

**CITY OF LUCAS, TEXAS**  
**Financial Statements**  
**(With Auditor's Report Thereon)**

**September 30, 2008**



**CITY OF LUCAS**  
Annual Financial Report  
For the Year Ended September 30, 2008

	<u>Page Number</u>
Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Balance Sheet - Governmental Fund .....	14
Reconciliation of the Balance Sheet of Governmental Funds to the	
Statement of Net Assets .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities .....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Budget and Actual - General Fund .....	18
Statement of Net Assets - Proprietary Fund .....	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets -	
Proprietary Fund .....	20
Statement of Cash Flows - Proprietary Fund .....	21
Notes to the Financial Statements .....	23
Individual Fund Statements:	
Statement of Revenues, Expenses, and Changes in Fund Net Assets -	
Budget and Actual - Water and Sewer Fund .....	42



**PINGLETON, HOWARD & COMPANY, P. C.**

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 148

FRISCO, TEXAS 75034

972-335-9754/FAX 972-335-9758

TOM W. PINGLETON, CPA  
RANDY HOWARD, CPA  
R. WAYNE NABORS, CPA  
ROBIN J. TURNBULL, CPA  
WHITNEY YOUNTS, CPA

**MEMBERS**  
AMERICAN INSTITUTE OF CPAS  
AICPA DIVISION FOR CPA FIRMS  
TEXAS SOCIETY OF CPAS

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor  
and Members of the City Council  
**City of Lucas**  
Lucas, Texas 75002

We 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 Lucas, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the individual fund statements of the City of Lucas, Texas as of and for the year ended September 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of the City of Lucas. 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. 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 business-type activities, each major fund, and the aggregate remaining fund information of the City of Lucas, Texas, at September 30, 2008, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison for the water and sewer 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 through 8 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.

*Pingleton, Howard + Company, P. C.*

December 10, 2008

This page left blank intentionally.



## Management's Discussion and Analysis

As management of the City of Lucas, we offer readers of the City of Lucas' financial statements this narrative overview and analysis of the financial activities of the City of Lucas for the fiscal year ended September 30, 2008. All amounts, unless otherwise indicated, are expressed in actual dollars.

### Financial Highlights

- The assets of the City of Lucas exceeded its liabilities at the close of the most recent fiscal year by \$17,851,416 (net assets). Of this amount \$7,139,541, (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Lucas' governmental funds reported combined ending fund balances of \$5,898,504, a decrease of \$815,167 in comparison with the prior year. Most of the decrease is due to a transfer of completed capital assets of \$1,011,994, from the Capital Improvement Fund to the Proprietary Fund. Of this balance, \$2,694,193 is available for spending at the government's discretion (unreserved and undesignated fund balance). This balance represents 106 percent of total general fund expenditures.
- The City of Lucas's long-term debt decreased by \$629,276 during the current fiscal year.
- The City of Lucas's capital assets increased by \$1,819,533 during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lucas' basic financial statements. The City of Lucas' basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The *statement of net assets* presents information on all of the City of Lucas' 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 Lucas 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 Lucas 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 Lucas include general government, public safety, transportation, and recreation. The business-type activities of the City of Lucas include the water and sewer system.

The government-wide financial statements can be found on pages 11-13 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 Lucas, 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 Lucas 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 *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 Lucas maintains two 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 debt service fund, both of which are considered to be major funds.

The City of Lucas adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

**Proprietary funds.** The City of Lucas 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 Lucas uses enterprise funds to account for its Water and Sewer operations.

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 and Sewer operations, which is considered to be a major fund of the City of Lucas.

The basic proprietary fund financial statements can be found on pages 19-22 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 23-40 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lucas, assets exceed liabilities by \$17,851,416 at the close of the most recent fiscal year.



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

An additional portion of the City of Lucas' net assets (18 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$7,139,541 may be used to meet the government's ongoing obligations to citizens and creditors.

#### CITY OF LUCAS - Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 6,100,446	6,861,816	6,209,399	5,598,675	12,309,845	12,460,491
Capital assets	7,545,286	4,531,626	7,986,117	4,669,046	15,531,403	9,200,672
Total assets	13,645,732	11,393,442	14,195,516	10,267,721	27,841,248	21,661,163
Long-term liabilities	4,927,912	5,245,693	4,251,986	4,631,981	9,179,898	9,877,674
Other liabilities	190,349	151,129	619,585	498,962	809,934	650,091
Total liabilities	5,118,261	5,396,822	4,871,571	5,130,943	9,989,832	10,527,765
Net assets:						
Invested in capital assets, net of						
related debt	2,611,818	1,481,729	4,895,746	1,994,986	7,507,564	3,476,715
Restricted	3,204,311	177,421			3,204,311	177,421
Unrestricted	2,711,342	4,337,470	4,428,199	3,141,792	7,139,541	7,479,262
Total net assets	\$ 8,527,471	5,996,620	9,323,945	5,136,778	17,851,416	11,133,398

### CITY OF LUCAS - Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 780,227	788,988	2,229,136	1,464,900	3,009,363	2,253,888
Operating grants and contributions	88,260	104,794			88,260	104,794
Capital grants and contributions						
General revenues:						
Property taxes	1,736,812	1,572,181			1,736,812	1,572,181
Other taxes	362,690	344,671			362,690	344,671
Other	316,377	371,363	119,102	160,093	435,479	531,456
Total revenues	3,284,366	3,181,997	2,348,238	1,624,993	5,632,604	4,806,990
Expenses:						
General government	539,061	527,758			539,061	527,758
Public Safety	448,930	565,227			448,930	565,227
Public works	474,705	365,295			474,705	365,295
Parks and recreation	64,339	70,927			64,339	70,927
Trash service	259,180	240,312			259,180	240,312
Building official	308,474				308,474	
Interest on debt	216,839	145,751			216,839	145,751
Water & Sewer			1,633,259	1,483,115	1,633,259	1,483,115
Total expenses	2,311,528	1,915,270	1,633,259	1,483,115	3,944,787	3,398,385
Increase in net assets before transfers	972,838	1,266,727	714,979	141,878	1,687,817	1,408,605
Transfers	(1,056,888)	2,248,643	1,056,888	(2,248,643)		
Increase(decrease) net assets	(84,050)	3,515,370	1,771,867	(2,106,765)	1,687,817	1,408,605
Net assets - beginning (as restated)	8,611,521	2,481,250	7,552,078	7,243,543	16,163,599	9,724,793
Net Assets - ending	\$ 8,527,471	5,996,620	9,323,945	5,136,778	17,851,416	11,133,398

The following key elements influenced the changes in net assets from the prior year:

**Governmental Activities:**

- Property tax increased by \$164,631 (10.5%) during the year.
- Completed capital improvements projects totaling \$1,011,994, were transferred to the Business-type Activities Fund.

**Business-type Activities**

Business-type activities increased the City of Lucas' net assets by \$1,771,867. Most of this increase is due to the transfer from the Governmental Activities Fund.

- Charges for services increased by \$764,236 from the previous year mainly due to increased water sales.

**Financial Analysis of the Government's Funds**

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

**Governmental funds.** The focus of the City of Lucas' *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 Lucas' financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the current fiscal year, the City of Lucas' governmental funds reported combined ending fund balance of \$5,898,504, a decrease of \$815,167 from the prior year. Most of the decrease is due to a transfer of \$1,011,994 in completed capital improvements to the Enterprise Fund. Of the current combined ending fund balance, \$2,694,193 is unreserved and not designated, \$232,477 is reserved for long-term debt and \$2,971,834 is designated for construction.

**Proprietary funds.** The City of Lucas' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Enterprise Fund at the end of the year amounted to \$4,428,199. The total increase in net assets of the Enterprise Funds was \$1,771,867. The factors concerning the finances of this fund have already been addressed in the discussion of the City of Lucas' business type activities.

**General Fund Budgetary Highlights**

During the year, revenues exceeded budgetary estimates and expenditures exceeded budgetary estimates. The budget had called for a \$470,649 increase in fund balance, however, since transfers in was more than budgeted, the net fund balance increase was \$192,771 more than anticipated.

**Capital Asset and Debt Administration**

**Capital assets.** The City of Lucas' investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$15,531,403 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, and equipment.

Major capital asset events during the current fiscal year included the following:

- Road improvements were the major additions to the governmental activities capital assets.
- Construction in progress on a ground storage tank was the major addition to the business-type activities.

Additional information on the City of Lucas' capital assets can be found in note 3.C. on pages 30-31 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Lucas had bonded debt outstanding of \$9,497,000. Of this amount, \$2,272,000 comprises debt secured solely by specified revenue sources (i.e., revenue bonds), and \$7,225,000 comprises debt backed by the full faith and credit of the government.

The City of Lucas's long-term debt decreased by \$629,276 during the current fiscal year.

Additional information on the City of Lucas' long-term debt can be found in note 3.E. on pages 32-37 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City of Lucas budget for the 2009 fiscal year:

- Property taxes will be raised by 10.5% which is projected to increase Ad Valorem tax revenue by \$167,601 overall.
- Interest income is projected to decrease by \$63,405 in the General Fund, and \$45,388 in the Water fund from last year's due to lower projected return on city's investments.
- Capital improvements totaling \$2,680,000 are projected to be completed from bond and fund balance during the 2008/2009 fiscal year. Also there will be an estimated \$1,382,000 of asphalt overlays projected from Bond funds in the public works capital improvements portion of the budget.
- New home permit fees are anticipated to drop from \$170,000 during the 2007/08 fiscal year to \$80,000 in the upcoming 2008/09 fiscal year due to declining home sales projection in the area.

### **Request for Information**

This financial report is designed to provide a general overview of the City of Lucas' 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 Mayor, 151 County Club Road, Lucas, Texas 75002.

## **BASIC FINANCIAL STATEMENTS**



This page left blank intentionally.

**CITY OF LUCAS**  
Statement of Net Assets  
September 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,041,944	5,392,640	11,434,584
Receivables (net of allowance for uncollectibles)	58,502	235,648	294,150
Restricted cash and cash equivalents		552,355	552,355
Unamortized bond issue cost		28,756	28,756
Capital assets (net of accumulated depreciation):			
Land	517,479	65,338	582,817
Buildings and improvements	656,703	10,273	666,976
Infrastructure	5,599,523	6,644,826	12,244,349
Furniture and equipment	771,581	194,726	966,307
Construction in progress		1,070,954	1,070,954
Total assets	<u>13,645,732</u>	<u>14,195,516</u>	<u>27,841,248</u>
<b>LIABILITIES</b>			
Accounts payable	69,883	61,774	131,657
Wages payable	21,238	5,456	26,694
Unearned revenue	81,000		81,000
Accrued interest payable	18,228		18,228
Liabilities payable from restricted assets		552,355	552,355
Noncurrent liabilities:			
Due within one year	385,412	11,486	396,898
Due in more than one year	<u>4,542,500</u>	<u>4,240,500</u>	<u>8,783,000</u>
Total liabilities	<u>5,118,261</u>	<u>4,871,571</u>	<u>9,989,832</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,611,818	4,895,746	7,507,564
Restricted for debt service	232,477		232,477
Restricted for construction	2,971,834		2,971,834
Unrestricted	<u>2,711,342</u>	<u>4,428,199</u>	<u>7,139,541</u>
Total net assets	<u>\$ 8,527,471</u>	<u>9,323,945</u>	<u>17,851,416</u>

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

**CITY OF LUCAS**  
**Statement of Activities**  
For the Fiscal Year Ended September 30, 2008

Functions/Programs	Program Revenues		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 539,061		
Public safety	448,930	53,003	8,260
Public works	474,705	74,700	
Building official	308,474	354,009	
Parks and recreation	64,339		80,000
Trash service	259,180	298,515	
Interest and fiscal charges	<u>216,839</u>		
Total governmental activities	<u>2,311,528</u>	<u>780,227</u>	<u>88,260</u>
Business-type activities:			
Water and sewer	<u>1,633,259</u>	<u>2,229,136</u>	
Total business-type activities	<u>1,633,259</u>	<u>2,229,136</u>	
 Total primary government	 \$ <u>3,944,787</u>	 <u>3,009,363</u>	 <u>88,260</u>

**General revenues:**

Property taxes  
Sales taxes  
Franchise taxes  
Investment earnings  
Miscellaneous revenue  
Transfers  
Total general revenues and transfers

Change in net assets

Net assets - beginning (as restated)

Net assets - ending

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

<u>Net (Expense) Revenue and</u> <u>Changes in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
(539,061)		(539,061)
(387,667)		(387,667)
(400,005)		(400,005)
45,535		45,535
15,661		15,661
39,335		39,335
<u>(216,839)</u>		<u>(216,839)</u>
<u>(1,443,041)</u>		<u>(1,443,041)</u>
	<u>595,877</u>	<u>595,877</u>
	<u>595,877</u>	<u>595,877</u>
<u>(1,443,041)</u>	<u>595,877</u>	<u>(847,164)</u>
1,736,812		1,736,812
158,380		158,380
204,310		204,310
258,007	119,102	377,109
58,370		58,370
<u>(1,056,888)</u>	<u>1,056,888</u>	
<u>1,358,991</u>	<u>1,175,990</u>	<u>2,534,981</u>
(84,050)	1,771,867	1,687,817
<u>8,611,521</u>	<u>7,552,078</u>	<u>16,163,599</u>
<u>\$ 8,527,471</u>	<u>9,323,945</u>	<u>17,851,416</u>

**CITY OF LUCAS**  
**Balance Sheet**  
**Governmental Fund**  
**September 30, 2008**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,792,336	232,477	3,017,131	6,041,944
Receivables (net of allowance for uncollectibles):				
Property taxes	19,732	10,088		29,820
Sales taxes	14,563			14,563
Accounts	<u>14,119</u>			<u>14,119</u>
Total assets	<u>\$ 2,840,750</u>	<u>242,565</u>	<u>3,017,131</u>	<u>6,100,446</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 24,586		45,297	69,883
Wages payable	21,238			21,238
Deferred revenue	<u>100,733</u>	<u>10,088</u>		<u>110,821</u>
Total liabilities	<u>146,557</u>	<u>10,088</u>	<u>45,297</u>	<u>201,942</u>
Fund balances:				
Reserved for:				
Retirement of long-term debt		232,477		232,477
Unreserved and designated for:				
Construction			2,971,834	2,971,834
Unreserved and undesignated:				
Reported in the general fund	<u>2,694,193</u>			<u>2,694,193</u>
Total fund balance	<u>2,694,193</u>	<u>232,477</u>	<u>2,971,834</u>	<u>5,898,504</u>
Total liabilities and fund balances	<u>\$ 2,840,750</u>	<u>242,565</u>	<u>3,017,131</u>	<u>6,100,446</u>

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



**CITY OF LUCAS**  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
September 30, 2008

**Total Fund Balances - Governmental Funds** **\$ 5,898,504**

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 \$8,244,272 and the accumulated depreciation was \$(1,097,746). In addition, long-term liabilities, including bonds payable of \$(5,150,000) and capital leases payable of \$(84,081) are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.

1,912,445

Current year capital outlays of \$698,501 and long-term debt principal payments of \$318,841 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net assets.

1,017,342

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net assets.

(18,228)

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.

(299,741)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$29,820 of deferred revenue as revenue and recognizing the liabilities associated with compensated absences of \$(12,671). The net effect of these reclassifications is to increase net assets.

**Net Assets of Governmental Activities**

17,149

**\$ 8,527,471**

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

**CITY OF LUCAS**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended September 30, 2008

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,128,176	603,617		1,731,793
Sales	158,380			158,380
Franchise	204,310			204,310
Fines and forfeitures	16,126			16,126
Licenses and permits	272,607			272,607
Fire department	36,877			36,877
Fees and service charges	81,402			81,402
Trash service	298,515			298,515
Impact fees	74,700			74,700
Interest	148,312	228	109,467	258,007
Contributions	80,000			80,000
Grants	8,260			8,260
Miscellaneous	<u>58,370</u>			<u>58,370</u>
Total revenues	<u>2,566,035</u>	<u>603,845</u>	<u>109,467</u>	<u>3,279,347</u>
<b>EXPENDITURES</b>				
Current:				
City council	73,020			73,020
City secretary	98,228			98,228
Administrative	361,230			361,230
Public works	268,793			268,793
Parks and recreation	56,218			56,218
Police	75,000			75,000
Fire department	402,471			402,471
Building official	308,474			308,474
Trash service	259,180			259,180
Capital outlay	631,116			631,116
Debt service:				
Principal		277,500		277,500
Interest and fiscal charges		<u>226,396</u>		<u>226,396</u>
Total expenditures	<u>2,533,730</u>	<u>503,896</u>		<u>3,037,626</u>
Excess of revenues over expenditures	<u>32,305</u>	<u>99,949</u>	<u>109,467</u>	<u>241,721</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out		(44,893)	(1,643,110)	(1,688,003)
Transfer in	<u>631,115</u>			<u>631,115</u>
Total other financing sources (uses)	<u>631,115</u>	<u>(44,893)</u>	<u>(1,643,110)</u>	<u>(1,056,888)</u>
Net change in fund balances	663,420	55,056	(1,533,643)	(815,167)
Fund balance, beginning	<u>2,030,773</u>	<u>177,421</u>	<u>4,505,477</u>	<u>6,713,671</u>
Fund balance, ending	<u>\$ 2,694,193</u>	<u>232,477</u>	<u>2,971,834</u>	<u>5,898,504</u>

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

**CITY OF LUCAS**  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
September 30, 2008

**Total Net Change in Fund Balances - Governmental Funds** **\$ (815,167)**

Current year capital outlays of \$698,501 and long-term debt principal payments of \$318,841 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net assets. 1,017,342

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including the change in accrued interest is to increase net assets. 9,557

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's depreciation is to decrease net assets. (299,741)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing prior year deferred revenue of \$5,019 as revenue and recognizing the liabilities associated with compensated absences of \$(1,060). The net effect of these reclassifications is to decrease net assets. 3,959

**Change in Net Assets of Governmental Activities** **\$ (84,050)**

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

**CITY OF LUCAS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Fiscal Year Ended September 30, 2008**

	Original <u>Budget</u>	Final <u>Budget</u>	Actual <u>Amounts</u>	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,135,000	1,149,500	1,128,176	(21,324)
Sales	110,000	161,500	158,380	(3,120)
Franchise	145,250	187,606	204,310	16,704
Fines and forfeitures	13,500	12,337	16,126	3,789
Licenses and permits	264,200	267,020	272,607	5,587
Fire department	46,423	33,802	36,877	3,075
Fees and service charges	10,100	66,540	81,402	14,862
Trash service	235,000	284,000	298,515	14,515
Impact fees			74,700	74,700
Interest	100,000	200,000	148,312	(51,688)
Contributions		75,000	80,000	5,000
Grants			8,260	8,260
Miscellaneous	40,000	33,350	58,370	25,020
Total revenues	<u>2,099,473</u>	<u>2,470,655</u>	<u>2,566,035</u>	<u>95,380</u>
<b>EXPENDITURES</b>				
General Government:				
City council	74,122	92,079	73,020	19,059
City secretary	90,801	96,653	98,228	(1,575)
Administrative	372,894	314,309	361,230	(46,921)
Public works	524,730	280,320	268,793	11,527
Parks and recreation	68,020	68,170	56,218	11,952
Police		75,000	75,000	
Fire department	389,846	373,503	402,471	(28,968)
Building official	303,654	314,784	308,474	6,310
Trash service		243,000	259,180	(16,180)
Capital outlay	<u>132,000</u>	<u>142,188</u>	<u>631,116</u>	<u>(488,928)</u>
Total expenditures	<u>1,956,067</u>	<u>2,000,006</u>	<u>2,533,730</u>	<u>(533,724)</u>
Excess of revenues over expenditures	143,406	470,649	32,305	(438,344)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in			<u>631,115</u>	<u>631,115</u>
Total other financing sources (uses)			<u>631,115</u>	<u>631,115</u>
Net change in fund balances	143,406	470,649	663,420	192,771
Fund balance, beginning	<u>2,030,773</u>	<u>2,030,773</u>	<u>2,030,773</u>	
Fund balance, ending	<u>\$ 2,174,179</u>	<u>2,501,422</u>	<u>2,694,193</u>	<u>192,771</u>



**CITY OF LUCAS**  
Statement of Net Assets  
Proprietary Fund  
September 30, 2008

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 5,392,640
Restricted cash and cash equivalents	552,355
Utility bills receivable (net of allowance for uncollectibles)	<u>235,648</u>
Total current assets	<u>6,180,643</u>

Noncurrent assets:

Unamortized bond issuance costs	28,756
Capital Assets:	
Land	65,338
Buildings, systems and improvements	7,980,232
Furniture and equipment	403,722
Construction in progress	1,070,954
Less: accumulated depreciation	<u>(1,534,129)</u>
Total capital assets (net of accumulated depreciation)	<u>7,986,117</u>
Total noncurrent assets	<u>8,014,873</u>

Total assets	<u>14,195,516</u>
--------------	-------------------

**LIABILITIES**

Current liabilities:

Accounts payable	61,774
Wages payable	5,456
Compensated absences	11,486
Deposits payable	149,713
Accrued interest	18,642
Current maturities on long-term debt	<u>384,000</u>
Total current liabilities	<u>631,071</u>

Noncurrent liabilities:

Noncurrent maturities on long-term debt	<u>4,240,500</u>
Total noncurrent liabilities	<u>4,240,500</u>

Total liabilities	<u>4,871,571</u>
-------------------	------------------

**NET ASSETS**

Invested in capital assets, net of related debt	4,895,746
Unrestricted	<u>4,428,199</u>

Total net assets	<u>\$ 9,323,945</u>
------------------	---------------------

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



**CITY OF LUCAS**  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2008

**OPERATING REVENUES**

Water sales	\$ 1,822,833
Meter installations and taps	125,945
NTMWD refund	201,398
Impact fees	<u>78,960</u>
Total operating revenues	<u>2,229,136</u>

**OPERATING EXPENSES**

Water services	1,206,477
Depreciation and amortization	<u>221,894</u>
Total operating expenses	<u>1,428,371</u>
Operating income (loss)	<u>800,765</u>

**NONOPERATING REVENUES (EXPENSES)**

Interest revenue	119,102
Interest expense and fiscal charges	<u>(204,888)</u>
Total nonoperating revenues (expenses)	<u>(85,786)</u>
Net income before transfers	714,979
Transfers in - capital assets	1,011,994
Transfers in - debt service	<u>44,894</u>
	<u>1,771,867</u>
Change in net assets	1,771,867
Net assets, beginning (as restated)	<u>7,552,078</u>
Net assets, ending	<u>\$ 9,323,945</u>

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

**CITY OF LUCAS**  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2008

Cash flows from operating activities:	
Cash received from customers and users	\$ 2,256,438
Cash payments to employees	(229,571)
Cash payments to suppliers	<u>(910,086)</u>
Net cash provided by operating activities	<u>1,116,781</u>
Cash flows from noncapital financing activities:	
Transfers from other funds	<u>1,056,888</u>
Net cash used by noncapital financing activities	<u>1,056,888</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,121,032)
Principal payments - long-term debt	(315,500)
Interest paid on debt	<u>(224,057)</u>
Net cash provided for capital and related financing activities	<u>(1,660,589)</u>
Cash flows from investing activities:	
Interest on deposits and investments	<u>119,102</u>
Net cash provided by investing activities	<u>119,102</u>
Net decrease in cash and cash equivalents	632,182
Cash and cash equivalents - beginning	<u>5,312,813</u>
Cash and cash equivalents - ending	<u>\$ 5,944,995</u>

**CITY OF LUCAS**  
Statement of Cash Flows  
Proprietary Fund  
For the Fiscal Year Ended September 30, 2008  
-continued-

Reconciliation of Net Income to Net Cash Provided (Used)  
by Operating Activities

Operating income	\$ <u>800,765</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	221,894
Decrease in accounts receivable	18,826
Increase in accounts payable	61,586
Increase in wages payable	1,229
Increase in compensated absences payable	4,005
Increase in customer deposits	<u>8,476</u>
Total adjustments	<u>316,016</u>
Net cash provided by operating activities	\$ <u><u>1,116,781</u></u>

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

**CITY OF LUCAS**  
Notes to the Financial Statements  
September 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Lucas, Texas, have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the City of Lucas does not have any component units.

**B. Government-wide and Fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. 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 are 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.



**CITY OF LUCAS**  
Notes to the Financial Statements  
September 30, 2008  
-continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**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 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 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 *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

The *capital improvement fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

The government reports the following proprietary fund:

The *enterprise fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The government's enterprise fund is for water and sewer 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 Governmental



**CITY OF LUCAS**  
Notes to the Financial Statements  
September 30, 2008  
-continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. Measurement focus, basis of accounting, and financial statement presentation**  
(continued)

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 fund are charges to customers for sales and services. The enterprise fund also recognizes 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 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.

**D. Assets, liabilities, and net assets or equity**

**1. Deposits and Investments**

Cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments. Investments are stated at cost.

**2. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

**3. Restricted Assets**

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. Assets, liabilities, and net assets or equity** (continued)

**4. 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 cost 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 is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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

<u>Assets</u>	<u>Years</u>
Buildings, systems and improvements	40
Furniture and equipment	5-10
Fire trucks and equipment	10-20

**5. 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 only if they have matured, for example, as a result of employee resignations and retirements.

**6. 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.



**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. Assets, liabilities, and net assets or equity** (continued)

**6. Long-term Obligations** (continued)

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.

**7. 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.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to September 1, the City Council prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted by the City Council through passage of an ordinance prior to the beginning of the fiscal year to which it applies, which can be amended by the Council.
4. Formal budgetary integration, using the modified accrual basis, is employed as a management control device during the year for the General Fund. One supplemental appropriation was made during the fiscal year.
5. The Debt Service Fund does not have a formal budget since it is controlled by contractual obligations.

**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (continued)

**A. Budgetary Information** (continued)

6. The budget approved for the Water and Sewer Fund follows similar approval procedures but departs from general accepted accounting principles by not including depreciation, amortization and transfers in the approved budget. These amounts are reported at year end as part of the "actual" column. One supplemental appropriation was made during the fiscal year.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. At year end, encumbrances are canceled or reappropriated as part of the following year budget.

**B. Excess of Expenditures/Expenses Over Appropriations**

For the year ended September 30, 2008, expenditures exceeded appropriations in the General Fund (the legal level of budgetary control) by \$533,724. These over expenditures were funded by transfers from the Capital Improvement Fund.

**NOTE 3. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The City may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes).

At September 30, 2008, the City's carrying amount of bank deposits was \$5,841,239 and the bank balance was \$5,977,911. Of the bank balance, \$100,000 was covered by federal depository insurance and \$5,877,911 was covered by collateral held by the pledging financial institution's trust department or agent in the government's name.

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk - Deposits:** In the case of deposits this is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The City is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. **Custodial Credit Risk - Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are with the LOGIC Investment Pool ("LOGIC"), TexPool, and the Lone Star



**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**A. Deposits and Investments** (continued)

b. Custodial Credit Risk (continued)

Investment Pool ("LoneStar"). The pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. Administration of LOGIC and LoneStar is performed by a Board of Directors, which is an administrative agency created under the Interlocal Act. The City is not exposed to custodial credit risk for its investments.

- c. Credit Risk - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for LOGIC and LoneStar at year end was Aaa by Moody's Investor Service.
- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the City's investment in external investment pools is less than 60 days.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The City is not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The City is not exposed to concentration of credit risk.

At year end, the government's investment balances were as follows:

Investment type:	<u>Fair Value</u>
LOGIC	\$ 2,523,922
TexPool	23,269
Lone Star	<u>3,598,156</u>
Total investments	<u>\$ 6,145,347</u>



**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**B. Receivables**

Receivables at September 30, 2008 consisted of the following:

	<u>General</u>	<u>Debt Service</u>	<u>Water and Sewer</u>
Property taxes	\$ 19,732	10,088	
Sales taxes	14,563		
Utilities	<u>14,119</u>	<u>      </u>	<u>235,648</u>
Total receivables	<u>\$ 48,414</u>	<u>10,088</u>	<u>235,648</u>

Property taxes are based on the appraised values provided by the Collin Central Appraisal District. Taxes are levied by October 1 of each year. Unpaid property taxes become delinquent on February 1 of the following year. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Property taxes are due in full on October 1 and there are no discounts granted.

**C. Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 517,479			517,479
Buildings and improvements	760,945	76,720		837,665
Infrastructure	5,407,535	554,395		5,961,930
Furniture, vehicles and equipment	<u>1,558,313</u>	<u>67,386</u>		<u>1,625,699</u>
Totals at historical cost	8,244,272	698,501		8,942,773
Less accumulated depreciation	(1,097,746)	(299,741)		(1,397,487)
Governmental activities capital assets, net	<u>\$ 7,146,526</u>	<u>398,760</u>		<u>7,545,286</u>

**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**C. Capital Assets (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-type activities:				
Land	\$ 65,338			65,338
Buildings, systems and improvements	7,874,184	106,048		7,980,232
Furniture and equipment	294,684	109,038		403,722
Construction in progress	165,008	905,946		1,070,954
Totals at historical cost	8,399,214	1,121,032		9,520,246
Less accumulated depreciation	(1,314,868)	(219,261)		(1,534,129)
Business-type activities capital assets, net	<u>\$ 7,084,346</u>	<u>901,771</u>		<u>7,986,117</u>

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

Government activities:	
Administration	\$ 6,583
Police	4,611
Fire	74,514
Public works	205,912
Parks and recreation	8,121
Total depreciation expense - government activities	<u>\$ 299,741</u>
Business-type activities:	
Water and sewer	\$ 219,261
Total depreciation expense - business-type activities	<u>\$ 219,261</u>

**D. Capital Leases**

On April 15, 2004, the City entered a lease agreement as lessee for financing the acquisition of equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of their inception. As of September 30, 2008, the equipment leased under capital leases had a carrying value of \$200,138 which is included in the governmental activities on the Statement of Net Assets.

Capital lease expenditures for 2008 were \$44,191, of which \$2,850 represented interest. The effective interest rate is 3.39%. Pursuant to the terms of the capital lease agreement, the City will be required to make future minimum payments as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>
2009	\$ 44,191
Future minimum lease payments	44,191
Less: amount representing interest	(1,451)
Present value of future minimum lease payments	<u>\$ 42,740</u>

**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**E. Long-term Debt**

Long-term liability activity for the year ended September 30, 2008 was as follows:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008	Due Within One Year
Governmental activities:					
Bonds payable	\$ 5,150,000		(277,500)	4,872,500	330,000
Capital leases	84,081		(41,341)	42,740	42,740
Compensated absences payable	<u>11,612</u>	<u>12,672</u>	<u>(11,612)</u>	<u>12,672</u>	<u>12,672</u>
Totals	\$ <u>5,245,693</u>	<u>12,672</u>	<u>(330,453)</u>	<u>4,927,912</u>	<u>385,412</u>

Bonds payable at September 30, 2008, are comprised of the following issues for the debt service fund:

	Total Outstanding	Due Within One Year
\$2,500,000 Series 2007, Combination Tax and Limited Pledge Revenue Certificate of Obligation (\$5,000,000 divided equally between Governmental and Business-type Funds) - issued 08/15/07 with an interest rate of 4.25%, interest payments due 02/01 and 08/01, maturity date 02/01/2027.		
	\$ 2,352,500	205,000
\$3,000,000 Series 2002 Tax Revenue Certificate of Obligation, issued 04/01/02 with interest ranging from 4.50% to 5.25% and payments due on 02/01 each year.	2,520,000	125,000
Combined Debt	\$ <u>4,872,500</u>	<u>330,000</u>

The annual requirements to amortize the bonded debt outstanding for the debt service fund as of September 30, 2008, are as follows:

Combination Tax and Limited Pledge Revenue - Series 2007

Year Ending September 30,	Interest Rate	Principal Due February 1,	Interest Due February 1,	Semi-annual Requirements	Interest Due August 1,	Total Annual Requirement
2009	4.250%	\$ 205,000	49,991	254,991	45,634	300,625
2010	4.250%	247,500	45,635	293,135	40,375	333,510
2011	4.250%	272,500	40,375	312,875	34,584	347,459
2012	4.250%	77,500	34,585	112,085	32,937	145,022
2013	4.250%	77,500	32,938	110,438	31,290	141,728
2014	4.250%	90,000	31,291	121,291	29,378	150,669
2015	4.250%	90,000	29,378	119,378	27,466	146,844
2016	4.250%	\$ 97,500	27,465	124,965	25,394	150,359



**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**E. Long-term Debt (continued)**

Combination Tax and Limited Pledge Revenue - Series 2007 (continued)

<u>Year Ending September 30,</u>	<u>Interest Rate</u>	<u>Principal Due February 1,</u>	<u>Interest Due February 1,</u>	<u>Semi-annual Requirements</u>	<u>Interest Due August 1,</u>	<u>Total Annual Requirement</u>
2017	4.250%	\$ 102,500	25,394	127,894	23,216	151,110
2018	4.250%	105,000	23,215	128,215	20,985	149,200
2019	4.250%	105,000	20,984	125,984	18,753	144,737
2020	4.250%	105,000	18,753	123,753	16,522	140,275
2021	4.250%	107,500	16,522	124,022	14,238	138,260
2022	4.250%	107,500	14,237	121,737	11,953	133,690
2023	4.250%	112,500	11,953	124,453	9,563	134,016
2024	4.250%	112,500	9,562	122,062	7,172	129,234
2025	4.250%	112,500	7,172	119,672	4,781	124,453
2026	4.250%	112,500	4,782	117,282	2,390	119,672
2027	4.250%	<u>112,500</u>	<u>2,391</u>	<u>114,891</u>		<u>114,891</u>
		<u>\$ 2,352,500</u>	<u>446,623</u>	<u>2,799,123</u>	<u>396,631</u>	<u>3,195,754</u>

Tax Revenue Certificate of Obligation - Series 2002

<u>Year Ending September 30,</u>	<u>Interest Rate</u>	<u>Principal Due February 1,</u>	<u>Interest Due February 1,</u>	<u>Semi-annual Requirements</u>	<u>Interest Due August 15,</u>	<u>Total Annual Requirement</u>
2009	5.000%	\$ 125,000	62,081	187,081	58,956	246,037
2010	5.000%	130,000	58,956	188,956	55,706	244,662
2011	5.000%	140,000	55,706	195,706	52,206	247,912
2012	4.500%	145,000	52,206	197,206	48,944	246,150
2013	4.600%	155,000	48,944	203,944	45,379	249,323
2014	4.700%	165,000	45,379	210,379	41,501	251,880
2015	4.750%	170,000	41,501	211,501	37,464	248,965
2016	4.850%	180,000	37,464	217,464	33,099	250,563
2017	4.900%	190,000	33,099	223,099	28,444	251,543
2018	5.000%	200,000	28,444	228,444	23,444	251,888
2019	5.000%	210,000	23,444	233,444	18,194	251,638
2020	5.125%	225,000	18,194	243,194	12,428	255,622
2021	5.125%	235,000	12,428	247,428	6,406	253,834
2022	5.125%	<u>250,000</u>	<u>6,406</u>	<u>256,406</u>		<u>256,406</u>
		<u>\$ 2,520,000</u>	<u>524,252</u>	<u>3,044,252</u>	<u>462,171</u>	<u>3,506,423</u>

-continued-

**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**E. Long-term Debt** (continued)

During the year ended September 30, 2008, the following changes occurred in long-term liabilities reported in the water and Sewer Fund:

	Balance September 30, 2007	Additions	Retirements	Balance September 30, 2008	Due Within One Year
Business-type activities:					
Bonds payable	\$ 4,940,000		(315,500)	4,624,500	384,000
Compensated absences payable	<u>7,481</u>	<u>11,486</u>	<u>(7,481)</u>	<u>11,486</u>	<u>11,486</u>
Totals	<u>\$ 4,947,481</u>	<u>11,486</u>	<u>(322,981)</u>	<u>4,635,986</u>	<u>395,486</u>

Bonds payable at September 30, 2008 are comprised of the following issues for the water and sewer fund:

	Total Outstanding	Due Within One Year
\$2,500,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificate of Obligation (\$5,000,000 divided equally between Governmental and Business-type Funds) - issued 08/15/07 with an interest rate of 4.25%, interest payments due 02/01 and 08/01 - maturity date 02/01/2027.	\$ 2,352,500	205,000
\$2,500,000 Series 2002 Limited Pledge Revenue Certificate of Obligation - issued 04/01/02 with an interest rate range of 4.5% to 5.25% with interest payments due 02/01 and 08/01 - maturity date 02/01/2022.	1,425,000	90,000
\$900,000 Series 1997 Limited Pledge Revenues Certificates of Obligation - issued 03/15/97 with interest rate range of 4.90% to 6.70% and interest payments due 02/01 and 08/01 - maturity date 02/01/2017.	520,000	50,000
\$250,000 Series 1969 Waterworks System Bond with an interest rate of 5.00% and maturity date of 12/01/2009.	22,000	14,000
\$292,000 Series 1980 Waterworks System Bond with an interest rate of 5.00% and maturity date of 02/01/2019.	150,000	10,000
\$395,000 Series 1989 Waterworks System Bond with an interest rate range of 7.62% to 8.2% and maturity date of 12/01/2014.	<u>155,000</u>	<u>15,000</u>
Combined debt	<u>\$ 4,624,500</u>	<u>384,000</u>

-continued-



**CITY OF LUCAS, TEXAS**  
Notes to the Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**E. Long-term Debt (continued)**

The annual requirements to amortize the bonded debt outstanding for the water and sewer fund as of September 30, 2008, are as follows:

**Combination Tax and Limited Pledge Revenue - Series 2007**

<u>Year Ending September 30,</u>	<u>Interest Rate</u>	<u>Principal Due February 1,</u>	<u>Interest Due February 1,</u>	<u>Semi-annual Requirements</u>	<u>Interest Due August 1,</u>	<u>Total Annual Requirement</u>
2009	4.250%	\$ 205,000	49,990	254,990	45,635	300,625
2010	4.250%	247,500	45,634	293,134	40,375	333,509
2011	4.250%	272,500	40,375	312,875	34,585	347,460
2012	4.250%	77,500	34,584	112,084	32,938	145,022
2013	4.250%	77,500	32,937	110,437	31,291	141,728
2014	4.250%	90,000	31,290	121,290	29,378	150,668
2015	4.250%	90,000	29,378	119,378	27,466	146,844
2016	4.250%	97,500	27,466	124,966	25,394	150,360
2017	4.250%	102,500	25,394	127,894	23,215	151,109
2018	4.250%	105,000	23,216	128,216	20,984	149,200
2019	4.250%	105,000	20,985	125,985	18,753	144,738
2020	4.250%	105,000	18,753	123,753	16,522	140,275
2021	4.250%	107,500	16,522	124,022	14,237	138,259
2022	4.250%	107,500	14,238	121,738	11,953	133,691
2023	4.250%	112,500	11,953	124,453	9,562	134,015
2024	4.250%	112,500	9,563	122,063	7,172	129,235
2025	4.250%	112,500	7,172	119,672	4,781	124,453
2026	4.250%	112,500	4,781	117,281	2,391	119,672
2027	4.250%	<u>112,500</u>	<u>2,390</u>	<u>114,890</u>		<u>114,890</u>
		<u>\$ 2,352,500</u>	<u>446,621</u>	<u>2,799,121</u>	<u>396,632</u>	<u>3,195,753</u>

**Limited Pledge Revenue Certificate of Obligation - Series 2002**

<u>Year Ending September 30,</u>	<u>Interest Rate</u>	<u>Principal Due February 1,</u>	<u>Interest Due February 1,</u>	<u>Semi-annual Requirements</u>	<u>Interest Due August 1,</u>	<u>Total Annual Requirement</u>
2009	5.000%	\$ 90,000	34,981	124,981	32,731	157,712
2010	5.000%	95,000	32,731	127,731	30,356	158,087
2011	5.000%	100,000	30,356	130,356	27,856	158,212
2012	4.500%	100,000	27,856	127,856	25,607	153,463
2013	4.600%	100,000	25,607	125,607	23,307	148,914
2014	4.700%	100,000	23,307	123,307	20,956	144,263
2015	4.750%	100,000	20,956	120,956	18,581	139,537
2016	4.850%	100,000	18,581	118,581	16,156	134,737
2017	4.900%	100,000	16,156	116,156	13,707	129,863
2018	5.000%	100,000	13,707	113,707	11,206	124,913
2019	5.000%	110,000	11,206	121,206	8,456	129,662
2020	5.125%	\$ 110,000	8,456	118,456	5,638	124,094

**CITY OF LUCAS, TEXAS**  
Notes to the Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (continued)

**E. Long-term Debt** (continued)

Limited Pledge Revenue Certificate of Obligation - Series 2002 (continued)

<u>Year Ending</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal Due</u> <u>February 1,</u>	<u>Interest Due</u> <u>February 1,</u>	<u>Semi-annual</u> <u>Requirements</u>	<u>Interest Due</u> <u>August 1,</u>	<u>Total Annual</u> <u>Requirement</u>
2021	5.125%	\$ 110,000	5,638	115,638	2,818	118,456
2022	5.125%	110,000	2,818	112,818		112,818
		<u>\$ 1,425,000</u>	<u>272,356</u>	<u>1,697,356</u>	<u>237,375</u>	<u>1,934,731</u>

Limited Pledge Revenue Certificates of Obligation - Series 1997

<u>Year Ending</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal Due</u> <u>February 1,</u>	<u>Interest Due</u> <u>February 1,</u>	<u>Semi-annual</u> <u>Requirements</u>	<u>Interest Due</u> <u>August 1,</u>	<u>Total Annual</u> <u>Requirement</u>
2009	5.450%	\$ 50,000	14,653	64,653	13,290	77,943
2010	5.500%	50,000	13,290	63,290	11,915	75,205
2011	5.500%	50,000	11,915	61,915	10,540	72,455
2012	5.600%	55,000	10,540	65,540	9,000	74,540
2013	5.600%	55,000	9,000	64,000	7,460	71,460
2014	5.700%	60,000	7,460	67,460	5,750	73,210
2015	5.750%	65,000	5,750	70,750	3,881	74,631
2016	5.750%	65,000	3,881	68,881	2,013	70,894
2017	5.750%	70,000	2,013	72,013		72,013
		<u>\$ 520,000</u>	<u>78,502</u>	<u>598,502</u>	<u>63,849</u>	<u>662,351</u>

Waterworks System Bond - Series 1969

<u>Year Ending</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal Due</u> <u>February 1,</u>	<u>Interest Due</u> <u>February 1,</u>	<u>Semi-annual</u> <u>Requirements</u>	<u>Interest Due</u> <u>August 1,</u>	<u>Total Annual</u> <u>Requirement</u>
2009	5.0%	\$ 14,000	550	14,550	200	14,750
2010	5.0%	8,000	200	8,200		8,200
		<u>\$ 22,000</u>	<u>750</u>	<u>22,750</u>	<u>200</u>	<u>22,950</u>

Waterworks System Bond - Series 1980

<u>Year Ending</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest Due</u>	<u>Total Annual</u> <u>Requirement</u>
2009	5.0%	\$ 10,000	7,450	17,450
2010	5.0%	10,000	6,950	16,950
2011	5.0%	11,000	6,425	17,425
2012	5.0%	11,000	5,875	16,875
2013	5.0%	12,000	5,300	17,300
2014	5.0%	12,000	4,700	16,700
2015	5.0%	\$ 13,000	4,075	17,075

-continued-

**CITY OF LUCAS, TEXAS**  
Notes to the Financial Statements  
September 30, 2008  
-continued-

**NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)**

**E. Long-term Debt (continued)**

Waterworks System Bond - Series 1980 (continued)

<u>Year Ending</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest Due</u>	<u>Total Annual</u> <u>Requirement</u>
2016	5.0%	\$ 14,000	3,400	17,400
2017	5.0%	14,000	2,700	16,700
2018	5.0%	15,000	1,975	16,975
2019	5.0%	16,000	1,200	17,200
2020	5.0%	12,000	400	12,400
		<u>\$ 150,000</u>	<u>50,450</u>	<u>200,450</u>

Waterworks System Bond - Series 1989

<u>Year Ending</u> <u>September 30,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal Due</u> <u>December 1</u>	<u>Interest Due</u> <u>December 1</u>	<u>Semi-annual</u> <u>Requirements</u>	<u>Interest due</u> <u>June 1</u>	<u>Total Amount</u> <u>Requirement</u>
2009	5.000%	\$ 15,000	6,345	21,345	5,734	27,079
2010	5.000%	25,000	5,734	30,734	4,715	35,449
2011	5.000%	35,000	4,715	39,715	3,280	42,995
2012	5.000%	40,000	3,280	43,280	1,640	44,920
2013	5.000%	40,000	1,640	41,640		41,640
		<u>\$ 155,000</u>	<u>21,714</u>	<u>176,714</u>	<u>15,369</u>	<u>192,083</u>

**F. Restricted Assets**

The balances of the restricted asset accounts for the business-type activities are as follows:

Deposits payable	\$ 149,713
Accrued interest payable	18,642
Current bonds payable	<u>384,000</u>
Total restricted assets	<u>\$ 552,355</u>

**NOTE 4. 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; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of 1,821 individual governmental units located with Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reduction in insurance coverage from the pervious year. Settled claims for risks have not exceeded insurance coverage for the past three years.



**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 4. OTHER INFORMATION** (continued)

**B. Retirement System**

**Plan Description**

The City provides pension benefits for all of its full-time employees a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 827 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2007 valuations are contained in the 2007 TMRS Comprehensive Annual Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

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 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 a percent of the employees accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

**Contributions**

The contribution rate for the employees is 7%, and the government matching ratio is currently 2 to 1, both as adopted by the governing body of the government. Under the state law governing TMRS, the government contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to government matching percent, which are the obligation of the government as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the government to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year - closed period - amortization period, using the level percent of payroll amortization method. When the government periodically adopts updated service credits and increases its annuities in effect, the increased unfunded (overfunded) actuarial liability (asset) is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being

**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 4. OTHER INFORMATION** (continued)

**B. Retirement System** (continued)

**Contributions** (continued)

amortized over the 25-year period which began January, 2007. The projected unit credit actuarial cost method is used for determining the government contribution rate. Contributions are made monthly by both the employees and the government. Since the government needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

**Annual Pension Cost**

For the year ended September 30, 2008, the City's annual pension cost of \$61,864 for TMRS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7% investment rate of return, (b) no projected salary increases, and (c) no cost-of-living adjustments. A 3.0% inflation amount was used to computing (a) and (b). The actuarial value of TMRS assets was determined using amortized cost.

Three Year Trend Information for TMRS

Fiscal Year Ended	Annual Pension Cost (APC)	Contributions Made	Net Pension Obligation
09/30/06	\$ 43,063	43,063	0
09/30/07	\$ 49,397	49,397	0
09/30/08	\$ 61,864	61,864	0

Schedule of Funding Progress for TMRS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	U.A.A.L. as a Percentage of Covered Payroll [(b)-(a)/(c)]
12/31/05	\$ 312,687	396,045	83,358	79.0%	\$ 462,894	18.0%
12/31/06	\$ 401,550	470,495	68,945	85.4%	\$ 476,828	14.5%
12/31/07	\$ 505,916	659,042	153,126	76.8%	\$ 616,387	24.8%

**NOTE 5. CONSTRUCTION IN PROGRESS**

At September 30, 2008, the City had the following project under construction. A summary of the status of this project and the related binding contract with contractors are as follows:

Project Name	Scheduled Completion Date	Contract Amount	Costs Incurred Through September 30, 2008	Amount Retained
Ground Storage Tank	10/08	\$ 989,500	\$ 1,070,954	\$ 45,298



**CITY OF LUCAS**  
Notes to Financial Statements  
September 30, 2008  
-continued-

**NOTE 6: INTERFUND TRANSFERS**

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

<u>Transfers Out</u>		<u>Transfers In</u>	
		<u>General Fund</u>	<u>Proprietary Fund</u>
Debt Service Fund - 2002 C.O. s	\$ 44,894		44,894
Capital Improvement Fund:			
Completion of road improvements	554,395	554,395	
Completion of park improvements	76,720	76,720	
Completion of water lines	106,048		106,048
Construction in progress - ground storage tank	905,946		905,946
	<u>\$ 1,688,003</u>	<u>631,115</u>	<u>1,056,888</u>

**NOTE 7: RESTATEMENT OF BEGINNING FUND BALANCE/NET ASSETS**

In accordance with current Governmental Accounting Standards Board pronouncements, developer constructed streets and utility systems have been recorded as capital assets on the City's books as of September 30, 2007.

	<u>Government Activities Net Assets</u>	<u>Business-Type Activities and Proprietary Fund Net Assets</u>
Net assets as previously reported at September 30, 2007	\$ 5,996,620	5,136,778
Cost of developer constructed capital assets	<u>2,614,901</u>	<u>2,415,300</u>
Restated net assets at September 30, 2007	<u>\$ 8,611,521</u>	<u>7,552,078</u>

## INDIVIDUAL FUND STATEMENTS

**CITY OF LUCAS**  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Budget and Actual - Water and Sewer Fund  
For the Fiscal Year Ended September 30, 2008

	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
<b>OPERATING REVENUES</b>				
Water sales, fees and service charges	\$ <u>1,752,300</u>	<u>1,590,105</u>	<u>2,229,136</u>	<u>639,031</u>
Total operating revenues	<u>1,752,300</u>	<u>1,590,105</u>	<u>2,229,136</u>	<u>639,031</u>
<b>OPERATING EXPENSES</b>				
Water services	<u>1,367,213</u>	<u>1,420,458</u>	<u>1,206,477</u>	<u>213,981</u>
Total operating expenses	<u>1,367,213</u>	<u>1,420,458</u>	<u>1,206,477</u>	<u>213,981</u>
Operating income	<u>385,087</u>	<u>169,647</u>	<u>1,022,659</u>	<u>853,012</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest revenue	125,000	140,000	119,102	(20,898)
Interest expense and fiscal charges			<u>(204,888)</u>	<u>(204,888)</u>
Total nonoperating revenues (expenses)	<u>125,000</u>	<u>140,000</u>	<u>(85,786)</u>	<u>(225,786)</u>
Net income before transfers	510,087	309,647	936,873	627,226
Transfers in/(out)			<u>1,056,888</u>	<u>1,056,888</u>
Change in net assets	510,087	309,647	1,993,761	1,684,114
Net assets, beginning	<u>7,552,078</u>	<u>7,552,078</u>	<u>7,552,078</u>	
Net assets, ending	\$ <u>8,062,165</u>	<u>7,861,725</u>	<u>9,545,839</u>	<u>1,684,114</u>

The following schedule reconciles the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Assets - Budget and Actual - Water and Sewer Fund to the amounts on the Statement of Revenues, Expenses and changes in fund Net Assets - Proprietary Funds:

Net assets (budget)	\$ 9,545,839
Depreciation and amortization	<u>(221,894)</u>
Net assets (GAAP)	\$ <u>9,323,945</u>