sewer construction.

Annual debt service requirements to maturity for Certificates of Obligation bonds are as follows:

Year Ending September 30.	Business-type activities:	
	Principal	Interest
2010	75,000	65,043
2011	80,000	60,528
2012	80,000	55,848
2013	85,000	50,978
2014	95,000	45,625
2015-2019	560,000	132,641
2020	135,000	4,219
TOTALS	<u>\$1,110,000</u>	<u>\$414,882</u>

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year	Due after one year
<u>Governmental activities:</u>						
General Obligation Bonds	\$35,000	\$0	\$35,000	\$0	\$0	\$0
Total Bonds Payable	<u>35,000</u>	<u>0</u>	<u>35,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Compensated Absences	17,039	19,515	17,039	19,515	19,515	0
	<u>52,039</u>	<u>19,515</u>	<u>52,039</u>	<u>19,515</u>	<u>19,515</u>	<u>0</u>
<u>Business-type activities:</u>						
General Obligation Bonds	\$1,180,000	\$0	\$70,000	\$1,110,000	\$75,000	\$1,035,000
Total Bonds Payable	<u>1,180,000</u>	<u>0</u>	<u>70,000</u>	<u>1,110,000</u>	<u>75,000</u>	<u>1,035,000</u>
Compensated Absences	7,183	7,240	7,183	7,240	7,240	0
	<u>1,187,183</u>	<u>7,240</u>	<u>77,183</u>	<u>1,117,240</u>	<u>82,240</u>	<u>1,035,000</u>
Grand Total	<u>\$1,239,222</u>	<u>\$26,755</u>	<u>\$129,222</u>	<u>\$1,136,755</u>	<u>\$101,755</u>	<u>\$1,035,000</u>

The general fund and the utility fund are used to service the compensated absences. The estimated amount due in the 2009-10 year is \$26,755.

The government-wide statement of activities includes \$101,755 as "noncurrent liabilities, due within one year".

There was no interest paid on debt that was capitalized. All interest paid on the debt was expensed.

G. Restricted net assets

The restricted net assets at September 30, 2009 were as follows:

	General Fund	Other Governmental Funds	Water Fund	Gas Fund	Sewer Fund	Total
Ad Valorem Taxes	\$6,605	\$0	\$0	\$0	\$0	\$6,605
Christmas Decorations	4,367					4,367
Civic Center	122,840	159,481	316,878			599,199
Construction		13,636		19,743	13	33,392
Debt Service		428				428
Disaster Relief	1,980					1,980
Library	31,984					31,984
Museum	32,971					32,971
Police Seizures	1,106					1,106
Tourism	15,806					15,806
Tree Mitigation	3,011					3,011
Meter Deposits			4,098	4,633		8,731
Sewer Impact Fee					8,333	8,333
Water Impact Fee			142,322			142,322
Total Restricted Net Assets	\$220,670	\$173,545	\$463,298	\$24,376	\$8,346	\$890,235

V. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended 09/30/09	Year ended 09/30/08
Unpaid claims, beginning of fiscal year	\$ -0-	\$ -0-
Incurred claims (including IBNRs)		
Claim payments		
Unpaid claims, end of fiscal year	\$ -0-	\$ -0-

B. Related party transaction

There were no related party transactions during the year.

C. Subsequent events

There were no subsequent events requiring disclosure.

D. Contingent liabilities

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

The government is not a defendant in any lawsuits.

E. Other post employment benefits

None

F. Prior Period Adjustments

The City has determined that certain transactions were recorded incorrectly in a prior year.

Governmental Activities and Governmental Funds: In the Government-Wide statements and the Governmental Funds, the Accounts Payables were understated in the 2007-2008 year by \$37,665. This error was the result of an oversight in not accruing the liability at years end and was for the quarter ended September 30, 2008. This restatement had a corresponding effect on the beginning net assets.

	Net Assets, as Previously Reported	State Fines Payable	Net Assets As Restated
Governmental Activities:			
Net Assets	\$2,244,145	(\$37,665)	\$2,206,480
Total Governmental Activities	\$2,244,145	(\$37,665)	\$2,206,480
	Fund Balance as Previously Reported	State Fines Payable	Fund Balance As Restated
Governmental Funds:			
Fund Balance	\$686,916	(\$37,665)	\$649,251
Total Governmental Funds	\$686,916	(\$37,665)	\$649,251

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 in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

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

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

PLAN YEAR	2008	2009
EMPLOYEE DEPOSIT RATE	5.00%	5.00%
MATCHING RATIO (city to employee)	2 to 1	2 to 1
YEARS REQUIRED FOR VESTING	5	5
SERVICE RETIREMENT ELIGIBILITY (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
UPDATED SERVICE CREDIT	100% repeating	100% repeating
ANNUITY INCREASE (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by actuary, using the Projected Unit Credit actuarial Method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that City. Both the normal cost and the prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09-30-07	27,830	100%	-0-
09-30-08	28,007	100%	-0-
09-30-09	33,952	100%	-0-

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest valuation, December 31, 2008, also follows:

VALUATION DATE	12/31/2006	12/31/2007	12/31/2008
ACTUARIAL COST METHOD	Unit Credit	Projected Unit Credit	Projected Unit Credit
AMORTIZATION METHOD	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
REMAINING AMORTIZATION PERIOD	25 years; open period	30 years; closed period	29 years; closed period
ASSET VALUATION METHOD	Amortized Cost	Amortized Cost	Amortized Cost
ACTUARIAL ASSUMPTIONS:			
INVESTMENT RATE OF RETURN	7.0%	7.0%	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%
ACOST-OF-LIVING ADJUSTMENTS	N/A	2.1%	2.1%

The funded status as of December 31, 2008, the most actuarial valuation date, is as follows:

ANALYSIS OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b) (b-a)	Unfunded AAL (UAAL)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2008	883,950	985,628	89.7%	101,678	608,193	16.7%

REQUIRED SUPPLEMENTARY INFORMATION

ANALYSIS OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a/b) (b-a)	Unfunded AAL (UAAL)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
2006	714,950	686,284	104.2%	(28,666)	465,454	(6.2)%
2007	799,682	872,635	91.6%	72,953	537,170	13.6%
2008	883,950	985,628	89.7%	101,678	608,193	16.7%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF LYTTLE, TEXAS
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2009

	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS		TOTAL
	MUNI- CIPAL BUILDING FUND	DEBT SERVICE FUND	SEWER CONSTR- UCTION FUND	WASTE- WATER TREATMENT FUND	NON-MAJOR GOVERN- MENTAL FUNDS
ASSETS					
Cash and Cash Equivalents					\$0
Due from Other Funds	381	428	9,448	4,788	15,045
Restricted Assets:					
Cash and Cash Equivalents	159,100				159,100
TOTAL ASSETS	<u>\$159,481</u>	<u>\$428</u>	<u>\$9,448</u>	<u>\$4,788</u>	<u>\$174,145</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable					\$0
Due to Other Funds			600		600
Total Liabilities	<u>0</u>	<u>0</u>	<u>600</u>	<u>0</u>	<u>600</u>
Fund Balances					
Reserved for Debt Service		428			428
Reserved for Civic Center	159,481				159,481
Reserved for Construction			8,848	4,788	13,636
Unreserved - Undesignated					0
Total Fund Balances	<u>159,481</u>	<u>428</u>	<u>8,848</u>	<u>4,788</u>	<u>173,545</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$159,481</u>	<u>\$428</u>	<u>\$9,448</u>	<u>\$4,788</u>	<u>\$174,145</u>

CITY OF LYTLE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	SPECIAL REVENUE MUNI- CIPAL BUILDING FUND	DEBT SERVICE DEBT SERVICE FUND	CAPITAL PROJECTS SEWER CONSTR- UNCTION FUND	WASTE- WATER TREATMENT FUND	TOTAL NON-MAJOR GOVERN- MENTAL FUNDS
REVENUES:					
Property Tax		\$36,480			\$36,480
Total Revenues	0	36,480	0	0	36,480
EXPENDITURES:					
Debt Service					
Principal Retirement		35,000			35,000
Interest and Fiscal Charges		1,480			1,480
Total Expenditures	0	36,480	0	0	36,480
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	0	0	0
OTHER FINANCING SOURCES (USES)					
Operating Transfers In					0
Net change in fund balances	0	0	0	0	0
Fund Balance at Beginning of Year	159,481	428	8,848	4,788	173,545
Fund Balance at End of Year	\$159,481	\$428	\$8,848	\$4,788	\$173,545

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
- BUDGET AND ACTUAL

CITY OF LYTTLE, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property tax	\$36,480	\$36,480	\$36,480	\$0
Total Revenues	36,480	36,480	36,480	0
EXPENDITURES				
Debt Service				
Principal Retirement	35,000	35,000	35,000	0
Interest and Fiscal Charges	1,480	1,480	1,480	0
Total Expenditures	36,480	36,480	36,480	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	0	0
OTHER FINANCING SOURCES (USES):				
Operating Transfers In				0
Operating Transfers Out				0
Total Other Financing Sources (Uses)	0	0	0	0
Net Changes in Fund Balances	0	0	0	0
Fund Balances - Beginning	428	428	428	
Fund Balances - Ending	\$428	\$428	\$428	\$0