

CITY OF LORENZO, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED MARCH 31, 2011

CITY OF LORENZO
Lorenzo, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended March 31, 2011

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CITY OF LORENZO
Lorenzo, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended March 31, 2011

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INTRODUCTORY SECTION

CITY OF LORENZO
Lorenzo, Texas

MARCH 31, 2011

CITY COUNCIL

Lester Bownds	Mayor
Cheryl Birdwell	Mayor Pro-Tem
Charles Cate	Member
Stephen Gaines	Member
Felix Martinez	Member
Jorge Rodriguez	Member

ADMINISTRATIVE STAFF

James Lively	City Administrator
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FINANCIAL SECTION

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Independent Auditors' Report on Financial Statements

Honorable Mayor and City Council
City of Lorenzo
P.O. Box 430
Lorenzo, TX 79434

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorenzo, Texas, as of and for the year ended March 31, 2011, 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 Lorenzo's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lorenzo, Texas, as of March 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

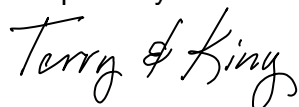
In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2011, on our consideration of the City of Lorenzo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lorenzo's financial statements as a whole. The accompanying other schedules listed in the table of contents as Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King".

Terry & King, CPAs, P.C.
June 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Lorenzo's financial performance provides an overview of the City's financial activities for the fiscal year ended March 31, 2011. Please read this in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets increased as a result of this year's operations. While net assets of our business-type activities increased by \$167,198, net assets of our governmental activities decreased by \$39,778 or 5%.
- During the year, the City had expenses that were \$103,436 more than the \$355,059 generated in tax and other revenues for governmental programs prior to interfund transfers.
- In the City's business type activities, charges for services decreased \$18,447 to \$401,362 (or 4%) while operating expenses decreased \$29,789 to \$406,228 (7%).
- The General Fund reported a deficit this year of \$63,929 prior to transfers from the business-type activities of \$63,658. The General Fund fund balance decreased \$8,203.
- The resources available for appropriation were \$6,858 less than budgeted for the General Fund. Expenditures for the General Fund were less than the budgeted amounts for an overall favorable variance in spending of \$1,789.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole -- The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in them. You can think of the City's net assets—the differences between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

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

- Governmental activities – Most of the City's basic services are reported here, including the police, ambulance, fire, public works, and parks departments, and general administration. Property taxes, franchise taxes, and state and federal grants finance most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover the cost of certain services it provides. The City's water, sewer, and garbage services are reported here.

Reporting the City's Most Significant Funds – Fund Financial Statements

Our analysis of the City's funds begins on page 10. The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. At times a city council may establish other funds to help it control and manage money for particular purposes, such as special projects or to show that it is meeting legal responsibilities for using certain Federal or State grants. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds*—Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City’s general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation on Exhibits C-1R and C-3.
- *Proprietary funds*—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City’s combined net assets were \$2,650,479. Our following analysis focuses on the net assets (Table A-1) and changes in net assets (Table A-2) of the City’s government and business-type activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$2,650,479 at March 31, 2011. (See Table A-1).

Table A-1
City of Lorenzo's Net Assets

	Governmental Activities			Business-type Activities			Total		
	2011	2010	Percentage Change	2011	2010	Percentage Change	2011	2010	Percentage Change
Current assets:									
Cash in Bank	43,126	39,701	9%	43,902	87,785	-50%	87,028	127,486	-32%
Temporary Investments	37,253	36,635	2%	112,818	150,253	-25%	150,071	186,888	-20%
Accounts Receivable, net	-	-	0%	42,478	42,109	1%	42,478	42,109	1%
Taxes Receivable, net	19,111	17,549	9%	-	-	0%	19,111	17,549	9%
Due from Other Governments	4,628	18,631	-75%	17,680	-	100%	22,308	18,631	20%
Interfund Balances	89	100	-11%	(89)	(100)	-11%	-	-	0%
Inventory	-	-	0%	13,500	13,500	0%	13,500	13,500	0%
Other	-	-	0%	-	-	0%	-	-	0%
Total current assets:	104,207	112,616	-7%	230,289	293,547	-22%	334,496	406,163	-18%
Noncurrent assets:									
Land	13,275	13,275	0%	2,260	2,260	0%	15,535	15,535	0%
Infrastructure	1,520,679	1,520,679	0%	-	-	0%	1,520,679	1,520,679	0%
Less accumulated depreciation, infrastructure	(1,425,105)	(1,423,360)	0%	-	-	0%	(1,425,105)	(1,423,360)	0%
Buildings	934,360	914,360	2%	14,843	14,843	0%	949,203	929,203	2%
Less accumulated depreciation, buildings	(559,628)	(547,306)	2%	(14,843)	(14,843)	0%	(574,471)	(562,149)	2%
Utility Systems	-	-	0%	2,906,432	2,645,035	10%	2,906,432	2,645,035	10%
Less accumulated depreciation, utility systems	-	-	0%	(933,597)	(881,772)	6%	(933,597)	(881,772)	6%
Furniture & Equipment	874,580	836,653	5%	179,579	171,692	5%	1,054,159	1,008,345	5%
Less accumulated depreciation, furniture & equipment	(625,715)	(547,589)	14%	(115,547)	(97,481)	19%	(741,262)	(645,070)	15%
Total noncurrent assets	732,446	766,712	-4%	2,039,127	1,839,734	11%	2,771,573	2,606,446	6%
Total Assets	836,653	879,328	-5%	2,269,416	2,133,281	6%	3,106,069	3,012,609	3%
Current liabilities:									
Accounts Payable	16,538	18,306	-10%	28,389	23,282	22%	44,927	41,588	8%
Due to Others	-	-	0%	17,663	15,833	12%	17,663	15,833	12%
Deferred Revenue	-	-	0%	-	-	0%	-	-	0%
Total current liabilities	16,538	18,306	-10%	46,052	39,115	18%	62,590	57,421	9%
Noncurrent liabilities:									
Due within one year	-	1,129	-100%	38,000	38,000	0%	38,000	39,129	-3%
Due in more than one year	-	-	0%	355,000	393,000	-10%	355,000	393,000	-10%
Total noncurrent liabilities	-	1,129	-100%	393,000	431,000	-9%	393,000	432,129	-9%
Net Assets:									
Invested in capital assets, net of related debt	732,446	765,583	-4%	1,646,127	1,408,734	17%	2,378,573	2,174,317	9%
Unrestricted	87,669	94,310	-7%	184,237	254,432	-28%	271,906	348,742	-22%
Total Net Assets	820,115	859,893	-5%	1,830,364	1,663,166	10%	2,650,479	2,523,059	5%

Net assets of the City's governmental activities decreased 5% (\$820,115 compared to \$859,893). Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - changed from \$94,310 at March 31, 2010 to \$87,669 at the end of this year. Net assets of the City's business-type activities increased by 10%, from \$1,663,166 to \$1,830,364.

Table A-2
Changes in City of Lorenzo's Net Assets

	Governmental Activities			Business-type Activities			Total		
	2011	2010	Percentage Change	2011	2010	Percentage Change	2011	2010	Percentage Change
Program Revenues:									
Charges for Services	14,105	28,057	-50%	401,362	419,809	-4%	415,467	447,866	-7%
Operating Grants	794	15,132	-95%	-	2,999	-100%	794	18,131	-96%
Capital Grants	53,768	-	100%	233,101	5,000	4562%	286,869	5,000	5637%
General Revenues:									
Property Taxes	131,722	130,947	1%	-	-	0%	131,722	130,947	1%
Nonproperty Taxes	65,623	61,214	7%	-	-	0%	65,623	61,214	7%
Investment Earnings	618	2,248	-73%	2,621	2,993	-12%	3,239	5,241	-38%
Other	88,429	142,862	-38%	-	-	0%	88,429	142,862	-38%
Insurance Proceeds	-	38,789	-100%	-	-	0%	-	38,789	-100%
	<u>355,059</u>	<u>419,249</u>	<u>-15%</u>	<u>637,084</u>	<u>430,801</u>	<u>48%</u>	<u>992,143</u>	<u>850,050</u>	<u>17%</u>
Expenses:									
General Administration	115,877	153,284	-24%	-	-	0%	115,877	153,284	-24%
Public Safety	253,482	300,697	-16%	-	-	0%	253,482	300,697	-16%
Streets and Service	56,046	52,721	6%	-	-	0%	56,046	52,721	6%
Health and Welfare	14,559	26,251	-45%	-	-	0%	14,559	26,251	-45%
Community Center	2,207	2,371	-7%	-	-	0%	2,207	2,371	-7%
Cemetery	6,658	5,992	11%	-	-	0%	6,658	5,992	11%
Homes for Citizens	9,666	-	100%	-	-	0%	9,666	-	100%
Utilities	-	-	0%	406,228	436,017	-7%	406,228	436,017	-7%
	<u>458,495</u>	<u>541,316</u>	<u>-15%</u>	<u>406,228</u>	<u>436,017</u>	<u>-7%</u>	<u>864,723</u>	<u>977,333</u>	<u>-12%</u>
Excess (Deficiency) Before Other Resources, Uses & Transfers	(103,436)	(122,067)	-15%	230,856	(5,216)	-4526%	127,420	(127,283)	-200%
Other Resources (Uses)	-	-	0%	-	-	0%	-	-	0%
Transfers In (Out)	63,658	(3,388)	-1979%	(63,658)	3,388	-1979%	-	-	0%
Increase (Decrease) in Net Assets	(39,778)	(125,455)	-68%	167,198	(1,828)	9246%	127,420	(127,283)	-200%
Net Assets, Beginning	<u>859,893</u>	<u>985,348</u>	<u>-13%</u>	<u>1,663,166</u>	<u>1,664,994</u>	<u>0%</u>	<u>2,523,059</u>	<u>2,650,342</u>	<u>-5%</u>
Net Assets, Ending	<u>820,115</u>	<u>859,893</u>	<u>-5%</u>	<u>1,830,364</u>	<u>1,663,166</u>	<u>10%</u>	<u>2,650,479</u>	<u>2,523,059</u>	<u>5%</u>

The City's total revenues were \$992,143. A significant portion, 64%, of the City's total revenue comes from the water and sewer operations. Revenues available to fund governmental activities consist of property taxes (37%), non-property taxes (19%), charges for services (4%), and other (40%).

The total cost of all programs and services was \$864,723; 47% of these costs were for utilities production and administration expenses. Expenses for governmental activities consisted of costs for general administration (25%), public safety (55%), streets and services (12%), health and welfare (3%), and other (5%).

Governmental Activities

Revenues for the City's governmental activities decreased approximately 15% as a result of insurance proceeds received in the prior year and less revenues from traffic fines, while total expenses decreased approximately 15%.

- Property tax rates increased slightly to \$0.5049 per \$100 from \$0.4885 per \$100. The ad valorem tax levy for the previous fiscal year was \$129,556, compared to \$128,820 for the current year. Total tax collections decreased 1%, from \$129,047 in the prior year to \$127,896.
- The cost of all *governmental* activities this year was \$458,495. As shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through tax collections was \$131,722 because some of the costs were paid by those who directly benefited from the programs (\$14,105), grants and contributions (\$54,562), fines and forfeits (\$74,396), or by nonproperty taxes (\$65,623).
- General administration expenses decreased primarily as a result of prior expenditures for repairs related to the insurance proceeds received. Public safety expenditures decreased as a result of decreased state court expenditures.

Business-type Activities

Revenues of the City's business-type activities (see table A-2) increased by 48% (\$637,084 from \$430,801) and expenses *decreased* by 7%. The increase in revenues was largely due to an increase of \$225,102 in grant revenues received.

THE CITY'S FUNDS

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a *combined* fund balance of \$68,558, which is a decrease from the prior year's total of \$76,761. The following items effecting fund balance should be noted:

- General administration expenses decreased \$41,394 primarily as a result of expenditures for repairs related to the insurance proceeds received in the prior year. Public safety expenditures decreased \$36,757 as a result of decreased state court expenditures. Expenditures for streets and services increased \$15,633. Expenditures for Health & Welfare decreased \$11,908.
- Revenues decreased \$85,496 in the General Fund as a result of receiving insurance proceeds in the amount of \$38,789 in the prior year and a decrease in fines of \$57,812.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City's budget several times. Even with these adjustments, actual expenditures were \$1,789 less than the final budget amounts. Revenues were \$6,858 less than the final budget amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the City had \$6,446,009 invested in a broad range of capital assets, including police, ambulance and fire equipment, infrastructure, buildings, furniture and equipment, and utilities facilities (see Table A-3). This amount represents a net increase (including additions and deductions) of \$327,211 over last year.

Table A-3
Fixed Assets

Governmental Activities:	Balance 04-01-10	Additions	Deletions/ Reclassifications	Balance 03-31-11
Land	\$ 13,275	-	-	13,275
Infrastructure	1,520,679	-	-	1,520,679
Buildings& Improvements	914,360	20,000	-	934,360
Furniture & Equipment	836,654	37,926	-	874,580
Accumulated Depreciation	(2,518,255)	(92,192)	-	(2,610,447)
Net Capital Assets	\$ 766,713	\$ (34,266)	\$ -	\$ 732,447

Business-Type Activities:	Balance 04-01-10	Additions	Deletions/ Reclassifications	Balance 03-31-11
Land	\$ 2,260	-	-	2,260
Buildings& Improvements	14,843	-	-	14,843
Furniture & Equipment	171,692	7,887	-	179,579
Water System	1,250,548	261,398	-	1,511,946
Sewer System	1,394,487	-	-	1,394,487
Accumulated Depreciation	(994,096)	(69,892)	-	(1,063,988)
Net Capital Assets	<u>\$ 1,839,734</u>	<u>\$ 199,393</u>	<u>\$ -</u>	<u>\$ 2,039,127</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Debt

A municipal government can finance activities such as capital improvements and acquisitions through general tax bonds or revenue bonds. Additionally, a government may purchase items through the use of capital leases. Short-term financing is available in the form of time warrants with a financial institution.

Changes in long-term obligations for the year ended March 31, 2011 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Note: Fire Department	\$ 1,129	\$ -	\$ 1,129	\$ -	\$ -
Bonds: Series 1972	6,000	-	3,000	3,000	3,000
Bonds: Series 1999	425,000	-	35,000	390,000	35,000

More detailed information about the City's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees. Factors considered include the current economy, property tax values and the needs of the City in the coming year.

No major changes are planned for the upcoming year in programs or projects. The property tax values remained basically unchanged. The Council has adopted tax rates, budgets and set fees accordingly. It is planned that the City's Net Assets at the end of the fiscal year ending March 31, 2012 will remain basically the same with perhaps a slight increase.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Administrator at the City's office located in Lorenzo, Texas.

BASIC FINANCIAL STATEMENTS

CITY OF LORENZO

Lorenzo, Texas

STATEMENT OF NET ASSETS

March 31, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash in Bank	\$ 43,126	\$ 43,902	\$ 87,028
Time Deposits and Savings	37,253	112,818	150,071
Accounts Receivable, net	-	42,478	42,478
Taxes Receivable, net	19,111	-	19,111
Due from Other Governments	4,628	17,680	22,308
Interfund Balances	89	(89)	-
Inventories	-	13,500	13,500
Capital Assets:			
Land	13,275	2,260	15,535
Infrastructure, net	95,574	-	95,574
Buildings & Improvements, net	374,732	-	374,732
Furniture & Equipment, net	248,865	2,036,867	2,285,732
<u>TOTAL ASSETS</u>	<u>\$ 836,653</u>	<u>\$ 2,269,416</u>	<u>\$ 3,106,069</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 16,538	\$ 28,389	\$ 44,927
Current Portion - Bonds Payable	-	38,000	38,000
Noncurrent Liabilities			
Bonds Payable	-	355,000	355,000
Customer Deposits	-	17,663	17,663
<u>Total Liabilities</u>	<u>\$ 16,538</u>	<u>\$ 439,052</u>	<u>\$ 455,590</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 732,446	\$ 1,646,127	\$ 2,378,573
Unrestricted	87,669	184,237	271,906
<u>Total Net Assets</u>	<u>\$ 820,115</u>	<u>\$ 1,830,364</u>	<u>\$ 2,650,479</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 836,653</u>	<u>\$ 2,269,416</u>	<u>\$ 3,106,069</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas
STATEMENT OF ACTIVITIES
Year Ended March 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating	Capital	Primary Government		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total
Government Activities:							
General Administration	\$ 115,877	\$ 5,500	\$ -	\$ 22,517	\$ (87,860)	-	(87,860)
Public Safety	253,482	2,800	794	29,091	(220,797)	-	(220,797)
Streets and Service	56,046	-	-	-	(56,046)	-	(56,046)
Health and Welfare	14,559	4,955	-	2,160	(7,444)	-	(7,444)
Community Center	2,207	850	-	-	(1,357)	-	(1,357)
Cemetary	6,658	-	-	-	(6,658)	-	(6,658)
Homes for Citizens	9,666	-	-	-	(9,666)	-	(9,666)
<u>Total Government Activities</u>	<u>458,495</u>	<u>14,105</u>	<u>794</u>	<u>53,768</u>	<u>(389,828)</u>	<u>-</u>	<u>(389,828)</u>
Business-type Activities							
Utility Fund	<u>406,228</u>	<u>401,362</u>	<u>-</u>	<u>233,101</u>	<u>-</u>	<u>228,235</u>	<u>228,235</u>
Total Primary Government	<u>864,723</u>	<u>415,467</u>	<u>794</u>	<u>286,869</u>	<u>(389,828)</u>	<u>228,235</u>	<u>(161,593)</u>
General Revenues:							
Property Taxes, Levied for General Purposes					131,722		131,722
Franchise Taxes					36,845		36,845
Sales Taxes					28,778		28,778
Fines & Forfeits					74,686		74,686
Investment Earnings					618	2,621	3,239
Miscellaneous					13,743		13,743
Transfers					63,658	(63,658)	-
Total General Revenue					<u>350,050</u>	<u>(61,037)</u>	<u>289,013</u>
Change in Net Assets					<u>(39,778)</u>	<u>167,198</u>	<u>127,420</u>
Net Assets -- Beginning					<u>859,893</u>	<u>1,663,166</u>	<u>2,523,059</u>
Net Assets -- Ending					<u>\$ 820,115</u>	<u>\$ 1,830,364</u>	<u>\$ 2,650,479</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

BALANCE SHEET -- GOVERNMENTAL FUNDS
March 31, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 43,026	\$ 100	\$ 43,126
Time Deposits & Savings	37,253	-	37,253
Taxes Receivable, net	19,111	-	19,111
Due from Other Funds	189	-	189
Due from Other Governments	<u>4,628</u>	<u>-</u>	<u>4,628</u>
 <u>TOTAL ASSETS</u>	 <u>\$ 104,207</u>	 <u>\$ 100</u>	 <u>\$ 104,307</u>
 LIABILITIES			
Current Liabilities			
Accounts Payable	\$ 16,538	\$ -	\$ 16,538
Due to Other Funds	-	100	100
Deferred Revenues	<u>19,111</u>	<u>-</u>	<u>19,111</u>
<u>Total Liabilities</u>	<u>35,649</u>	<u>100</u>	<u>35,749</u>
 FUND EQUITIES			
Fund Balance-Unassigned	<u>68,558</u>	<u>-</u>	<u>68,558</u>
<u>Total Fund Equities</u>	<u>68,558</u>	<u>-</u>	<u>68,558</u>
 <u>TOTAL LIABILITIES & FUND EQUITIES</u>	 <u>\$ 104,207</u>	 <u>\$ 100</u>	 <u>\$ 104,307</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2011

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 68,558
Amounts reported for governmental activities in the statement of net assets (A-1) are different because:	
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	19,111
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	732,446
Some liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds	<u>-</u>
Net Assets of Governmental Activities -- Statement of Net Assets	<u>\$ 820,115</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS
For the Year Ended March 31, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Property Taxes (Including Penalty & Interest)	\$ 130,160	\$ -	\$ 130,160
Franchise Taxes	36,845	-	36,845
Sales Taxes	28,778	-	28,778
Fines & Forfeits	74,686	-	74,686
Fees & Services	7,755	-	7,755
Interest	618	-	618
Rents	6,350	-	6,350
State Grants	794	-	794
Federal Grants	23,073	30,695	53,768
Miscellaneous	13,743	-	13,743
Insurance Proceeds	-	-	-
<u>Total Revenues</u>	<u>322,802</u>	<u>30,695</u>	<u>353,497</u>
EXPENDITURES			
Current			
General Administration	98,136	1,517	99,653
Public Safety	184,962	285	185,247
Streets & Service	50,556	-	50,556
Health & Welfare	12,303	-	12,303
Community Center	2,206	-	2,206
Cemetery	6,658	-	6,658
Homes for Citizens	-	9,666	9,666
Principal on Long-Term Debt	1,129	-	1,129
Interest on Long-Term Debt	14	-	14
Capital Outlay	30,767	27,159	57,926
<u>Total Expenditures</u>	<u>386,731</u>	<u>38,627</u>	<u>425,358</u>
Excess of Revenues Over (Under) Expenditures	(63,929)	(7,932)	(71,861)
OTHER FINANCING SOURCES (USES)			
Transfers In	63,658	7,932	71,590
Transfers Out	(7,932)	-	(7,932)
<u>Total Other Sources (Uses)</u>	<u>55,726</u>	<u>7,932</u>	<u>63,658</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(8,203)	-	(8,203)
Fund Balance--Beginning of Year	76,761	-	76,761
<u>Fund Balance--End of Year</u>	<u>\$ 68,558</u>	<u>\$ -</u>	<u>\$ 68,558</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended March 31, 2011

Net Change in Fund Balances -- Total Governmental Funds	\$ (8,203)
Amounts reported for governmental activities in the statement of activities ("SOA") 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 useful lives as depreciation expense. This is the amount of capital outlays during the current period.	57,926
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets.	(92,192)
Certain property tax revenues are deferred in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts have changed during the current period.	1,562
Repayment of debt principal is an expenditure in the governmental funds, but is a reduction of long-term debt in the statement of net assets. This amount is the total debt principal repaid for loan indebtedness.	<u>1,129</u>
Change in Net Assets -- Statement of Activities	<u>\$ (39,778)</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
March 31, 2011

	<u>Business-Type Activities-- Utility Fund</u>
ASSETS	
<u>Current Assets:</u>	
Cash	\$ 43,902
Time Deposits & Savings	112,818
Accounts Receivable, net	42,478
Due from Other Governments	17,680
Inventories	13,500
<u>Total Current Assets</u>	<u>230,378</u>
<u>Fixed Assets:</u>	
Land	2,260
Utility Systems & Equipment, net	2,036,867
<u>Total Fixed Assets</u>	<u>2,039,127</u>
<u>TOTAL ASSETS</u>	<u>\$ 2,269,505</u>
 LIABILITIES & EQUITY	
<u>Current Liabilities</u>	
Accounts Payable	\$ 28,389
Due to Other Funds	89
Current Portion - Bonds Payable	38,000
<u>Noncurrent Liabilities:</u>	
Bonds Payable	355,000
Customer Deposits	17,663
<u>Total Other Liabilities</u>	<u>439,141</u>
 NET ASSETS	
Invested in capital assets, net of related debt	1,646,127
Unrestricted	184,237
<u>Total Net Assets</u>	<u>1,830,364</u>
<u>TOTAL LIABILITIES & NET ASSETS</u>	<u>\$ 2,269,505</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS--
PROPRIETARY FUNDS
For the Year Ended March 31, 2011

	Business-Type Activities-- Utility Fund
<u>Operating Revenues</u>	
Sales	\$ 401,102
Tap Fees	260
<u>Total Operating Revenues</u>	<u>401,362</u>
<u>Operating Expenses</u>	
Cost of Sales	117,517
Salaries	85,642
Payroll Taxes	6,039
Retirement Costs	611
Health Insurance	12,947
Computer Supplies & Expense	3,264
Depreciation	69,892
Dues & Education	1,564
Insurance	13,794
Lab Fees	3,034
Mosquito & Pest Control	3,565
Office Supplies & Expense	7,992
Professional Fees	10,044
Repairs & Supplies	4,224
Utilities & Telephone	21,650
Vehicle Expense	8,579
Water Distribution & Sewer Plant Expense	15,726
Miscellaneous	3,183
<u>Total Operating Expenses</u>	<u>389,267</u>
<u>Operating Income (Loss) Before</u>	
<u>Non-Operating Revenues (Expenses)</u>	12,095
<u>Non-Operating Revenues (Expenses)</u>	
Interest Revenue	2,621
Interest Expense	(16,961)
<u>Total Non-Operating Revenues (Expenses)</u>	<u>(14,340)</u>
<u>Income Before Contributions and Transfers</u>	(2,245)
<u>Contributions and Transfers</u>	
Capital Contribution - Communications Grant	5,917
Capital Contribution - TCDP Grant	227,184
Transfer from/(to) General Fund	(63,658)
<u>Total Contributions and Transfers</u>	<u>169,443</u>
Change in Net Assets	167,198
NET ASSETS	
Net Assets, Beginning of Year	1,663,166
Net Assets, End of Year	<u>\$ 1,830,364</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, TX

STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended March 31, 2011

	Business-type Activities Enterprise Funds
	<u>Water & Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 402,823
Payments to Suppliers	(209,028)
Payments to Employees	(105,239)
Net Cash Provided by Operating Activities	<u>88,555</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers To Other Funds	(63,658)
Interfund Balances	<u>89</u>
Net Cash Provided by Noncapital Financing Activities	(63,569)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Revenue	2,621
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(269,285)
Contributed Capital	215,321
Principal Payments on Notes and Bonds	(38,000)
Interest Paid on Notes and Bonds	<u>(16,962)</u>
Net Cash (used) by Capital and Related Financing Activities	<u>(108,926)</u>
Net Decrease in Cash and Cash Equivalents	(81,318)
Balances--Beginning of the Year	<u>238,038</u>
Balances--End of the Year	<u>\$ 156,720</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 12,095
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	69,892
Change in assets and liabilities:	
Receivables, net	(369)
Accounts and other payables	5,108
Customer Deposits	<u>1,830</u>
Net Cash Provided by Operating Activities	<u>\$ 88,555</u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
March 31, 2011

	<u>AGENCY FUNDS</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 6,247</u>
 TOTAL ASSETS	 <u><u>\$ 6,247</u></u>
 LIABILITIES:	
Due to Others	<u>\$ 6,247</u>
 TOTAL LIABILITIES	 <u><u>\$ 6,247</u></u>

The accompanying notes are an integral part of this statement.

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS
March 31, 2011

Note A: Summary of Significant Accounting Policies

The City of Lorenzo, Texas, was incorporated under the provisions of the State of Texas. The City operates under a Council-Secretary form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities operations.

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

1. The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Lorenzo. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Lorenzo.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the over-reporting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 2
March 31, 2011

Note A: Summary of Significant Accounting Policies--Continued

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

The City reports the following major governmental funds:

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

In addition, the City reports the following fund types:

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

b. Measurement Focus, Basis of Accounting

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

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 3
March 31, 2011

Note A: Summary of Significant Accounting Policies--Continued

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

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

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of March 31, 2011, the amount deemed uncollectible by this estimate was \$35,294. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

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

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 4
March 31, 2011

Note A: Summary of Accounting Policies--Continued

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 Years
Buildings	50 Years
Building Improvements	20 Years
Vehicles	5-15 Years
Furniture and Equipment	3-15 Years
Computer Equipment	3 Years

d. Receivable and Payable Balances

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

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

e. Interfund Activity

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

f. Use of Estimates

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

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 5
March 31, 2011

Note B: Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures", violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violations</u>	<u>Action Taken</u>
None Reported	Not Applicable

Note C: Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At March 31, 2011, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was \$242,988 and the bank balance was \$249,358. The City's cash deposits at March 31 and during the year then ended, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

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

The City's investments at March 31, 2011 included certificates of deposit in the amount of \$150,071.

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 6
March 31, 2011

Note C: Deposits and Investments (continued)

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires the determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

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

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 7
March 31, 2011

Note D: Capital Assets

Governmental Activities:

	Balance <u>04-01-10</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	Balance <u>03-31-11</u>
Land	\$ 13,275	-	-	13,275
Infrastructure	1,520,679	-	-	1,520,679
Buildings& Improvements	914,360	20,000	-	934,360
Furniture & Equipment	<u>836,654</u>	<u>37,926</u>	<u>-</u>	<u>874,580</u>
Total Capital Assets	\$ <u>3,284,968</u>	\$ <u>57,926</u>	\$ <u>-</u>	\$ <u>3,342,894</u>

	Balance <u>04-01-10</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	Balance <u>03-31-11</u>
<u>Less Accumulated Depreciation:</u>				
Infrastructure	1,423,359	1,744	-	1,425,103
Buildings& Improvements	547,307	12,322	-	559,629
Furniture & Equipment	<u>547,590</u>	<u>78,126</u>	<u>-</u>	<u>625,716</u>
Total Accumulated Depreciation	\$ <u>2,518,256</u>	\$ <u>92,192</u>	<u>-</u>	\$ <u>2,610,448</u>
Net Capital Assets	\$ <u>766,712</u>	\$ <u>(34,266)</u>	\$ <u>-</u>	\$ <u>732,446</u>

Business-Type Activities:

	Balance <u>04-01-10</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	Balance <u>03-31-11</u>
Land	\$ 2,260	-	-	2,260
Buildings	14,843	-	-	14,843
Water System	1,250,548	261,398	-	1,511,946
Sewer System	1,394,487	-	-	1,394,487
Furniture & Equipment	<u>171,692</u>	<u>7,887</u>	<u>-</u>	<u>179,579</u>
Total Capital Assets	\$ <u>2,833,830</u>	\$ <u>269,285</u>	\$ <u>-</u>	\$ <u>3,103,115</u>

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 8
March 31, 2011

Note D: Capital Assets (continued)

	<u>Balance</u> <u>04-01-10</u>	<u>Additions</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>03-31-11</u>
<u>Less Accumulated</u> <u>Depreciation:</u>				
Buildings	\$ 14,843	-	-	14,843
Water System	540,461	27,478	-	567,939
Sewer System	341,311	24,348	-	365,659
Furniture & Equipment	<u>97,481</u>	<u>18,066</u>	<u>-</u>	<u>115,547</u>
 Total Accumulated Depreciation	 <u>\$ 994,096</u>	 <u>\$ 69,892</u>	 <u>-</u>	 <u>\$ 1,063,988</u>
 Net Capital Assets	 <u>\$ 1,839,734</u>	 <u>\$ 199,393</u>	 <u>\$ -</u>	 <u>\$ 2,039,127</u>

Depreciation was charged to functions as follows:

General Administration	\$ 16,224
Public Safety	68,236
Streets & Services	5,476
Health & Welfare	2,256
Water & Sewer	<u>69,892</u>
Total Depreciation	<u>\$162,084</u>

Note E: Notes Payable

The City entered into a loan agreement for fire department expenditures in September of 2000. This was recorded at present value of the future minimum payments at the date of inception.

Current requirement for principal and interest expenditure for this obligation is accounted for in the General Fund. The change in this long-term obligation for the year ended March 31, 2011 is as follows:

<u>Governmental</u> <u>Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Note: Fire Department	\$ 1,129	\$ -	\$ 1,129	\$ -	\$ -

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 9
March 31, 2011

Note F: Bonds Payable

In March 1999, the City issued \$705,000 Revenue Bonds at an interest rate ranging from 2.45% to 4.30%. Principal payments are due annually with the first payment being due August 15, 2000. Annual requirements to amortize 1999 Bonds outstanding are as follows:

<u>Year Ending 3-31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 35,000	\$ 15,366	\$ 50,366
2013	40,000	13,940	53,940
2014	40,000	12,380	52,380
2015	40,000	10,780	50,780
2016	45,000	9,036	54,036
Thereafter	<u>190,000</u>	<u>16,714</u>	<u>206,714</u>
<u>Totals</u>	<u>\$ 390,000</u>	<u>\$ 78,216</u>	<u>\$ 468,216</u>

The City issued \$60,000 Revenue Bonds at 5% dated 6-22-72, Serial Numbers 1-60 at \$1,000 each. Interest and principal are payable annually on January 1. At March 31, 2011, \$57,000 of the Issue had been retired leaving a balance of \$3,000 outstanding.

Annual requirements to amortize 1972 bonds outstanding at March 31, 2011 are as follows:

<u>Year Ending 3-31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 3,000	\$ 150	\$ 3,150
<u>Totals</u>	<u>\$ 3,000</u>	<u>\$ 150</u>	<u>\$ 3,150</u>

Changes in bonds payable are as follows:

	<u>Beginning Balance 04/01/10</u>	<u>Proceeds</u>	<u>Retirements</u>	<u>Ending Balance 03/31/11</u>
Rev. Bonds	\$ 6,000	\$ -	\$ 3,000	\$ 3,000
Series 1999	<u>425,000</u>	<u>-</u>	<u>35,000</u>	<u>390,000</u>
<u>Totals</u>	<u>\$ 431,000</u>	<u>\$ -</u>	<u>\$ 38,000</u>	<u>\$ 393,000</u>

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 10
March 31, 2011

Note F: Pension Plan

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 833 currently administered by TMRS, an agent multiple employer public employee retirement system.

Upon retirement, benefits depend on the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits.

At the date the plan began, the City granted monetary credits for service rendered before the plan began (or prior service credits) of a theoretical amount equal to two times what would have been contributed by the employee, with interest (3% annual), prior to establishment of the plan. Monetary credits for service since the plan began (or current service credits) are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, either annually or on an annually repeating basis, another type of monetary credit referred to as an Updated Service Credit. This monetary credit is determined by hypothetically recomputing the member's account balance by assuming that the current deposit rate of the City has always been in effect. The computation also assumes that the member's salary has always been the member's average salary – using a salary calculation based on the 36-month period ending a year before the effective date of calculation. This hypothetical account balance is increased by 3% each year, not the actual interest credited to member accounts in previous years, and increased by the City match currently in effect (100%, 150%, or 200%). The resulting sum is then compared to the member's actual account balance increased by the actual city match and actual interest credited. If the hypothetical calculation exceeds the actual calculation, the member is granted a monetary credit (or Updated Service Credit) equal to the difference between the hypothetical calculation and the actual calculation times the percentage adopted.

At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options: retiree life only; one of three lifetime survivor options; or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution (PLSD) in an amount equal to 12, 24, or 36 monthly payments under the retiree life only option, which cannot exceed 75% of the total member deposits and interest. The City may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. The City may adopt annuity increases at a rate equal to either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – all Urban Consumers (CPI-U) between December preceding the member's retirement date and the December one year before the effective date of the increase, minus any previously granted increases.

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 11
March 31, 2011

Note F: Pension Plan (continued)

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. New actuarial cost method and assumptions were adopted by the TMRS Board of Trustees at their December, 2007 meeting, effective for the 12/31/2007 valuation. Plan provisions for the City were as follows for the plan/calendar years ended December 31, 2007, 2008, and 2009:

Employee Deposit Rate:	5.00%
Matching Ratio (City to Employee):	1.5 to 1
A member is vested after	5 years
Updated Service Credit Annually Repeating	100%
Supplemental Death Benefit	
For active employees (Y/N)	N
For retirees (Y/N)	N

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the city are: 5yrs/age 60, 25 yrs/any age.

Contributions

Under the state law governing TMRS, the contribution rate for the City is determined annually by the actuary, using the Projected Unit Credit actuarial cost 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 the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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 contribution rate and the calendar year when the rate goes into effect. (i.e. December 31, 2009 valuation is effective for rates beginning January 2011).

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 12
March 31, 2011

Note F: Pension Plan (continued)

Actuarial Information

	<u>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</u>
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent Of payroll	Level percent Of payroll	Level Percent Of payroll
Amortization period	25 years-Closed period	24 years-Closed period	23 years-Closed period
Asset valuation method	Amortized cost	Amortized cost	10-year Smoothed Market
Assumptions			
Investment return	7.0%	7.5%	7.5%
Projected salary increases	Varies by age And service	Varies by age And service	Varies by age And service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%
City-specific assumptions			
Payroll growth assumption	3.0%	3.0%	3.0%

Schedule of Funding Information

	<u>12/31/07</u>	<u>12/31/08</u>	<u>12/31/09</u>
Actuarial Valuation Date			
Actuarial Value of Assets	\$244,047	\$264,026	\$290,268
Actuarial Accrued Liability (AAL)	166,850	194,505	224,610
Unfunded (Over-funded)			
Actuarial Accrued Liability (UAAL)	(77,197)	(69,521)	(65,658)
Funded Ratio	146.3%	135.7%	129.2%
Annual Covered Payroll	104,326	96,267	165,628
UAAL as a Percentage of Covered Payroll	(74.0%)	(72.2%)	(39.6%)

The City's pension plan contributions to TMRS for the years ended March 31, 2011, 2010, and 2009 were \$1,799, \$430 and \$2,220, respectively.

The City of Lorenzo is one of 833 municipalities having the benefit plan administered by TMRS. Each of the 833 municipalities have an annual, individual actuarial valuation performed. At its December 2010 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2010. A summary of actuarial assumptions and definitions can be found in the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

CITY OF LORENZO
Lorenzo, Texas

NOTES TO FINANCIAL STATEMENTS, Page 13
March 31, 2011

Note G: Litigation

There was no litigation pending or in progress against the City at March 31, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LORENZO
Lorenzo, Texas

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended March 31, 2011

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Property Taxes (Including Penalty and Interest)	\$ 137,000	\$ 130,160	\$ (6,840)
Franchise Taxes	40,000	36,845	(3,155)
Sales Taxes	25,000	28,778	3,778
Fines & Forfeits	64,500	74,686	10,186
Fees & Services	18,000	7,755	(10,245)
Interest	860	618	(242)
Rents	7,000	6,350	(650)
State Grants	800	794	(6)
Federal Grants	24,000	23,073	(927)
Miscellaneous	12,500	13,743	1,243
<u>Total Revenues</u>	<u>329,660</u>	<u>322,802</u>	<u>(6,858)</u>
<u>Expenditures</u>			
<u>Current</u>			
General Administration	96,217	98,136	(1,919)
Public Safety	187,100	184,962	2,138
Streets & Service	63,280	50,556	12,724
Health & Welfare	25,780	12,303	13,477
Community Center	2,000	2,206	(206)
Cemetary	7,000	6,658	342
Principal on Long-Term Debt	1,129	1,129	-
Interest on Long-Term Debt	14	14	-
Capital Outlay	6,000	30,767	(24,767)
<u>Total Expenditures</u>	<u>388,520</u>	<u>386,731</u>	<u>1,789</u>
<u>Other Financing Sources (Uses)</u>			
Transfers In	64,000	63,658	(342)
Transfers Out	(8,000)	(7,932)	68
<u>Total Other Financing Sources (Uses)</u>	<u>56,000</u>	<u>55,726</u>	<u>(274)</u>
<u>Excess of Revenues and Other Sources</u>			
<u>Over (Under) Expenditures and Other Uses</u>	(2,860)	(8,203)	(5,343)
Fund Balance, Beginning of Year	76,761	76,761	0
<u>Fund Balance, End of Year</u>	<u>\$ 73,901</u>	<u>\$ 68,558</u>	<u>\$ (5,343)</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF LORENZO
Lorenzo, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended March 31, 2011

Years Ended March 31	Tax Rate Per \$100 Value	Assessed/Appraised Value for Tax Purposes	Balance 04/01/10	Add: Current Levy	Less: Collections	Total Year's Adjustments	Balance 03/31/11
2002 and Prior	\$ --	\$ --	\$ 9,120	\$ -	\$ 533	\$ (951)	\$ 7,636
2003	0.5163	20,185,357	1,787	-	31	(79)	1,677
2004	0.5409	19,913,293	2,068	-	50	(84)	1,934
2005	0.5409	20,444,635	2,670	-	28	(74)	2,568
2006	0.5709	20,854,616	3,301	-	176	(78)	3,047
2007	0.5473	23,628,540	4,249	-	784	(76)	3,389
2008	0.5502	24,113,232	5,128	-	725	(76)	4,327
2009	0.5040	25,794,246	6,429	-	1,455	(379)	4,595
2010	0.4885	26,521,187	16,598	-	8,776	(417)	7,405
2011	0.5049	25,513,963	-	128,820	115,338	4,345	17,827
<u>Totals</u>			<u>\$ 51,350</u>	<u>\$ 128,820</u>	<u>\$ 127,896</u>	<u>\$ 2,131</u>	<u>\$ 54,405</u>

Terry & King, CPAs, P.C.

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Telephone - (806) 698-8858 – Fax – (806) 698-8047

Independent Auditors' Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
City of Lorenzo
P.O. Box 430
Lorenzo, TX 79343

We have audited the financial statements of the governmental activities, each major fund, the business-type activities, and the aggregate remaining fund information of the City of Lorenzo, Texas, as of and for the year ended March 31, 2011, which collectively comprise the City of Lorenzo's basic financial statements and have issued our report thereon dated June 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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



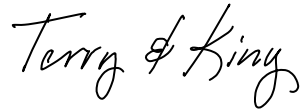
Independent Auditors' Report
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lorenzo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, federal awarding agencies and pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King".

Terry & King, CPAs, P.C.
June 8, 2011

CITY OF LORENZO
Lorenzo, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended March 31, 2011

A. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial Statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

CITY OF LORENZO
Lorenzo, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended March 31, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation if Not Implemented</u>
None	N/A	N/A

CITY OF LORENZO
Lorenzo, Texas

CORRECTIVE ACTION PLAN
For the Year Ended March 31, 2011

Not Applicable – None Required